

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2007

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]**

For the transition period from _____ to _____.

Commission File No. 0-30379



CHEMBIO DIAGNOSTICS, INC.

(Name of small business issuer in its charter)

Nevada

(State or jurisdiction of incorporation or organization)

88-0425691

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

3661 Horseblock Road, Medford, NY

(Address of principal executive offices)

11763

(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
None

Name of each exchange on which registered
None

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

Common Stock, \$0.01 par value

(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes ___ No X

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. ☒

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

Yes ___ No X

State issuer's revenues for its most recent fiscal year: \$9,230,948.

As of March 5, 2008, the registrant had 60,537,534 common shares outstanding, and the aggregate market value of the common shares held by non-affiliates (*) was approximately \$5,247,000. This calculation is based upon the closing sale price of \$0.21 per share on March 5, 2008.

* Without asserting that any of the issuer's directors or executive officers, or the entities that own 35,552,013 shares of common stock are affiliates, the shares of which they are beneficial owners have been deemed to be owned by affiliates solely for this calculation.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, and Section 27A of the Securities Act of 1933. Any statements contained in this report that are not statements of historical fact may be forward-looking statements. When we use the words “intends,” “estimates,” “predicts,” “potential,” “continues,” “anticipates,” “plans,” “expects,” “believes,” “should,” “could,” “may,” “will” or the negative of these terms or other comparable terminology, we are identifying forward-looking statements. Forward-looking statements involve risks and uncertainties, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements. These factors include our; research and development activities, distributor channel; compliance with regulatory impositions; and our capital needs. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

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

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under “Part I, Item 1, Description of Business - Risk Factors.”

General

Chembio Diagnostics, Inc. (the “Company”) and its subsidiaries develop, manufacture and market rapid diagnostic tests that detect infectious diseases. The Company’s main products presently commercially available are three rapid tests for the detection of HIV antibodies in whole blood, serum and plasma samples, two of which were approved by the FDA in 2006. These products employ single path lateral flow technology which we have licensed from Inverness Medical Innovations, Inc. (“Inverness”), which is also our exclusive marketing partner for those two products in the United States under its Clearview® brand. Inverness launched its marketing of these products in the United States in February 2007. Chembio’s two HIV STAT-PAK® rapid HIV tests are marketed outside the United States through different partners and channels under license from Inverness. We also have a rapid test for Chagas disease (a parasitic disease endemic in Latin America) and two rapid tests for detecting tuberculosis antibodies in animals for which we have received USDA approval.

On March 13, 2007, we were issued United States patent #7,189,522 for our Dual Path Platform (DPP™) rapid test system. Additional patent protection for DPP™ is pending worldwide. DPP™ enables Chembio to participate in the growing point of care diagnostics market with a patent-protected point-of-care platform technology. The independent sample strip on our DPP™ devices enables the development of products whose performance we believe exceeds that of comparable tests developed on a single path lateral flow platform. We therefore believe that as a result of the patent protection we now have with DPP™, we have a significant opportunity to develop and/or license many new rapid tests in a number of fields including but not limited to infectious diseases. During both 2007 and 2008 year to date we have made significant progress in establishing commercial opportunities for this new platform that are now in development (see Research and Development”). We have completed initial development of an oral fluid HIV test on this new platform and are currently conducting pre-clinical studies on this product. We believe the DPP™ provides significant advantages over standard single path lateral flow assays particularly where challenging sample matrices, such as oral fluid, are involved, or where multiplexing is desired. We are developing all of our new products using this platform. Our strategy for the development of this platform technology is also dual; we are entering into exclusive collaborations with large marketing partners for whom we will develop and manufacture products on the DPP™ and we are developing our own products that we may choose to market through selected distribution partners either under a Chembio or other brand.

Our products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, and medical professionals. Our products are sold either under our STAT-PAK® or SURE CHECK® registered trademarks and/or the private labels of our marketing partners, such as is the case with the Inverness Clearview® label for our rapid HIV tests in the United States.

Rapid HIV Tests

The major component of our revenue growth in 2007 was increased sales of our rapid HIV tests, and most of that increase was a result of our entry into the US rapid HIV test market as a result of the launch of our tests by Inverness. A large percentage of individuals that are HIV positive worldwide are unaware of their status. Part of the reason for this is that even those that do get tested in public health settings will often not return or call back for their test results when samples have to be sent out to a laboratory that can take at least several days to process. The increased availability, greater efficacy and reduced costs for anti-retroviral treatments (ARVs) for HIV is also having a tremendous impact on the demand for testing, as the stigma associated with the disease is lessened and the ability to resume normal activities is substantially improved. All three of our rapid HIV tests are qualitative “yes/no” tests for the detection of antibodies to HIV 1 & 2 with results available within approximately 15 minutes. The tests differ principally only in the method of sample collection and test procedure, flexibility with different sample types, and cost of manufacture. Our rapid HIV tests have been marketed under our SURE CHECK® and STAT-PAK® trademarks. Pursuant to our agreement with Inverness Medical Innovations, Inc., the SURE CHECK® product is now being marketed globally (with limited exceptions) by Inverness as Clearview® Complete HIV 1/2 and the cassette format of our STAT-PAK (we also have a third product known as HIV 1/2 STAT-PAK dipstick) is now being marketed by Inverness in the United States as Clearview® HIV 1/2 STAT-PAK®. We continue to market our STAT-PAK® cassette and dipstick outside the United States through other marketing channels.

Regulatory Status:

Rapid HIV Tests

The FDA approved our Pre-Market Applications for our SURE CHECK HIV 1/2 (now Inverness’ Clearview® Complete HIV 1-2 worldwide) and HIV 1/2 STAT-PAK (now Inverness’ Clearview® HIV 1/2 STAT-PAK in the United States only) products on May 25, 2006. A Clinical Laboratory Improvement Act (“CLIA”) waiver was granted by the FDA for the HIV 1/2 STAT-PAK on November 20, 2006. Labeling changes to the Inverness Clearview® brands for both products were approved during the first quarter of 2007. CLIA waiver for the Clearview® Complete HIV 1-2 was granted on October 22, 2007. CLIA waiver is required in order to market the products in public health clinics and physicians’ offices where the level of training is traditionally less than the training at clinical laboratories and hospitals. Public health clinics and physicians’ offices now constitute the largest portion of the available market for our products. Our third rapid HIV test, HIV 1/2 STAT-PAK *Dipstick*, though not FDA approved, qualifies under FDA export regulations to sell, subject to any required approval by the importing country, to customers outside the United States. The dipstick product is our most competitively priced version of our three rapid HIV tests, and was designed primarily for resource-constrained, donor-funded markets that have large test volume needs. In 2006 we made certain improvements to this product so that it could be run flat on an adhesive backing card as an alternative to being dipped in a vial containing the sample and buffer solution. This change made the product procedure similar to a cassette format with less cost than those associated with producing the cassette format.

Although we have received approval from a number of potential importing countries for all three of our HIV tests, Brazil, Mexico, Nigeria, Ethiopia and Uganda are the only countries in which we have realized significant sales. As a result of favorable evaluations of our HIV 1/2 STAT-PAK and HIV 1/2 STAT-PAK Dipstick products by the World Health Organization (the “WHO”), these products are qualified for procurements from programs funded by the United Nations and their partners’ programs. All three of our HIV tests have qualified for procurements under the President’s Emergency Plan for AIDS Relief (“PEPFAR”).

Partners Involved in the Products:

On September 29, 2006 we executed marketing and license agreements with Inverness. These agreements provide for the marketing of our rapid HIV tests in the United States; the agreements also grant us a license to Inverness’ single path lateral flow patents that may be applicable to our other products, including those that we had under development at the time of the grant. As part of these agreements we settled litigation that had been ongoing with another company, StatSure Diagnostics, Inc., relating to the barrel device that is incorporated into our Sure Check® (now Inverness Clearview Complete) HIV 1/2 product.

In September 2005 we were designated as the confirmatory test in Uganda’s national rapid testing protocol. In February 2006 our HIV 1/2 STAT-PAK® was designated by the Nigerian Ministry of Health in four out of the eight screening protocols in the Nigerian Interim Rapid Testing Algorithm. In February 2008, Nigeria changed from a parallel algorithm to a serial algorithm, and this designation was changed to that of a confirmatory test. In October, 2007 our HIV 1/2 STAT-PAK® was designated by the Ethiopian Ministry of Health as the confirmatory test in that country’s national rapid testing algorithm. We have identified and/or appointed distributors in these and other countries in Africa so that we are positioned to service those new markets if we are selected in their national testing protocols. Our focus is on those African countries that are receiving funding from PEPFAR and other large relief programs.

In November 2006, we received an order for 990,000 units of our Sure Check product from our distributor in Mexico, a division of Bio-Rad Laboratories, Inc. This distribution agreement is the one exception to our otherwise global exclusive agreement with Inverness as it relates to this product. Approximately one-half of this order was shipped during the fourth quarter of 2006 and the balance was shipped during the first quarter of 2007. Additional orders were received and shipped during the first and second quarters of 2007 in the amount of approximately \$600,000. Absent other arrangements, which are under discussion this exception to Inverness’ global exclusivity will be eliminated on September 29, 2008.

We have established or are establishing distributors in a number of other markets where we believe there is or will be a significant market opportunity for our products.

CHAGAS RAPID TEST

We have a rapid test for the detection of antibodies to Chagas disease. This product, Chagas STAT-PAK, was developed in collaboration with a consortium of leading researchers in Latin America that have granted us an exclusive license to their recombinant antigens. In January 2006, the Company received a \$1.2 million order from the Pan American Health Organization to supply its Chagas disease rapid tests for a screening program in Bolivia. These tests were delivered in the first three quarters of 2006. The Pan American Health Organization (the “PAHO”), headquartered in Washington D.C., is affiliated with the WHO, and this procurement was used to implement a nationwide Chagas screening program for all children under the age of 10 in endemic regions of Bolivia. Although the Company is actively looking at developing additional business opportunities for this product in those regions of Latin America that are impacted by this disease, these opportunities must be funded by donors such as the PAHO. The private commercial market for this disease is very limited. We do anticipate completing the requirements for obtaining a CE mark (Community European) for this product, and registration in Mexico, which may provide additional sales opportunities. This certification is necessary to obtain CE Markings for our products which are required in order to sell in most European countries, as well as many other countries in the world.

Other Products

In 2007 our facility was licensed by the USDA to manufacture and market two products for veterinary tuberculosis. Revenues from these products have not been material and the market opportunity for the products approved thus far is limited due to certain restrictions placed on sales by the USDA pending further discussions. The USDA manufacturing facility approval is however very material to our being able to pursue collaborations to develop and manufacture other veterinary products on our DPP™ platform that would be marketed by companies that are engaged in these markets, and we are actively pursuing such collaborations. We also are involved in the development of several new products, for our own account and for others pursuant to existing and pending agreements as described below under “Research and Development”.

Lateral Flow Technology

All of our commercially available current products employ single path lateral flow technology. Lateral flow, whether single or dual path, generally refers to the process of a sample flowing from the point of application on a test strip to provide a test result on a portion of a strip downstream from either the point of application of the sample or of another reagent. Single path lateral flow technology is well established and widely applied in the development of rapid diagnostic tests. The functionality of our lateral flow tests is based on the ability of an antibody to bind with a specific antigen (or vice versa) and for the binding to become visible through the use of the colloidal gold and/or colored latex that we use in our products. The colloidal gold or the colored latex produces a colored line if the binding has occurred (the test line), in which case it means there has been a reactive or positive result. In any case, a separate line (the control line) will appear to confirm that the test has been validly run in accordance with the instructions for use.

Our lateral flow technology, whether single or dual path, allows the development of accurate, easy-to-perform, single-use diagnostic tests for rapid, visual detection of specific antigen-antibody complexes on a test strip. This format provides a test that is simple (requires neither electricity nor expensive equipment for test execution or reading, nor skilled personnel for test interpretation), rapid (turnaround time approximately 15 minutes), safe (minimizes handling of specimens potentially infected), non-invasive (requires 5-20 micro liters of whole blood easily obtained with a finger prick, or alternatively, serum or plasma), stable (24 months at room temperature storage in the case of our HIV tests), and highly reproducible. The sensitivity of a test indicates how strong the sample must be before it can be detected by the test.

The specificity of a test measures the ability of the test to analyze, isolate, and detect only the matters targeted by the test. The sensitivity and specificity of our rapid HIV tests during our clinical trials undertaken in connection with our FDA Pre-Marketing Applications were 99.7% and 99.9%, respectively.

We can develop and produce lateral flow tests that are qualitative (reactive/non-reactive), as in the case of our HIV tests, and we can develop semi-quantitative tests, reflecting different concentrations of the target marker(s) using different colored latex test lines for each concentration. We can also develop tests for multiple conditions, using different colored lines. We have developed proprietary techniques that enable us to achieve high levels of sensitivity and specificity [see definition above] in our diagnostic tests using our proprietary latex and colloidal gold conjugates and buffer systems. These techniques include the methods we employ in manufacturing and fusing the reagents with the colored latex, or colloidal gold, blocking procedures used to reduce false positives, and methods used in treating the materials used in our tests to obtain maximum stability and resulting longer shelf life. We also have extensive experience with a variety of lateral flow devices, including the sample collection device used in our SURE CHECK rapid HIV test which eliminates the need for transferring finger-stick whole blood samples from the fingertip onto a test device, because the collection of the sample is performed within a tubular test chamber that contains the lateral flow test strip. The whole blood sample is absorbed directly onto the test strip through a small opening in one end of the test chamber and an absorbent pad positioned just inside this same end of the test chamber.

On March 13, 2007, we were issued United States patent number #7,189,522 describing a Dual Path Immunoassay system which we believe provides several advantages over standard single path lateral flow test systems (See “Intellectual Property”). We believe that this system, which we refer to as DPP™ (for Dual Path Platform), provides the Company with significant new product development and licensing opportunities.

During 2007 we entered a collaborative agreement with Alverix, which was formerly a business unit of Avago Technologies. Alverix has developed cost-effective reflectance and fluorescent readers that can objectively measure, quantify, record and report test results. The readers have been customized and private labeled for us to use with our DPP™ cassette. We believe that combining DPP™ with this reader feature will help to broaden the potential market applications of DPP™.

Target Market

Rapid HIV Tests

We believe that the September 2006 recommendations by the United States Centers for Disease Control (“CDC”) that called for testing for HIV as part of routine medical care in the United States and that reversed a long standing policy of informed consent will drive the demand for testing in the United States. Similarly, because HIV medicines have become much less expensive and more widely available, unprecedented multi-billion dollar financial commitments have been made for prevention, treatment and care. For example, the largest commitment ever to funding the fight against the epidemic in Africa and other countries was authorized by President Bush in 2003. This was a five-year, fifteen billion dollar program known as the President’s Emergency Plan for AIDS Relief, or PEPFAR. PEPFAR is now expected to be re-authorized for another five years beginning in fiscal 2009. In January 2008, President Bush stated in his State of the Union Address that PEPFAR “II” should be doubled to \$30 billion. On February 27, 2008, the Foreign Affairs Committee of the United States House of Representatives approved the reauthorization of PEPFAR in the amount of \$50 billion. Approval by the U.S. House of Representatives, the Senate, and President is pending. The other large funding source for HIV testing, care and treatment is the Global Fund for AIDS, Tuberculosis and Malaria. This fund is primarily supported by the United States (21.9% of which is appropriated from PEPFAR), the European community, Japan and certain other countries.

According to UNAIDS, as of the end of 2007, there were an estimated 33.2 million people living with HIV/AIDS worldwide. There were nearly 2.5 million new infections in 2007 and 2.1 million AIDS-related deaths in 2007. In order for more infected individuals to gain access to life-saving treatments, treatments that are made increasingly available by PEPFAR and other large bilateral and multilateral donor funded programs, testing and early detection will need to increase. Therefore, based upon the treatment goals of PEPFAR and other large programs, we believe that there will be a funded increasing global demand for several hundred million rapid HIV tests for the foreseeable future.

The marketing of our FDA-approved rapid HIV tests in the United States was launched by Inverness during the first quarter of 2007. In the United States the need for rapid HIV tests has been developing first in the public health and hospital emergency room segments, and also in the physicians’ office laboratories. There are approximately 20-25 million HIV tests performed in clinical settings in the United States. Rapid HIV tests account for approximately 20-25% of this market, or approximately 5-6 million tests. We believe that the total number of HIV tests will continue to grow, and that the share available to rapid HIV tests will also grow.

Chagas Rapid Test

Chagas disease is endemic only in regions of Latin America where there are an estimated 16-18 million existing Chagas disease cases, resulting in approximately 20,000 deaths annually, and an estimated 300,000 new cases each year. Chagas disease is transmitted by a parasitic bug which lives in cracks and crevices of poor-quality houses usually in rural areas, through blood transfusions or congenitally from infected mother to fetus. There is an effective therapy available to treat the early chronic phase, but this therapy only eliminates the infection if it is administered to children that are diagnosed with the disease.

Other Products

Veterinary Tuberculosis Tests

Tuberculosis in animal species can become a significant problem either because of potential transmission to humans, costs in lost agricultural productivity or because of the cost of the animal species themselves. For example, nonhuman primates used in research or in zoos are quite costly, and whole colonies can be lost if transmission is not effectively controlled through routine and accurate diagnosis. In 2007 we received approval from the USDA to manufacture and market our single path lateral-flow test for the detection of TB in Non-Human Primates (PrimaTB STAT-PAK™). The test can use serum, plasma, or whole blood, is simple and easy to use, has up to a 12-month shelf life at room temperature (RT) storage, and provides results within 20 minutes. This compares to the only currently available technology, the eye-lid tuberculin test, which is inconvenient, subjective, and unreliable.

Marketing Strategy

Our marketing strategy is to:

- Support, review and assess the marketing and distribution efforts of our rapid HIV tests by Inverness Medical Innovations, Inc. Inverness, which is a leading marketer of point of care diagnostic products, has significantly expanded its distribution footprint since we signed our agreement with them, and we believe that this will enhance opportunities for them to market our rapid HIV tests. In particular, Inverness has been very active in acquiring point of care product lines serving hospital emergency rooms and physicians’ offices.
- Leverage our DPP™ intellectual property and regulated product development and manufacturing experience to create new collaborations where Chembio can be the exclusive development and manufacturing partner with world class marketing partners. Beginning with our Cooperative Research Development Agreement entered into in November 2006 with the United States Centers for Disease Control, we have entered several new collaborations related to DPP™ that are described below (see “Research & Development”).
- Develop a small number of Chembio brand DPP™ products that capitalize on the advantages of this newly patented point of care technology and select distribution partners for such products.

Competition

The diagnostics industry is a multi-billion dollar international industry and is intensely competitive. Many of our competitors are substantially larger and have greater financial, research, manufacturing and marketing resources.

Industry competition in general is based on the following:

- Scientific and technological capability;
- Proprietary know-how;
- The ability to develop and market products and processes;
- The ability to obtain FDA or other required regulatory approvals;
- The ability to manufacture products that meet applicable FDA requirements, (i.e. FDA’s Quality System Regulations) (see Governmental Regulation section);
- The ability to manufacture products cost-effectively;
- Access to adequate capital;
- The ability to attract and retain qualified personnel; and
- The availability of patent protection.

We believe our scientific and technological capabilities and our proprietary know-how relating to lateral flow rapid tests, particularly tests for detection of antibodies to infectious diseases such as HIV and Chagas disease, are very strong.

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 in lateral flow technology has been instrumental in our obtaining the collaborations we have and that we continue to pursue. The patent protection that we now have with our Dual Path Platform™ should enhance our ability to develop more profitable collaborative relationships and to license out the technology.

We believe our regulatory achievements are a strong asset for developing new products collaborations. There are only three companies that have approved PMA's for lateral flow rapid tests, all HIV tests: Trinity Biotech (Ireland), Orasure Technologies, Inc. (PA) and Chembio. We believe that this is a significant competitive advantage when considering new products and collaborations. During 2006 and 2007 we obtained two CLIA waivers for each of our FDA PMA approved HIV tests. These products therefore represent two of the four CLIA waived rapid HIV tests. Also, during 2007 we received facility and product licenses from the USDA, and became certified under ISO 13.485. This combination of regulatory credentials is unique.

Our access to capital is much less than that of several of our competitors, and this is a competitive disadvantage. We believe however that our access to capital may increase if we continue our trend of improved sales and operating results. Establishment of collaborations for our DPP™ with large companies should provide us with additional credibility in the investment community and may also facilitate our access to strategic capital. The simplification of our capital structure that was completed in December 2007 should also improve our access to capital (See Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview).

To date, we believe we have been competitive in the industry in attracting and retaining qualified personnel. Because of the greater financial resources of many of our competitors, we may not be able to compete effectively for the same individuals to the extent that a competitor uses its substantial resources to attract any such individuals.

We have been able to obtain patent protection by entering into licensing arrangements for reagents and lateral flow technologies. The March 2007 issuance by the United States Patent & Trademark Office of our Dual Path Platform™ patent gives us our first patent protection on a rapid test platform, which we believe enhances our competitive position. Additional protection of this intellectual property is pending worldwide.

Competitive factors specifically related to our HIV tests are product quality, delivery, sensitivity, specificity, ease-of-use, shelf life and price. Other factors can be sample size required, the presence of a true IgG control, and time to result. During the last few years, the competitive features of certain products produced by some international competitors have improved. In addition, these companies typically have substantially lower costs of labor, regulatory approval and compliance, and intellectual property (if any) as compared with Chembio. Price has therefore become an increasingly important factor, especially for products based upon the conventional single path lateral flow platform which are currently marketed HIV and other tests are based upon.

The leading competitors in the international rapid HIV test market are Trinity Biotech (Ireland), Inverness (U.S.) and Standard Diagnostics (Korea). Uni-Gold HIV®, marketed by Trinity Biotech of Ireland and Determine®, formerly a Japanese division of Abbott Diagnostics that is now owned by Inverness, are the market leaders in the developing world, particularly sub-Saharan Africa which is where most of the funding for rapid HIV tests is being allocated from donor funded programs such as PEPFAR. Neither of these products is FDA-approved although Trinity does manufacture in Ireland an FDA-approved rapid HIV test, Uni-Gold Recombigen, for marketing in the United States. Inverness' Organics subsidiary in Israel also has a rapid HIV test, Double Check Gold as does its subsidiary in China, ABON; neither of these products is FDA-approved. As such, while Inverness is our exclusive marketing partner in the United States, it is also the principal competitor to our rapid HIV tests outside the United States. Furthermore, in 2007 Trinity Biotech settled litigation with Inverness, and as part of that settlement it has contracted with ABON, an Inverness subsidiary, to manufacture the Uni-Gold® HIV products for marketing outside the United States. Standard Diagnostics of Korea also has a low-cost product that has been increasingly competitive against each of the other competitors in the developing world. There are a number of additional competitors, including several based in China and India, that produce competitive rapid HIV tests, though they are not FDA approved. Nevertheless, all of these products are eligible for procurement under the current PEPFAR USAID waiver program due to the fact that there were no FDA-approved products when PEPFAR was originally authorized several years ago. In order to realize sales in the markets where the donor funds are allocated, the product must additionally be selected by a country's ministry of health or their designees to be part of a national testing protocol or "algorithm". The algorithms typically use multiple rapid tests in sequence or in parallel to screen and confirm patients at the point of care and are increasingly allowing for multiple tests to be qualified in these algorithms. Chembio's sales in Africa and certain other markets are therefore based on the fact that its test has been one of those selected. The selection process in each of these countries is very challenging based upon a number of factors, including but not limited to product performance and price.

In the developed world, particularly the United States and Europe, the competitive landscape is quite different. There are only two companies that have products that are FDA PMA approved and are CLIA-waived: Orasure Technologies (Bethlehem, PA) with OraQuick®, and Trinity Biotech Ltd. with its UniGold® Recombigen product (manufactured by Trinity at its facility in Ireland). The requirements for the PMA and CLIA waiver are difficult, costly, time-consuming, and represent a competitive advantage. We do not anticipate that Inverness has any plan to submit any of its products produced outside the U.S. to the FDA. Further, our agreements with Inverness provide that in the event one of those submissions is made (or if Inverness markets a competitive product in the United States), we have the right to terminate our agreement with Inverness or make Inverness’ marketing rights non-exclusive. In either case, we would retain a license under the Inverness lateral flow patents to market the products under a Chembio brand and/or through third party distribution partners.

The comparative competitive features of Chembio’s products (marketed under Inverness’ Clearview® brand in the U.S.) in comparison to the other FDA PMA approved and CLIA-waived products are shown below.

	<i>Chembio</i>	<i>Orasure</i>	<i>Trinity</i>
No. of Rapid Test Formats FDA PMA approved and CLIA waived	2	1	1
Sensitivity	99.7%	99.6%*	100.0%
Specificity	99.9%	99.9%	99.7%
Analyte(s)	HIV 1&2	HIV 1&2	HIV1
Format(s)	Standard SPLF Cassette & Proprietary Unitized Barrel Format	Oral fluid Swab connected to Standard SPLF Cassette	Standard SPLF Cassette
Sample Types	Plasma, Serum, Venous Whole Blood, Fingerstick Whole Blood	Plasma, Oral Fluid, Serum, Venous Whole Blood, Fingerstick Whole Blood	Plasma, Serum, Venous Whole Blood, Fingerstick Whole Blood
Sample Size	~5 microliters	~5 microliters	~50 microliters
U.S. Pricing	\$7-\$13	\$11.50-\$20	\$7.50-\$20
Estimated US Market Share	<5%	75%	15%
US Marketing Partner	Inverness	Abbott & Direct	Direct
True IgG Control	Yes	Yes	No
Shelf Life	24 mos.	6 mos.	12 mos.
* Orasure sensitivity on oral fluid are lower			

Orasure has a dominant market share in the United States market. Orasure’s main advantage is that its test was first to market and that, for certain market segments (primarily public health), the fact that it can be performed with oral fluid samples is an attractive feature. Orasure’s Oraquick product’s main disadvantages are its price, limited shelf life, that it is more difficult to use with whole blood samples, and that it is not approved for use with serum samples. Also, Orasure’s claimed sensitivity with oral fluid samples is lower, and there have been some reports of performance problems on oral fluid samples. Orasure markets its products directly through its own sales organization to the public health market, has made a significant investment in that market, and has nearly 100% of this market with its oral fluid test. Orasure has an exclusive marketing arrangement with Abbott Diagnostics for its sales effort to the hospital market.

The Uni-Gold product that is marketed by Trinity accounts for an estimated 15% of the market. This product does not detect HIV-2. Though HIV-2 is a rare strain of HIV, there have been more cases identified of late. Trinity’s product also requires a much larger sample size, and does not have a true IgG control. This means that a control line, which is intended to confirm that the test procedure has been performed correctly, will appear on their product so long as any liquid material is applied to its sampling area; Chembio’s (and Orasure’s) control line will appear only if a biological sample is applied. Trinity also relies on its own sales force to market its product, and does not have any other rapid tests to sell to distributors.

We believe Chembio, through its marketing agreement with Inverness, is well positioned to compete for market share against these two US market competitors, at least in the hospital and physicians’ office market. Inverness has made a significant investment in its launch of our products and we believe this is a very important product for Inverness in the United States market. The shelf life of our HIV products’ is 24 months, which is double that of Uni-Gold and four times that of Orasure’s product. Our products have been approved by the FDA for finger-stick whole blood, venous whole blood, serum and plasma. We believe that our products are extremely convenient and easier to use than OraQuick on finger-stick whole blood samples.

Chembio's HIV Tests

One of our two product formats, the “barrel” format now marketed by Inverness as Clearview® Complete HIV 1-2, is a unique product format and is a unitized product (meaning that all components necessary to perform a single test are contained in a single pouch). The “barrel” has a proprietary method of collecting finger-stick whole blood samples that eliminates the need for a transfer loop or other device to transfer the sample from the fingertip to the sample well. Also, the buffer solution is in a unitized vial that is pierced by the barrel tip to initiate the sample migration up the test strip contained inside the “barrel”, and thereby creates a closed system that helps to minimize possible exposure to potentially infectious samples. The “barrel” product did not receive the CLIA waiver until October 22, 2007 so sales of this product were nominal in 2007. We anticipate that sales of this format will increase in 2008.

Our other FDA PMA approved rapid HIV test, marketed by Inverness as Clearview® HIV 1-2 STAT PAK®, is a standard lateral flow plastic cassette format wherein the sample is transferred to the sample port in the cassette by means of a transfer loop. Though this step is not required in the barrel format, the cassette is less costly to manufacture, is more familiar to customers that have performed other lateral flow tests, and is a more flexible format that utilizes the same procedure for all approved sample matrices (venous whole blood, finger-stick whole blood, serum and plasma). To date this format has accounted for almost all of the sales we have had through Inverness.

We are currently pursuing certain improvements and amendments to the cassette and barrel formats which, if successfully completed, could enhance their marketability. These items include lowering of the lower age limits (currently the lower age limit is 18) of individuals that the tests are approved for. We anticipate completing the testing requirements for this amendment during the first quarter, and approval of the amendment by the FDA before the end of the second quarter.

Research and Development

During 2007 and 2006, \$1.9 million and \$1.4 million, respectively, was spent on research and development activities. Substantially all of our new product development activities involve employment of our Dual Path Platform (DPP™) technology for which we were awarded a U.S patent in 2007. We believe that this platform enables us to pursue many new product development and licensing opportunities, and we have developed a dual path strategy for doing this. The DPP™ can provide improved features on certain tests developed with it that include higher sensitivity, earlier detection, use of multiple sample types including oral fluid, and improved ability to detect multiple analytes (multi-plexing) in one test device. We have completed several studies that confirm this and we are currently conducting a pre-clinical trial on our DPP™ HIV test for use with oral fluid. We also believe tests developed on our DPP™ platform, such as our oral fluid HIV test, will be simple for untrained users to perform, thereby enabling CLIA waiver for such a product.

We currently have the following products in development on the DPP:

Technology Transfer and Supply Agreements with Bio-Manguinhos

On January 29, 2008 we signed three new technology transfer, supply and license agreements with the Bio-Manguinhos unit of the Oswaldo Cruz Foundation of Brazil for products being developed by Chembio with its patented DPP™ technology. Previously, in 2004, Bio Manguinhos and Chembio entered into a similar agreement concerning one of Chembio's HIV rapid tests.

Two of the products being developed will be used in screening programs funded by Brazil's Ministry of Health for the control and eradication of Leishmaniasis and Leptospirosis, respectively, which are both blood-borne infectious diseases that are endemic to Brazil. A third test being developed is for the confirmation of HIV-1 in patients who have tested positive with a screening test. Bio-Manguinhos, also known as the Immunobiological Technology Institute, is the largest producer of vaccines and kits for diagnosis of infectious and parasitic diseases in Latin America. Chembio's DPP™ test platform was selected for the screening programs because of its high sensitivity and specificity of prototypes evaluated by Bio-Manguinhos and because of the unique multiplexing capabilities of DPP™ for the confirmatory assay. The DPP™ point-of-care screening tests will complement the current Bio-Manguinhos national program, which currently only uses laboratory-based technologies. The HIV confirmatory test will allow for the simultaneous binding and uniform delivery of samples to multiple HIV antigens printed in the detection zone, providing results equivalent to Western blot in a simple point-of-care format that provides results within 20 minutes. Under the new agreements, once the products meet mutually agreed-upon performance specifications and are approved for sale in Brazil, Chembio will receive a minimum purchase order for at least one million tests within a one-year period. Thereafter, the agreement allows for production of the products to be transferred to Brazil, subject to certain royalty payments.

Based upon the initial prototypes we have developed for each of these products, we anticipate that these products will be successfully developed in accordance with the agreed-upon specifications. Also, based upon our experience with Bio-Manguinhos through the earlier agreement, we anticipate that the other aspects of our agreement will be successful, though there can be no assurance that this will in fact occur.

Cooperative Research & Development Agreement with the CDC for Syphilis Test

In November 2006 we signed a Cooperative Research and Development Agreement (CRADA) with the United States Centers for Disease Control and Prevention to develop a rapid combination test for syphilis, capable of detecting treponemal and non-treponemal antibodies in the same device, utilizing Chembio's Dual Path Platform (DPP™) technology and the CDC's patented Syphilis antigens. This test could serve both as a screening and confirmatory test in a point-of-care setting.

Syphilis is a sexually transmitted disease (STD) caused by the bacterium *Treponema pallidum*. Infection rates have been on the increase lately; worldwide, 12 million individuals are diagnosed with syphilis each year and are at increased risk of becoming infected with and transmitting HIV. In addition, syphilis can be transmitted from an infected woman to her unborn child during pregnancy. Early and appropriate diagnosis and treatment prevents infection of the child and development of severe complications.

The difficulty in following up with patients who have undergone syphilis testing in a variety of settings and testing for syphilis in many prenatal settings are major obstacles to effective syphilis control. The development of a rapid, point-of-care test, that combines the sensitivity of a screening test with the specificity of a confirmatory test is important in aiding clinicians to provide appropriate treatment at an initial clinic visit.

While development work continues with good progress, there can be no assurance that a product will be successfully developed and/or successfully commercialized.

We have several other DPP™ research and development projects in various stages, including products that we are or may be developing under contract for third party marketing partners. There can be no assurance that any of these projects will result in completed products or that such products, if successfully completed, will be successfully commercialized.

Employees

At December 31, 2007, we employed 109 people, including 97 full-time employees. Effective May 2006, we entered into an employment agreement with Lawrence Siebert, President and Chairman. Effective March 2007, we entered into an employment agreement with Javan Esfandiari, Executive Vice-President of Research and Development.

Governmental Regulation

The manufacturing and marketing of the Company's existing and proposed diagnostic products are regulated by the United States Food and Drug Administration ("FDA"), United States Department of Agriculture ("USDA"), certain state and local agencies, and/or comparable regulatory bodies in other countries. These regulations govern almost all aspects of development, production and marketing, including product testing, authorizations to market, labeling, promotion, manufacturing and record keeping. The Company's FDA and USDA regulated products require some form of action by each agency before they can be marketed in the United States, and, after approval or clearance, the Company must continue to comply with other FDA requirements applicable to marketed products, e.g. CLIA regulations (for medical devices). Failure to comply with the FDA's requirements can lead to significant penalties, both before and after approval or clearance.

Most of the Company's diagnostic products are regulated as medical devices, and some are regulated as biologics. There are two review procedures by which medical devices can receive FDA clearance or approval. Some products may qualify for clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act, in which the manufacturer provides a pre-market notification that it intends to begin marketing the product, and shows that the product is substantially equivalent to another legally marketed product (i.e., that it has the same intended use and is as safe and effective as a legally marketed device and does not raise different questions of safety and effectiveness). In some cases, the submission must include data from human clinical studies. Marketing may commence when the FDA issues a clearance letter finding such substantial equivalence. An applicant must submit a 510(k) application at least 90 days before marketing of the affected product commences. Although FDA clearance may be granted within that 90-day period, in some cases as much as a year or more may be required before clearance is obtained, if at all.

If the medical device does not qualify for the 510(k) procedure (either because it is not substantially equivalent to a legally marketed device or because it is required by statute and the FDA's implementing regulations to have an approved application), the FDA must approve a pre-market approval (PMA) application before marketing can begin. Pre-market approvals must demonstrate, among other matters, that the medical device provides a reasonable assurance of safety and effectiveness. A pre-market approval is typically a complex submission, including the results of preclinical and clinical studies. Preparing a pre-market approval is a much more expensive, detailed and time-consuming process as compared with a 510(K) pre-market notification. Once a pre-market approval has been submitted, the FDA is required to review the submission within a statutory period of time. However, the FDA's review may be, and often is, much longer, often requiring one year or more, and may include requests for additional data. The Company has approved PMAs for the two rapid HIV tests now marketed by Inverness Medical as Clearview® Complete HIV 1-2 and Clearview® HIV 1-2 STAT PAK®.

Every company that manufactures medical devices distributed in the United States must comply with the FDA's Quality System Regulations. These regulations govern the manufacturing process, including design, manufacture, testing, release, packaging, distribution, documentation and purchasing. Compliance with the Quality System Regulations is required before the FDA will approve an application, and these requirements also apply to marketed products. Companies are also subject to other post-market and general requirements, including compliance with restrictions imposed on marketed products, compliance with promotional standards, record keeping and reporting of certain adverse reactions or events. The FDA regularly inspects companies to determine compliance with the Quality System Regulations and other post-approval requirements. Failure to comply with statutory requirements and the FDA's regulations can lead to substantial penalties, including monetary penalties, injunctions, product recalls, seizure of products, and criminal prosecution.

The Clinical Laboratory Improvement Act of 1988 ("CLIA") prohibits laboratories from performing in vitro tests for the purpose of providing information for the diagnosis, prevention or treatment of any disease or impairment of, or the assessment of, the health of human beings unless there is in effect for such laboratories a certificate issued by the United States Department of Health and Human Services (via the FDA) applicable to the category of examination or procedure performed. Although a certificate is not required for the Company, it considers the applicability of the requirements of CLIA in the design and development of its products. The statutory definition of "laboratory" is very broad, and many of our customers are considered labs. A CLIA waiver will remove certain quality control and other requirements that must be met for certain customers to use the Company's products and this is in fact critical to the marketability of a product into the point of care diagnostics market. The Company has received a CLIA waiver for each of the two rapid HIV tests now marketed by Inverness Medical as Clearview® Complete HIV 1-2 and Clearview® HIV 1-2 STAT PAK®. The CLIA waiver was granted by the FDA for HIV 1-2 STAT-PAK on November 20, 2006 and for the Clearview® Complete HIV 1-2 on October 22, 2007.

In addition, the FDA regulates the export of medical devices that have not been approved for marketing in the United States. The Federal Food, Drug and Cosmetic Act contains general requirements for any medical device that may not be sold in the United States and is intended for export. Specifically, a medical device intended for export is not deemed to be adulterated or misbranded if the product: (1) complies with the specifications of the foreign purchaser; (2) is not in conflict with the laws of the country to which it is intended for export; (3) is prominently labeled on the outside of the shipping package that it is intended for export; and (4) is not sold or offered for sale in the United States. Some medical devices face additional statutory requirements before they can be exported. If an unapproved device does not comply with an applicable performance standard or pre-market approval requirement, is exempt from either such requirement because it is an investigational device, or is a banned device, the device may be deemed to be adulterated or misbranded unless the FDA has determined that exportation of the device is not contrary to the public health and safety and has the approval of the country to which it is intended for export. However, the Federal Food, Drug and Cosmetic Act does permit the export of devices to any country in the world, if the device complies with the laws of the importing country and has valid marketing authorization in one of several "listed" countries under the theory that these listed countries have sophisticated mechanisms for the review of medical devices for safety and effectiveness.

The Company is also subject to regulations in foreign countries governing products, human clinical trials and marketing, and may need to obtain approval or evaluations by international public health agencies, such as the World Health Organization, in order to sell diagnostic products in certain countries. Approval processes vary from country to country, and the length of time required for approval or to obtain other clearances may in some cases be longer than that required for United States governmental approvals. On the other hand, the fact that our HIV diagnostic tests are of value in the AIDS epidemic may lead to some government process being expedited. The extent of potentially adverse governmental regulation affecting Chembio that might arise from future legislative or administrative action cannot be predicted.

One or more of the Company's rapid HIV tests are also approved for marketing in several foreign jurisdictions, including but not limited to Brazil, Mexico, India and a number of other nations in the developing world.

In 2007 Chembio received certification under ISO 13485:2003. ISO (International Organization for Standardization) is the world's largest developer and publisher of International Standards. It is comprised of a network of the national standards institutes of 155 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO 13485:2003, in particular, specifies requirements for a quality management system where an organization needs to demonstrate its ability to provide medical devices and related services that consistently meet customer requirements and regulatory requirements applicable to medical devices and related services. The primary objective of ISO 13485:2003 is to facilitate harmonized medical device regulatory requirements for quality management systems. ISO 13485:2003 is the quality system that is most recognized globally, including throughout the European Community for products seeking a CE mark. Chembio has engaged a European Notified Body and Authorized Representative in connection with its plans to obtain a CE mark for its products.

Environmental Laws

To date, we have not encountered any costs relating to compliance with any environmental laws.

Intellectual Property

Intellectual Property Strategy

Our intellectual property strategy is to: (1) build our owned intellectual property portfolio around our Dual Path Platform technology; (2) pursue licenses, trade secrets and know-how within the area of lateral flow technology and DPP™; and (3) develop and acquire proprietary positions to reagents and new hardware platforms for the development and manufacture of rapid diagnostic tests.

Trade Secrets and Know-How

We believe that we have developed a substantial body of trade secrets and know-how relating to the development of lateral flow diagnostic tests, including but not limited to the sourcing and optimization of materials for such tests, and how to maximize sensitivity, speed-to-result, specificity, stability and reproducibility. The Company possesses proprietary know-how to develop tests for multiple conditions using colored latex. Our buffer formulations enable extremely long shelf lives of our rapid HIV tests and we believe that this provides us with an important competitive advantage.

Lateral Flow Technology and Reagent Licenses

Prior to the issuance of our United States patent covering our Dual Path Platform (DPP™), we owned no issued patents covering lateral flow technology. Therefore we obtained non-exclusive licenses from Inverness Medical Innovations, Inc. and Abbott Laboratories with respect to their portfolios of single path lateral flow patents. Although we believe our DPP™ is outside of the scope of single path lateral flow patents, we consult with patent counsel, and seek licenses and/or redesigns of products that we believe to be in the best interests of the Company and our stockholders. Because of the costs and other negative consequences of time-consuming patent litigation, we often attempt to obtain a license on reasonable terms. Nevertheless there is no assurance that Abbott's and/or Inverness' lateral flow patents will not be challenged or that other patents containing claims relevant to the Company's products will be not be granted and that licenses to such patents if any will be available on reasonable terms, if any.

In the event that it is determined that a license is required and it is not possible to negotiate a license agreement under a necessary patent, we may be able to modify the applicable product such that a license would not be necessary. However, this alternative could delay or limit our ability to sell these products in the United States and/or other markets, and/or increase penalties all of which would adversely affect our results of operations, cash flows and business.

The DPP™ technology provides improved sensitivity as compared with conventional platforms in a number of preliminary studies using well characterized HIV, Tuberculosis and other samples. The Company anticipates signing new development projects based upon these new technologies in the near future that will provide new product applications and marketing opportunities. We have also filed two patents relating to our veterinary tuberculosis rapid tests and improvements to the sample collection method in our "barrel" (SURE CHECK) device which is one of the formats which Inverness is marketing.

The peptides used in our rapid HIV tests are patented by Adaltis Inc. and are licensed to us under a 10-year non-exclusive license agreement dated August 30, 2002, which was recently amended to reduce the royalty rate. We also have licensed the antigens used in our tuberculosis and Chagas disease tests. In prior years we concluded license agreements related to intellectual property rights associated with HIV- 1, and during the first quarter of 2008 we entered into a license agreement for HIV-2.

Corporate History

On May 5, 2004, we completed a merger with Chembio Diagnostic Systems Inc. through which Chembio Diagnostics Systems Inc. became our wholly-owned subsidiary, and through which the management and business of Chembio Diagnostic Systems Inc. became our management and business. As part of this transaction, we changed our name to Chembio Diagnostics, Inc. In 2003, we had sold our prior business, and as a result, we had no specific business immediately prior to the merger.

Since the formation of Chembio Diagnostic Systems Inc. in 1985, it has been involved in developing, manufacturing, selling and distributing in-vitro diagnostic tests, including rapid tests beginning in 1995, for a number of conditions in humans and animals.

On March 12, 2004, we implemented a 1-for-17 reverse split of our common stock. All references in this Form 10-KSB to shares of our common stock have been adjusted to reflect this reverse split.

Glossary

AIDS	Acquired Immunodeficiency Syndrome. AIDS is caused by the Human Immunodeficiency Virus, HIV.
ALGORITHM	For rapid HIV testing this refers both to method or protocol for using rapid tests from different manufacturers in combination to screen and confirm patients at the point of care, and may also refer to the specific tests that have been selected by an agency or ministry of health to be used in this way.
ANTIBODY	A protein which is a natural part of the human immune system produced by specialized cells to neutralize antigens, including viruses and bacteria that invade the body. Each antibody producing cell manufactures a unique antibody that is directed against, binds to and eliminates one, and only one, specific type of antigen.
ANTIGEN	Any substance which, upon entering the body, stimulates the immune system leading to the formation of antibodies. Among the more common antigens are bacteria, pollens, toxins, and viruses.
ARVs	Anti-Retroviral Treatments for AIDS
CD-4	The CD4+ T-lymphocyte is the primary target for HIV infection because of the affinity of the virus for the CD4 surface marker. Measures of CD4+ T-lymphocytes are used to guide clinical and therapeutic management of HIV-infected persons.
CDC	United States Centers for Disease Control and Prevention
CHAGAS DISEASE	Chagas disease is an infection caused by the parasite <i>Trypanosoma cruzi</i> . Worldwide, it is estimated that 16 to 18 million people are infected with Chagas disease; of those infected, 50,000 will die each year.
CHAI	Clinton HIV/AIDS Initiative
CLIA	Clinical Laboratory Improvement Act
DIAGNOSTIC	Pertaining to the determination of the nature or cause of a disease or condition. Also refers to reagents or procedures used in diagnosis to measure proteins in a clinical sample.
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
FDA	United States Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
HIV	Human Immunodeficiency Virus. HIV (also called HIV-1), a retrovirus, causes AIDS. A similar retrovirus, HIV-2, causes a variant disease, sometimes referred to as West African AIDS. HIV infection leads to the destruction of the immune system.
IgG	IgG or Immunoglobulin are proteins found in human blood. This protein is called an “antibody” and is an important part of the body’s defense against disease. When the body is attacked by harmful bacteria or viruses, antibodies help fight these invaders.
MOH	Ministry of Health
MOU	Memoranda of Understanding
NGO	Non-Governmental Organization
OTC	Over-the-Counter
PEPFAR	The President’s Emergency Plan for AIDS Relief
PMA	Pre-Marketing Approval
PROTOCOL	A procedure pursuant to which an immunodiagnostic test is performed on a particular specimen in order to obtain the desired reaction.
REAGENT	A chemical added to a sample under investigation in order to cause a chemical or biological reaction which will enable measurement or identification of a target substance.
RETROVIRUS	A type of virus which contains the enzyme Reverse Transcriptase and is capable of transforming infected cells to produce diseases in the host such as AIDS.
Ryan White CARE Act	The Ryan White Comprehensive AIDS Resources Emergency (CARE) Act is Federal legislation that addresses the unmet health needs of persons living with HIV disease by funding primary health care and support services. The CARE Act was named after Ryan White, an Indiana teenager whose courageous struggle with HIV/AIDS and against AIDS-related discrimination helped educate the nation.
SAB	Staff Accounting Bulletin
SENSITIVITY	Refers to the ability of an assay to detect and measure small quantities of a substance of interest. The greater the sensitivity, the smaller the quantity of the substance of interest the assay can detect. Also refers to the likelihood of detecting the antigen when present.
SFAS	Statement of Financial Accounting Standards
SPECIFICITY	The ability of an assay to distinguish between similar materials. The greater the specificity, the better an assay is at identifying a substance in the presence of substances of similar makeup.
SPUTUM	Expectorated matter; saliva mixed with discharges from the respiratory passages
TB	Tuberculosis (TB) is a disease caused by bacteria called <i>Mycobacterium tuberculosis</i> . The bacteria usually attack the lungs. But, TB bacteria can attack any part of the body such as the kidney, spine, and brain. If not treated properly, TB disease can be fatal. TB is spread through the air from one person to another. The bacteria are put into the air when a person with active TB disease of the lungs or throat coughs or sneezes. People nearby may breathe in these bacteria and become infected.
UNAIDS	Joint United Nations Program on HIV/AIDS
USAID	United States Agency for International Development
USDA	U.S Department of Agriculture
WHO	World Health Organization

ITEM 2. DESCRIPTION OF PROPERTY

Our administrative offices and research facilities are located in Medford, New York. We lease approximately 16,640 square feet of industrial space for \$10,680 per month. The space is utilized for research and development activities (approximately 2,600 square feet), offices (approximately 4,040 square feet) and production (approximately 10,000 square feet). The lease term expires on April 30, 2009, and the Company has an option to renew for an additional two years. Additional space may be required as we expand our research and development activities. We do not foresee any significant difficulties in obtaining any required additional facilities.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest that is adverse to our interest.

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

Please refer to the description of the Company's equity simplification plan in Note 1 to the Financial Statements for a description of matters submitted to a vote of the holders of the Company's preferred stock and warrants and options not including options or warrants issued to employees or directors in their capacity as such.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol “CEMI.” The table below sets forth the high and low bid prices per share of our common stock for each quarter of our two most recently completed fiscal years. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

Fiscal Year 2007	High Bid	Low Bid
First Quarter	\$0.93	\$0.61
Second Quarter	\$0.65	\$0.47
Third Quarter	\$0.65	\$0.37
Fourth Quarter	\$0.57	\$0.26
Fiscal Year 2006	High Bid	Low Bid
First Quarter	\$0.75	\$0.33
Second Quarter	\$1.15	\$0.65
Third Quarter	\$0.85	\$0.68
Fourth Quarter	\$0.92	\$0.63

Rule 15c-9 of the Securities and Exchange Commission, known as the Penny Stock Rule, imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, brokers/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser’s written agreement to the transaction prior to sale. The Securities and Exchange Commission also has rules that regulate broker/dealer practices in connection with transactions in “penny stocks.” Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in that security is provided by the exchange or system), except for securities of companies that have tangible net assets in excess of \$2,000,000 or average revenue of at least \$6,000,000 for the previous three years. The Penny Stock Rule requires a broker/ dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. These disclosure requirements have the effect of reducing the level of trading activity in the secondary market for penny stock issues. As a result of these rules, investors sometimes find it difficult to sell shares of penny stock issuers. At the present time, transactions in our common stock are not subject to the Penny Stock Rule because our average revenue for 2005, 2006 and 2007 exceeded \$6 million per year. However, there can be no assurance that transactions in our common stock will not be subject to the Penny Stock Rule in the future.

Holders

As of January 29, 2008, there were approximately 905 record owners of our common stock.

Dividends

The Company has never paid cash dividends on its common stock and has no plans to do so in the foreseeable future. Our future dividend policy will be determined by our board of directors and will depend upon a number of factors, including our financial condition and performance, our cash needs and expansion plans, income tax consequences, and the restrictions that applicable laws, our current preferred stock instruments, and our future credit arrangements may then impose.

Currently under Nevada law, a dividend may not be made by a corporation if, after giving it effect:

- the corporation would not be able to pay its debts as they become due in the usual course of business; or
- except as otherwise specifically allowed by the corporation's articles of incorporation, the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution.

Equity Compensation Plan Information

Equity Compensation Plan Information as of December 31, 2007

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,201,500	\$0.64	433,500
Equity compensation plans not approved by security holders	--	--	--
Total	2,201,500	\$0.64	433,500

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

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

The following management discussion and analysis relates to the business of the Company and its subsidiaries, which develop, manufacture, and market rapid diagnostic tests that detect infectious diseases. The Company’s main products presently commercially available are three rapid tests for the detection of HIV antibodies in whole blood, serum and plasma samples, two of which were approved by the FDA in 2006; the third is sold for export only. These products all employ single path lateral flow technology. The Company also has a rapid test for Chagas disease (a parasitic disease endemic in Latin America) as well as a line of rapid tests for tuberculosis, including tests for tuberculosis in animals which is USDA approved. The Company’s products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments. Chembio’s products are sold either under the Company’s STAT-PAK® or SURE CHECK® registered trademarks or under the private labels of its marketing partners, such as is the case with the Clearview® label owned by Inverness Medical Innovations, Inc., which is the Company’s exclusive marketing partner for its rapid HIV test products in the United States.

Recent Events

On December 19, 2007 (the “Closing Date”) amendments to the governing documents for the Company’s Series A, Series B and Series C Convertible Preferred Stock (collectively, the “Preferred Stock”) and for certain warrants and options (collectively, the “Non-Employee Warrants”) not including options or warrants issued to employees or directors in their capacity as such (these actions collectively, the “Plan”) were approved by the Company and the requisite percentages of the holders of the Preferred Stock and of the Non-Employee Warrants. Subsequent to these amendments, among other matters, all the Preferred Stock and certain of the Non-Employee Warrants were converted to shares of the Company’s common stock. A description of the terms of the Plan is included in Note 1 to the consolidated financial statements in Part II, Item 7 of this Form 10-KSB.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007 AS COMPARED WITH THE YEAR ENDED DECEMBER 31, 2006

Revenues

Selected Product Categories:	For the years ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
HIV	\$ 7,927,676	\$ 4,434,432	\$ 3,493,244	78.78%
Chagas	67,888	1,216,794	(1,148,906)	-94.42%
Other	769,313	642,786	126,527	19.68%
Net Sales	8,764,877	6,294,012	2,470,865	39.26%
Research grant income	466,071	208,468	257,603	123.57%
Total Revenues	\$ 9,230,948	\$ 6,502,480	\$ 2,728,468	41.96%

Revenues for our HIV tests during the year ended December 31, 2007 increased by \$3.5 million over the same period in 2006. This was primarily attributable to increased sales in Africa and sales to our distributor in the United States, offset by the reduction of sales to Brazil in 2006 that were not repeated in 2007. Sales of our Chagas product declined because a \$1.2 million order received in 2006 was not repeated. The increase in grant and development income was due to revenue generated from grant and feasibility studies for our DPP™ platform of which \$509,000 was received and \$466,000 was earned in 2007. The \$43,000 balance is reflected in deferred revenues. Sales to Africa (see Note 3 of the financial statements) were primarily from Nigeria of approximately \$2.7 million. We have been advised recently that our designation in Nigeria as one of the screening tests has changed to that of the confirmatory test as this country moves from a parallel to a serial testing algorithm, which we expect to significantly reduce our sales to Nigeria in 2008.

Gross Margin:

Gross Margin related to	For the years ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
Net Product Sales:				
Gross Margin per Statement of Operations	\$ 3,862,303	\$ 2,016,568	\$ 1,845,735	91.53%
Less: Research grant income	466,071	208,468	257,603	123.57%
Gross Margin from Net Product Sales	\$ 3,396,232	\$ 1,808,100	\$ 1,588,132	87.83%
Gross Margin %	38.75%	28.73%		

The increase in our gross margin resulted primarily from increased quantities of our product sales and increased average unit prices on product sales to our U.S. distributor.

Research and Development:

This category includes costs incurred for regulatory approvals, product evaluations and registrations.

Selected expense lines:

	For the years ended			
	December 31, 2007	December 31, 2006	\$ Change	% Change
<u>Clinical & Regulatory Affairs:</u>				
Wages and related costs	\$ 186,428	\$ 174,489	\$ 11,939	6.84%
Consulting	40,813	78,249	(37,436)	-47.84%
Clinical Trials	29,664	61,427	(31,763)	-51.71%
Other	12,657	8,942	3,715	41.55%
Total Regulatory	\$ 269,562	\$ 323,107	\$ (53,545)	-16.57%
<u>R&D Other than Regulatory:</u>				
Wages and related costs	\$ 952,557	\$ 756,902	195,655	25.85%
Consulting	70,237	12,605	57,632	457.22%
Share-based compensation	189,843	60,547	129,296	213.55%
Materials and supplies	300,604	135,576	165,028	121.72%
Other	123,850	112,735	11,115	9.86%
Total other than Regulatory	\$ 1,637,091	\$ 1,078,365	\$ 558,726	51.81%
Total Research and Development	\$ 1,906,653	\$ 1,401,472	\$ 505,181	36.05%

Expenses for Clinical & Regulatory Affairs for the year ended December 31, 2007 decreased by \$53,500 as compared to the same period in 2006. This was primarily due to a reduction in consulting and clinical trial expenses related to CLIA waiver for our HIV products, which were performed on both FDA approved HIV products in 2006 and repeated for only one of these products in 2007.

Expenses other than Clinical & Regulatory Affairs increased by \$558,700 in the year ended December 31, 2007 as compared with the same period in 2006 and were primarily related to an increase in the work related to feasibility studies of our DPP™ platform and grant income resulting in an increase in our personnel and material costs. In addition the cost of share-based compensation related to the value of common stock and employee stock options issued to an employee pursuant to a contract also contributed to the increase.

Subject to cash availability, the Company currently plans to continue to increase its spending on research and development in 2008 because it believes such spending will result in the deployment of new and innovative products that are based on the newly patented DPP™ technology.

The Company entered into five externally funded research agreements during 2007 that accounted for total financial commitments of \$600,000, of which \$439,000 was received by the Company during 2007 (approximately \$396,000 of which was earned in 2007 on a percentage of completion basis) with clinical diagnostics, life science, companion animal, academic, and government-affiliated public health entities. These agreements all related to potential applications for point of care tests that would employ our DPP™ technology. The Company has several Research & Development and Regulatory projects underway. Some highlights include:

Research & Development - Dual Path Platform (DPP™)

During 2007 we made significant progress in implementing our strategy for the deployment of our Dual Path Platform technology. We have further confirmed that this platform technology has potential application to a broad range of point-of-care/point-of-use products and markets. We believe that our DPP™ intellectual property, product development and regulated manufacturing know-how and experience are core strengths, but that significant additional resources would be required for the associated product development and marketing needed to adequately address such a wide range of opportunities. A key aspect of our strategy is therefore to leverage our strengths in developing collaborations with premier organizations that have significant sales, marketing and distribution capabilities. We have received a substantial amount of interest in these kinds of collaborations. If successful, in each case we would be an exclusive development and long-term manufacturing partner to these companies, and the companies would also acquire an exclusive license to our DPP™ intellectual property with respect to marketing the product in the field of interest. We have several projects in discussion and in negotiation, and we anticipate that we will consummate agreements during 2008 relative to these activities. There can be no assurance however that these discussions will be successfully concluded or, even if they are, that products will be developed and successfully commercialized as a result of such agreements.

On January 29th 2008 we signed three new technology transfer, supply and license agreements with the Bio-Manguinhos (B-M) unit of the Oswaldo Cruz Foundation of Brazil for products being developed by Chembio with its patented Dual Path Platform (DPP™) technology. Previously, in 2004, B-M and Chembio entered into a similar agreement concerning one of Chembio's HIV rapid tests.

Two of the products being developed will be used in screening programs funded by Brazil's Ministry of Health for the control and eradication of Leishmaniasis and Leptospirosis, respectively, which are both blood-borne infectious diseases that are endemic in Brazil. A third test being developed is for the confirmation of HIV-1 in patients who have tested positive with a screening test. Bio-Manguinhos, also known as the Immunobiological Technology Institute, is the largest producer of vaccines and kits for diagnosis of infectious and parasitic diseases in Latin America. Chembio's DPP™ test platform was selected for the screening programs because of its high sensitivity and specificity of prototypes evaluated by Bio-Manguinhos and because of the unique multiplexing capabilities of DPP™ for the confirmatory assay. The DPP™ point-of-care screening tests will complement the current Bio-Manguinhos national program, which currently only uses laboratory-based technologies. The HIV confirmatory test will allow for the simultaneous binding and uniform delivery of samples to multiple HIV antigens printed in the detection zone, providing results equivalent to Western blot in a simple point-of-care format that provides results within 20 minutes. Under the new agreements, once the products meet mutually agreed-upon performance specifications and are approved for sale in Brazil, Chembio will receive a minimum purchase order for at least one million tests within a one-year period. Thereafter, the agreement allows for production of the products to be transferred to Brazil, subject to certain royalty payments. This is similar to Chembio's 2004 agreement with B-M for one of the Company's rapid HIV tests.

Based upon the initial prototypes we have developed for each of these products, we anticipate that these products will be successfully developed in accordance with the agreed-upon specifications. Also, based upon our experience with Bio-Manguinhos through the earlier agreement, we anticipate that the other aspects of our agreement will be successful, though there can be no assurance that this will in fact occur.

We have several other DPP™ research and development projects in various stages, including products that we are or may be developing under contract for third-party marketing partners. There can be no assurance that any of these projects will result in completed products or that such products, if successfully completed, will be successfully commercialized.

We are also pursuing under Chembio brands the development of products on the DPP™ platform that we believe will address market opportunities in point-of-care testing. We anticipate that we will select such products during the first quarter of 2008. We are attempting to identify products that could generate attractive revenues and margins, address significant market opportunities and that would feature the unique advantages of DPP™, such as its improved sensitivity, sample management and/or multiplexing features. There can be no assurance that these efforts will be successful in developing a Chembio-branded product or products, and that if developed such product or products will be successfully commercialized.

Regulatory Activities

In July 2007, we submitted to the FDA the results of our untrained user studies in connection with our pending CLIA waiver application for the HIV barrel product marketed by Inverness under the name Clearview® Complete™ HIV 1/2. In October 2007, we announced that the FDA granted a CLIA waiver for this product. We believe that CLIA waiver for this product will create additional sales opportunities for Inverness with this product that were not available previously without the CLIA waiver.

In August 2007, we received ISO 13,485 certification. ISO 13,485 is a directive of the International Standards Organization (ISO) that is specifically related to manufacturers of in-vitro diagnostic products. This certification is necessary to obtain CE (Community European) Markings for our products which are required in order to sell in most European countries, as well as many other countries in the world. We have made progress in pursuing CE Markings for all of our rapid HIV tests, which we anticipate receiving during 2008. We have also made progress in pursuing CE Marking for our Chagas rapid test, which we anticipate receiving during 2008.

During the fourth quarter we were granted an Investigational Device Exemption (IDE) by the FDA in connection with a study for which we have agreed upon a protocol with FDA. If this program is successfully completed, it would enable us and therefore Inverness to expand the age range of our two FDA-approved rapid HIV tests beyond the current 18-64 year old range down to individuals 13 years of age and above. We believe that this study and associated submission, which will be a supplement to our Pre-Marketing Approval (PMA), will be completed during the first quarter of 2008. However there is no assurance that this study will be completed successfully or that the FDA will approve these additional claims based upon our submission.

The Company received its first USDA approval during the second quarter of 2007 for manufacturing and marketing its Prima-TB STAT PAK™ test, a rapid test for the detection of active pulmonary tuberculosis in non-human primate whole blood samples. There is no assurance that commercialization of these products will be successful.

Selling, General and Administrative Expense:

Selected expense lines:	For the years ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
Wages and related costs	\$ 1,517,728	\$ 1,502,747	\$ 14,981	1.00%
Consulting	229,322	318,536	(89,214)	-28.01%
Commissions, License and Royalties	1,098,356	900,431	197,925	21.98%
Options (per SFAS 123R)	152,319	182,674	(30,355)	-16.62%
Marketing Materials	75,570	55,734	19,836	35.59%
Investor Relations	224,843	574,557	(349,714)	-60.87%
Legal, Accounting and 404	613,603	792,460	(178,857)	-22.57%
Travel, Entertainment and shows	121,433	186,551	(65,118)	-34.91%
Bad Debt Allowance	(11,210)	22,479	(33,689)	-149.87%
Other	809,850	659,120	150,730	22.87%
Total S, G &A	\$ 4,831,814	\$ 5,195,289	\$ (363,475)	-7.00%

Selling, general and administrative expense for the year ended December 31, 2007 decreased by 7 percent as compared with the same period in 2006. Reduction in spending on investor relations and decreased professional fees were partially offset by increases in commission, license and royalty expenses. The decreased cost of professional fees (legal, accounting and section 404 of Sarbanes-Oxley) were related to the reduction of legal fees related a patent lawsuit that was settled in late 2006, which was partially offset by the added cost of section 404 related expenses. The increase in commission, license and royalty expenses were due to added royalty burden due to our agreements with Inverness Medical Systems, Inc. as well as the settlement with Bio-Rad Laboratories for past royalties on HIV-2 offset by reduced commissions on sales to Brazil which occurred in 2006 but were not repeated in 2007. Our periodic review of our allowance for doubtful accounts resulted in a reduction of the allowance in the year ended December 31, 2007.

As the Company's sales of its rapid test products increase, it will incur increased costs for commissions and royalties on intellectual property licenses.

Other Income and Expense:

Other Income and Expense	For the years ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
Other income (expense)	\$ 120,862	\$ 30,000	\$ 90,862	302.87%
Interest income	145,289	29,532	115,757	391.97%
Interest expense	(16,879)	(87,464)	70,585	-80.70%
Loss on extinguishment of debt	-	(386,895)	-	0.00%
Total Other Income and Expense	\$ 249,272	\$ (414,827)	\$ 664,099	-160.09%

Interest income for the year ended December 31, 2007 increased due to the additional availability of funds to invest. In addition the Company received \$133,000 in 2007, net of expenses, from New York State related to a program for qualified emerging technology companies, which was partially offset by the retirement of a fixed asset in 2007 of \$12,000, resulting in the increase in other income. The conversion of a bridge loan in 2006 related to the loss on extinguishment of debt. The lack of interest expense related to the bridge loan in 2006 and the effect of several of our operating leases approaching the end of their terms, resulted in the decrease in interest expense in 2007 over 2006.

SELECTED FOURTH QUARTER INFORMATION FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
SELECTED OPERATION INFORMATION
FOR THE THREE MONTHS ENDED
UNAUDITED

	December 31, 2007	December 31, 2006
REVENUES:		
Net sales	\$ 2,160,901	\$ 2,610,413
Research grant income	215,416	(1,026)
TOTAL REVENUES	2,376,317	2,609,387
Cost of sales	1,150,742	1,780,163
GROSS PROFIT	1,225,575	829,224
OVERHEAD COSTS:		
Research and development expenses	521,580	339,153
Selling, general and administrative expenses	1,341,715	1,454,524
	1,863,295	1,793,677
LOSS FROM OPERATIONS	(637,720)	(964,453)

Revenues:**Selected Product Categories:**

	For the three months ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
HIV	\$ 2,001,279	\$ 2,464,192	\$ (462,913)	-18.79%
Chagas	6,808	15,887	(9,079)	-57.15%
Other	152,814	130,334	22,480	17.25%
Net Sales	2,160,901	2,610,413	(449,512)	-17.22%
Research grant income	215,416	(1,026)	216,442	21095.71%
Total Revenues	\$ 2,376,317	\$ 2,609,387	\$ (233,070)	-8.93%

Revenues for our HIV tests during the three months ended December 31, 2007 decreased by \$463,000 over the same period in 2006. This was primarily due to \$1.1 million of revenues realized during the three months ended December 31, 2006 received from a division of Bio-Rad Laboratories in Mexico that did not recur in 2007 as well as sales to Brazil of \$845,000 in 2006 that did not recur in 2007 offset by increased rapid HIV test sales to Africa of \$740,000 and to our distributor in the United States of \$875,000, including an adjustment of \$94,000 for sales prior to the fourth quarter of 2007.

Gross Margin:**Gross Margin related to**

	For the three months ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
Net Product Sales:				
Gross Margin per Statement of Operations	\$ 1,225,575	\$ 829,224	\$ 396,351	47.80%
Less: Research grant income	215,416	(1,026)	216,442	21095.71%
Gross Margin from Net Product Sales	\$ 1,010,159	\$ 830,250	\$ 179,909	21.67%
Gross Margin %	46.75%	31.81%		

Our gross margins increased for the three months ended December 31, 2007 as compared to the same period in 2006. This increase was due to several factors some of which included: a) improved average selling prices due to sales in the United States, and b) the timing of certain additional payments under our U.S. rapid HIV test marketing agreements, and c) a change in the overhead allocated to inventories based on actual results for the year.

Research and Development:

This category includes costs incurred for regulatory approvals, product evaluations and registrations. Clinical & Regulatory Affairs totaled \$14,000 for the three months ended December 31, 2007 as compared to \$73,600 for the same period in 2006. Research & Development costs other than Regulatory totaled \$507,600 for the three months ended December 31, 2007 as compared to \$ 265,600 for the same period in 2006.

Expenses for Clinical & Regulatory Affairs for the three months ended December 31, 2007 decreased by \$59,600 as compared to the same period in 2006. This was primarily due to credit for certain regulatory expenses we incurred during 2007 that we billed to our U.S. marketing partner in the fourth quarter of 2007 under our agreements.

Expenses other than Clinical & Regulatory Affairs increased in the three months ended December 31, 2007 as compared with the same period in 2006 and were primarily related to an increase in the work related to feasibility studies of our DPP™ platform and to research grants that resulted in an increase in personnel, consulting and material costs. In addition the cost of share-based compensation related to the value of common stock and employee stock options issued to an employee pursuant to a contract also contributed to the increase.

Selling, General and Administrative Expense:

Selling, general and administrative expense for the three months ended December 31, 2007 decreased by 7.8 percent as compared with the same period in 2006. Reduction in spending on investor relations and decreased professional fees were offset partially by increases in commission, license and royalty expenses. The decreased cost of professional fees (legal, accounting and section 404 -Sarbanes-Oxley) were related to the reduction of legal fees related to the Plan (see Note 1) of \$250,000 which were charged to paid in capital (some of this amount was charged to legal expenses in the third quarter of 2007) offset by the added cost of section 404 related expenses. The increase in commission, license and royalty expenses were due to added royalty burden due to the settlement with Bio-Rad Laboratories for past royalties on HIV-2.

Operating Loss

The operating loss shown was impacted by the number of adjustments described above that were made during the fourth quarter of 2007, please see our analysis of the full year results for a more complete understanding of our financial results for 2007.

LIQUIDITY AND CAPITAL RESOURCES

	For the years ended		\$ Change	% Change
	December 31, 2007	December 31, 2006		
Net cash used in operating activities	\$ (1,345,796)	\$ (4,202,923)	\$ 2,857,127	-67.98%
Net cash used in investing activities	(410,425)	(374,513)	(35,912)	9.59%
Net cash provided by financing activities	293,204	8,635,674	(8,342,470)	-96.60%
NET (DECREASE) INCREASE IN CASH	<u>\$ (1,463,017)</u>	<u>\$ 4,058,238</u>	<u>\$ (5,521,255)</u>	<u>-136.05%</u>

The Company had a decrease in cash for the year ended December 31, 2007 as compared to an increase in cash for the same period in 2006. The decrease during the 2007 period is primarily attributable to the cash used in operations. The increase during the 2006 year was primarily due to cash from the sale of additional Series B Preferred of \$1,000,000, proceeds from a bridge loan of \$1,300,000 and net proceeds from the sales of Series C Preferred of \$7,440,000, all received in 2006.

The Company had a working capital surplus of \$3,229,000 at December 31, 2007 and a working capital surplus of \$5,113,000 at December 31, 2006. The Company believes its resources are sufficient to fund its needs through the end of 2008 and into early 2009. Its liquidity and cash requirements will depend on several factors. These factors include (1) the level of revenue growth; (2) the extent, if any, to which that revenue growth improves operating cash flows; (3) the Company's expenditures for research and development, facilities, marketing, regulatory approvals, and other expenditures it may determine to make; and (4) the Company's investment in capital equipment and the extent to which this investment improves cash flow through operating efficiencies.

The following table lists the future payments required on the Company's debt and certain other contractual obligations as of December 31, 2007:

OBLIGATIONS	Total	Less than 1 Year	1-3 Years	4-5 Years	Greater than 5 Years
Capital Leases (1)	\$ 136,752	\$ 35,832	\$ 85,716	\$ 15,204	\$ -
Operating Leases	170,880	128,160	42,720	-	-
Other Long Term Obligations(2)	1,775,666	897,666	810,500	27,000	40,500
Total Obligations	<u>\$ 2,083,298</u>	<u>\$ 1,061,658</u>	<u>\$ 938,936</u>	<u>\$ 42,204</u>	<u>\$ 40,500</u>

(1) This represents capital leases used to purchase capital equipment. (Obligations inclusive of interest).

(2) This represents contractual obligations for fixed cost licenses and employment contracts.

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

Please see section entitled Recent Events above.

On September 29, 2006, the Company executed several agreements by and among the Company, Inverness Medical Innovations, Inc. ("Inverness") and StatSure Diagnostic Systems, Inc. ("StatSure"). Pursuant to these agreements, Inverness markets the Company's FDA-approved rapid HIV tests under Inverness' Clearview® brand, Chembio received a nonexclusive license to Inverness' lateral flow patents, and the Company and StatSure settled their patent litigation related to the HIV barrel format product, marketed exclusively now by Inverness (except in Mexico) as Clearview Complete HIV 1/2HIV 1/2. Inverness markets Chembio's cassette format rapid HIV test under the Clearview and Chembio's HIV 1/2 STAT-PAK® brand, i.e., as Clearview HIV 1/2 STAT-PAK. This enables Chembio to have brand identity for its cassette product which Chembio markets directly, not through Inverness, outside the United States. The distribution agreements with Inverness contain gross margin sharing formulae among Inverness, the Company and, in the case of the HIV barrel product, StatSure. The specific terms of these agreements are available for review in the Company's Current Report on Form 8-K filed with the Commission on October 5, 2006 (SEC Accession No. 000085), which is incorporated by reference herein.

Inverness launched marketing of our two FDA approved rapid HIV tests in the United States during the first quarter of 2007. Though both products are now CLIA waived, we only received the CLIA waiver for the HIV barrel product in October of 2007. We believe that Inverness' distribution network in the point of care markets for HIV tests, namely hospital emergency departments, public health clinics, and physicians' offices, is outstanding and superior to the networks of the two other CLIA-waived competitive products. However, Inverness, in the development of the market for our products, is competing against a well established product manufactured by the principal competitor in the US market, Orasure Technologies. Furthermore Orasure's product has certain product features and specifications not currently available in our products being marketed by Inverness. These features and specifications include the inability to currently use our product with oral fluid samples and the current limitation of the regulatory approval of our product that is only approved for use in testing individuals that are over 18 years of age. We are currently completing steps to address these issues. There can be no assurance that we will successfully complete these steps or that, assuming we do, that Inverness will take all steps reasonably necessary to exploit the improved market opportunity in that case. We do believe however that there are other features and specifications, such as test performance (sensitivity and specificity), shelf life, ease of use, and price that we believe should help to offset those disadvantages in the interim. We therefore believe that Inverness will be successful in increasing its share of the growing United States rapid HIV test market, although there are risks and uncertainties associated with this.

During 2007 we signed a contract with the Partnership for Supply Chain Management ("PSCM") based in Washington D.C. PSCM is the organization now charged with centralizing procurement, distribution, logistics and forecasting under the United States President's Emergency Plan for AIDS Relief ("PEPFAR") and other donor-funded relief programs in the developing world. Our sales to the PEPFAR program are increasingly through this organization. However, sales into PEPFAR countries still largely depend upon being selected in national testing protocols. Currently our STAT-PAK test is designated as the confirmatory test in all of the national rapid HIV testing protocols in the Republic of Uganda, and in four of the eight parallel testing algorithms (two tests are used on each patient) adopted by the Nigerian Ministry of Health. We have been advised recently that our designation in Nigeria as one of the screening tests has changed to that of the confirmatory test as this country moves from a parallel to a serial testing algorithm. Sales to Nigeria for 2007 approximated \$2.7 million and a substantial amount is not expected to recur in 2008. In October 2007, we were also selected as the confirmatory test to be used in Ethiopia, and initial orders have been shipped to this market. Progress in being selected in additional countries is unpredictable and very price competitive.

Numerous other distribution opportunities are being pursued directly by Chembio for its HIV 1/2 STAT-PAK cassette and dipstick tests outside the United States, and progress is being made. However there can be no assurance that these efforts will result in successful distribution arrangements.

During 2007 we sold our HIV barrel product under our SURE CHECK® brand to our distributor in Mexico, a division of Bio-Rad Laboratories, Inc. We shipped approximately \$1.4 million of this product to this customer during 2007. Our agreement with Inverness provides that this distribution arrangement, which is currently the only exception to our otherwise global exclusive agreement with Inverness for this product, was to terminate on September 29, 2007. However, during 2007 Inverness agreed to extend this carve-out to at least September 2008. We believe that additional sales will be realized to Mexico although there can be no assurance that this will occur.

With the additional revenues at higher margins as a result of the introduction of our FDA-approved rapid HIV tests in the United States, and continued growth in our export revenues from our rapid HIV tests, we increased our sales and gross margins significantly as compared with 2006. We believe that we will experience continued revenue growth from our HIV tests in 2008 as we believe that the market demand for rapid HIV tests will continue to increase in 2008, and we believe we will participate in this continued growth. We believe that growth in the United States market will occur as rapid tests continue to replace laboratory based technologies, as routine HIV testing recommendations by the CDC are increasingly implemented, and as our US marketing partner participates in this growth with our tests with our support. We also believe that the demand for rapid HIV tests will increase in the donor funded markets as large amounts of funding for testing is appropriated for PEPFAR in 2008 and beyond. However, in order to compete against manufacturers in Asia that currently dominate the supply of rapid HIV tests to PEPFAR-funded markets, we will need to underscore the quality of our fully-licensed, FDA-approved products and the justification for providing US-based manufacturers with a fair opportunity to participate in US taxpayer-funded programs. If we can continue to grow our revenues, we will also continue to realize economies of scale as we did in 2007, thereby improving margins. We have also implemented a series of process and efficiency projects that if successfully implemented will also improve margins and lower costs.

In 2007 we exclusively focused our business development efforts on Dual Path Platform (DPP™), a rapid, point-of-care testing technology platform for which we were granted a U.S. patent in March, 2007. This will continue in 2008. We have made significant progress in implementing our strategies for the deployment of our DPP technology. We have confirmed, through our own studies and those that we are performing for prospective marketing partners, that this technology has potential application to a broad range of point-of-care/point-of-use products and markets. We believe that our DPP intellectual property, product development and regulated manufacturing know-how and experience are core strengths. Because significant additional resources would be required for the associated product development and marketing needed to adequately address such a wide range of opportunities, a major aspect of our DPP business development strategy is to develop collaborations with premier organizations that have significant sales, marketing and distribution capabilities. We have received a substantial amount of interest in these kinds of collaborations. In each case we would be an exclusive development and long term manufacturing partner with these companies, and the companies would also acquire an exclusive license to our DPP intellectual property to market the product in the field of interest. Our focus is on opportunities with partners that can address large markets where the proposed product fills an unmet need. We believe that during 2008 we will complete additional commercial opportunities for the license, development and manufacture of new products based upon our DPP™ technology based upon this business development strategy.

On January 29, 2008 we signed three agreements with the Bio-Manguinhos division of the Oswald Cruz Foundation, part of Brazil's Ministry of Health, for three products (two neglected diseases, Leishmaniasis and Leptospirosis, and a confirmatory test for HIV-1) based on our DPP technology. Pursuant to these agreements, we have contracted to develop, supply and license these products, and transfer the production of these products to the Bio-Manguinhos facility. We believe that this agreement will enable us to scale up the development, validation, and production of DPP products, and this will facilitate additional development projects for DPP.

Provided we successfully develop these products and that they are granted regulatory approval in Brazil, these agreements provide us with the opportunity to realize a total of approximately \$3.4 million of product and license revenues. We anticipate that approximately \$1.7 million of these revenues will be realized during the 2nd half of 2008, and the balance in 2009. However there can be no assurance of the amount or timing of these revenues.

We are also pursuing under Chembio brands the development of products on the DPP platform that we believe will address market opportunities in point-of-care testing. We anticipate that we will select such products during the first quarter of 2008. We are attempting to identify products that could generate attractive revenues and margins, address significant market opportunities and that would feature the unique advantages of DPP™, such as its improved sensitivity, sample management and/or multiplexing features. There can be no assurance that these efforts will be successful in developing a Chembio-branded product or products, and that if developed such product or products will be successfully commercialized.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, valuation of long-lived assets and income taxes. These policies, and the related procedures, are described in detail below.

Revenue Recognition –

We sell our products directly through our sales force and through distributors. Revenue from direct sales of our product are recognized upon shipment to the customer. Income from research grants are recognized when earned. Sales are recorded net of discounts, rebates and returns.

Research & Development Costs –

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

Valuation of Inventories –

Inventories are stated at the lower of cost or market, using the first-in, first-out method (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 \$14,000.

Allowance for doubtful accounts –

Our policy is to review our accounts receivable on a periodic basis, no less 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 1.05% of accounts receivable. For example each additional 1% of accounts receivable that becomes uncollectible would reduce such balance of accounts receivable by approximately \$10,000.

Income Taxes–

Income taxes are accounted for under SFAS No. 109, “Accounting for Income Taxes.” SFAS No. 109 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. For example, if we do not become profitable, we may be unable to utilize our deferred tax asset, which approximates \$7,988,000 at December 31, 2007.

SFAS 109 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.

Forming a conclusion that a valuation allowance is not needed is difficult when there is negative objective evidence such as cumulative losses in recent years. Cumulative losses weigh heavily in the overall assessment. As a result, we determined that it was appropriate to establish a valuation allowance for the full amount of our deferred tax assets.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”) on January 1, 2007. FIN 48 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.

The calculation of our tax liabilities involves the inherent uncertainty associated with the application of complex tax laws. We are subject to examination by various taxing authorities. We believe that as a result of our losses sustained to date, any examination would result in a reduction of our net operating losses rather than a tax liability. As such, we have not provided for additional taxes estimated under FIN 48, Accounting for Uncertainty in Income Taxes.

The above 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 of America, 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. See our audited financial statements and notes thereto which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States of America.

ITEM 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements and schedules that constitute Item 7 are attached at the end of this Annual Report on Form 10-KSB. An index to these Financial Statements and schedules is also included on page F-1 of this Annual Report on Form 10-KSB.

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

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES

(a) Management's Annual Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Under the supervision and with the participation of our senior management, consisting of our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date"). Based on that evaluation, the Company's management, including our chief executive officer and chief financial officer, concluded that as of the Evaluation Date our disclosure controls and procedures are effective such that the information relating to us required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our 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 in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. In evaluating the effectiveness of our internal control over financial reporting, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter of the period covered by this report that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

Not applicable.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Executive Officers

Lawrence A. Siebert (51), President, Chief Executive Officer and Director. Mr. Siebert was appointed President of Chembio Diagnostics, Inc. and a member of our board of directors upon consummation of the merger. Mr. Siebert has been Chairman of Chembio Diagnostic Systems Inc. for approximately 12 years and its President since May 2002. Mr. Siebert's background is in private equity and venture capital investing. From 1982 to 1991, Mr. Siebert was associated with Stanwich Partners, Inc, which during that period invested in middle market manufacturing and distribution companies. From 1992 to 1999, Mr. Siebert was an investment consultant and business broker with Siebert Capital Corp. and Siebert Associates LLC, and was a principal investor in a privately held test and measurement company which was sold in 2002. Mr. Siebert received a JD from Case Western Reserve University School of Law in 1981 and a BA with Distinction in Economics from the University of Connecticut in 1978.

Richard J. Larkin (51), Chief Financial Officer. Mr. Larkin was appointed as Chief Financial Officer of Chembio Diagnostics, Inc. upon consummation of the merger. Mr. Larkin oversees our financial activities and information systems. Mr. Larkin has been the Chief Financial Officer of Chembio Diagnostic Systems Inc. since September 2003. Prior to joining Chembio Diagnostic Systems Inc., Mr. Larkin served as CFO at Visual Technology Group from May 2000 to September 2003, and also led their consultancy program that provided hands-on expertise in all aspects of financial service, including the initial assessment of client financial reporting requirements within an Enterprise Resource Planning (Manufacturing) environment through training and implementation. Prior to joining VTG, he served as CFO at Protex International Corporation from May 1987 to January 2000. Mr. Larkin holds a BBA in Accounting from Dowling College and is a member of the American Institute of Certified Public Accountants.

Javan Esfandiari (41), Executive VP of Research and Development. Mr. Esfandiari joined Chembio Diagnostic Systems, Inc. in 2000. Mr. Esfandiari co-founded, and became a co-owner of Sinovus Biotech AB where he served as Director of Research and Development concerning lateral flow technology until Chembio Diagnostic Systems Inc. acquired Sinovus Biotech AB in 2000. From 1993 to 1997, Mr. Esfandiari was Director of Research and Development with On-Site Biotech/National Veterinary Institute, Uppsala, Sweden, which was working in collaboration with Sinovus Biotech AB on development of veterinary lateral flow technology. Mr. Esfandiari received his B.Sc. in Clinical Chemistry and his M. Sc. in Molecular Biology from Lund University, Sweden. He has published articles in various veterinary journals and has co-authored articles on tuberculosis serology with Dr. Lyashchenko.

Richard Bruce (53), Vice President, Operations. Mr. Bruce was hired in April 2000 as Director of Operations. He is responsible for manufacturing, maintenance, inventory, shipping, receiving, and warehouse operations. Prior to joining Chembio Diagnostic Systems Inc., he held director level positions at Wyeth Laboratories from 1984 to 1993. From 1993 to 1998, he held various management positions in the Operations department at Biomerieux. From 1998 to 2000, he held a management position at V.I. Technologies. Mr. Bruce has over 25 years of operations management experience with Fortune 500 companies in the field of in-vitro diagnostics and blood fractionation. Mr. Bruce received his BS in Management from National Louis University in 1997.

Les Stutzman (56), VP of Sales & Marketing – Vet TB. In 2005, Mr. Stutzman joined Chembio as Vice President of Marketing to lead the development and launch of rapid tests for veterinary and human TB and other veterinary products. Mr. Stutzman has spent over twenty years in marketing leadership positions within various diagnostics companies. He has held Global Director and Business Development Director positions in Marketing for diagnostic companies including bioMérieux Inc., (formerly Organon Teknika Corp.), Durham, North Carolina from 1997 to 2002 and TREK Diagnostic Systems, Cleveland, Ohio from 2002 to 2005. Mr. Stutzman received his MBA in Marketing from Duke University Fuqua School of Business in 1988 and his Masters in Microbiology from Wagner College in 1982. Mr. Stutzman is MT (ASCP) SM certified.

Tom Ippolito (45), VP of Regulatory Affairs, QA and QC. Mr. Ippolito joined Chembio in June 2005. He has over twenty years experience with in vitro diagnostics for infectious diseases, protein therapeutics, vaccine development, Process Development, Regulatory Affairs and Quality Management. Over the years, Mr. Ippolito has held Vice President level positions at Biospecific Technologies, Corp. from 2000 - 2005, Director level positions in Quality Assurance, Quality Control, Process Development and Regulatory Affairs at United Biomedical, Inc. from 1987 - 2000. Mr. Ippolito is the Course Director for "drug development process" and "FDA Regulatory Process" for the BioScience Certificate Program at the New York State University of Stony Brook, a program he has been a part of since its inception in 2003.

Cathy Dudnanski (48), VP of Marketing, Ms. Dudnanski joined Chembio in 2005 as Marketing Director for human diagnostic products including HIV 1/ 2 and Chagas disease. She was promoted to Vice President in 2007. Ms. Dudnanski brings over 20 years of domestic and international marketing and sales experience in medical devices and diagnostics to the company. Between 2003 to 2005, Ms. Dudnanski was the Global Marketing Manager for Suction and Oxygen Care for GE Healthcare. From 2000-2003, Ms. Dudnanski was the Director of Sales & Marketing for ZeptoMetrix Corporation (former Division of Hemagen Diagnostics, Inc.) where her responsibilities included sales and marketing of research products to biotechnology firms and academia. From 1992-1999, Ms. Dudnanski was the Director of Sales & Marketing for Hemagen Diagnostics, Inc. where she was responsible for the infectious disease and autoimmune disease product lines. She received a B.S. in Medical Technology from Roanoke College and an MBA from Loyola. Ms. Dudnanski is MT (ASCP) certified and a member of the American Society of Microbiology.

Robert L. Aromando, Jr. (52), Executive VP of Commercial Operations. Mr. Aromando joined the Company in May 2007. Prior to this position, between 2001 and 2007, Mr. Aromando was Vice President of Marketing for Bracco Diagnostics Inc., a Princeton, New Jersey-based pharmaceutical company and part of the Bracco Group. Most of his focus at Bracco was on managing the efforts of a marketing department, launching new products, business development and life cycle management. Prior to joining Bracco Mr. Aromando completed a one-year contract as interim President and Chief Executive Officer for American Bio Medica Corporation, a publicly-traded diagnostic healthcare company. Prior to American Bio Medica Corporation, Mr. Aromando was Director of Global Marketing for Covance, a leading pharmaceutical development organization headquartered in Princeton, New Jersey where he had responsibility for managing the strategic direction of the clinical development marketing department. He also spent eight years at Roche Diagnostic Systems (member of the Roche Group) as Director of Global Marketing responsible for the drugs of abuse business unit. His focus at Roche was allocated to government affairs as well as providing solutions for substance abuse programs in the workplace, criminal justice, drug treatment and school sectors. Mr. Aromando's career in healthcare also included stints at American Home Products and Litton Bionetics Laboratory Products

Alan Carus, CPA (69), Director, Audit Committee chair. Mr. Carus was elected to Chembio's Board of Directors on April 15, 2005, and currently serves on the Company's Audit, Compensation, and Nominating and Corporate Governance Committees, including as Chairman of the Audit Committee. He is a co-founder of LARC Strategic Concepts LLC, a consulting firm dedicated to guiding emerging companies to next stage development. Prior to co-founding LARC Strategic Concepts LLC, Mr. Carus was Senior Vice President of Maritime Overseas Corporation ("MOC") and a senior executive of Overseas Shipholding Group, Inc. ("OSG") from 1981 to 1998 when he retired. MOC was managing agent for OSG, one of the world's largest ship-owners. He was a member of OSG's senior management committee and had senior responsibility in areas relating to administration, accounting, tax, finance, budgets, long-range projections, and human resources. Mr. Carus was involved in numerous acquisitions, debt and equity offerings, complex transaction structuring, and was active in the management of OSG's major investments in the cruise industry and other development stage companies. From 1964 to 1981, he was with Ernst & Young (including predecessors), the last seven years as a partner. Mr. Carus has a B.B.A. from the Baruch School of Business of the City College of New York.

Dr. Gary Meller (57), Director. Dr. Meller was elected to our Board of Directors on March 15, 2005, and currently serves on the Company's Audit, Compensation and Nominating and Corporate Governance Committees, including as Chairman of the Compensation Committee. Dr. Meller has been the president of CommSense Inc., a healthcare business development company, since 2001. CommSense Inc. works with clients in Europe, Asia, North America, and the Middle East on medical information technology, medical records, pharmaceutical product development and financing, health services operations and strategy, and new product and new market development. From 1999 until 2001 Dr. Meller was the executive vice president, North America, of NextEd Ltd., a leading internet educational services company in the Asia Pacific region. Dr. Meller also is a limited partner and a member of the Advisory Board of Crestview Capital Master LLC, which is our largest stockholder. Dr. Meller is a graduate of the University of New Mexico School of Medicine and has an MBA from the Harvard Business School.

Kathy Davis (51), Director. Ms. Davis was elected to the Company's Board of Directors in May 2007, and currently serves on the Company's Audit, Compensation and Nominating and Corporate Governance Committees, including as Chairman of the Nominating and Corporate Governance Committee. Ms. Davis is presently the owner of Davis Design Group LLC, a company that provides analytical and visual tools for public policy design. Previously she served as the Chief Executive Officer of Global Access Point, a start up company with products for data transport, data processing, and data storage network and hub facilities. From October 2003 to January 2005 Ms. Davis was Lieutenant Governor of the State of Indiana, and from January 2000 to October 2003 was Controller of the City of Indianapolis. From 1989 to 2003 Ms. Davis held leadership positions with agencies and programs in the State of Indiana including State Budget Director, Secretary of Family & Social Services Administration, and Deputy Commissioner of Transportation. From 1982 to 1989 Ms. Davis held increasingly senior positions with Cummins Engine, where she managed purchasing, product cost, manufacturing, engineering, and assembly of certain engine product lines. Ms. Davis also led the startup of and initial investments by a \$50 million Indiana state technology fund, serves on the not-for-profit boards of Noble of Indiana, Indiana Museum of African American History, University of Evansville Institute of Global Enterprise, and Purdue College of Science Dean's Leadership Council. She has a Masters of Business Administration from Harvard Business School and a Bachelor of Science in Mechanical Engineering from the Massachusetts Institute of Technology.

Section 16(a) Beneficial Ownership Reporting Compliances

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires the Company’s directors, executive officers and beneficial owners of more than 10% of the Company’s common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. The Company believes that during the year ended December 31, 2007, each person who was an officer, director and beneficial owner of more than 10% of the Company’s common stock complied with all Section 16(a) filing requirements, except for the following: (i) Form 4 for Lawrence A. Siebert, due on November 15, 2007, filed on November 19, 2007; (ii) Form 4 for Richard Larkin, due on November 15, 2007, filed on November 19, 2007.

Code of Ethics

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer, controller, and persons performing similar functions. A copy of the Company’s code of ethics is filed as Exhibit 14.1 to this Form 10-KSB.

Identification of Audit Committee; Audit Committee Financial Expert

The Company’s board of directors has established an audit committee. Alan Carus, Katherine L. Davis and Dr. Gary Meller each serve on the audit committee, with Mr. Carus serving as chairman. The Company’s board of directors has determined that Alan Carus is an audit committee financial expert and is independent.

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes all compensation recorded by the Company in each of the last two completed fiscal years for our principal executive officer, our two most highly compensated executive officers other than our principal executive officer whose annual compensation exceeded \$100,000, and two additional individuals for whom disclosure would have been made in this table but for the fact that the individual was not serving as an executive officer of our company at December 31, 2007.

Name / Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	Stock Awards (\$)	All Other Compensation (\$)	Total (\$)
Lawrence A. Siebert	2007	\$ 249,135	\$ 26,000	\$ -	\$ -	\$ 9,314	\$ 284,449
CEO	2006	207,115	20,000	21,017	-	7,200	255,332
Richard J. Larkin	2007	\$ 153,654	\$ 15,000	\$ -	\$ -	\$ 1,304	\$ 169,958
CFO	2006	140,385	15,000	27,300	-	-	182,685
Javan Esfandiari	2007	\$ 180,192	\$ 21,000	\$ 99,993	\$ 89,850	\$ 5,510	\$ 396,545
VP-R&D	2006	150,385	12,000	41,390	-	4,800	208,575
Tom Ippolito	2007	\$ 155,481	\$ 12,000	\$ -	\$ -	\$ 381	\$ 167,862
VP-Regulatory	2006	140,385	9,000	7,754	-	-	157,139
Richard Bruce	2007	\$ 143,654	\$ 12,000	\$ -	\$ -	\$ 990	\$ 156,644
VP-Operations	2006	127,981	9,000	24,516	-	-	161,497

1 Salary is total base salary.

2 Any bonus earned was paid solely on a discretionary basis, and not pursuant to any bonus plan.

3 The estimated fair value of any option or common stock granted was determined at the date of grant by using the Black-Scholes option pricing model.

4 Mr. Siebert also serves as a director on the Company’s board of directors. Mr. Siebert does not receive any compensation for this director role.

5 Other compensation includes an employer match to 401(K) contributions and a car allowances where applicable.

Employment Agreements

Mr. Siebert. On June 15, 2006, Mr. Siebert and the Company entered into an employment agreement, effective May 10, 2006, which terminates on May 10, 2008. Pursuant to the employment agreement, Mr. Siebert serves as the President and Chief Executive Officer of the Company and is entitled to receive a base compensation of \$240,000 per year, subject to review by the board of directors of the Company at the end of the first twelve months. Mr. Siebert also shall be eligible for a bonus of up to 50% of his salary, consisting of (i) a bonus of up to 25% of his salary that is at the complete discretion and determination of the board of directors, and (ii) a bonus of up to an additional 25% of his salary that will be determined based upon revenue and earnings performance criteria established each year by the board of directors. Mr. Siebert is eligible to participate in any profit sharing, stock option, retirement plan, medical and/or hospitalization plan, and/or other benefit plans except for disability and life insurance that the Company may from time to time place in effect for the Company's executives during the term of Mr. Siebert's employment agreement. If Mr. Siebert's employment agreement is terminated by the Company without cause, or if Mr. Siebert terminates his employment agreement for a reasonable basis, including within 12 months of a change in control, the Company is required to pay as severance Mr. Siebert's salary for six months. Mr. Siebert has agreed for a period of two years after the termination of his employment with the Company not to induce customers, agents, or other sources of distribution of the Company's business under contract or doing business with the Company to terminate, reduce, alter, or divert business with or from the Company.

Mr. Esfandiari. The Company entered into a new employment agreement dated April 23, 2007, and to be effective March 5, 2007 (the "Employment Agreement"), with Mr. Esfandiari to continue as the Company's Senior Vice President of Research and Development for an additional term of three years. Mr. Esfandiari's salary under the Employment Agreement is \$185,000 for the first year, \$210,000 for the second year, and \$235,000 for the final year. Mr. Esfandiari is eligible for a cash bonus of up to 50% of his base salary for each respective year, consisting of (i) a cash bonus of up to 37.5% of his calendar year base salary based on the performance of the Company's Dual Path Platform Technology, which is directly related to certain annual revenue targets budgeted by management of the Company, and (ii) a cash bonus of up to 12.5% of his calendar year base salary that is at the complete discretion and determination of the board of directors. The Company also granted Mr. Esfandiari a stock grant of 200,000 shares of the Company's common stock. 100,000 shares will vest immediately, 50,000 shares will vest on the first anniversary date of the Employment Agreement, and 50,000 shares will vest on the second anniversary of the Employment Agreement. In addition, the Company will grant Mr. Esfandiari up to 50,000 shares of the Company's common stock for 2007 and 2008 based upon the performance of the Company's Dual Path Platform Technology, which is directly related to certain annual revenue targets budgeted by management of the Company. Pursuant to the Company's 1999 Equity Incentive Plan and Stock Option Agreement, the Company also granted Mr. Esfandiari incentive stock options to purchase 300,000 shares of the Company's common stock. The price per share of these options is equal to the fair market value of the Company's common stock on April 23, 2007, which is the date on which the Agreement was entered into. 100,000 shares of the stock options vest immediately, 100,000 shares of the stock options will vest on the first anniversary of the Employment Agreement, and 100,000 shares of the stock options will vest on the second anniversary of the Employment Agreement. Mr. Esfandiari is eligible to participate in any profit sharing, stock option, retirement plan, medical and/or hospitalization plan, and/or other benefit plans except for disability and life insurance that the Company may from time to time place in effect for the Company's executives during the term of Mr. Esfandiari's employment agreement. If Mr. Esfandiari's employment agreement is terminated by the Company without cause, or if Mr. Esfandiari terminates his employment agreement for a reasonable basis, including within 12 months of a change in control, the Company is required to pay as severance Mr. Esfandiari's salary for twelve months.

Neither Mr. Larkin, Mr. Ippolito nor Mr. Bruce has an employment contract with the Company.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2007

Name	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Option Vesting Date	Foot- note
	Exercisable (#)	Unexercisable (#)				
Lawrence A. Siebert	10,000		0.75	12/31/2008	4/17/2006	2
	10,000		0.75	5/4/2011	4/17/2006	2
	50,000		0.75	5/28/2011	4/17/2006	2, 3
	50,000		0.75	5/28/2011	1/1/2007	2, 3
	50,000		0.75	5/4/2011	5/5/2004	4
Richard J. Larkin	25,000		0.75	5/17/2010	4/17/2006	2
	25,000		0.75	5/17/2010	1/1/2007	2
	18,750		0.62	3/24/2011	3/24/2006	1
	18,750		0.62	3/24/2011	1/1/2007	1
	50,000		0.45	9/15/2010	5/5/2004	4
Javan Esfandiari	30,000		0.75	3/31/2008	4/17/2006	2
	5,000		0.75	12/31/2008	4/17/2006	2
	25,000		0.75	5/17/2010	4/17/2006	2
	25,000		0.75	5/17/2010	1/1/2007	2
	18,750		0.62	3/24/2011	3/24/2006	1
	18,750		0.62	3/24/2011	1/1/2007	1
	5,000		0.75	5/4/2011	4/17/2006	2
	25,000		0.75	5/28/2011	4/17/2006	2
	25,000		0.75	5/28/2011	4/17/2006	2
	25,000		0.75	5/28/2011	5/28/2007	2
	30,000		0.75	5/4/2011	5/5/2004	4
	100,000		0.599	4/23/2012	4/23/2007	2, 3
	100,000		0.599	4/23/2012	3/5/2008	2, 3
		100,000	0.599	4/23/2012	3/5/2009	2, 3
Tom Ippolito	15,000		0.62	3/24/2011	3/24/2006	1
Richard Bruce	5,000		0.75	12/31/2008	4/17/2006	2
	12,500		0.75	5/17/2010	4/17/2006	2
	12,500		0.75	5/17/2010	1/1/2007	2
	12,500		0.62	3/24/2011	3/24/2006	1
	12,500		0.62	3/24/2011	1/1/2007	1
	5,000		0.75	5/4/2011	4/17/2006	2
	10,000		0.75	5/4/2011	5/5/2004	4

1 All options issued with a \$.62 exercise price were issued during 2006 as part of the Company's 1999 Option Plan. Pursuant to this plan, the Company granted 244,000 options to all employees.

2 All options issued with a \$.75 exercise price and an April 17, 2006 vesting date were issued on April 17, 2006 as part of the Company's 1999 Option Plan. Pursuant to this plan, the Company granted 244,000 options to all employees. On April 17, 2006, the Company's Compensation Committee approved the cancellation of each employee stock option award issued under the 1999 Equity Incentive Plan where the exercise price was greater than \$.75 per share of the Company's common stock, and the issuance of a new stock option award under the 1999 Equity Incentive Plan, for the same number of shares of the Company's common stock, with an exercise price of \$.75 per share of the Company's common stock for each cancelled stock option award. The market price of the common stock of the Company on April 17, 2006 was \$.72 per share. In total, stock option awards to acquire 795,000 shares of Company common stock were cancelled, and stock option awards to acquire 795,000 shares of Company common stock were issued. Other than the change in the exercise price, all of the terms and conditions in each newly issued stock option award are identical to the cancelled stock option award it replaces, with the following exceptions: (i) Lawrence A. Siebert's stock option award for 50,000 shares of the Company's common stock, exercisable on May 28, 2006 and terminating on May 28, 2011 was replaced with a stock option award for 50,000 shares of the Company's common stock, exercisable on January 1, 2007 and terminating on May 28, 2011; (ii) Avi Pelossof's stock option awards for 72,500 shares of the Company's common stock, exercisable on May 28, 2005 and on May 28, 2006 and both terminating on May 28, 2011 was replaced with a stock option award for 72,500 shares of the Company's common stock, exercisable on January 1, 2007 and terminating on May 28, 2011.

3 Options Issued in connection with an employment contract.

4 All other options shown were issued prior to 2006 as part of the Company's 1999 Option Plan.

5 On February 15, 2008, the Company's Compensation Committee approved the reduction of the exercise price to \$.48 per share of each employee stock option award issued under the 1999 Equity Incentive Plan for which the exercise price was greater than \$.48 per share.

DIRECTOR COMPENSATION			
Name	Fees Earned or Paid in Cash (\$) ¹	Option Awards (\$) ²	Total (\$)
Alan Carus	\$ 30,500	\$ 38,148	\$ 68,648
Gary Meller	26,750	42,090	68,840
Katherine L. Davis	23,000	33,008	56,008
Gerald Eppner ³	21,500	4,782	26,282

¹ Fees earned or paid in cash represents a yearly fee and fees for meeting expenses: (a) Mr. Carus received an \$18,000 annual fee as a member of the board of directors, a \$2,500 annual fee as audit committee chairman and \$10,000 in meeting fees paid during 2007; (b) Mr. Eppner received a \$20,000 fee as a member of the board of directors, and \$1,500 in meeting fees paid during 2007; (c) Dr. Meller received an \$18,000 annual fee as a member of the board of directors, and \$8,750 in meeting fees; (d) Ms. Davis received an \$18,000 annual fee as a member of the board of directors, and \$5,000 in meeting fees.

² Each outside member of the board of directors is granted the right to purchase 180,000 shares of the company's common stock with an exercise price equal to the market price on the date of the grant as part of their annual compensation. One-fifth of these options are exercisable on the date of grant, one-fifth become exercisable on the first anniversary of the date of grant, and additional one-fifths become exercisable on the second through fourth anniversary of the date of grant. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model.

³ Mr. Eppner resigned from our Board of Directors on January 30, 2007.

Director Compensation

All non-employee directors are paid an \$18,000 annual retainer, semi-annually, and once every five years stock options to acquire 180,000 shares of the Company's common stock, with an exercise price equal to the market price on the date of the grant. Stock options to acquire 36,000 shares become exercisable on the date of grant, and options to acquire an additional 36,000 shares become exercisable on the date of each of the four succeeding annual meetings of stockholders if and to the extent that the non-employee director is reelected as a director at each such annual meeting. The audit committee chairman is paid an annual retainer of \$2,500, paid semi-annually. In addition, the non-employee directors are paid \$1,000 in cash for each board of directors' meeting attended, and paid \$500 in cash for each telephonic board of directors meeting. The non-employee directors who are members of a committee of the board of directors are paid \$500 in cash for each committee meeting attended, or \$750 in cash for each committee meeting attended if that non-employee director is the committee chairman.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our common stock by each person or entity known by us to be the beneficial owner of more than 5% of the outstanding shares of common stock, each of our directors and each of our "named executive officers" and all of our directors and executive officers as a group as of March 5, 2008.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Percent of Class
Siebert, Lawrence ⁽¹⁾ 3661 Horseblock Road Medford, NY 11763	7,314,605	11.61%
Esfandiari, Javan ⁽²⁾ 3661 Horseblock Road Medford, NY 11763	714,580	1.17%
Larkin, Richard ⁽³⁾ 3661 Horseblock Road Medford, NY 11763	290,967	0.48%
Ippolito, Tom ⁽⁴⁾ 3661 Horseblock Road Medford, NY 11763	65,000	0.11%
Bruce, Richard ⁽⁵⁾ 3661 Horseblock Road Medford, NY 11763	140,000	0.23%
Carus, Al ⁽⁶⁾ 3661 Horseblock Road Medford, NY 11763	126,000	0.21%
Meller, Gary ⁽⁷⁾ 3661 Horseblock Road Medford, NY 11763	111,000	0.18%
Davis, Katherine L. ⁽⁸⁾ 3661 Horseblock Road Medford, NY 11763	36,000	0.06%
GROUP ⁽⁹⁾	8,798,152	13.71%
Vicis Capital Master Fund 126 East 56th Street, Tower 56, Suite 700 New York, NY 10022	4,608,707	7.61%
Millenium 3 Opportunity Fund, LLC ⁽¹⁰⁾ 4 Becker Farm Road Roseland, NJ 07068	4,006,610	6.45%
Inverness Medical Innovations, Inc. 51 Sawyer Road, Suite 200 Waltham, MA 02453	5,367,840	8.87%
Crestview Capital Master, LLC ⁽¹¹⁾ 95 Revere Drive, Suite A Northbrook, IL 60062	24,145,310	36.20%

Beneficial ownership is determined in accordance with the Rule 13d-3(a) of the Securities Exchange Act of 1934, as amended, and generally includes voting or investment power with respect to securities. Except as subject to community property laws, where applicable, the person named above has sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by him.

The beneficial ownership percent in the table is calculated with respect to the number of outstanding shares (60,537,534) of the Company's common stock outstanding as of March 5, 2008. Each stockholder's ownership is calculated as the number of shares of common stock owned plus the number of shares of common stock into which any preferred stock, warrants, options or other convertible securities owned by that stockholder can be converted within 60 days.

The term "named executive officer" refers to our principal executive officer, our two most highly compensated executive officers other than the principal executive officer who were serving as executive officers at the end of 2007, and two additional individuals for whom disclosure would have been provided but for the fact that the individuals were not serving as executive officers of the Company at the end of 2007.

- (1) Includes 245,000 shares issuable upon exercise of options exercisable within 60 days and 2,205,731 warrants.
- (2) Includes 492,000 shares issuable upon exercise of options exercisable within 60 days and 2,007 shares issuable upon exercise of warrants. Does not include 100,000 shares issuable upon exercise of options that are not exercisable within the next 60 days
- (3) Includes 212,500 shares issuable upon exercise of options exercisable within 60 days and 27,436 shares issuable upon exercise of warrants.
- (4) Includes 65,000 shares issuable upon exercise of options exercisable within 60 days.
- (5) Includes 140,000 shares issuable upon exercise of options exercisable within 60 days.
- (6) Includes 111,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 156,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
- (7) Includes 111,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 156,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
- (8) Includes 36,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 144,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
- (9) Includes footnotes (1)-(8)
- (10) Includes 1,557,376 shares issuable upon exercise of warrants.
- (11) Includes 6,169,056 shares issuable upon exercise of warrants.

Equity Compensation Plan Information

Equity Compensation Plan Information as of December 31, 2007

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,201,500	\$0.64	433,500
Equity compensation plans not approved by security holders	--	--	--
Total	2,201,500	\$0.64	433,500

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Lawrence A. Siebert, the president and chairman of the board of directors of Chembio Diagnostics, Inc. (the “Company”) beginning at the time of and after the merger, and the president and chairman of Chembio Diagnostic Systems Inc. since May 2002, held two promissory notes issued by Chembio Diagnostic Systems Inc. One note was issued on August 1, 1999 in the original principal amount of \$338,125, bearing interest at a rate of 11% per annum. The other was issued on April 25, 2001 in the original principal amount of \$795,937, bearing interest at a rate of 12% per annum. On May 5, 2004, Mr. Siebert converted the entire outstanding principal amount of the 11% note and \$561,875 principal amount of the 12% note into 30 shares of the Company’s Series A Preferred Stock, together with warrants to acquire 1,800,000 shares of common stock at \$0.90 per share, pursuant to the Company’s private placement of its Series A Preferred Stock on May 5, 2004. Pursuant to the terms of the original Series A Preferred Stock, the shares of Series A Preferred Stock held by Mr. Siebert were convertible into 1,547,100 shares of the Company’s common stock at \$0.60 per share. The remaining debt of \$234,062 held by Mr. Siebert was exchanged on May 5, 2004 into 7.80208 shares of the Company’s Series A Preferred Stock, together with warrants to acquire 468,125 shares of common stock at \$0.90 per share, pursuant to the terms of the Company’s private placement of its Series A Preferred Stock on May 5, 2004. As of December 31, 2006, \$65,287.39 of accrued interest on the debt was also due to Mr. Siebert, but was not accruing interest. As of December 31, 2007, the accrued interest had been repaid. Mr. Siebert also invested \$50,000 in the Company’s Series B Preferred Stock private placement pursuant to which he received 1 share of Series B Preferred Stock, which was originally convertible into 81,967 shares of common stock at \$0.80 per share, together with a warrant to purchase 77,868 shares of common stock at an exercise price of \$0.61 per share.

Mr. Siebert invested \$18,700 in Chembio Diagnostic Systems Inc. pursuant to a private placement of convertible notes on March 22, 2004. Mr. Siebert converted the entire principal amount of the note that he received, together with accrued interest thereon, into .942 shares of the Company’s Series A Preferred Stock, together with warrants to acquire 56,520 shares of common stock at \$0.90 per share, pursuant to the Company’s private placement of its Series A Preferred Stock on May 5, 2004.

Mr. Siebert prior to March 22, 2004 had either advanced funds to Chembio Diagnostic Systems, Inc. or paid vendors directly on Chembio Diagnostic Systems, Inc.’s behalf. The total amount so paid or advanced totaled \$182,181 and was repaid in the fourth quarter of 2006. In addition as of December 31, 2007, all of the accrued interest on the debt due to Mr. Siebert had been paid.

On February 15, 2008, the Compensation Committee approved the reduction of the exercise price to \$0.48 per share of each employee stock option award issued under the 1999 Equity Incentive Plan for which the exercise price was greater than \$0.48 per share. As a result of this price reduction, the following number of employee stock options awarded to the Company’s officers and directors under the 1999 Equity Incentive Plan qualified for this price reduction: (i) Mr. Siebert: 170,000 options; (ii) Mr. Larkin: 87,500 options; (iii) Mr. Esfandiari: 532,500 options; (iv) Mr. Aromando: 100,000 options; (v) Mr. Ippolito: 15,000 options; (vi) Mr. Bruce: 90,000 options; (vii) Mr. Carus: 252,000 options; (viii) Dr. Meller: 252,000 options; and (ix) Ms. Davis: 180,000 options.

In addition, on February 15, 2008 the Compensation Committee granted, to certain of the Company’s officers, options to purchase the Company’s common stock under the 1999 Equity Incentive Plan as follows: (i) Mr. Siebert received 75,000 options; (ii) Mr. Larkin received 75,000 options; (iii) Mr. Esfandiari received 60,000 options; (iv) Mr. Bruce received 50,000 options; (v) Mr. Ippolito received 50,000 options; and (vi) Mr. Aromando received 25,000 options. The exercise price for each of these options is \$0.22 per share, which was the closing market price for the Company’s common stock on February 15, 2008. The options vest on the date of the grant, and each option granted will expire and terminate, if not exercised sooner, upon the earlier to occur of (a) 30 days after termination of the employee’s employment with the Company or (b) the fifth anniversary of the date of grant.

Avi Pelosof, the Company’s Vice President of Sales and Marketing from May 5, 2004 to January 31, 2007, exercised 100,000 options in December 2006 at \$0.60 per share, and another 50,000 options in January 2007 at \$0.75 per share.

Robert Aromando, the Company’s Executive Vice President of Commercial Operations was hired in May of 2007. In June 2007 in connection with his joining the Company, he was granted options to purchase 100,000 shares of common stock at an exercise price of \$0.62 per share. These options will become exercisable one year from the date of grant. As discussed above, on February 15, 2008, the exercise price for these options was reduced to \$0.48.

Dr. Gary Meller, a non-employee director of the Company, currently serves as a limited partner and a member of the Advisory Board of Crestview Capital Master LLC, referred to herein as Crestview, which was the lead investor, investing \$3 million, in our Series B Preferred Stock private placement in January 2005, and which subsequently invested an additional \$1 million in our Series B Preferred Stock private placement in March 2006. Crestview also invested \$2 million in our Series C Preferred Stock private placement in September 2006. Details of these transactions are set forth below. Crestview currently is the largest stockholder of the Company.

As referred to above, in January 2005, for a purchase price of \$3 million, Crestview acquired 60 shares of our Series B Preferred Stock, and warrants to purchase 4,672,130 shares of our common stock at a warrant exercise price of \$0.61 per share.

In March 2006, for a purchase price of \$1 million, Crestview acquired 20 shares of Series B Preferred Stock with warrants to purchase 1,557,377 shares of common stock at a warrant exercise price of \$0.61 per share. These shares were issued in connection with the Company's January 2005 private placement as described herein. In September 2006, for a purchase price of \$2 million, we issued 40 shares of Series C Preferred Stock to Crestview together with warrants to purchase 625,000 shares of common stock at an exercise price of \$1.00 per share.

In January 2007, because of comments from the staff of the SEC concerning the Company's registration statement No. 333-138266 (the "Prospectus"), Crestview agreed to reduce the number of its shares of common stock covered by the Prospectus to 2,000,000. Crestview also agreed to waive any penalties that the Company would otherwise owe Crestview because of the failure to register all of Crestview's shares in the Prospectus. In consideration for this waiver, the Company agreed that, upon request by Crestview, the Company will file one or more registration statements with the SEC in order to register the resale of other shares beneficially owned by Crestview. The cost of any such registration statements shall be borne by the Company.

In addition to Crestview's \$2,000,000 investment in the Company's September 2006 private placement of Series C Preferred Stock, the Company also received an investment of \$2,000,000 on that date from Inverness Medical Innovations, Inc. ("Inverness"). At that time, a Certificate of Designation for the Series C Preferred Stock was filed with the Secretary of State of Nevada reflecting the agreed upon conversion price of \$0.85 per share of common stock. This private placement of Series C Preferred Stock was completed on October 5, 2006, and it raised an aggregate of \$8,150,000 (including the \$2,000,000 invested by each of Crestview and Inverness). During the period between September 29, 2006 and October 5, 2006, we requested the assistance of Crestview and others in identifying prospective investors for us. On October 3, 2006, a Crestview representative informed Mr. Siebert of a conversation he had earlier that day with a fund manager who indicated that his fund would be interested in investing a substantial amount in the offering, but only at a conversion price of no more than \$0.80.

At a board of directors meeting on October 4, 2006, Mr. Siebert expressed his recommendation that the board approve lowering the conversion price to \$0.80 in order to be able to obtain the additional funds. The board discussed the \$1,300,000 promissory note bridge financing which had been completed in June 2006, the noteholders who expected to convert their notes into Series C Preferred Stock, and the restrictions on future equity sales by the Company in the bridge financing purchase agreement that necessitated finalizing promptly the Series C Preferred Stock offering. After discussion to approve the funding, the motion was approved unanimously, with the exception of Gerald Eppner who abstained. Mr. Eppner stated that he understood the benefits of the economics of the transaction and the Company's need to proceed so quickly, but that he did not wish to vote in favor.

At a board meeting held on October 11, 2006, the board members discussed the Series C Preferred Stock private placement. Mr. Eppner indicated that in his view it would be desirable to review the sequence of events in this transaction to assure proper guidelines for corporate governance and to determine if disclosure or other issues needed to be considered. At a board meeting held on October 26, 2006, it was discussed that a subcommittee of the audit committee, whose members would be Mr. Eppner and Alan Carus, would review certain issues related to the Series C Preferred Stock private placement.

The first meeting of the audit committee to review the Series C Preferred Stock offering was held on October 27, 2006. The audit committee decided it would review the role of Crestview in the Series C Preferred Stock offering, Crestview's status as a possible control person, the role of Dr. Gary Meller in the offering and his relationship with Crestview, and whether the audit committee should recommend new corporate governance procedures to be implemented or any action to be taken by the Board. The audit committee utilized legal counsel to assist in its review. The audit committee held seven meetings during the period from October 27, 2006 to January 10, 2007. Messrs. Carus and Eppner attended all of the meetings. Mr. Carus concluded that: (i) he was satisfied with the review, and (ii) although with fewer time constraints, there could have been more deliberation regarding the change in the conversion price, he believed there was no inappropriate conduct, that the Company had not suffered any damage and that the matter should be closed. Mr. Eppner stated his concerns that: (i) Crestview is an affiliate of the Company, (ii) there was no participation by the Company in the reduction in the conversion price from \$0.85 to \$0.80, (iii) although he agreed with Mr. Carus that the \$0.80 price may have been acceptable to the Company, it was not as good as a higher price, (iv) Mr. Siebert should not have allowed this to happen, and that because he did, it was evidence of control by Crestview, and (v) disclosure of the review of the audit committee should be made in a registration statement that was to be filed shortly thereafter.

On January 30, 2007, Gerald Eppner resigned from his position as a director of the Company, effective immediately. At the time of his resignation, as additional consideration of his time and efforts as a member of the board of directors, the Company granted Mr. Eppner \$20,000, and caused his outstanding unvested stock options to become vested immediately. In his resignation letter, Mr. Eppner stated that he did not resign due to any disagreement with the Company, or because of any matter relating to the Company's operations, policies or practices.

On December 19, 2007 (the "Closing Date"), amendments to the governing documents for the Company's Series A, Series B and Series C Convertible Preferred Stock (collectively, the "Preferred Stock") and for certain warrants and options (collectively, the "Non-Employee Warrants"), not including options or warrants issued to employees or directors in their capacity as such (these actions collectively, the "Plan"), were approved by the Company and the requisite percentages of the holders of the Preferred Stock and of the Non-Employee Warrants (See - Note 1 to the condensed consolidated financial statements). Subsequent to these amendments, all shares of Preferred Stock were converted to common stock and certain of the Non-Employee Warrants were exercised, including the following: Mr. Siebert's 38.74442 shares of Series A Preferred Stock were converted into 2,421,526 shares of common stock at \$0.48 per share, his 1.08545 shares of Series B Preferred Stock were converted into 113,067 shares of common stock at \$0.48 per share, and Mr. Siebert purchased 337,500 shares of common stock through the exercise of warrants at an exercise price of \$0.40 per share, for a total of \$135,000 in cash; and Crestview's 82.32274 shares of Series B Preferred Stock were converted into 10,290,342 shares of the Company's common stock, Crestview's 40 shares of Series C Preferred Stock were converted into 4,166,666 shares of common stock, Crestview exercised a portion of its Series B Warrants to purchase a total of 60,451 shares of common stock for an aggregate purchase price of \$24,180.40, and Crestview exercised all of its Series C Warrants to purchase a total of 625,000 shares of common stock for an aggregate purchase price of \$250,000.

Director Independence

Our common stock trades on the OTC Bulletin Board. As such, we are not currently subject to corporate governance standards of listed companies, which require, among other things, that the majority of the board of directors be independent.

We are not currently subject to corporate governance standards defining the independence of our directors, and we have chosen to define an "independent" director in accordance with the NASDAQ Global Market's requirements for independent directors (NASDAQ Marketplace Rule 4200). Under this definition, we have determined that Katherine L. Davis and Al Carus currently qualify as independent directors. We do not list the "independent" definition we use on our Internet website.

ITEM 13. EXHIBITS

<u>Number</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended. (3)
3.2	Amended and Restated Bylaws. (1)
4.1	Second Amended and Restated Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock of the Registrant.
4.2	Registration Rights Agreement, dated as of May 5, 2004, by and among the Registrant and the Purchasers listed therein. (2)
4.3	Lock-Up Agreement, dated as of May 5, 2004, by and among the Registrant and the shareholders of the Registrant listed therein. (2)
4.4	Amended Form of Common Stock Warrant issued pursuant to the May 4, 2004 Stock and Warrant Purchase Agreement.
4.5	Form of \$0.90 Warrant issued to Mark L. Baum pursuant to the Consulting Agreement dated as of May 5, 2004 between the Registrant and Mark L. Baum. (2)
4.6	Form of \$0.60 Warrant issued to Mark L. Baum pursuant to the Consulting Agreement dated as of May 5, 2004 between the Registrant and Mark L. Baum. (2)
4.7	Second Amended and Restated Certificate of Designation of Preferences, Rights, and Limitations of Series B 9% Convertible Preferred Stock of the Registrant.
4.8	Form of Common Stock Warrant issued pursuant to the January 26, 2005 Securities Purchase Agreement. (9)
4.9	Amended Form of Common Stock Warrant issued pursuant to the January 26, 2005 Securities Purchase Agreement.
4.10	Registration Rights Agreement, dated as of January 26, 2005, by and among the Registrant and the purchasers listed therein. (9)
4.11	Form of Warrant, dated June 29, 2006, issued pursuant to Company and purchasers of the Company's Secured Debentures. (4)
4.12	Registration Rights Agreement, dated June 29, 2006. (4)
4.13	Second Amended and Restated Certificate of Designation of Preferences, Rights and Limitations of Series C 7% Convertible Preferred Stock of the Registrant.
4.14	Registration Rights Agreement, dated as of September 29, 2006, by and among the Registrant and the Purchasers listed therein. (6)
4.15	Form of Common Stock Warrant issued pursuant to the Securities Purchase Agreements dated September 29, 2006 (6).
4.16	Amended Form of Common Stock Warrant issued pursuant to the Securities Purchase Agreements dated October 5, 2006
4.17	Amended Form of Common Stock Warrant issued to Placement Agents pursuant to the October 5, 2005 Securities Purchase Agreement.
4.18*	Form of Employee Option Agreement.
4.19	Amended Form of Warrant used for Consultant Services, and in connection with the Company's 2004 merger.
4.20	1999 Equity Incentive Plan (14)
10.1*	Employment Agreement dated June 15, 2006 with Lawrence A. Siebert. (5)
10.2*	Employment Agreement dated April 23, 2007 with Javan Esfandiari. (13)
10.3	Series A Convertible Preferred Stock and Warrant Purchase Agreement (the "Stock and Warrant Purchase Agreement"), dated as of May 5, 2004, by and among the Registrant and the purchasers listed therein. (2)
10.4	Securities Purchase Agreement (the "Securities Purchase Agreement"), dated as of January 26, 2005, by and among the Registrant and the purchasers listed therein. (9)
10.5	Amendment No. 1 to Securities Purchase Agreement, dated as of January 28, 2005 by and among the Registrant and the purchasers listed therein. (10)
10.6	Equity Exchange Agreement, dated as of January 28, 2005, by and between the Registrant and Kurzman Partners, LP. (10)
10.7	Security Purchase Agreement, dated June 29, 2006, among the Company and purchasers of the Company's Secured Debentures. (4)

- 10.8 Form of Secured Debenture, dated June 29, 2006. (4)
 - 10.9 Security Agreement, dated June 29, 2006, among the Company, Chembio Diagnostic Systems, Inc., and purchasers of the Company's Secured Debentures. (4)
 - 10.10 Subsidiary Guarantee, dated June 29, 2006, made by Chembio Diagnostic Systems, Inc., in favor of Purchasers of the Company's Secured Debentures. (4)
 - 10.11 Securities Purchase Agreement (the "Securities Purchase Agreement"), dated as of September 29, 2006, by and among the Registrant and the Purchasers listed therein. (6)
 - 10.12 Letter of Amendment to Securities Purchase Agreements dated as of September 29, 2006 by and among the Registrant and the Purchasers listed therein. (6)
 - 10.13 HIV Barrel License, Marketing and Distribution Agreement, dated as of September 29, 2006, by and among the Registrant, Inverness and StatSure. (6)
 - 10.14 HIV Cassette License, Marketing and Distribution Agreement, dated as of September 29, 2006, between the Registrant and Inverness. (6)
 - 10.15 Non-Exclusive License, Marketing and Distribution Agreement, dated as of September 29, 2006, between the Registrant and Inverness. (6)
 - 10.16 Joint HIV Barrel Product Commercialization Agreement, dated as of September 29, 2006, between the Registrant and StatSure. (6)
 - 10.17 Settlement Agreement, dated September 29, 2006, between the Registrant and StatSure. (6)
 - 10.18 Contract for Transfer of Technology and Materials with Bio-Manguinhos. (7)
 - 10.19 License and Supply Agreement dated as of August 30, 2002 by and between Chembio Diagnostic Systems Inc. and Adaltis Inc. (8)
 - 14.1 Ethics Policy (11)
 - 17.1 Letter of Resignation from Gerald A. Eppner. (12)
 - 21 List of Subsidiaries.
 - 23.1 Consent of Lazar, Levine & Felix LLP, Independent Accountants.
 - 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (1) Incorporated by reference to the Registrant's registration statement on Form SB-2 filed with the Commission on August 23, 1999 and the Registrant's Form 8-K filed on December 20, 2007.
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on May 14, 2004.
- (3) Incorporated by reference to the Registrant's annual report on Form 10-KSB filed with the Commission on March 31, 2005.
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on July 3, 2006.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on June 21, 2006.
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on October 5, 2006.
- (7) Incorporated by reference to the Registrant's registration statement on Form SB-2/A filed with the Commission on August 4, 2004.
- (8) Incorporated by reference to the Registrant's registration statement on Form SB-2 filed with the Commission on June 7, 2004.
- (9) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on January 31, 2005.
- (10) Incorporated by reference to the Registrant's registration statement on Form SB-2 filed with the Commission on March 28, 2005.
- (11) Incorporated by reference to the Registrant's annual report on Form 10-KSB filed with the Commission on March 30, 2006.
- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Commission on January 30, 2007.
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K/A filed with the Commission on May 3, 2007.
- (14) Incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A filed with the Commission on May 11, 2005.
- (*) An asterisk (*) beside an exhibit number indicates the exhibit contains a management contract, compensatory plan or arrangement which is required to be identified in this report.

Audit Fees

For the years ended December 31, 2007 and December 31, 2006, Lazar, Levine & Felix LLP, the Company’s principal accountants, billed the Company \$85,000 and \$72,000, respectively, for fees for the audit of the Company’s annual financial statements and review of financial statements included in the Company’s Forms 10-QSB and 10-KSB.

Audit-Related Fees

For the years ended December 31, 2007 and December 31, 2006, Lazar, Levine & Felix LLP, did not provide the Company with any assurance and related services reasonably related to the performance of the audit or review of the Company’s financial statements that are not reported above under “Audit Fees.”

Tax Fees

For the years ended December 31, 2007 and December 31, 2006, Lazar, Levine & Felix LLP billed the Company \$10,000 and \$3,130, respectively, for professional services for tax compliance, tax advice and tax planning.

All Other Fees

For the years ended December 31, 2007 and December 31, 2006, Lazar, Levine & Felix LLP billed the Company \$42,500 and \$30,200 for fees associated with the preparation and filing of the Company’s registration statements, responses to SEC comment letters and other related matters.

Audit Committee Pre-Approval Policies

The Audit Committee (and prior to the adoption of the Audit Committee, the Board of Directors) approves in advance all audit and non-audit services performed by Lazar, Levine & Felix LLP. There are no other specific policies or procedures relating to the pre-approval of services performed by Lazar, Levine & Felix LLP.

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.

Date: March 12, 2008

By /s/ Lawrence A. Siebert
Lawrence A. Siebert
President, Chief Executive Officer and
Chairman of the Board

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>
/s/ Lawrence A. Siebert	Chief Executive Officer, President and Chairman Of The Board	March 12, 2008
Lawrence A. Siebert	(Principal Executive Officer)	
/s/ Richard J. Larkin	Chief Financial Officer (Principal Financial & Accounting Officer)	March 12, 2008
Richard J. Larkin		
/s/ Alan Carus	Director	March 12, 2008
Alan Carus		
/s/ Gary Meller	Director	March 12, 2008
Dr. Gary Meller		
/s/ Katherine L. Davis	Director	March 12, 2008
Katherine L. Davis		

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES

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REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

To The Board of Directors
Chembio Diagnostics, Inc. and Subsidiaries
Medford, New York

We have audited the consolidated balance sheets of Chembio Diagnostics, Inc. and Subsidiaries (the "Company") as of December 31, 2007 and 2006 and the consolidated statements of operations, stockholders' equity (deficit) and cash flows for the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chembio Diagnostics, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for the two years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

LAZAR LEVINE & FELIX LLP

/s/ LAZAR LEVINE & FELIX LLP

New York, New York
March 7, 2008

CHEMBIO DIAGNOSTIC SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,

- ASSETS -

	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,827,369	\$ 4,290,386
Accounts receivable, net of allowance for doubtful accounts of \$10,045 and \$42,967 for 2007 and 2006, respectively	946,340	1,350,240
Inventories	1,453,850	1,108,950
Prepaid expenses and other current assets	243,748	204,092
TOTAL CURRENT ASSETS	5,471,307	6,953,668
FIXED ASSETS , net of accumulated depreciation	829,332	603,603
OTHER ASSETS:		
Deposits and other assets	284,358	349,306
	\$ 6,584,997	\$ 7,906,577
- LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)-		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 2,175,791	\$ 1,709,939
Deferred research and development revenue	43,334	-
Accrued interest payable	-	93,160
Current portion of obligations under capital leases	23,458	37,336
TOTAL CURRENT LIABILITIES	2,242,583	1,840,435
OTHER LIABILITIES:		
Obligations under capital leases - net of current portion	79,588	7,081
Series C preferred stock redemption put	-	449,677
TOTAL LIABILITIES	2,322,171	2,297,193
COMMITMENTS AND CONTINGENCIES		
PREFERRED STOCK - Series C 7% Redeemable Convertible - \$.01 par value: None and 165 shares issued and outstanding as of 2007 and 2006.	-	6,549,191
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred Stock – 10,000,000 shares authorized:		
Series A 8% Convertible - \$.01 par value: None and 149.92119 shares issued and outstanding as of 2007 and 2006, respectively.	-	2,504,313
Series B 9% Convertible - \$.01 par value: None and 113.93591 shares issued and outstanding as of 2007 and 2006, respectively.	-	3,555,786
Common stock - \$.01 par value; 100,000,000 shares authorized 60,537,534 and 11,296,961 shares issued and outstanding as of 2007 and 2006, respectively	605,375	112,970
Additional paid-in capital	39,003,148	19,960,618
Accumulated deficit	(35,345,697)	(27,073,494)
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	4,262,826	(939,807)
	\$ 6,584,997	\$ 7,906,577

See accompanying notes

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
REVENUES:		
Net sales	\$ 8,764,877	\$ 6,294,012
Research grant income	466,071	208,468
TOTAL REVENUES	9,230,948	6,502,480
Cost of sales	5,368,645	4,485,912
GROSS PROFIT	3,862,303	2,016,568
OPERATING EXPENSES:		
Research and development expenses	1,906,653	1,401,472
Selling, general and administrative expenses	4,831,814	5,195,289
	6,738,467	6,596,761
LOSS FROM OPERATIONS	(2,876,164)	(4,580,193)
OTHER INCOME (EXPENSES):		
Other income	120,862	30,000
Loss on extinguishment of debt	-	(386,895)
Interest income	145,289	29,532
Interest expense	(16,879)	(87,464)
	249,272	(414,827)
LOSS BEFORE INCOME TAXES	(2,626,892)	(4,995,020)
Provision for income taxes	-	-
NET LOSS	(2,626,892)	(4,995,020)
Dividends payable in stock to preferred stockholders	1,385,593	1,022,897
Non-recurring deemed dividend	4,259,717	-
Dividend accreted to preferred stock for associated costs and a beneficial conversion feature	-	2,187,149
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (8,272,202)	\$ (8,205,066)
Basic and diluted loss per share	\$ (0.57)	\$ (0.80)
Weighted average number of shares outstanding, basic and diluted	14,608,478	10,293,168
<i>See accompanying notes</i>		

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2006

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional paid in capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Amount
Balance at December 31, 2005	158.68099	\$ 2,628,879	102.19760	\$ 3,173,239	8,491,429	\$ 84,914	\$ 14,034,099	\$ (18,868,428)	\$ 1,052,703
Preferred Stock									
Issued:									
For cash	-	-	20.00000	1,000,000	-	-	(112,750)	-	887,250
For fees	-	-	2.00000	100,000	-	-	(100,000)	-	-
For dividends	-	-	1.79797	89,899	-	-	(89,899)	-	-
Allocation of fair value to warrants	-	-	-	(481,470)	-	-	1,880,185	-	1,398,715
Allocation of value of beneficial conversion	-	-	-	(463,434)	-	-	2,187,149	-	1,723,715
Accretion of preferred dividend	-	366,563	-	508,751	-	-	-	(1,022,897)	(147,583)
Accretion of beneficial conversion	-	-	-	463,434	-	-	-	(2,187,149)	(1,723,715)
Payment of dividends	-	(369,123)	-	(473,982)	959,608	9,596	633,284	-	(200,225)
Common Stock									
Issued:									
Common converted from preferred	(8.75980)	(122,006)	(12.05966)	(360,651)	1,426,483	14,265	468,392	-	-
For services	-	-	-	-	178,750	1,788	137,890	-	139,678
Warrants and options:									
Consultants/Advisory Board	-	-	-	-	-	-	137,022	-	137,022
Prior CEO warrant	-	-	-	-	-	-	34,000	-	34,000
Exercised	-	-	-	-	240,691	2,407	143,914	-	146,321
Issued for bridge	-	-	-	-	-	-	328,341	-	328,341
Option valuation per 123R	-	-	-	-	-	-	278,991	-	278,991
Net loss for 2006	-	-	-	-	-	-	-	(4,995,020)	(4,995,020)
Balance at December 31, 2006	<u>149.92119</u>	<u>\$ 2,504,313</u>	<u>113.93591</u>	<u>\$ 3,555,786</u>	<u>11,296,961</u>	<u>\$ 112,970</u>	<u>\$ 19,960,618</u>	<u>\$ (27,073,494)</u>	<u>\$ (939,807)</u>

See accompanying notes

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2007

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional paid in capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Amount
Balance at December 31, 2006	149.92119	\$ 2,504,313	113.93591	\$ 3,555,786	11,296,961	\$ 112,970	\$19,960,618	\$ (27,073,494)	\$ (939,807)
Preferred Stock related:									
Accretion of preferred dividend	-	331,375	-	491,302	-	-	-	(1,385,594)	(562,917)
Payment of dividends	-	(391,343)	-	(758,087)	3,442,467	34,425	1,705,505	-	590,500
Common Stock Issued:									
Common converted from preferred (including Series C)	(149.92119)	(2,444,345)	(113.93591)	(3,289,001)	41,861,540	418,615	16,425,733	(4,259,717)	6,851,285
For services	-	-	-	-	200,000	2,000	117,800	-	119,800
Warrants and options:									
Consultants/Advisory Board	-	-	-	-	-	-	20,000	-	20,000
Exercised					3,736,566	37,365	1,082,996		1,120,361
Fee for plan	-	-	-	-	-	-	(561,816)	-	(561,816)
Option valuation per 123R	-	-	-	-	-	-	252,312	-	252,312
Net loss for 2007	-	-	-	-	-	-	-	(2,626,892)	(2,626,892)
Balance at December 31, 2007	-	\$ -	-	\$ -	60,537,534	\$ 605,375	\$39,003,148	\$ (35,345,697)	\$ 4,262,826

See accompanying notes

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

	December 31, 2007	December 31, 2006
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 9,802,348	\$ 6,407,314
Cash paid to suppliers and employees	(11,276,554)	(10,581,216)
Interest received	145,289	29,532
Interest paid	(16,879)	(58,553)
Net cash used in operating activities	(1,345,796)	(4,202,923)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(410,425)	(374,513)
Net cash used in investing activities	(410,425)	(374,513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of Series C Preferred Stock and associated warrants, net of cash cost of financing of \$110,000	-	7,440,285
Sale of Series B Preferred Stock and associated warrants, net of cash cost of financing of \$2,750	-	997,250
Payment of obligation to related party	-	(182,181)
Proceeds from bridge loan	-	1,300,000
Payment on bridge loan	-	(699,755)
Payment of accrued interest	(93,160)	(127,652)
Proceeds from exercise of options and warrants, net of cash cost of financing of \$561,816	558,545	146,321
Payment of capital lease obligation	(52,181)	(38,368)
Payment of dividends	(120,000)	(200,226)
Net cash provided by financing activities	293,204	8,635,674
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,463,017)	4,058,238
Cash and cash equivalents - beginning of the period	4,290,386	232,148
Cash and cash equivalents - end of the period	\$ 2,827,369	\$ 4,290,386

Continues on next page

See accompanying notes

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

	December 31, 2007	December 31, 2006
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Net Loss	\$ (2,626,892)	\$ (4,995,020)
Adjustments:		
Depreciation and amortization	283,359	209,541
Non-cash interest expense	-	328,341
Loss on retirement of fixed assets	12,146	-
Provision for doubtful accounts	(32,922)	22,479
Common stock, options and warrants issued as compensation	342,163	565,668
Expenses related to conversion of bridge into Series C Preferred Stock	-	99,469
Changes in assets and liabilities:		
Accounts receivable	436,822	(117,645)
Inventories	(344,900)	(420,967)
Prepaid expenses and other current assets	(9,706)	88,895
Other assets and deposits	64,948	(239,723)
Accounts payable and accrued expenses	529,186	256,039
Net cash used in operating activities	\$ (1,345,796)	\$ (4,202,923)
Supplemental disclosures for non-cash investing and financing activities:		
Preferred B issued as payment for financing fees	\$ -	\$ 100,000
Warrants issued with bridge loan	-	-
Value of warrants issued allocated to additional paid-in capital	20,000	1,880,185
Value of common stock and stock options issued	41,181	-
Cost of royalty rate reduction in other assets	-	200,000
Accreted beneficial conversion to preferred stock	-	2,187,149
Value of deemed dividend	4,259,717	-
Accreted dividend to preferred stock	1,385,594	1,022,897
Value of Common stock issued as payment of dividend	1,739,930	642,879
Value of Preferred B issued as payment of dividend	-	89,899
Value of Preferred stock converted to common stock	5,733,346	482,657
Bridge debt and associated interest converted into Series C Preferred Stock	-	699,714
Assets acquired under capital leases	110,810	-

See accompanying notes

NOTE 1 — DESCRIPTION OF BUSINESS:

Chembio Diagnostics, Inc. (the “Company” or “Chembio”) and its subsidiaries develop, manufacture, and market rapid diagnostic tests that detect infectious diseases. The Company’s main products presently commercially available are three rapid tests for the detection of HIV antibodies in whole blood, serum and plasma samples, two of which were approved by the FDA in 2006; the third is sold for export only. These products all employ single path lateral flow technology. The Company also has a rapid test for Chagas disease (a parasitic disease endemic in Latin America) as well as a line of rapid tests for veterinary tuberculosis, the first one of which is USDA approved. The Company’s products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments. Chembio’s products are sold under the Company’s STAT PAK® or SURE CHECK ® registered trademarks or under the private labels of its marketing partners, such as is the case with the Clearview® label owned by Inverness Medical Innovations, Inc., which is the Company’s exclusive marketing partner for its rapid HIV test products in the United States.

The Plan

On December 19, 2007 (the “Closing Date”) amendments to the governing documents for the Company’s Series A, Series B and Series C Convertible Preferred Stock (collectively, the “Preferred Stock”) and for certain warrants and options (collectively, the “Non-Employee Warrants”) not including options or warrants issued to employees or directors in their capacity as such (these actions collectively, the “Plan”) were approved by the Company and the requisite percentages of the holders of the Preferred Stock and of the Non-Employee Warrants.

Pursuant to the terms of the Plan, on the Closing Date, all of the outstanding Series A and Series B Preferred Stock, other than the Series A Preferred and Series B Preferred held by the Company’s Chief Executive Officer (“CEO”), was converted into 21,538,479 shares of the Company’s \$.01 par value common stock (the “Common Stock”) at a conversion rate of \$0.40 per share of Common Stock. The Series A Preferred and Series B Preferred held by the CEO was converted at the rate of \$0.48 per share into 2,534,593 shares of Common Stock. All of the outstanding Series C Preferred Stock was also converted into 17,187,496 shares of Common Stock at the rate of \$0.48 per share, and the Company issued 1,273,235 shares of Common Stock as payment for any accrued but unpaid dividends on any shares of the Preferred Stock outstanding on the Closing Date.

On the Closing Date, the holders of all the Non-Employee Warrants were permitted to exercise their Non-Employee Warrants for cash at a reduced exercise price of \$0.40 per share, or on a cashless basis at an exercise price of \$0.45 per share. The exercise of these Non-Employee Warrants on a cash and cashless basis resulted in the Company issuing 3,686,566 shares of Common Stock. Non-Employee Warrant Holders that exercised at least 10% of their Non-Employee Warrants for cash at \$0.40 per share on the Closing Date are now permitted, but not required, to exercise the remaining balance of their Non-Employee Warrants for cash or on a cashless basis at an exercise price of \$0.45 per share at any time on or before June 30, 2008.

Pursuant to the terms of the approved Plan, if a Non-Employee Warrant holder exercised at least 10% of its warrants for cash at the Closing Date, but does not exercise the remaining balance of its warrants for cash or on a cashless basis on or before June 30, 2008, the exercise price of its remaining warrants will revert to the original exercise price on July 1, 2008, at which time they will be permitted to exercise their Non-Employee Warrants on a cash or a cashless basis.

For a consenting Non-Employee Warrant holder that did not exercise at least 10% of its warrants for cash at the Closing Date, the exercise price of its warrants reverted to the original exercise price, subject to any applicable adjustment, on December 20, 2007. Beginning April 1, 2008, in addition to being exercisable for cash, a Non-Employee Warrant holder that did not exercise at least 10% of its warrants for cash at the Closing Date will be permitted to exercise their warrants on a cashless basis based on the Volume Weighted Average Price (VWAP) for the ten-trading day period that ends on the first trading day immediately preceding the date of such warrant exercise. The Plan amendments also provide that for those Non-Employee Warrant holders that consented to the Plan, the anti-dilution and price reduction provisions of the Non-Employee Warrants will not cause any adjustment to the exercise price or number of shares issuable based on any issuance or other action taken in connection with the Plan.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Certain holders of the Non-Employee Warrants did not consent to the Plan transactions. Pursuant to the anti-dilution terms existing in certain of the Non-Employee Warrants held by these non-consenting holders, the number of warrants that these non-consenting holders are permitted to exercise has been increased by 2,395,466. In addition, the exercise prices of certain of the Non-Employee Warrants held by non-consenting holders was reduced to \$0.40 pursuant to the terms of these warrants, and these non-consenting holders are permitted to exercise their warrants for cash only at \$0.40 per share until the expiration of the warrants.

The Plan's cashless exercise provision permits Non-Employee Warrant holders to use any excess of the market price of the Company's Common Stock over the exercise price of a Non-Employee Warrant as part of the exercise price for another Warrant by submitting both warrants at the time of exercise. Pursuant to the Plan, Non-Employee Warrant holders were permitted at the Closing Date to use the greater of (i) \$0.53 or (ii) the VWAP for the ten-trading day period that ended on December 17, 2007 as the value of the Common Stock, so that each Non-Employee Warrant used as part of the exercise price payment on the Closing Date represented the difference between the greater of these two values and the \$0.45 Non-Employee Warrant exercise price. In addition, Non-Employee Holders that exercised at least 10% of all of such holder's Non-Employee Warrants for cash on the Closing Date are permitted between the Closing Date and June 30, 2008 to use the difference between the greater of these two values and the \$0.45 Non-Employee Warrant exercise price as part of their exercise price payment. Non-Employee Warrant Holders that did not exercise (x) at least 10% of all of such holder's Non-Employee Warrants for cash at the Closing Date, or (y) its Non-Employee Warrants on cashless basis at \$0.45 per share on the Closing Date will only be permitted to exercise its Non-Employee Warrants on a cashless basis beginning on April 1, 2008, and at that point the value of a warrant to be used as part of the exercise price payment in such cashless exercise will equal the excess of the VWAP for the ten-trading day period that ends on the first trading day immediately preceding the date of such warrant exercise over the exercise price of a warrant.

In connection with the Plan closing, the Company obtained \$1,089,361 of Non-Employee Warrant cash exercises on the Closing Date.

The Company worked with Collins Stewart LLC ("Collins Stewart"), an investment banking advisor, with respect to the Plan transactions. As compensation for the services rendered by Collins Stewart, the Company paid Collins Stewart certain cash fees, as well as reimbursement for its reasonable counsel and out-of-pocket expenses related to the Plan, aggregating approximately \$312,000.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:

The consolidated financial statements include the accounts of the Company, and its two wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

(b) Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

(c) 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.

(d) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Income Taxes:

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are determined 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.

Effective January 1, 2007, we adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes 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. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. Any interest and penalties accrued related to unrecognized tax benefits will be recorded in tax expense. The adoption of FIN 48 had no impact on the Company's financial statements for the year ended December 31, 2007.

(f) Research and Development:

Research and development costs are charged to expense as incurred.

(g) Stock Based Compensation:

Effective January 1, 2006, the Company's Plan is accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107 ("SAB 107"), which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies. See footnote 5 for further details.

(h) Statements of Cash Flows:

For purposes of the statements of cash flows the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

(i) Revenue Recognition:

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

The Company recognizes income from research projects and grants when earned. Grants are invoiced after expenses are incurred. Any projects or grants funded in advance are deferred until earned.

(j) Concentrations of Credit Risk:

Financial instruments which 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 \$100,000 FDIC Insurance limit. The Company monitors the credit ratings of the financial institutions to mitigate this risk. The Company maintains three accounts with a well established multi-national bank and as of December 31, 2007 had approximately \$2.6 million above these limits. Concentration of credit risk with respect to trade receivables is principally mitigated by the Company's obtaining of letters of credit from certain foreign customers, and its diverse customer base both in number of customers and geographic locations. We currently do not require collateral.

(k) Fair Value:

Fair values of cash, accounts receivable, prepaid expenses and other current assets and accounts payable and accrued expenses reflected in these financial statements approximate carrying value as these are short-term in nature.

(l) Recent Accounting Pronouncements Affecting the Company:

In September 2006, the staff of the SEC issued Staff Accounting Bulletin ("SAB") No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 became effective in fiscal year end December 31, 2007. Adoption of SAB 108 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2006, the FASB issued FASB Staff Position ("FSP") EITF 00-19-2 "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2") which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies." Adoption of FSP EITF 00-19-02 is required for fiscal years beginning after December 15, 2006, and is did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. In December 2007, the FASB released a proposed FASB Staff Position (FSP FAS 157-b - Effective Date of FASB Statement No. 157) which, if adopted as proposed, would delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We do not believe that adoption of this statement would have a material impact on our financial statements.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company expects to adopt SFAS No. 159 in the first quarter of Fiscal 2008 and is still evaluating the effect, if any, on its financial position or results of operations.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), Business Combinations, which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160. "Noncontrolling Interests in Consolidated Financial Statements-and Amendment of ARB No. 51." SFAS 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 is not currently expected to have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

(m) Preferred Stock:

Prior to the Plan (see Note 1), the Company's Series C Preferred Stock contained provisions whereby, under certain conditions outside of the control of management, the holders could require redemption; accordingly, at December 31, 2006 it was classified outside of permanent equity.

As per the Plan (see Note 1) all classes of preferred stock were converted into common stock on December 19, 2007. Accordingly, no preferred stock was outstanding on December 31, 2007.

(n) Earnings Per Share

The following weighted average shares were used for the computation of basic and diluted earnings per share:

	For the years ended	
	December 31, 2007	December 31, 2006
Basic	14,608,478	10,293,168
Diluted	14,608,478	10,293,168

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. Diluted loss per share reflects the potential dilution from the exercise or conversion of other securities into Common Stock, but only if dilutive. Diluted loss per share for the years ended December 31, 2007 and 2006 is the same as basic loss per share, since the effects of the calculation were anti-dilutive due to the fact that the Company incurred losses for all periods presented. The following securities, presented on a common share equivalent basis, have been excluded from the per share computations:

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	For the years ended	
	December 31, 2007	December 31, 2006
1999 Plan Stock Options	2,015,352	1,629,750
Other Stock Options	124,625	144,625
Warrants	25,972,223	24,713,994
Convertible Preferred Stock	25,872,315	16,835,036

NOTE 3 — GEOGRAPHIC INFORMATION:

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for the way that business enterprises report information about operating segments in financial statements and requires that those enterprises report selected information. It also establishes standards for related disclosures about product and services, geographic areas, and major customers.

The Company produces only one group of similar products known collectively as "rapid medical tests". As per the provisions of SFAS 131, management believes that it operates in a single business segment. Net sales by geographic area are as follows

	For the years ended	
	December 31, 2007	December 31, 2006
Africa	\$ 3,784,791	\$ 1,552,043
Asia	158,577	250,243
Europe	153,808	92,248
Middle East	239,838	194,767
North America	4,226,442	1,384,933
South America	201,421	2,819,778
	\$ 8,764,877	\$ 6,294,012

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NOTE 4 — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities as of December 31:

	December 31, 2007	December 31, 2006
Accounts payable – suppliers	\$ 726,174	\$ 679,990
Accrued commissions	14,251	91,920
Accrued royalties / licenses	852,119	461,048
Accrued payroll	279,598	87,637
Accrued vacation	155,480	214,858
Accrued legal and accounting	10,000	7,000
Accrued expenses – other	138,169	167,486
TOTAL	\$ 2,175,791	\$ 1,709,939

NOTE 5 — EMPLOYEE STOCK OPTION PLAN:

The Company had a 1999 Stock Option Plan (the “SOP”) originally covering 1,500,000 shares of Common Stock. Under the terms of the SOP, the Compensation Committee of the Company’s board is authorized to grant incentive options to key employees and to grant non-qualified options to key employees and key individuals. The options become exercisable at such times and under such conditions as determined by the Compensation Committee. The SOP was amended at the Company’s 2005 stockholders’ meeting. The number of options under the SOP was increased to cover 3,000,000 shares of common stock. It was also amended to allow independent directors to be eligible for grants under the portion of the SOP concerning non-qualified options.

Effective January 1, 2006, the Company’s SOP is accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards (“FAS”) No. 123 (revised 2004), Share-Based Payment (“FAS 123(R)”), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion (“APB”) No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 107 (“SAB 107”), which provides the Staff’s views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

As a result of the adoption of FAS 123(R), the Company’s results for the years ended December 31, 2007 and 2006 include share-based compensation expense totaling \$252,000 and \$279,000, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within cost of goods sold (none and \$28,000, respectively), research and development (\$100,000 and \$68,000, respectively) and selling, general and administrative expenses (\$152,000 and \$183,000, respectively). No income tax benefit has been recognized in the income statement for share-based compensation arrangements due to the history of operating losses.

Stock option compensation expense in the years ended December 31, 2007 and 2006 represent the estimated fair value of options outstanding which are being amortized on a straight-line basis over the requisite vesting period of the entire award.

The weighted average estimated fair value of stock options granted in the years ended December 31, 2007 and 2006 was \$.46 and \$.53 per share, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is determined using the simplified method as permitted by SAB 107, as the Company has no history of employee exercise of options to-date.

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

	For the years ended	
	December 31, 2007	December 31, 2006
Expected term (in years)	5	4 to 5
Expected volatility	102.84% to 106.31%	116.2% to 118.16%
Expected dividend yield	n/a	n/a
Risk-free interest rate	4.50% to 5.06%	4.39% to 4.92%

The Company granted 960,000 new options under the SOP during the year ended December 31, 2007 at prices ranging from \$.53 to \$.88 per share.

The following table provides stock options activity for the years ended December 31, 2007 and 2006:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	1,285,750	\$ 0.70		
Granted	1,147,250	\$ 0.57		
Exercised	(100,000)	\$ 0.62		
Forfeited/expired /cancelled	(803,250)	\$ 0.65		
Outstanding at December 31, 2006	1,529,750	\$ 0.65	3.60 years	\$ 204,866
Granted	960,000	\$ 0.57		
Exercised	(50,000)	\$ 0.62		
Forfeited/expired	(238,250)	\$ 0.67		
Outstanding at December 31, 2007	2,201,500	\$ 0.64	3.52 years	\$ -
Exercisable at December 31, 2007	1,445,500	\$ 0.68	3.06 years	\$ -

The following table summarizes information about stock options outstanding as of December 31, 2007:

Stock Options Outstanding					Stock Options Exercisable		
Range of Exercise Prices	Average Remaining Contract Life (Year)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares
\$0.35 - 0.48	90,000	2.81	0.420	\$ -	90,000	0.420	\$ -
\$0.53 - 0.60	887,500	4.29	0.557	-	243,500	0.572	-
\$0.62 - 0.68	324,000	3.71	0.627	-	224,000	0.630	-
\$0.75 - 0.88	900,000	2.80	0.755	-	888,000	0.755	-
Total	2,201,500	0.643	\$ -	1,445,500	0.684	\$ -	

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As of December 31, 2007, there was \$217,000 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 0.53 years. The total fair value of shares vested during the years ended December 31, 2007 and 2006, was \$276,000 and \$421,000, respectively.

At the end of January 2008, subsequent to the balance sheet date, 210,000 options were forfeited. As of February 15, 2008, the board of directors voted to re-price any SOP options in excess of \$.48 to \$.48, the estimated expense related to this re-price is \$20,000. In addition the board approved the issuance of an additional 525,000 options under the SOP at an exercise price, based on the closing market price on the date of grant, of \$.22 per share.

NOTE 6 — RELATED PARTIES:

The Company had a liability to its President on December 31, 2006 for \$65,000 of accrued interest on prior debt that is not accruing additional interest. The accrued interest was repaid in 2007. In addition, the Company had a liability to its President for funds advanced by him to it or paid directly by him to vendors on its behalf of \$182,000 (non-interest bearing and payable on demand) which was repaid in October of 2006.

In September 2006, the Company received an investment of \$2,000,000 from Inverness Medical Innovations, Inc. ("Inverness"). Inverness markets the Company's FDA-approved rapid HIV tests under Inverness' Clearview® brand, Chembio received a nonexclusive license to Inverness' lateral flow patents. The distribution agreements with Inverness contain gross margin sharing formulae among Inverness, the Company and, in the case of the HIV barrel product, StatSure Diagnostic Systems, Inc.

NOTE 7 — INVENTORIES:

Inventories consist of at December 31:

	2007	2006
Raw Materials	\$ 705,873	\$ 629,967
Work in Process	234,077	257,208
Finished Goods	513,900	221,775
	<u>\$ 1,453,850</u>	<u>\$ 1,108,950</u>

NOTE 8 — FIXED ASSETS:

Fixed assets consist of at December 31:

	2007	2006
Machinery and equipment	\$ 982,440	\$ 604,668
Furniture and fixtures	156,313	139,624
Computer and telephone equipment	308,591	259,078
Leasehold improvements	306,676	226,415
Tooling	-	41,900
	<u>1,754,020</u>	<u>1,271,685</u>
Less accumulated depreciation and amortization	(924,688)	(668,082)
	<u>\$ 829,332</u>	<u>\$ 603,603</u>

Included in the above fixed assets is \$121,000 and \$53,000, net of accumulated depreciation of \$69,000 and \$106,000 of assets held under capital leases as of December 31, 2007 and 2006, respectively. Depreciation expense for the 2007 and 2006 years aggregated \$283,359 and \$209,541, respectively.

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NOTE 9 — LONG-TERM DEBT / ACCRUED INTEREST PAYABLE:

In connection with the Series B Preferred Stock offering interest payable on certain debt was agreed to be paid over 33 months in installments of \$10,000 per month and a final payment of \$3,160 in the 34th month. These payments are subordinate to the redemption rights of the Series B preferred stockholders. No additional interest accrues on this payable. The accrued interest repaid was \$93,160 and \$120,000 in the year ended 2007 and 2006, respectively. The balance remaining unpaid was none and \$93,160 as of December 31, 2007 and 2006, respectively.

NOTE 10 — OBLIGATIONS UNDER CAPITAL LEASES:

The Company is obligated under capitalized leases for certain manufacturing and computer equipment.

Future minimum lease payments under these capitalized lease obligations, including interest as of December 31, 2007 were as follows:

Year ending December 31,

2008	\$	35,832
2009		28,572
2010		28,572
2011		28,572
2012		15,204
		<u>136,752</u>
Less: imputed interest		<u>(33,706)</u>
Present value of future minimum lease payments		103,046
Less: current maturities		<u>(23,458)</u>
	\$	<u><u>79,588</u></u>

These leases have interest rates ranging from 9.5% - 15%.

NOTE 11 — RESEARCH GRANTS AND DEVELOPMENT CONTRACTS:

In 2007 and 2006, the Company earned research grants, feasibility and development contracts in the amounts of \$466,000 and \$208,000, respectively. The Company is now involved in additional feasibility and development contracts related to its DPP™ technology. During 2007 we received \$439,000 in fees for feasibility studies and earned \$396,000 on these contracts, the \$43,000 difference is reflected in deferred revenues. The Company expects to receive additional feasibility and development contracts for its DPP technology in 2008.

NOTE 12 — INCOME TAXES:

No provision for Federal income taxes was required for the years ended December 31, 2007 or 2006, due to the Company's operating losses. At December 31, 2007 and 2006, the Company has unused net operating loss carry-forwards of approximately \$21,000,000 and \$16,900,000 which expire at various dates through 2027. Most of this amount is subject to annual limitations under certain provisions of the Internal Revenue Code related to "changes in ownership". In addition the Company has a research and development credit carryforward of approximately \$551,000 and \$350,000 for the years ended December 31, 2007 and 2006, respectively which expire at various dates through 2027.

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As of December 31, 2007 and 2006, the deferred tax assets related to the aforementioned carry-forwards have been fully offset by valuation allowances, since significant utilization of such amounts is not presently expected in the foreseeable future.

Deferred tax assets and valuation allowances consist of:

	December 31, 2007	December 31, 2006
Net operating loss carry-forwards	\$ 7,300,000	\$ 6,800,000
Research and development credit	551,000	350,000
Other	137,000	33,000
Gross deferred tax assets	7,988,000	7,183,000
Valuation allowances	(7,988,000)	(7,183,000)
Net deferred tax assets	\$ —	\$ —

We file income tax returns in the U.S. federal and New York state jurisdictions. Tax years for fiscal 2004 through 2006 are open and potentially subject to examination by the federal and New York state taxing authorities.

NOTE 13 — STOCKHOLDERS' EQUITY:

(a) Common Stock

On December 19, 2007 the Company issued pursuant to the Plan (see Note 1):

- i) 99,086, 599,331, and 574,818 shares of common stock for the payment of dividends for the Series A, B and C preferred stock, respectively. These shares were valued, in the aggregate at \$558,000, using the respective conversion price at the time of the conversion of the preferred stock;
- ii) 10,134,954, 13,938,118, and 17,187,496 shares of common stock for the conversion of the Series A, B and C preferred stock, respectively. These shares were valued, in the aggregate at \$16,504,000, using the market price on December 19, 2007;
- iii) 963,163 shares of common stock for the cashless exercise of 6,381,052 warrants, and
- iv) 2,723,403 shares of common stock for the cash exercise of warrants where the Company received \$1,089,000 less \$562,000 paid in fees.

During the year ended December 31, 2007, the Company issued 200,000 shares of its Common Stock upon the execution of an employment agreement, of which 100,000 shares vested immediately, 50,000 shares will vest on March 5, 2008 and 50,000 shares will vest on March 5, 2009. These shares were valued at the market price on the date of grant and aggregated \$119,800 and are being expensed over the vesting periods.

During year ended December 31, 2007 the Company issued 50,000 shares of its Common Stock upon the exercise of options and received cash of \$31,000.

During the year ended December 31, 2007 Series A Preferred shareholders, other than in the Plan, converted 8.33092 shares of Series A Preferred Stock into 416,546 shares of Common Stock.

During the year ended December 31, 2007 Series B Preferred shareholders, other than in the Plan, converted 2.25 shares of Series B Preferred Stock into 184,426 shares of Common Stock.

In the year ended December 31, 2007, other than in the Plan, the Company issued 897,896, 835,577 and 435,759 shares of its Common Stock as payment of dividends on its Series C Preferred Stock, Series B Preferred Stock and Series A Preferred Stock, respectively. These shares were valued, in the aggregate at \$1,182,000, using a volume weighted average price (VWAP) for the ten trading days immediately preceding the issue date.

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During the year ended December 31, 2006 the Company issued 163,750 shares, respectively of its' Common Stock to a consultant as compensation. The number of shares issued was a fixed number set forth in the consultant's contract, with specific issue dates and without regard to the market price of the stock on the date of issuance. For accounting purposes, the shares were valued based on the closing market price on dates of issuance from \$0.55 to \$0.91 per share and the related compensation expense for the year ended December 31, 2006 was \$129,029.

In July 2006, the Company issued to a member of the Board of Directors 15,000 shares of common stock as additional compensation for services as the audit committee chair. This stock was valued based on the market closing price on the date of the grant and \$10,650 was charged to expense.

During the year ended December 31, 2006 Series A Preferred shareholders converted 8.75980 shares into 437,989 shares of Common Stock and Series B Preferred shareholders converted 12.05966 shares into 988,494 shares of Common Stock.

During the year ended December 31, 2006 the Company issued 140,691 shares of its Common Stock upon the exercise of warrants and received cash of \$86,321.

During the year ended December 31, 2006 the Company issued 100,000 shares of its Common Stock upon the exercise of options and received cash of \$60,000.

In the year ended December 31, 2006 the Company issued 543,168 shares of its Common Stock as payment of dividends on its Series A Preferred Stock and 416,440 shares of its Common Stock as payment of dividends on its Series B Preferred Stock, These shares were valued using a 10 day volume weighted average price for the ten trading days immediately preceding the issue date.

(b) Warrants

On December 19, 2007, in connection with the Plan (see Note 1) certain holders of the Non-Employee Warrants did not consent to the Plan transactions. Pursuant to the anti-dilution terms existing in certain of the Non-Employee Warrants held by these non-consenting holders, the number of warrants that these non-consenting holders are permitted to exercise has been increased by 2,395,466. In addition, the exercise prices of certain of the Non-Employee Warrants held by non-consenting holders was reduced to \$0.40 pursuant to the terms of these warrants, and these non-consenting holders are permitted to exercise their warrants for cash only at \$0.40 per share until the expiration of the warrants.

During the year ended December 31, 2007, the Company issued warrants to purchase 33,381 shares of Common Stock at an exercise price of \$0.81 per share to a sales agent as payment for commissions accrued at year end 2006 (value \$20,000). These warrants have a five-year life.

The above warrants were valued using a Black-Scholes option pricing model based on assumptions for expected volatility of 104.8%, expected life of 5 years and expected risk-free interest rate of 4.54%.

The warrants to purchase 1,713,114 shares of Common Stock issued in connection with the March 2006 Series B offering were assigned a value of \$481,470. These warrants have an exercise price of \$0.61 per share and a five year life.

Warrants to purchase 520,000 shares of Common Stock were issued in connection with the bridge loan and were assigned a value of \$328,341. These warrants have an exercise price of \$0.75 per share and a five year life.

Warrants to purchase 2,578,125 shares of Common Stock were issued in connection with the completed Series C Offering and were assigned a value of \$1,398,715. These warrants have an exercise price of \$1.00 per share and a five year life.

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During the year ended December 31, 2006, the Company issued warrants to purchase 241,684 shares of Common Stock at exercise prices from \$0.55 to \$0.883 per share to a sales agent as payment for commissions (value \$61,700) and commissions accrued at year end 2005 (value \$24,000) and to consultants as compensation for 2006 (\$51,324). These warrants have a five year life.

All of the above warrants were valued using a Black-Scholes option pricing model based on assumptions for expected volatilities from 116.2% to 118.16%, expected lives of 5 years and expected risk free interest rates from 4.39% to 5.13%.

(c) ***Series A 8% Convertible Preferred Stock:***

On December 19, 2007, according to the Plan (see Note 1), all of the Series A preferred stock was converted into common stock. The common stock issued was valued at the market price on December 19, 2007 of \$.40 per share. This value was adjusted against the carrying value of the Series A Preferred Stock and the difference of \$1,726,000 was charged to deemed dividends.

The Series A Preferred Stock was issued in 2004 at a face value of \$30,000 per share and came with detachable warrants. The recorded amount of the preferred shares was calculated using a fair value allocation between the preferred shares and detachable warrants. Some key features included:

Dividends: Holders of series A preferred stock are entitled to an 8% per annum dividend per share. The dividend accrues and is payable semi-annually either in cash, in shares of series A preferred stock or in shares of common stock. In June 2006, the Series A Preferred Stock was amended to provide, among other amendments that dividends in Preferred or Common Stock would be based on a 10 day volume weighted average market price at the time of the dividend. Accrued but unpaid dividends are also payable upon the conversion or redemption of the shares of series A preferred stock and upon our liquidation, dissolution or winding up.

In the event the Company elects to pay any dividend in shares of common stock or in shares of series A preferred stock, so long as Vicis Capital Master Fund owns any shares of series A preferred stock, Vicis Capital Master Fund will receive such dividend in cash unless it otherwise notifies the Company no later than five (5) trading days prior to the date of the applicable dividend payment. Such payment to Vicis Capital Master Fund will not affect the Company's election to make the applicable dividend payment in stock so long as the only holder receiving the dividend payment in cash is Vicis Capital Master Fund. To date all dividends have been paid in Common Shares, except \$180,000 which was paid in cash to Vicis Capital Master Fund.

Conversion: Series A preferred stock is convertible, at the option of the holders, into shares of Common Stock at a conversion price of \$0.60 per share. Based on its original purchase price of \$30,000 per share, each share of Series A Preferred Stock is convertible into 50,000 shares of Common Stock.

Redemption: The holders have the right, under certain conditions, to require redemption of all or a portion of such holder's shares of Series A Preferred Stock. As of December 31, 2007 and 2006 such conditions no longer applied; accordingly, no accretion is being made to bring the value up to its redemption value. The liquidation preference was \$30,000 per share plus accrued and unpaid dividends. As of December 31, 2006, the unpaid dividends were \$400 per share, an aggregate for all such shares of \$4,557,604. Accrued but unpaid dividends of \$62,528 are included in the preferred stock carrying value as at December 31, 2006.

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(d) ***Series B 9% Convertible Preferred Stock:***

On December 19, 2007, according to the Plan (see Note 1), all of the Series B preferred stock was converted into common stock. The common stock issued was valued at the market price on December 19, 2007 of \$.40 per share. This value was adjusted against the carrying value of the Series B Preferred Stock and the difference of \$2,349,000 was charged to deemed dividends.

The Series B Preferred Stock was issued in January 2005 at a face value of \$50,000 per share with detachable warrants. The recorded amount of the preferred shares was calculated using a fair value allocation between the preferred shares and detachable warrants. 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 said shareholder. Approximately \$140,000 of these proceeds was used to pay cash dividends which were accrued as of December 31, 2005. The recorded amount of the preferred shares was calculated using a fair value allocation between the preferred shares and detachable warrants. Some key features of the Series B Preferred Stock are as follows:

Dividends: The 9% Series B Preferred Stock accrues dividends at 9% per annum, payable semi-annually. Dividends are payable in Series B Preferred Stock, Common Stock or in cash. In June 2006, the Series B Preferred Stock was amended to provide, among other amendments that the dividend could be paid in Common Stock (in addition to Preferred Stock or cash) and that dividends in Preferred or Common Stock would be based on a 10 day volume weighted average market price at the time of the dividend. The majority investor in the Series B financing has the option as it pertains to its dividend payment to choose cash or Preferred or Common shares. The Company has the option to choose cash or Preferred or Common shares as to the balance of the dividends. To date all dividends have been paid in Preferred or Common Shares, except \$140,226 which was paid in cash at the option of the majority investor.

In the event any dividend is issued, any holder of the majority of the outstanding series B preferred stock at the dividend payment date, may elect whether to receive dividends on series B preferred stock in cash, in common stock or in shares of series B preferred stock in its sole discretion.

Conversion: The Series B Preferred Stock is convertible, at the option of the holders, into shares of Common Stock at a conversion price of \$.61 per share. Based on the original purchase price of \$50,000 per share, each share of Series B Stock is convertible into 81,967 shares of Common Stock.

Redemption: The holders have the right, under certain conditions, to require redemption of all or a portion of such holder's shares of Series B Preferred Stock. As of December 31, 2006 and 2005 such conditions no longer applied; accordingly, no accretion is being made to bring the value up to its redemption value. The liquidation preference is \$50,000 per share plus accrued and unpaid dividends. As of December 31, 2006, the unpaid dividends were \$2,300 per share, an aggregate for all such shares of \$5,958,848. Accrued but unpaid dividends of \$262,053 are included in the preferred stock carrying value as at December 31, 2006.

As per EITF 00-27 "Application of Issue 98-5 to Certain Convertible Instruments", the Company evaluated the Series B Preferred Stock transaction that occurred on March 30, 2006, see above, and found that there was an associated beneficial conversion feature totaling \$463,434; the preferred stock was further discounted by this amount. The beneficial conversion amount was then accreted back to the preferred stock in accordance with the conversion provision which allowed for 100% to be converted immediately.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
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(e) ***Series C 7% Convertible Preferred Stock:***

On December 19, 2007, according to the Plan (see Note 1), all of the Series C preferred stock was converted into common stock. The common stock issued was valued at the market price on December 19, 2007 of \$.40 per share. This value was adjusted against the carrying value of the Series C Preferred Stock and the difference of \$185,102 was charged to deemed dividends.

On September 29, 2006 and October 5, 2006, the Company sold \$8.25 million of Series C Preferred Stock (see Note 1) pursuant to provisions of the September 29, 2006 as amended on October 5, 2006 Series C 7% Preferred Stock financing agreements. In addition the Company issued 2,578,125 warrants to the investors. See Note 13(b) for information on the warrants. A summary of the significant terms as amended on October 5, 2006 are as follows:

Dividends. Holders of series C preferred stock are entitled to a 7% per annum dividend per share. The dividend accrues and is payable semi-annually in cash or in shares of common stock, at our option. Accrued but unpaid dividends are also payable upon the conversion or redemption of the shares of series C preferred stock and upon a liquidation event.

Conversion. The series C preferred stock is convertible, at the option of the holders, into shares of our common stock at a conversion price of \$.80 per share. Based on the original purchase price of \$50,000 per share, each share of series C preferred stock is convertible into 62,500 shares of our common stock.

Redemption: The holders have the right, under certain conditions, to require redemption of all or a portion of such holder's shares of Series C Preferred Stock. The redemption value is the greater of (i) 130% of the stated value or \$65,000 and (ii) the product of (a) daily volume weighted average price of the Company's common stock and (b) a quotient of \$65,000 divided by the then existing conversion price, plus accrued and unpaid dividends and all liquidated damages.

Liquidation preference: The liquidation preference is \$50,000 per share plus accrued and unpaid dividends and all liquidated damages. The liquidation preference is \$50,000 per share plus accrued and unpaid dividends. As of December 31, 2006, the unpaid dividends were \$894.44 per share, an aggregate for all such shares of \$8,397,583. Accrued but unpaid dividends of \$147,583 are included in the preferred stock carrying value as at December 31, 2006

The Company has accounted for the Series C Offering pursuant to the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19: "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"). The Company has allocated the value received between the preferred stock and the related warrants. The allocated value for the preferred stock and the related warrants were \$6,851,285 and \$1,398,715, respectively. Further, the Company has determined that the redemption feature in the Series C Preferred Stock needs to be bifurcated and has valued the same at \$449,677. The warrant value and the value of the redemption feature is treated as a discount and the preferred stock is reflected net of this discount. Due to the contingent redemption feature, the Series C Preferred Stock is reflected as temporary equity. The Series C Preferred Stock is not currently redeemable and there is no likelihood that it will become redeemable; accordingly, no accretion is being made to bring the carrying value up to its redemption value. The liability for the value of the redemption feature will be "marked to market" in future accounting periods until such time as the redemption is exercised or the feature meets the criteria for equity classification. See Note 13(b) for the valuation of warrants.

In addition, as per EITF 00-27 "Application of Issue 98-5 to Certain Convertible Instruments", the Company evaluated the Series C Preferred Stock transaction that occurred in September 2006 and found that there were associated beneficial conversion features totaling \$1,723,715; the preferred stock was further discounted by this amount. The beneficial conversion amount related to the valuation of the preferred stock was then accreted back to the preferred stock in accordance with the conversion provision which allowed for 100% to be converted immediately. The accretion was reflected as dividend expense.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
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NOTE 14 — COMMITMENTS AND CONTINGENCIES:

Employment Contracts:

The Company has contracts with two key employees. The contracts call for salaries presently aggregating \$425,000 per year. One contract expires in May of 2008 and one contract expires in March of 2010. The following table is a schedule of future minimum salary commitments:

2008	\$	314,167
2009		230,833
2010		39,167
	\$	<u>584,167</u>

Pension Plan:

The Company has a 401(k) plan established for its employees. The Company opted to match 20% of the first 5% (or 1% of salary) that an employee contributes to their 401(k) plan. Expenses related to this match aggregated \$20,500 for the year ended December 31, 2007. The Company did not elect to make any matching contributions for the year ended December 31, 2006.

Obligations Under Operating Leases:

The Company leases office and manufacturing facilities. The current lease expires on April 30, 2009. The following is a schedule of future minimum rental commitments:

Year ending December 31,

2008	\$	128,160
2009		42,720
	\$	<u>170,880</u>

The Company has an option to renew the lease for an additional two year term with a nominal increase.

Rent expense aggregated \$123,500 and \$100,500 for the years ended December 31, 2007 and 2006, respectively.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
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Economic Dependency:

The Company had sales to three customers each in excess of 10% of total sales in the year ended December 31, 2007. Sales to these customers aggregated approximately \$2,456,000, \$2,249,000 and \$1,398,000, respectively. This represents approximately 70% of total sales. Accounts receivable as of December 31, 2007 from these customers approximated \$222,000, none and none, respectively.

The Company had sales to four customers each in excess of 10% of total sales in the year ended December 31, 2006. Sales to these customers aggregated approximately \$1,530,000, \$1,223,000, \$1,092,000 and \$814,000, respectively. This represents approximately 74% of total sales. Accounts receivable as of December 31, 2007 from these customers approximated \$380,000, none, \$568,000 and \$174,000, respectively.

The Company had purchases from one vendor in excess of 10% of total purchases for the year ended December 31, 2007. Purchases from this vendor aggregated approximately \$356,000. Accounts payable as of December 31, 2007 to this vendor approximated \$19,000.

The Company had purchases from one vendor in excess of 10% of total purchases for the year ended December 31, 2006. Purchases from this vendor aggregated approximately \$244,000. Accounts payable as of December 31, 2006 to this vendor approximated \$4,000.

Governmental Regulation:

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

License Agreement:

The Company entered into a license agreement, effective February 1, 2008, whereby it agreed to pay \$1,000,000 in non-refundable license fees: \$500,000 during 2008 and \$500,000 in 2009. The Company is also obligated to pay a royalty based on eligible sales of the licensed product.

SECOND AMENDED AND RESTATED CERTIFICATE OF DESIGNATION

OF THE RELATIVE RIGHTS AND PREFERENCES

OF THE

SERIES A CONVERTIBLE PREFERRED STOCK

OF

CHEMBIO DIAGNOSTICS, INC.

The undersigned, the Chief Financial Officer of Chembio Diagnostics, Inc., a Nevada corporation (the "Company"), in accordance with the provisions of the Nevada Revised Statutes, does hereby certify that, pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation of the Company, the following resolution amending and restating the Certificate of Designation of the Series A Convertible Preferred Stock, was duly adopted with shareholder consent:

RESOLVED, that pursuant to the authority expressly granted to and vested in the Board of Directors of the Company by provisions of the Articles of Incorporation of the Company (the "Articles of Incorporation"), there hereby is created out of the shares of Preferred Stock, par value \$.01 per share, of the Company authorized in Article IV of the Articles of Incorporation (the "Preferred Stock"), a series of Preferred Stock of the Company, to be named "Series A Convertible Preferred Stock," consisting of Two Hundred Fifty (250) shares, which series shall have the following designations, powers, preferences and relative and other special rights and the following qualifications, limitations and restrictions:

1. Designation and Rank. The designation of such series of the Preferred Stock shall be the Series A Convertible Preferred Stock, par value \$.01 per share (the "Series A Preferred Stock"). The maximum number of shares of Series A Preferred Stock shall be Two Hundred Fifty (250) shares. The Series A Preferred Stock shall rank senior to the common stock, par value \$.01 per share (the "Common Stock"), and to all other classes and series of equity securities of the Company which by their terms do not rank senior to the Series A Preferred Stock ("Junior Stock"). The Series A Preferred Stock shall be subordinate to and rank junior to all indebtedness of the Company now or hereafter outstanding.

2. Dividends.

(a) Payment of Dividends. Subject to Section 5(c)(ii) hereof, the holders of record of shares of Series A Preferred Stock shall be entitled to receive, out of any assets at the time legally available therefor and when and as declared by the Board of Directors, dividends at the rate of eight percent (8%) of the stated Liquidation Preference Amount (as defined in Section 4 hereof) per share per annum commencing on the date of issuance (the "Issuance Date") of the Series A Preferred Stock (the "Dividend Payment"), and no more, payable semi-annually at the option of the Company in cash, shares of Series A Preferred Stock or shares of Common Stock. If the Company elects to pay any dividend in shares of Common Stock, the number of shares of Common Stock to be issued to the holder shall be an amount equal to the quotient of (i) the Dividend Payment divided by (ii) the volume weighted average trading price (the "VWAP") of the Common Stock for the 10 trading days preceding the dividend record date. As used in this Certificate, the term "volume weighted average trading price", or "VWAP", shall mean, for any period of time, the sum of the purchase prices charged for all shares sold during that period of time divided by the number of shares sold during that period of time. If the Company elects to pay any dividend in shares of Series A Preferred Stock, the number of shares of Series A Preferred Stock to be issued to the holder shall be an amount equal to the quotient of (i) the Dividend Payment divided by (ii) the VWAP of the Common Stock for the 10 trading days preceding the dividend record date and then issuing that number of shares of Series A Preferred Stock that would at the time of the calculation be convertible into the number of shares determined by dividing the Dividend Payment by the 10-day VWAP; provided, that, the Company may only elect to pay any dividend in shares of Series A Preferred Stock if the amount of such shares shall not be less than one-tenth of one share of Series A Preferred Stock or a multiple of one-tenth of one share of Series A Preferred Stock. If the Company elects or is required to pay any dividend in Common Stock or Series A Preferred Stock, the Company will give the holders of record of shares of the Series A Preferred Stock ten (10) trading days notice prior to the date of the applicable Dividend Payment. In the case of shares of Series A Preferred Stock outstanding for less than a full year, dividends shall be pro rated based on the portion of each year during which such shares are outstanding. Dividends on the Series A Preferred Stock shall be cumulative, shall accrue and be payable semi-annually. Dividends on the Series A Preferred Stock are prior and in preference to any declaration or payment of any distribution (as defined below) on any outstanding shares of Junior Stock. Such dividends shall accrue on each share of Series A Preferred Stock from day to day whether or not earned or declared so that if such dividends with respect to any previous dividend period at the rate provided for herein have not been paid on, or declared and set apart for, all shares of Series A Preferred Stock at the time outstanding, the deficiency shall be fully paid on, or declared and set apart for, such shares on a pro rata basis with all other equity securities of the Company ranking on a parity with the Series A Preferred Stock as to the payment of dividends before any distribution shall be paid on, or declared and set apart for Junior Stock. Notwithstanding the foregoing, if the Company elects to pay any dividend in shares of Common Stock or in shares of Series A Preferred Stock, so long as Vicis Capital Master Fund owns any shares of Series A Preferred Stock, Vicis Capital Master Fund will be deemed to have elected to receive such dividend in cash unless it otherwise notifies the Company no later than five (5) trading days prior to the date of the applicable Dividend Payment. Such payment to Vicis Capital Master Fund will not affect the Company's election to make the applicable Dividend Payment in stock so long as the only holder receiving the Dividend Payment in cash is Vicis Capital Master Fund.

(b) So long as any shares of Series A Preferred Stock are outstanding, the Company shall not declare, pay or set apart for payment any dividend or make any distribution on any Junior Stock (other than dividends or distributions payable in additional shares of Junior Stock), unless at the time of such dividend or distribution the Company shall have paid all accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock.

(c) In the event of a dissolution, liquidation or winding up of the Company pursuant to Section 4, all accrued and unpaid dividends on the Series A Preferred Stock shall be payable on the date of payment of the preferential amount to the holders of Series A Preferred Stock. In the event of (i) a mandatory redemption pursuant to Section 9 or (ii) a redemption upon the occurrence of a Major Transaction (as defined in Section 8(c)) or a Triggering Event (as defined in Section 8(d)), all accrued and unpaid dividends on the Series A Preferred Stock shall be payable on the date of such redemption. In the event of a voluntary conversion pursuant to Section 5(a), all accrued and unpaid dividends on the Series A Preferred Stock being converted shall be payable on the day immediately preceding the Voluntary Conversion Date (as defined in Section 5(b)(i)).

(d) For purposes hereof, unless the context otherwise requires, “distribution” shall mean the transfer of cash or property without consideration, whether by way of dividend or otherwise, payable other than in shares of Common Stock or other equity securities of the Company, or the purchase or redemption of shares of the Company (other than redemptions set forth in Section 8 below or repurchases of Common Stock held by employees or consultants of the Company upon termination of their employment or services pursuant to agreements providing for such repurchase or upon the cashless exercise of options held by employees or consultants) for cash or property.

3. Voting Rights.

(a) Class Voting Rights. The Series A Preferred Stock shall have the following class voting rights (in addition to the voting rights set forth in Section 3(b) hereof). So long as any shares of the Series A Preferred Stock remain outstanding, the Company shall not, without the affirmative vote or consent of the holders of at least three-fourths (3/4) of the shares of the Series A Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting, in which the holders of the Series A Preferred Stock vote separately as a class: (i) amend, alter or repeal the provisions of the Series A Preferred Stock, whether by merger, consolidation or otherwise, so as to adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock; provided, however, that any creation and issuance of another series of Junior Stock shall not be deemed to adversely affect such rights, preferences, privileges or voting powers; (ii) repurchase, redeem or pay dividends on, shares of Common Stock or any other shares of the Company’s Junior Stock (other than de minimus repurchases from employees of the Company in certain circumstances); (iii) amend the Articles of Incorporation or By-Laws of the Company so as to affect materially and adversely any right, preference, privilege or voting power of the Series A Preferred Stock; provided, however, that any creation and issuance of another series of Junior Stock shall not be deemed to adversely affect such rights, preferences, privileges or voting powers; (iv) effect any distribution with respect to Junior Stock; (v) reclassify the Company’s outstanding securities; (vi) voluntarily file for bankruptcy, liquidate the Company’s assets or make an assignment for the benefit of the Company’s creditors; or (vii) change the nature of the Company’s business. Notwithstanding the foregoing to the contrary, so long as at least \$1,000,000 of Series A Preferred Stock is outstanding, the Company shall not, without the affirmative vote or consent of the holders of at least three-fourths (3/4) of the shares of the Series A Preferred Stock outstanding at the time, authorize, create, issue or increase the authorized or issued amount of any class or series of stock, including but not limited to the issuance of any more shares of previously authorized Common Stock or Preferred Stock, ranking pari passu or senior to the Series A Preferred Stock (except for shares of Series A Preferred Stock to be issued to certain holders of promissory notes issued by the Company in satisfaction of outstanding indebtedness in an amount not to exceed \$750,000 and the issuance of shares of Series A Preferred Stock with respect to the payment of dividends on such shares of Series A Preferred Stock), with respect to the distribution of assets on liquidation, dissolution or winding up.

(b) General Voting Rights. Except with respect to transactions upon which the Series A Preferred Stock shall be entitled to vote separately as a class pursuant to Section 3(a) above and except as otherwise required by Nevada law, the Series A Preferred Stock shall have no voting rights. The Common Stock into which the Series A Preferred Stock is convertible shall, upon issuance, have all of the same voting rights as other issued and outstanding Common Stock of the Company.

4. Liquidation Preference.

(a) In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of shares of the Series A Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Company available for distribution to its stockholders, an amount equal to \$30,000 per share (the “Liquidation Preference Amount”) of the Series A Preferred Stock plus any accrued and unpaid dividends before any payment shall be made or any assets distributed to the holders of the Common Stock or any other Junior Stock. If the assets of the Company are not sufficient to pay in full the Liquidation Preference Amount plus any accrued and unpaid dividends payable to the holders of outstanding shares of the Series A Preferred Stock and any series of preferred stock or any other class of stock on a parity, as to rights on liquidation, dissolution or winding up, with the Series A Preferred Stock, then all of said assets will be distributed among the holders of the Series A Preferred Stock and the other classes of stock on a parity with the Series A Preferred Stock, if any, ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. The liquidation payment with respect to each outstanding fractional share of Series A Preferred Stock shall be equal to a ratably proportionate amount of the liquidation payment with respect to each outstanding share of Series A Preferred Stock. All payments for which this Section 4(a) provides shall be in cash, property (valued at its fair market value as determined by an independent appraiser reasonably acceptable to the holders of a majority of the Series A Preferred Stock) or a combination thereof; provided, however, that no cash shall be paid to holders of Junior Stock unless each holder of the outstanding shares of Series A Preferred Stock has been paid in cash the full Liquidation Preference Amount plus any accrued and unpaid dividends to which such holder is entitled as provided herein. After payment of the full Liquidation Preference Amount plus any accrued and unpaid dividends to which each holder is entitled, such holders of shares of Series A Preferred Stock will not be entitled to any further participation as such in any distribution of the assets of the Company.

(b) A consolidation or merger of the Company with or into any other corporation or corporations, or a sale of all or substantially all of the assets of the Company, or the effectuation by the Company of a transaction or series of related transactions in which more than 50% of the voting shares of the Company is disposed of or conveyed, shall not be deemed to be a liquidation, dissolution, or winding up within the meaning of this Section 4. In the event of the merger or consolidation of the Company with or into another corporation, the Series A Preferred Stock shall maintain its relative powers, designations and preferences provided for herein and no merger inconsistent therewith shall result.

(c) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, stating a payment date and the place where the distributable amounts shall be payable, shall be given by mail, postage prepaid, no less than forty-five (45) days prior to the payment date stated therein, to the holders of record of the Series A Preferred Stock at their respective addresses as the same shall appear on the books of the Company.

5. Conversion. The holder of Series A Preferred Stock shall have the following conversion rights (the “Conversion Rights”):

(a) Right to Convert.

(i) Subject to Section 5(a)(ii) below, at any time on or after the Issuance Date, the holder of any such shares of Series A Preferred Stock may, at such holder’s option, subject to the limitations set forth in Section 7 herein, elect to convert (a “Voluntary Conversion”) all or any portion of the shares of Series A Preferred Stock held by such person into a number of fully paid and nonassessable shares of Common Stock equal to the quotient of (i) the Liquidation Preference Amount of the shares of Series A Preferred Stock being converted divided by (ii) the Conversion Price (as defined in Section 5(d) below) then in effect as of the date of the delivery by such holder of its notice of election to convert. In the event of a notice of redemption of any shares of Series A Preferred Stock pursuant to Section 8 hereof, the Conversion Rights of the shares designated for redemption shall terminate at the close of business on the last full day preceding the date fixed for redemption, unless the redemption price is not paid on such redemption date, in which case the Conversion Rights for such shares shall continue until such price is paid in full. In the event of a liquidation, dissolution or winding up of the Company, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series A Preferred Stock. In the event of such a redemption or liquidation, dissolution or winding up, the Company shall provide to each holder of shares of Series A Preferred Stock notice of such redemption or liquidation, dissolution or winding up, which notice shall (i) be sent at least fifteen (15) days prior to the termination of the Conversion Rights and (ii) state the amount per share of Series A Preferred Stock that will be paid or distributed on such redemption or liquidation, dissolution or winding up, as the case may be.

(ii) A holder of Series A Preferred Stock may not convert greater than twenty percent (20%) of its shares of Series A Preferred Stock until the earlier of (A) six (6) months following the effective date (the “Effectiveness Date”) of the registration statement providing for the resale of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock (the “Registration Statement”) or (B) ten (10) months following the Issuance Date.

(b) Mechanics of Voluntary Conversion. The Voluntary Conversion of Series A Preferred Stock shall be conducted in the following manner:

(i) Holder’s Delivery Requirements. To convert Series A Preferred Stock into full shares of Common Stock on any date (the “Voluntary Conversion Date”), the holder thereof shall (A) transmit by facsimile (or otherwise deliver), for receipt on or prior to 5:00 p.m., New York time on such date, a copy of a fully executed notice of conversion in the form attached hereto as Exhibit I (the “Conversion Notice”), to the Company, and (B) surrender to a common carrier for delivery to the Company as soon as practicable following such Voluntary Conversion Date but in no event later than three (3) business days after such date the original certificates representing the shares of Series A Preferred Stock being converted (or an indemnification undertaking with respect to such shares in the case of their loss, theft or destruction) (the “Preferred Stock Certificates”) and the originally executed Conversion Notice.

(ii) Company’s Response. Upon receipt by the Company of a facsimile copy of a Conversion Notice, the Company shall immediately send, via facsimile, a confirmation of receipt of such Conversion Notice to such holder. Upon receipt by the Company of a copy of the fully executed Conversion Notice, the Company or its designated transfer agent (the “Transfer Agent”), as applicable, shall, within three (3) business days following the date of receipt by the Company of the fully executed Conversion Notice (so long as the applicable Preferred Stock Certificates and original Conversion Notice are received by the Company on or before such third business day), issue and deliver to the Depository Trust Company (“DTC”) account on the Holder’s behalf via the Deposit Withdrawal Agent Commission System (“DWAC”) as specified in the Conversion Notice, registered in the name of the holder or its designee, for the number of shares of Common Stock to which the holder shall be entitled. If the number of shares of Preferred Stock represented by the Preferred Stock Certificate(s) submitted for conversion is greater than the number of shares of Series A Preferred Stock being converted, then the Company shall, as soon as practicable and in no event later than three (3) business days after receipt of the Preferred Stock Certificate(s) and at the Company’s expense, issue and deliver to the holder a new Preferred Stock Certificate representing the number of shares of Series A Preferred Stock not converted.

(iii) Dispute Resolution. In the case of a dispute as to the arithmetic calculation of the number of shares of Common Stock to be issued upon conversion, the Company shall cause its Transfer Agent to promptly issue to the holder the number of shares of Common Stock that is not disputed and shall submit the arithmetic calculations to the holder via facsimile as soon as possible, but in no event later than three (3) business days after receipt of such holder's Conversion Notice. If such holder and the Company are unable to agree upon the arithmetic calculation of the number of shares of Common Stock to be issued upon such conversion within two (2) business days of such disputed arithmetic calculation being submitted to the holder, then the Company shall within two (2) business days submit via facsimile the disputed arithmetic calculation of the number of shares of Common Stock to be issued upon such conversion to the Company's independent, outside accountant. The Company shall cause the accountant to perform the calculations and notify the Company and the holder of the results no later than four (4) business days from the time it receives the disputed calculations. Such accountant's calculation shall be binding upon all parties absent manifest error. The reasonable expenses of such accountant in making such determination shall be paid by the Company in the event the holder's calculation was correct, or by the holder in the event the Company's calculation was correct, or equally by the Company and the holder in the event that neither the Company's or the holder's calculation was correct. The period of time in which the Company is required to effect conversions or redemptions under this Certificate of Designation shall be tolled with respect to the subject conversion or redemption pending resolution of any dispute by the Company made in good faith and in accordance with this Section 5(b)(iii).

(iv) Record Holder. The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of the Series A Preferred Stock shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

(v) Company's Failure to Timely Convert. If within five (5) business days of the Company's receipt of an executed copy of the Conversion Notice (so long as the applicable Preferred Stock Certificates and original Conversion Notice are received by the Company on or before such third business day) (the "Share Delivery Period") the Transfer Agent shall fail to issue and deliver to a holder the number of shares of Common Stock to which such holder is entitled upon such holder's conversion of the Series A Preferred Stock or to issue a new Preferred Stock Certificate representing the number of shares of Series A Preferred Stock to which such holder is entitled pursuant to Section 5(b)(ii) (a "Conversion Failure"), in addition to all other available remedies which such holder may pursue hereunder and under the Series A Convertible Preferred Stock and Warrant Purchase Agreement (the "Purchase Agreement") among the Company and the initial holders of the Series A Preferred Stock (including indemnification pursuant to Section 6 thereof), the Company shall pay additional damages to such holder on each business day after such fifth (5th) business day that such conversion is not timely effected in an amount equal 0.5% of the product of (A) the sum of the number of shares of Common Stock not issued to the holder on a timely basis pursuant to Section 5(b)(ii) and to which such holder is entitled and, in the event the Company has failed to deliver a Preferred Stock Certificate to the holder on a timely basis pursuant to Section 5(b)(ii), the number of shares of Common Stock issuable upon conversion of the shares of Series A Preferred Stock represented by such Preferred Stock Certificate, as of the last possible date which the Company could have issued such Preferred Stock Certificate to such holder without violating Section 5(b)(ii) and (B) the Closing Bid Price (as defined in Section 5(c)(iii) below) of the Common Stock on the last possible date which the Company could have issued such Common Stock and such Preferred Stock Certificate, as the case may be, to such holder without violating Section 5(b)(ii). If the Company fails to pay the additional damages set forth in this Section 5(b)(v) within five (5) business days of the date incurred, then such payment shall bear interest at the rate of 2.0% per month (pro rated for partial months) until such payments are made.

(c) Mandatory Conversion.

(i) One minute after this Second Amended and Restated Certificate is effective with the Nevada Secretary of State (the "Conversion Time") on the Plan Closing Date (defined below), each share of Series A Preferred Stock automatically and without any action on the part of the holder thereof, shall convert into a number of fully paid and nonassessable shares of Common Stock equal to the quotient of (i) the Liquidation Preference Amount of the shares of Series A Preferred Stock outstanding on the Plan Closing Date divided by (ii) the Conversion Price in effect at the Conversion Time on the Plan Closing Date. Any accrued but unpaid dividends on the Series A Preferred Stock outstanding at the Conversion Time on the Plan Closing Date will be issued by the Company at the Conversion Time on the Plan Closing Date in shares of Common Stock, with the number of shares of Common Stock to be issued equal to the quotient of (i) the accrued unpaid dividend divided by (ii) the Conversion Price in effect at the Conversion Time on the Plan Closing Date.

(ii) As used herein, "Plan Closing Date" shall be December 19, 2007.

(iii) The term "Closing Bid Price" shall mean, for any security as of any date, the last closing bid price of such security on the OTC Bulletin Board for such security as reported by Bloomberg, or, if no closing bid price is reported for such security by Bloomberg, the last closing trade price of such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Bid Price cannot be calculated for such security on such date on any of the foregoing bases, the Closing Bid Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of a majority of the outstanding shares of Series A Preferred Stock.

(iv) On the Plan Closing Date, the Corporation may cause the outstanding shares of Series A Preferred Stock to be converted automatically without any further action by the holders of such shares and regardless of whether the certificates representing such shares are surrendered to the Company or its Transfer Agent; provided, however, that the Company shall not be obligated to issue the shares of Common Stock issuable upon conversion of any shares of Series A Preferred Stock unless certificates evidencing such shares of Series A Preferred Stock are either delivered to the Company or the holder notifies the Company that such certificates have been lost, stolen, or destroyed, and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection therewith. Upon the occurrence of the automatic conversion of the Series A Preferred Stock pursuant to this Section 5, the holders of the Series A Preferred Stock shall surrender to the Company the certificates representing the Series A Preferred Stock that has been automatically converted, and the Company shall cause its Transfer Agent to deliver the shares of Common Stock issuable upon such conversion (in the same manner set forth in Section 5(b)(ii)) to the holder within three (3) business days of the holder's delivery of the applicable Preferred Stock Certificates.

(d) Conversion Price.

(i) The term "Conversion Price" shall mean \$0.40 per share for the holders of the Series A Preferred Stock on the Plan Closing Date, provided, however, that the Conversion Price for the Series A Preferred Stock held by Lawrence A. Siebert shall be \$0.48 per share on the Plan Closing Date.

(ii) Notwithstanding the foregoing to the contrary, if during any period (a "Black-out Period"), a holder of Series A Preferred Stock is unable to trade any Common Stock issued or issuable upon conversion of the Series A Preferred Stock immediately due to the postponement of filing or delay or suspension of effectiveness of a registration statement or because the Company has otherwise informed such holder of Series A Preferred Stock that an existing prospectus cannot be used at that time in the sale or transfer of such Common Stock (provided that such postponement, delay, suspension or fact that the prospectus cannot be used is not due to factors solely within the control of the holder of Series A Preferred Stock or due to the Company exercising its rights under Section 3(n) of the Registration Rights Agreement (as defined in the Purchase Agreement)), such holder of Series A Preferred Stock shall have the option but not the obligation on any Conversion Date occurring within ten (10) trading days following the expiration of the Black-out Period of using the Conversion Price applicable on such Conversion Date or any Conversion Price selected by such holder of Series A Preferred Stock that would have been applicable had such Conversion Date been at any earlier time during the Black-out Period or within the ten (10) trading days thereafter.

(e) Adjustments of Conversion Price.

(i) Adjustments for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Issuance Date, effect a stock split of the outstanding Common Stock, the Conversion Price shall be proportionately decreased. If the Company shall at any time or from time to time after the Issuance Date, combine the outstanding shares of Common Stock, the Conversion Price shall be proportionately increased. Any adjustments under this Section 5(e)(i) shall be effective at the close of business on the date the stock split or combination becomes effective.

(ii) Adjustments for Certain Dividends and Distributions. If the Company shall at any time or from time to time after the Issuance Date, make or issue or set a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in shares of Common Stock, then, and in each event, the Conversion Price shall be decreased as of the time of such issuance or, in the event such record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

(iii) Adjustment for Other Dividends and Distributions. If the Company shall at any time or from time to time after the Issuance Date, make or issue or set a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in securities of the Company other than shares of Common Stock, then, and in each event, an appropriate revision to the applicable Conversion Price shall be made and provision shall be made (by adjustments of the Conversion Price or otherwise) so that the holders of Series A Preferred Stock shall receive upon conversions thereof, in addition to the number of shares of Common Stock receivable thereon, the number of securities of the Company which they would have received had their Series A Preferred Stock been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the Conversion Date, retained such securities (together with any distributions payable thereon during such period), giving application to all adjustments called for during such period under this Section 5(e)(iii) with respect to the rights of the holders of the Series A Preferred Stock; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of Series A Preferred Stock simultaneously receive (i) a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series A Preferred Stock had been converted into Common Stock on the date of such event or (ii) a dividend or other distribution of shares of Series A Preferred Stock which are convertible, as of the date of such event, into such number of shares of Common Stock as is equal to the number of additional shares of Common Stock being issued with respect to each share of Common Stock in such dividend or distribution.

(iv) Adjustments for Reclassification, Exchange or Substitution. If the Common Stock issuable upon conversion of the Series A Preferred Stock at any time or from time to time after the Issuance Date shall be changed to the same or different number of shares of any class or classes of stock, whether by reclassification, exchange, substitution or otherwise (other than by way of a stock split or combination of shares or stock dividends provided for in Sections 5(e)(i), (ii) and (iii), or a reorganization, merger, consolidation, or sale of assets provided for in Section 5(e)(v)), then, and in each event, an appropriate revision to the Conversion Price shall be made and provisions shall be made (by adjustments of the Conversion Price or otherwise) so that the holder of each share of Series A Preferred Stock shall have the right thereafter to convert such share of Series A Preferred Stock into the kind and amount of shares of stock and other securities receivable upon reclassification, exchange, substitution or other change, by holders of the number of shares of Common Stock into which such share of Series A Preferred Stock might have been converted immediately prior to such reclassification, exchange, substitution or other change, all subject to further adjustment as provided herein.

(v) Adjustments for Reorganization, Merger, Consolidation or Sales of Assets. If at any time or from time to time after the Issuance Date there shall be a capital reorganization of the Company (other than by way of a stock split or combination of shares or stock dividends or distributions provided for in Section 5(e)(i), (ii) and (iii), or a reclassification, exchange or substitution of shares provided for in Section 5(e)(iv)), or a merger or consolidation of the Company with or into another corporation where the holders of outstanding voting securities prior to such merger or consolidation do not own over 50% of the outstanding voting securities of the merged or consolidated entity, immediately after such merger or consolidation, or the sale of all or substantially all of the Company's properties or assets to any other person (an "Organic Change"), then as a part of such Organic Change an appropriate revision to the Conversion Price shall be made if necessary so that the holder of each share of Series A Preferred Stock shall have the right thereafter to convert such share of Series A Preferred Stock into the kind and amount of shares of stock and other securities or property of the Company or any successor corporation resulting from Organic Change. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5(e)(v) with respect to the rights of the holders of the Series A Preferred Stock after the Organic Change to the end that the provisions of this Section 5(e)(v) (including any adjustment in the Conversion Price then in effect and the number of shares of stock or other securities deliverable upon conversion of the Series A Preferred Stock) shall be applied after that event in as nearly an equivalent manner as may be practicable.

(vi) Adjustments for Issuance of Additional Shares of Common Stock. In the event the Company, shall, at any time, from time to time, issue or sell any additional shares of Common Stock or any securities convertible or exercisable into, or exchangeable for, directly or indirectly, Common Stock (the "Additional Shares of Common Stock"), at a price per share less than the Conversion Price then in effect or without consideration, the Conversion Price then in effect shall be reduced to a price equal to the consideration per share paid for such Additional Shares of Common Stock.

(vii) Certain Issues Excepted. Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment to the Conversion Price upon (i) the Company's issuance of any Additional Shares of Common Stock (other than for cash) and warrants therefore in connection with a merger, acquisition or consolidation, (ii) the Company's issuance of Additional Shares of Common Stock pursuant to a bona fide firm underwritten public offering of the Company's securities, (iii) the Company's issuance of Additional Shares of Common Stock or warrants therefore in connection with strategic alliances or other partnering arrangements so long as such issuances are not for the purpose of raising capital, (iv) the Company's issuance of Common Stock or the issuance or grants of options to purchase Common Stock pursuant to the Company's stock option plans and employee stock purchase plans as they now exist, (v) any issuances of warrants issued pursuant to the Purchase Agreement, (vi) securities issued pursuant to the conversion or exercise of convertible or exercisable securities issued or outstanding on or prior to the date hereof or issued pursuant to the Purchase Agreement, (vii) any warrants issued to the placement agent for the transactions contemplated by the Purchase Agreement, and (viii) the payment of any dividends on the Series A Preferred Stock.

(f) No Impairment. The Company shall not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith, assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock against impairment. In the event a holder shall elect to convert any shares of Series A Preferred Stock as provided herein, the Company cannot refuse conversion based on any claim that such holder or any one associated or affiliated with such holder has been engaged in any violation of law, unless, an injunction from a court, on notice, restraining and/or adjoining conversion of all or of said shares of Series A Preferred Stock shall have been issued and the Company posts a surety bond for the benefit of such holder in an amount equal to 100% of the Liquidation Preference Amount of the Series A Preferred Stock such holder has elected to convert, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to such holder in the event it obtains judgment.

(g) Certificates as to Adjustments. Upon occurrence of each adjustment or readjustment of the Conversion Price or number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock pursuant to this Section 5, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of such Series A Preferred Stock a certificate setting forth such adjustment and readjustment, showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon written request of the holder of such affected Series A Preferred Stock, at any time, furnish or cause to be furnished to such holder a like certificate setting forth such adjustments and readjustments, the Conversion Price in effect at the time, and the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon the conversion of a share of such Series A Preferred Stock. Notwithstanding the foregoing, the Company shall not be obligated to deliver a certificate unless such certificate would reflect an increase or decrease of at least one percent of such adjusted amount.

(h) Issue Taxes. The Company shall pay any and all issue and other taxes, excluding federal, state or local income taxes, that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of Series A Preferred Stock pursuant thereto; provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(i) Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile or three (3) business days following being mailed by certified or registered mail, postage prepaid, return-receipt requested, addressed to the holder of record at its address appearing on the books of the Company. The Company will give written notice to each holder of Series A Preferred Stock at least twenty (20) days prior to the date on which the Company closes its books or sets a record date (I) with respect to any dividend or distribution upon the Common Stock, (II) with respect to any pro rata subscription offer to holders of Common Stock or (III) for determining rights to vote with respect to any Organic Change, dissolution, liquidation or winding-up and in no event shall such notice be provided to such holder prior to such information being made known to the public. The Company will also give written notice to each holder of Series A Preferred Stock at least twenty (20) days prior to the date on which any Organic Change, dissolution, liquidation or winding-up will take place; provided, however, no such notice shall be required to be provided to such holder prior to such information being made known to the public.

(j) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall pay cash equal to the product of such fraction multiplied by the average of the Closing Bid Prices of the Common Stock for the five (5) consecutive trading immediately preceding the Voluntary Conversion Date or any Mandatory Conversion Date, as applicable.

(k) Reservation of Common Stock. The Company shall, so long as any shares of Series A Preferred Stock are outstanding, reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of the Series A Preferred Stock, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all of the Series A Preferred Stock then outstanding; provided that the number of shares of Common Stock so reserved shall at no time be less than the number of shares of Common Stock for which the shares of Series A Preferred Stock are at any time convertible. The initial number of shares of Common Stock reserved for conversions of the Series A Preferred Stock and each increase in the number of shares so reserved shall be allocated pro rata among the holders of the Series A Preferred Stock based on the number of shares of Series A Preferred Stock held by each holder of record at the time of issuance of the Series A Preferred Stock or increase in the number of reserved shares, as the case may be. In the event a holder shall sell or otherwise transfer any of such holder's shares of Series A Preferred Stock, each transferee shall be allocated a pro rata portion of the number of reserved shares of Common Stock reserved for such transferor. Any shares of Common Stock reserved and which remain allocated to any person or entity which does not hold any shares of Series A Preferred Stock shall be allocated to the remaining holders of Series A Preferred Stock, pro rata based on the number of shares of Series A Preferred Stock then held by such holder.

(l) Regulatory Compliance. If any shares of Common Stock to be reserved for the purpose of conversion of Series A Preferred Stock require registration or listing with or approval of any governmental authority, stock exchange or other regulatory body under any federal or state law or regulation or otherwise before such shares may be validly issued or delivered upon conversion, the Company shall, at its sole cost and expense, in good faith and as expeditiously as possible, endeavor to secure such registration, listing or approval, as the case may be.

6. No Preemptive Rights. Except as provided in Section 5 hereof and in the Purchase Agreement, no holder of the Series A Preferred Stock shall be entitled to rights to subscribe for, purchase or receive any part of any new or additional shares of any class, whether now or hereinafter authorized, or of bonds or debentures, or other evidences of indebtedness convertible into or exchangeable for shares of any class, but all such new or additional shares of any class, or any bond, debentures or other evidences of indebtedness convertible into or exchangeable for shares, may be issued and disposed of by the Board of Directors on such terms and for such consideration (to the extent permitted by law), and to such person or persons as the Board of Directors in their absolute discretion may deem advisable.

7. Conversion Restrictions.

(a) Notwithstanding anything to the contrary set forth in Section 5 of this Certificate of Designation, at no time may a holder of shares of Series A Preferred Stock convert shares of the Series A Preferred Stock if the number of shares of Common Stock to be issued pursuant to such conversion would exceed, when aggregated with all other shares of Common Stock owned by such holder at such time, the number of shares of Common Stock which would result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) in excess of 4.999% of the then issued and outstanding shares of Common Stock outstanding at such time; provided, however, that upon a holder of Series A Preferred Stock providing the Company with sixty-one (61) days notice (pursuant to Section 5(i) hereof) (the "Waiver Notice") that such holder would like to waive Section 7(a) of this Certificate of Designation with regard to any or all shares of Common Stock issuable upon conversion of Series A Preferred Stock, this Section 7(a) shall be of no force or effect with regard to those shares of Series A Preferred Stock referenced in the Waiver Notice; provided, further, that this provision shall be of no further force or effect with respect to Common Stock issuable upon conversion of the Series A Preferred Stock in connection with the Plan.

(b) Notwithstanding anything to the contrary set forth in Section 5 of this Certificate of Designation, at no time may a holder of shares of Series A Preferred Stock convert shares of the Series A Preferred Stock if the number of shares of Common Stock to be issued pursuant to such conversion, when aggregated with all other shares of Common Stock owned by such holder at such time, would result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) in excess of 9.999% of the then issued and outstanding shares of Common Stock outstanding at such time; provided, however, that upon a holder of Series A Preferred Stock providing the Company with a Waiver Notice that such holder would like to waive Section 7(b) of this Certificate of Designation with regard to any or all shares of Common Stock issuable upon conversion of Series A Preferred Stock, this Section 7(b) shall be of no force or effect with regard to those shares of Series A Preferred Stock referenced in the Waiver Notice; provided, further, that this provision shall be of no further force or effect with respect to Common Stock issuable upon conversion of the Series A Preferred Stock in connection with the Plan.

(c) For purposes of this Certificate of Designation, the term “Plan” shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company’s then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company’s outstanding warrants or options; (iii) offer the holders of the Company’s warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities. The term “Final Plan Date” shall mean the date that is six months and twelve days after the Plan Closing Date.

8. Redemption.

(a) Redemption Option Upon Major Transaction. In addition to all other rights of the holders of Series A Preferred Stock contained herein, simultaneous with the occurrence of a Major Transaction (as defined below), each holder of Series A Preferred Stock shall have the right, at such holder’s option, to require the Company to redeem all or a portion of such holder’s shares of Series A Preferred Stock at a price per share of Series A Preferred Stock equal to 100% of the Liquidation Preference Amount, plus any accrued but unpaid dividends and liquidated damages (the “Major Transaction Redemption Price”); provided that the Company shall have the sole option to pay the Major Transaction Redemption Price in cash or shares of Common Stock. If the Company elects to pay the Major Transaction Redemption Price in shares of Common Stock, the price per share shall be based upon the lesser of (i) the Conversion Price then in effect on the day preceding the date of delivery of the Notice of Redemption at Option of Buyer Upon Major Transaction (as hereafter defined) or (ii) the Closing Bid Price on the day preceding the date of delivery of the Notice of Redemption at Option of Buyer Upon Major Transaction. The holder of such shares of Common Stock shall have demand registration rights with respect to such shares.

(b) Redemption Option Upon Triggering Event. In addition to all other rights of the holders of Series A Preferred Stock contained herein, after a Triggering Event (as defined below), each holder of Series A Preferred Stock shall have the right, at such holder’s option, to require the Company to redeem all or a portion of such holder’s shares of Series A Preferred Stock at a price per share of Series A Preferred Stock equal to 120% of the Liquidation Preference Amount, plus any accrued but unpaid dividends and liquidated damages (the “Triggering Event Redemption Price” and, collectively with the “Major Transaction Redemption Price,” the “Redemption Price”); provided that with respect to the Triggering Events described in clauses (i), (ii), (iii) and (v) of Section 8(d), the Company shall have the sole option to pay the Triggering Event Redemption Price in cash or shares of Common Stock; and provided, further, that with respect to the Triggering Event described in clause (iv) of Section 8(d), the Company shall pay the Triggering Event Redemption Price in cash. If the Company elects to pay the Triggering Event Redemption Price in shares of Common Stock in accordance with this Section 8(b), the price per share shall be based upon the lesser of (i) the Conversion Price then in effect on the day preceding the date of delivery of the Notice of Redemption at Option of Buyer Upon Triggering Event or (ii) the Closing Bid Price on the day preceding the date of delivery of the Notice of Redemption at Option of Buyer Upon Triggering Event. The holder of such shares of Common Stock shall have demand registration rights with respect to such shares.

(c) “Major Transaction”. A “Major Transaction” shall be deemed to have occurred at such time as any of the following events:

(i) the consolidation, merger or other business combination of the Company with or into another Person (other than (A) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company or (B) a consolidation, merger or other business combination in which holders of the Company’s voting power immediately prior to the transaction continue after the transaction to hold, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities).

(ii) the sale or transfer of more than 50% of the Company’s assets other than inventory in the ordinary course of business in one or a related series of transactions; or

(iii) closing of a purchase, tender or exchange offer made to the holders of more than 50% of the outstanding shares of Common Stock in which more than 50% of the outstanding shares of Common Stock were tendered and accepted.

(d) “Triggering Event”. A “Triggering Event” shall be deemed to have occurred at such time as any of the following events:

(i) at any time within two (2) years after the Issuance Date, the resale of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock is covered by the Registration Statement which has been declared effective, (i) the effectiveness of the Registration Statement lapses for any reason (including, without limitation, the issuance of a stop order) or (ii) the Registration Statement is unavailable to the holder of the Series A Preferred Stock for sale of the shares of Common Stock, and such lapse or unavailability continues for a period of twenty (20) consecutive trading days, and the shares of Common Stock into which such holder’s Series A Preferred Stock can be converted cannot be sold in the public securities market pursuant to Rule 144(k) (“Rule 144(k)”) under the Securities Act of 1933, as amended, provided that the cause of such lapse or unavailability is not due to factors solely within the control of such holder of Series A Preferred Stock.

(ii) the suspension from listing, without subsequent listing on any one of, or the failure of the Common Stock to be listed on at least one of the OTC Bulletin Board, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, Inc. or the American Stock Exchange, Inc., for a period of seven (7) consecutive trading days;

(iii) the Company’s notice to any holder of Series A Preferred Stock, including by way of public announcement, at any time, of its inability to comply (including for any of the reasons described in Section 9) or its intention not to comply with proper requests for conversion of any Series A Preferred Stock into shares of Common Stock; or

(iv) the Company’s failure to comply with a Conversion Notice tendered in accordance with the provisions of this Certificate of Designation within ten (10) business days after the receipt by the Company of the Conversion Notice and the Preferred Stock Certificates; or

(v) the Company breaches any representation, warranty, covenant or other term or condition of the Purchase Agreement, this Certificate of Designation or any other agreement, document, certificate or other instrument delivered in connection with the transactions contemplated thereby or hereby, except to the extent that such breach would not have a Material Adverse Effect (as defined in the Purchase Agreement) and except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least ten (10) days.

(e) Mechanics of Redemption at Option of Buyer Upon Major Transaction. No sooner than fifteen (15) days nor later than ten (10) days prior to the consummation of a Major Transaction, but not prior to the public announcement of such Major Transaction, the Company shall deliver written notice thereof via facsimile and overnight courier (“Notice of Major Transaction”) to each holder of Series A Preferred Stock. At any time after receipt of a Notice of Major Transaction (or, in the event a Notice of Major Transaction is not delivered at least ten (10) days prior to a Major Transaction, at any time within ten (10) days prior to a Major Transaction), any holder of Series A Preferred Stock then outstanding may require the Company to redeem, effective immediately prior to the consummation of such Major Transaction, all of the holder’s Series A Preferred Stock then outstanding by delivering written notice thereof via facsimile and overnight courier (“Notice of Redemption at Option of Buyer Upon Major Transaction”) to the Company, which Notice of Redemption at Option of Buyer Upon Major Transaction shall indicate (i) the number of shares of Series A Preferred Stock that such holder is electing to redeem and (ii) the applicable Major Transaction Redemption Price, as calculated pursuant to Section 8(a) above.

(f) Mechanics of Redemption at Option of Buyer Upon Triggering Event. Within two (2) days after the occurrence of a Triggering Event, the Company shall deliver written notice thereof via facsimile and overnight courier (“Notice of Triggering Event”) to each holder of Series A Preferred Stock. At any time after the earlier of a holder’s receipt of a Notice of Triggering Event and such holder becoming aware of a Triggering Event, any holder of Series A Preferred Stock then outstanding may require the Company to redeem all of the Series A Preferred Stock by delivering written notice thereof via facsimile and overnight courier (“Notice of Redemption at Option of Buyer Upon Triggering Event”) to the Company, which Notice of Redemption at Option of Buyer Upon Triggering Event shall indicate (i) the number of shares of Series A Preferred Stock that such holder is electing to redeem and (ii) the applicable Triggering Event Redemption Price, as calculated pursuant to Section 8(b) above.

(g) Payment of Redemption Price. Upon the Company's receipt of a Notice(s) of Redemption at Option of Buyer Upon Triggering Event or a Notice(s) of Redemption at Option of Buyer Upon Major Transaction from any holder of Series A Preferred Stock, the Company shall immediately notify each holder of Series A Preferred Stock by facsimile of the Company's receipt of such Notice(s) of Redemption at Option of Buyer Upon Triggering Event or Notice(s) of Redemption at Option of Buyer Upon Major Transaction and each holder which has sent such a notice shall promptly submit to the Company such holder's Preferred Stock Certificates which such holder has elected to have redeemed. Other than with respect to the Triggering Event described in clause (iv) of Section 8(d), the Company shall have the sole option to pay the Redemption Price in cash or shares of Common Stock in accordance with Sections 8(a) and (b) and Section 9 of this Certificate of Designation. The Company shall deliver the applicable Major Transaction Redemption Price immediately prior to the consummation of the Major Transaction; provided that a holder's Preferred Stock Certificates shall have been so delivered to the Company; provided further that if the Company is unable to redeem all of the Series A Preferred Stock to be redeemed, the Company shall redeem an amount from each holder of Series A Preferred Stock being redeemed equal to such holder's pro-rata amount (based on the number of shares of Series A Preferred Stock held by such holder relative to the number of shares of Series A Preferred Stock outstanding) of all Series A Preferred Stock being redeemed. If the Company shall fail to redeem all of the Series A Preferred Stock submitted for redemption (other than pursuant to a dispute as to the arithmetic calculation of the Redemption Price), in addition to any remedy such holder of Series A Preferred Stock may have under this Certificate of Designation and the Purchase Agreement, the applicable Redemption Price payable in respect of such unredeemed Series A Preferred Stock shall bear interest at the rate of .5% per month (prorated for partial months) until paid in full. Until the Company pays such unpaid applicable Redemption Price in full to a holder of shares of Series A Preferred Stock submitted for redemption, such holder shall have the option (the "Void Optional Redemption Option") to, in lieu of redemption, require the Company to promptly return to such holder(s) all of the shares of Series A Preferred Stock that were submitted for redemption by such holder(s) under this Section 8 and for which the applicable Redemption Price has not been paid, by sending written notice thereof to the Company via facsimile (the "Void Optional Redemption Notice"). Upon the Company's receipt of such Void Optional Redemption Notice(s) and prior to payment of the full applicable Redemption Price to such holder, (i) the Notice(s) of Redemption at Option of Buyer Upon Major Transaction shall be null and void with respect to those shares of Series A Preferred Stock submitted for redemption and for which the applicable Redemption Price has not been paid and (ii) the Company shall immediately return any Series A Preferred Stock submitted to the Company by each holder for redemption under this Section 8(d) and for which the applicable Redemption Price has not been paid. A holder's delivery of a Void Optional Redemption Notice and exercise of its rights following such notice shall not effect the Company's obligations to make any payments which have accrued prior to the date of such notice other than interest payments. Payments provided for in this Section 8 shall have priority to payments to other stockholders in connection with a Major Transaction.

(h) Demand Registration Rights. If the Redemption Price upon the occurrence of a Major Transaction or a Triggering Event is paid in shares of Common Stock and such shares have not been previously registered on a registration statement under the Securities Act, a holder of Series A Preferred Stock may make a written request for registration under the Securities Act pursuant to this Section 8(h) of all of its shares of Common Stock issued upon such Major Transaction or Triggering Event. The Company shall use its reasonable best efforts to cause to be filed and declared effective as soon as reasonably practicable (but in no event later than the ninetieth (90th) day after such holder's request is made) a registration statement under the Securities Act, providing for the sale of all of the shares of Common Stock issued upon such Major Transaction or Triggering Event by such holder. The Company agrees to use its reasonable best efforts to keep any such registration statement continuously effective for resale of the Common Stock for so long as such holder shall request, but in no event later than the date that the shares of Common Stock issued upon such Major Transaction or Triggering Event may be offered for resale to the public pursuant to Rule 144(k).

9. Inability to Fully Convert.

(a) Holder's Option if Company Cannot Fully Convert. If, upon the Company's receipt of a Conversion Notice or on a Mandatory Conversion Date, the Company cannot issue shares of Common Stock registered for resale under the Registration Statement for any reason, including, without limitation, because the Company (w) does not have a sufficient number of shares of Common Stock authorized and available, (x) is otherwise prohibited by applicable law or by the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Company or its securities from issuing all of the Common Stock which is to be issued to a holder of Series A Preferred Stock pursuant to a Conversion Notice or (y) fails to have a sufficient number of shares of Common Stock registered for resale under the Registration Statement, then the Company shall issue as many shares of Common Stock as it is able to issue in accordance with such holder's Conversion Notice and pursuant to Section 5(b)(ii) above and, with respect to the unconverted Series A Preferred Stock, the holder, solely at such holder's option, can elect, within five (5) business days after receipt of notice from the Company thereof to:

(i) require the Company to redeem from such holder those Series A Preferred Stock for which the Company is unable to issue Common Stock in accordance with such holder's Conversion Notice ("Mandatory Redemption") at a price per share equal to the Major Transaction Redemption Price as of such Conversion Date (the "Mandatory Redemption Price"); provided that the Company shall have the sole option to pay the Mandatory Redemption Price in cash or shares of Common Stock;

(ii) if the Company's inability to fully convert Series A Preferred Stock is pursuant to Section 9(a)(y) above, require the Company to issue restricted shares of Common Stock in accordance with such holder's Conversion Notice and pursuant to Section 5(b)(ii) above;

(iii) void its Conversion Notice and retain or have returned, as the case may be, the shares of Series A Preferred Stock that were to be converted pursuant to such holder's Conversion Notice (provided that a holder's voiding its Conversion Notice shall not effect the Company's obligations to make any payments which have accrued prior to the date of such notice).

(b) Mechanics of Fulfilling Holder's Election. The Company shall immediately send via facsimile to a holder of Series A Preferred Stock, upon receipt of a facsimile copy of a Conversion Notice from such holder which cannot be fully satisfied as described in Section 9(a) above, a notice of the Company's inability to fully satisfy such holder's Conversion Notice (the "Inability to Fully Convert Notice"). Such Inability to Fully Convert Notice shall indicate (i) the reason why the Company is unable to fully satisfy such holder's Conversion Notice, (ii) the number of Series A Preferred Stock which cannot be converted and (iii) the applicable Mandatory Redemption Price. Such holder shall notify the Company of its election pursuant to Section 9(a) above by delivering written notice via facsimile to the Company ("Notice in Response to Inability to Convert").

(c) Payment of Redemption Price. If such holder shall elect to have its shares redeemed pursuant to Section 9(a)(i) above, the Company shall pay the Mandatory Redemption Price to such holder within thirty (30) days of the Company's receipt of the holder's Notice in Response to Inability to Convert, provided that prior to the Company's receipt of the holder's Notice in Response to Inability to Convert the Company has not delivered a notice to such holder stating, to the satisfaction of the holder, that the event or condition resulting in the Mandatory Redemption has been cured and all Conversion Shares issuable to such holder can and will be delivered to the holder in accordance with the terms of Section 8(g). If the Company shall fail to pay the applicable Mandatory Redemption Price to such holder on a timely basis as described in this Section 9(c) (other than pursuant to a dispute as to the determination of the arithmetic calculation of the Redemption Price), in addition to any remedy such holder of Series A Preferred Stock may have under this Certificate of Designation and the Purchase Agreement, such unpaid amount shall bear interest at the rate of 1.0% per month (prorated for partial months) until paid in full. Until the full Mandatory Redemption Price is paid in full to such holder, such holder may (i) void the Mandatory Redemption with respect to those Series A Preferred Stock for which the full Mandatory Redemption Price has not been paid and (ii) receive back such Series A Preferred Stock.

(d) Pro-rata Conversion and Redemption. In the event the Company receives a Conversion Notice from more than one holder of Series A Preferred Stock on the same day and the Company can convert and redeem some, but not all, of the Series A Preferred Stock pursuant to this Section 9, the Company shall convert and redeem from each holder of Series A Preferred Stock electing to have Series A Preferred Stock converted and redeemed at such time an amount equal to such holder's pro-rata amount (based on the number shares of Series A Preferred Stock held by such holder relative to the number shares of Series A Preferred Stock outstanding) of all shares of Series A Preferred Stock being converted and redeemed at such time.

10. Vote to Change the Terms of or Issue Preferred Stock. The affirmative vote at a meeting duly called for such purpose or the written consent without a meeting, of the holders of three-fourths (3/4) of the then outstanding shares of Series A Preferred Stock, shall be required (a) for any change to this Certificate of Designation or the Articles of Incorporation which would amend, alter, change or repeal any of the powers, designations, preferences and rights of the Series A Preferred Stock or (b) for the issuance of shares of Series A Preferred Stock other than pursuant to the Purchase Agreement except for shares of Series A Preferred Stock to be issued to certain holders of promissory notes issued by the Company in satisfaction of outstanding indebtedness in an amount not to exceed \$750,000 and/or as dividends paid in shares of Series A Preferred Stock.

11. Lost or Stolen Certificates. Upon receipt by the Company of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Preferred Stock Certificates representing the shares of Series A Preferred Stock, and, in the case of loss, theft or destruction, of any indemnification undertaking by the holder to the Company and, in the case of mutilation, upon surrender and cancellation of the Preferred Stock Certificate(s), the Company shall execute and deliver new preferred stock certificate(s) of like tenor and date; provided, however, the Company shall not be obligated to re-issue Preferred Stock Certificates if the holder contemporaneously requests the Company to convert such shares of Series A Preferred Stock into Common Stock.

12. Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Certificate of Designation shall be cumulative and in addition to all other remedies available under this Certificate of Designation, at law or in equity (including a decree of specific performance and/or other injunctive relief), no remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit a holder's right to pursue actual damages for any failure by the Company to comply with the terms of this Certificate of Designation. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the holder thereof and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the holders of the Series A Preferred Stock and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holders of the Series A Preferred Stock shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

13. Specific Shall Not Limit General; Construction. No specific provision contained in this Certificate of Designation shall limit or modify any more general provision contained herein. This Certificate of Designation shall be deemed to be jointly drafted by the Company and all initial purchasers of the Series A Preferred Stock and shall not be construed against any person as the drafter hereof.

14. Failure or Indulgence Not Waiver. No failure or delay on the part of a holder of Series A Preferred Stock in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

IN WITNESS WHEREOF, the undersigned has executed and subscribed this Second Amended and Restated Certificate and does affirm the foregoing as true this 19th day of December, 2007.

CHEMBIO DIAGNOSTICS, INC.

By:

Name: Richard J. Larkin

Title: Chief Financial Officer

EXHIBIT I

CHEMBIO DIAGNOSTICS, INC.

CONVERSION NOTICE

Reference is made to the Second Amended and Restated Certificate of Designation of the Relative Rights and Preferences of the Series A Preferred Stock of Chembio Diagnostics, Inc. (the “Certificate of Designation”). In accordance with and pursuant to the Certificate of Designation, the undersigned hereby elects to convert the number of shares of Series A Preferred Stock, par value \$.01 per share (the “Preferred Shares”), of Chembio Diagnostics, Inc., a Nevada corporation (the “Company”), indicated below into shares of Common Stock, par value \$.01 per share (the “Common Stock”), of the Company, by tendering the stock certificate(s) representing the share(s) of Preferred Shares specified below as of the date specified below.

Date of Conversion:

Number of Preferred Shares to be converted:

Stock certificate no(s). of Preferred Shares to be converted:

The Common Stock have been sold pursuant to the Registration Statement (as defined in the Purchase Agreement): YES ____ NO ____

Please confirm the following information:

Conversion Price:

Number of shares of Common Stock to be issued:

Number of shares of Common Stock beneficially owned or deemed beneficially owned by the Holder on the Date of Conversion: _____

Please issue the Common Stock into which the Preferred Shares are being converted and, if applicable, any check drawn on an account of the Company in the following name and to the following address:

Issue to:

Facsimile Number:

Authorization:

By:

Title:

Dated:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL TO THE HOLDER OF THE SECURITIES (UNLESS THE ISSUER IN ITS SOLE DISCRETION DETERMINES TO USE ITS OWN COUNSEL), WITH ANY SUCH COUNSEL TO THE HOLDER AND ANY SUCH OPINION OF SUCH COUNSEL TO BE REASONABLY ACCEPTABLE TO THE ISSUER, THAT REGISTRATION OF SUCH NOTE UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

WARRANT TO PURCHASE
SHARES OF COMMON STOCK
OF
CHEMBIO DIAGNOSTICS, INC.

Expires May 5, 2009

No.: _____

Original Date of Issuance: May 5, 2004

Number of Shares: _____

Reissuance Date: December 19, 2007

FOR VALUE RECEIVED, subject to the provisions hereinafter set forth, the undersigned, Chembio Diagnostics, Inc., a Nevada corporation (together with its successors and assigns, the "Issuer"), hereby certifies that _____ or its registered assigns is entitled to subscribe for and purchase, during the Term (as hereinafter defined), up to _____ (_____) shares (subject to adjustment as hereinafter provided) of the duly authorized, validly issued, fully paid and non-assessable Common Stock of the Issuer, at an exercise price per share equal to the Warrant Price then in effect, subject, however, to the provisions and upon the terms and conditions hereinafter set forth. Capitalized terms used in this Warrant and not otherwise defined herein shall have the respective meanings specified in Section 9 hereof.

1. Term. The term of this Warrant shall commence on May 5, 2004 and shall expire at 5:00 p.m., Eastern Time, on May 5, 2009 (such period being the "Term").

2. Method of Exercise Payment; Issuance of New Warrant; Transfer and Exchange.

(a) Time of Exercise. The purchase rights represented by this Warrant may be exercised in whole or in part during the Term commencing on the effective date of a registration statement under the Securities Act providing for the resale of the Warrant Stock and the shares of Common Stock issuable upon conversion of the Issuer's Series A Convertible Preferred Stock issued pursuant to the Purchase Agreement and expiring on May 5, 2009.

(b) Method of Exercise.

(i) The Holder hereof may exercise this Warrant, in whole or in part (A) by the surrender of this Warrant (with the exercise form attached hereto duly executed) at the principal office of the Issuer, and by the payment to the Issuer of an amount of consideration therefor equal to the Warrant Price in effect on the date of such exercise multiplied by the number of shares of Warrant Stock with respect to which this Warrant is then being exercised, payable by certified or official bank check or by wire transfer to an account designated by the Issuer; or (B) by notifying the Company that this Warrant is being exercised pursuant to a Cashless Exercise (as defined in Section 2(b)(ii) below).

(ii) Cashless Exercise At the option of the Holder, this Warrant may be exercised by means of a "cashless exercise" (a "Cashless Exercise") in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP for the ten-Trading Day period that ends on the first Trading Day immediately preceding the date of such election;

(B) = the applicable Exercise Price of this Warrant in effect on the date of exercise, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(iii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated on the Plan Closing Date received from a Holder who exercises its warrants on cashless basis at \$0.45 per share before 10:00p.m. ET on the Plan Closing Date, the value of (A) in the equation set forth in Section 2(b)(ii) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(v) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated between and inclusive of the Plan Closing Date and the Final Plan Date received from a Holder who exercises at least 10% of all of such Holder's warrants and options for cash before 10:00p.m. ET on the Plan Closing Date the value of (A) in the equation set forth in Section 2(b)(ii) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form. Any Exercise Form dated on the Final Plan Date must be received by the Company within five Trading Days of the Final Plan Date to be effective.

(vi) Notwithstanding anything herein to the contrary, a Holder who does not exercise (i) at least 10% of all of such Holder's warrants and options issued by the Company for cash at an exercise price of \$0.40 per share before 10:00p.m. ET on the Plan Closing Date, or (ii) its warrants

on cashless basis at \$0.45 per share by 10:00p.m. ET on the Plan Closing Date shall not be permitted to exercise its Warrants on a cashless basis pursuant to Section 2(b)(ii) above until April 1, 2008.

(c) Issuance of Stock Certificates. In the event of any exercise of the rights represented by this Warrant in accordance with and subject to the terms and conditions hereof, (i) certificates for the shares of Warrant Stock so purchased shall be dated the date of such exercise and delivered to the Holder hereof within a reasonable time, not exceeding three (3) Trading Days after such exercise or, at the request of the Holder (provided that a registration statement under the Securities Act providing for the resale of the Warrant Stock is then in effect), issued and delivered to the Depository Trust Company (“DTC”) account on the Holder’s behalf via the Deposit Withdrawal Agent Commission System (“DWAC”) within a reasonable time, not exceeding three (3) Trading Days after such exercise, and the Holder hereof shall be deemed for all purposes to be the holder of the shares of Warrant Stock so purchased as of the date of such exercise and (ii) unless this Warrant has expired, a new Warrant representing the number of shares of Warrant Stock, if any, with respect to which this Warrant shall not then have been exercised (less any amount thereof which shall have been canceled in payment or partial payment of the Warrant Price as hereinabove provided) shall also be issued to the Holder hereof at the Issuer’s expense within such time.

(d) Transferability of Warrant. Subject to Section 2(f) and Section 2(g), this Warrant may be transferred by a Holder without the consent of the Issuer. If transferred pursuant to this paragraph and subject to the provisions of subsection (f) of this Section 2, this Warrant may be transferred on the books of the Issuer by the Holder hereof in person or by duly authorized attorney, upon surrender of this Warrant at the principal office of the Issuer, properly endorsed (by the Holder executing an assignment in the form attached hereto) and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. This Warrant is exchangeable at the principal office of the Issuer for Warrants for the purchase of the same aggregate number of shares of Warrant Stock, each new Warrant to represent the right to purchase such number of shares of Warrant Stock as the Holder hereof shall designate at the time of such exchange. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant except as to the number of shares of Warrant Stock issuable pursuant thereto.

(e) Continuing Rights of Holder. The Issuer will, at the time of or at any time after each exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing the extent, if any, of its continuing obligation to afford to such Holder all rights to which such Holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided that if any such Holder shall fail to make any such request, the failure shall not affect the continuing obligation of the Issuer to afford such rights to such Holder.

(f) Compliance with Securities Laws.

(i) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant or the shares of Warrant Stock to be issued upon exercise hereof are being acquired solely for the Holder’s own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Warrant Stock to be issued upon exercise hereof except pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

(ii) Except as provided in paragraph (iii) below, this Warrant and all certificates representing shares of Warrant Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL TO THE HOLDER OF THE SECURITIES (UNLESS THE ISSUER IN ITS SOLE DISCRETION DETERMINES TO USE ITS OWN COUNSEL), WITH ANY SUCH COUNSEL TO THE HOLDER AND ANY SUCH OPINION OF SUCH COUNSEL TO BE REASONABLY ACCEPTABLE TO THE ISSUER, THAT REGISTRATION OF SUCH NOTE UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

(iii) The Issuer agrees to reissue certificates representing any of the Warrant Stock, without the legend set forth above if at such time, prior to making any transfer of any such securities, the Holder shall give written notice to the Issuer describing the manner and terms of such transfer and removal as the Issuer may reasonably request. Such proposed transfer and removal will not be effected until: (a) either (i) the Issuer has received an opinion of counsel reasonably satisfactory to the Issuer, to the effect that the registration of such securities under the Securities Act is not required in connection with such proposed transfer, (ii) a registration statement under the Securities Act covering such proposed disposition has been filed by the Issuer with the Securities and Exchange Commission and has become effective under the Securities Act, (iii) the Issuer has received other evidence reasonably satisfactory to the Issuer that such registration and qualification under the Securities Act and state securities laws are not required, or (iv) the Holder provides the Issuer with reasonable assurances that such security can be sold pursuant to Rule 144 under the Securities Act; and (b) either (i) the Issuer has received an opinion of counsel reasonably satisfactory to the Issuer, to the effect that registration or qualification under the securities or “blue sky” laws of any state is not required in connection with such proposed disposition, or (ii) compliance with applicable state securities or “blue sky” laws has been effected or a valid exemption exists with respect thereto. The Issuer will respond to any such notice from a holder within five (5) business days. In the case of any proposed transfer under this Section 2(f), the Issuer will use reasonable efforts to comply with any such applicable state securities or “blue sky” laws, but shall in no event be required, (x) to qualify to do business in any state where it is not then qualified, (y) to take any action that would subject it to tax or to the general service of process in any state where it is not then subject, or (z) to comply with state securities or “blue sky” laws of any state for which registration by coordination is unavailable to the Issuer. The restrictions on transfer contained in this Section 2(f) shall be in addition to, and not by way of limitation of, any other restrictions on transfer contained in any other section of this Warrant. Whenever a certificate representing the Warrant Stock is required to be issued to a the Holder without a legend, in lieu of delivering physical certificates representing the Warrant Stock, provided the Issuer’s transfer agent is participating in the DTC Fast Automated Securities Transfer program, the Issuer shall use its reasonable best efforts to cause its transfer agent to electronically transmit the Warrant Stock to the Holder by crediting the account of the Holder’s Prime Broker with DTC through its DWAC system (to the extent not inconsistent with any provisions of this Warrant or the Purchase Agreement).

(g) In no event may the Holder exercise this Warrant in whole or in part unless the Holder is an “accredited investor” as defined in Regulation D under the Securities Act.

3. Stock Fully Paid; Reservation and Listing of Shares; Covenants.

(a) Stock Fully Paid. The Issuer represents, warrants, covenants and agrees that all shares of Warrant Stock which may be issued upon the exercise of this Warrant or otherwise hereunder will, when issued in accordance with the terms of this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges created by or through the Issuer. The Issuer further covenants and agrees that during

the period within which this Warrant may be exercised, the Issuer will at all times have authorized and reserved for the purpose of the issue upon exercise of this Warrant a sufficient number of shares of Common Stock to provide for the exercise of this Warrant.

(b) Reservation. If any shares of Common Stock required to be reserved for issuance upon exercise of this Warrant or as otherwise provided hereunder require registration or qualification with any governmental authority under any federal or state law before such shares may be so issued, the Issuer will in good faith use its reasonable best efforts as expeditiously as possible at its expense to cause such shares to be duly registered or qualified. If the Issuer shall list any shares of Common Stock on any securities exchange or market it will, at its expense, list thereon, maintain and increase when necessary such listing, of, all shares of Warrant Stock from time to time issued upon exercise of this Warrant or as otherwise provided hereunder (provided that such Warrant Stock has been registered pursuant to a registration statement under the Securities Act then in effect), and, to the extent permissible under the applicable securities exchange rules, all unissued shares of Warrant Stock which are at any time issuable hereunder, so long as any shares of Common Stock shall be so listed. The Issuer will also so list on each securities exchange or market, and will maintain such listing of, any other securities which the Holder of this Warrant shall be entitled to receive upon the exercise of this Warrant if at the time any securities of the same class shall be listed on such securities exchange or market by the Issuer.

(c) Covenants. The Issuer shall not by any action including, without limitation, amending the Articles of Incorporation or the by-laws of the Issuer, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of the Holder hereof against dilution (to the extent specifically provided herein) or impairment. Without limiting the generality of the foregoing, the Issuer will (i) not permit the par value, if any, of its Common Stock to exceed the then effective Warrant Price, (ii) not amend or modify any provision of the Articles of Incorporation or by-laws of the Issuer in any manner that would adversely affect the rights of the Holders of the Warrants in their capacity as Holders of the Warrants, (iii) take all such action as may be reasonably necessary in order that the Issuer may validly and legally issue fully paid and nonassessable shares of Common Stock, free and clear of any liens, claims, encumbrances and restrictions (other than as provided herein) upon the exercise of this Warrant, and (iv) use its reasonable best efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be reasonably necessary to enable the Issuer to perform its obligations under this Warrant.

(d) Loss, Theft, Destruction of Warrants. Upon receipt of evidence satisfactory to the Issuer of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same number of shares of Common Stock.

4. Adjustment of Warrant Price. The price at which such shares may be purchased upon exercise of this Warrant shall be subject to adjustment from time to time as set forth in this Section 4. The Issuer shall give the Holder notice of any event described below which requires an adjustment pursuant to this Section 4 in accordance with Section 5.

(a) Recapitalization, Reorganization, Reclassification, Consolidation, Merger or Sale.

(i) In case the Issuer after the Original Issue Date shall do any of the following (each, a “Triggering Event”): (a) consolidate or merge with or into another corporation where the holders of outstanding Voting Stock prior to such merger or consolidation do not own over 50% of the outstanding Voting Stock of the merged or consolidated entity immediately after such merger or consolidation, or (b) sell all or substantially all of its properties or assets to any other Person, or (c) change the Common Stock to the same or different number of shares of any class or classes of stock, whether by reclassification, exchange, substitution or otherwise (other than by way of a stock split or combination of shares or stock dividends or distributions provided for in Section 4(b) or Section 4(c)), or (d) effect a capital reorganization (other than the transactions executed in connection with the Plan or by way of a stock split or combination of shares or stock dividends or distributions provided for in Section 4(b) or Section 4(c)), then, and in the case of each such Triggering Event, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Warrant, the Holder of this Warrant shall be entitled upon the exercise hereof at any time after the consummation of such Triggering Event, to the extent this Warrant is not exercised prior to such Triggering Event, to receive at the Warrant Price in effect at the time immediately prior to the consummation of such Triggering Event in lieu of the Common Stock issuable upon such exercise of this Warrant prior to such Triggering Event, the securities, cash and property to which such Holder would have been entitled upon the consummation of such Triggering Event if such Holder had exercised the rights represented by this Warrant immediately prior thereto, subject to adjustments (subsequent to such corporate action) as nearly equivalent as possible to the adjustments provided for elsewhere in this Section 4.

(ii) Notwithstanding anything contained in this Warrant to the contrary, a Triggering Event shall not be deemed to have occurred if, prior to the consummation thereof, each Person (other than the Issuer) which may be required to deliver any securities, cash or property upon the exercise of this Warrant as provided herein shall assume, by written instrument delivered to, and reasonably satisfactory to, the Holder of this Warrant, (A) the obligations of the Issuer under this Warrant (and if the Issuer shall survive the consummation of such Triggering Event, such assumption shall be in addition to, and shall not release the Issuer from, any continuing obligations of the Issuer under this Warrant) and (B) the obligation to deliver to such Holder such shares of securities, cash or property as, in accordance with the foregoing provisions of this subsection (a), such Holder shall be entitled to receive, and such Person shall have similarly delivered to such Holder a written acknowledgement executed by the President or Chief Financial Officer of the Company, stating that this Warrant shall thereafter continue in full force and effect and the terms hereof (including, without limitation, all of the provisions of this subsection (a)) shall be applicable to the securities, cash or property which such Person may be required to deliver upon any exercise of this Warrant or the exercise of any rights pursuant hereto.

(b) Stock Dividends, Subdivisions and Combinations. If at any time the Issuer shall:

(i) make or issue or set a record date for the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, shares of Common Stock,

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (1) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (2) the Warrant Price then in effect shall be adjusted to equal (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is

exercisable immediately prior to the adjustment divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment.

Notwithstanding the foregoing, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Warrant Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions.

(c) Certain Other Distributions. If at any time the Issuer shall make or issue or set a record date for the determination of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution of:

(i) cash (other than a cash dividend payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Issuer),

(ii) any evidences of its indebtedness, any shares of stock of any class or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock), or

(iii) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock), then (1) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such adjustment multiplied by a fraction (A) the numerator of which shall be the Per Share Market Value of Common Stock at the date of taking such record and (B) the denominator of which shall be such Per Share Market Value minus the amount allocable to one share of Common Stock of any such cash so distributable and of the fair value (as determined in good faith by the Board of Directors of the Issuer and supported by an opinion from an investment banking firm of recognized national standing acceptable to (but not affiliated with) the Holder) of any and all such evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights so distributable, and (2) the Warrant Price then in effect shall be adjusted to equal (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment. A reclassification of the Common Stock (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of Common Stock and shares of any other class of stock shall be deemed a distribution by the Issuer to the holders of its Common Stock of such shares of such other class of stock within the meaning of this Section 4(c) and, if the outstanding shares of Common Stock shall be changed into a larger or smaller number of shares of Common Stock as a part of such reclassification, such change shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Common Stock within the meaning of Section 4(b).

Notwithstanding the foregoing, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Warrant Price shall be adjusted pursuant to this Section 4(c) as of the time of actual payment of such dividends or distributions.

(d) Issuance of Additional Shares of Common Stock. In the event the Issuer shall at any time following the Original Issue Date issue any Additional Shares of Common Stock (otherwise than as provided in the foregoing subsections (a) through (c) of this Section 4), at a price per share less than \$.60 or without consideration, then the Warrant Price upon each such issuance shall be adjusted to the price equal to the consideration per share paid for such Additional Shares of Common Stock.

(e) Issuance of Common Stock Equivalents. If at any time the Issuer shall issue or sell any Common Stock Equivalents, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the aggregate price per share for which Common Stock is issuable upon such conversion or exchange plus the consideration received by the Issuer for issuance of such Common Stock Equivalent divided by the number of shares of Common Stock issuable pursuant to such Common Stock Equivalent shall be less than \$.60 or without consideration, then the Warrant Price then in effect shall be adjusted as provided in Section 4(d). No further adjustment of the Warrant Price then in effect shall be made under this Section 4(e) upon the issuance of any Common Stock Equivalents which are issued pursuant to the exercise of any warrants or other subscription or purchase rights therefor, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights pursuant to this Section 4(e). No further adjustments of the Warrant Price then in effect shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Common Stock Equivalents.

(f) Other Provisions applicable to Adjustments under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Warrant Price then in effect provided for in this Section 4:

(i) Computation of Consideration. To the extent that any Additional Shares of Common Stock shall be issued for cash consideration, the consideration received by the Issuer therefor shall be the amount of the cash received by the Issuer therefor, or, if such Additional Shares of Common Stock are offered by the Issuer for subscription, the subscription price, or, if such Additional Shares of Common Stock are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price (in any such case subtracting any amounts paid or receivable for accrued interest or accrued dividends and without taking into account any compensation, discounts or expenses paid or incurred by the Issuer for and in the underwriting of, or otherwise in connection with, the issuance thereof). In connection with any merger or consolidation in which the Issuer is the surviving corporation (other than any consolidation or merger in which the previously outstanding shares of Common Stock of the Issuer shall be changed to or exchanged for the stock or other securities of another corporation), the amount of consideration therefore shall be, deemed to be the fair value, as determined reasonably and in good faith by the Board, of such portion of the assets and business of the nonsurviving corporation as the Board may determine to be attributable to such Additional Shares of Common Stock. The consideration for any Additional Shares of Common Stock issuable pursuant to any Convertible Securities or warrants or other rights to subscribe for or purchase the same shall be the consideration received by the Issuer for issuing such Convertible Securities or warrants or other rights plus the additional consideration payable to the Issuer upon exercise of such warrants or other rights. In the event of any consolidation or merger of the Issuer in which the Issuer is not the surviving corporation or in which the previously outstanding shares of Common Stock of the Issuer shall be changed into or exchanged for the stock or other securities of another corporation, or in the event of any sale of all or substantially all of the assets of the Issuer for stock or other securities of any corporation, the Issuer shall be deemed to have issued a number of shares of its Common Stock for stock or securities or other property of the other corporation computed on the basis of the actual exchange ratio on which the transaction was predicated, and for a consideration equal to the fair market value on the date of such transaction of all such stock or securities or other property of the other corporation. In the event any consideration received by the Issuer for any securities consists of property other than cash, the fair market value thereof at the time of issuance or as otherwise applicable shall be as determined in good faith by the Board. In the event Common Stock is issued with other shares or securities or other assets of the Issuer for consideration which covers both, the consideration computed as provided in this Section 4(f)(i) shall be allocated among such securities and assets as determined in good faith by the Board.

(ii) When Adjustments to Be Made. The adjustments required by this Section 4 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that any adjustment of the number of shares of Common Stock for which this Warrant is exercisable that would otherwise be required may be postponed (except in the case of a subdivision or combination of shares of the Common Stock, as provided for in Section 4(b)) up to, but not beyond the date of exercise if such adjustment either by itself or with other adjustments not previously made adds or subtracts less than one percent (1%) of the shares of Common Stock for which this Warrant is exercisable immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) which is postponed shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Section 4 and not previously made, would result in a minimum adjustment or on the date of exercise. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(iii) Fractional Interests. In computing adjustments under this Section 4, fractional interests in Common Stock shall be taken into account to the nearest one one-hundredth (1/100th) of a share.

(iv) When Adjustment Not Required. If the Issuer shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(g) Form of Warrant after Adjustments. The form of this Warrant need not be changed because of any adjustments in the Warrant Price or the number and kind of Securities purchasable upon the exercise of this Warrant.

(h) Escrow of Warrant Stock. If after any property becomes distributable pursuant to this Section 4 by reason of the taking of any record of the holders of Common Stock, but prior to the occurrence of the event for which such record is taken, and the Holder exercises this Warrant, any shares of Common Stock issuable upon exercise by reason of such adjustment shall be deemed the last shares of Common Stock for which this Warrant is exercised (notwithstanding any other provision to the contrary herein) and such shares or other property shall be held in escrow for the Holder by the Issuer to be issued to the Holder upon and to the extent that the event actually takes place, upon payment of the current Warrant Price. Notwithstanding any other provision to the contrary herein, if the event for which such record was taken fails to occur or is rescinded, then such escrowed shares shall be cancelled by the Issuer and escrowed property returned.

(i) Notwithstanding any other provision set forth in this Section 4, no adjustment to the Warrant Price shall be required because of any issuance or sale of Additional Shares of Common Stock or Common Stock Equivalents upon conversion of the preferred stock or the exercise of warrants and/or options in connection with the Plan.

5. Notice of Adjustments. Whenever the Warrant Price or Warrant Share Number shall be adjusted pursuant to Section 4 hereof (for purposes of this Section 5, each an “adjustment”), the Issuer shall cause its Chief Financial Officer to prepare and execute a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated (including a description of the basis on which the Board made any determination hereunder), and the Warrant Price and Warrant Share Number after giving effect to such adjustment, and shall cause copies of such certificate to be delivered to the Holder of this Warrant promptly after each adjustment. Any dispute between the Issuer and the Holder of this Warrant with respect to the matters set forth in such certificate may at the option of the Holder of this Warrant be submitted to one of the national accounting firms currently known as the “big four” selected by the Holder, provided that the Issuer shall have ten (10) days after receipt of notice from such Holder of its selection of such firm to object thereto, in which case such Holder shall select another such firm and the Issuer shall have no such right of objection unless the Issuer identifies a valid conflict of interest for such firm with any of the parties. The firm selected by the Holder of this Warrant as provided in the preceding sentence shall be instructed to deliver a written opinion as to such matters to the Issuer and such Holder within thirty (30) days after submission to it of such dispute. Such opinion shall be final and binding on the parties hereto. The costs and expenses of such accounting firm shall be paid equally by the Company and the Holder.

6. Fractional Shares. No fractional shares of Warrant Stock will be issued in connection with any exercise hereof, but in lieu of such fractional shares, the Issuer shall make a cash payment therefor equal in amount to the product of the applicable fraction multiplied by the Per Share Market Value then in effect.

7. Ownership Cap and Certain Exercise Restrictions.

(a) Notwithstanding anything to the contrary set forth in this Warrant, at no time may a Holder of this Warrant exercise this Warrant if the number of shares of Common Stock to be issued pursuant to such exercise would exceed, when aggregated with all other shares of Common Stock owned by such Holder at such time, the number of shares of Common Stock which would result in such Holder beneficially owning (as determined in accordance with Section 13(d) of the Exchange Act and the rules thereunder) in excess of 4.999% of the then issued and outstanding shares of Common Stock; provided, however, that upon a holder of this Warrant providing the Issuer with sixty-one (61) days notice (pursuant to Section 13 hereof) (the “Waiver Notice”) that such Holder would like to waive this Section 7(a) with regard to any or all shares of Common Stock issuable upon exercise of this Warrant, this Section 7(a) will be of no force or effect with regard to all or a portion of the Warrant referenced in the Waiver Notice; provided, further, that this provision shall be of no further force or effect (i) during the sixty-one (61) days immediately preceding the expiration of the term of this Warrant, (ii) upon the Holder’s receipt of a Call Notice (as defined in Section 8 hereof), or (iii) upon the issuance of Common Stock pursuant to the exercise of this Warrant in connection with the Plan.

(b) The Holder may not exercise the Warrant hereunder to the extent such exercise would result in the Holder beneficially owning (as determined in accordance with Section 13(d) of the Exchange Act and the rules thereunder) in excess of 9.999% of the then issued and outstanding shares of Common Stock, including shares issuable upon exercise of the Warrant held by the Holder after application of this Section; provided, however, that upon a holder of this Warrant providing the Company with a Waiver Notice that such holder would like to waive this Section 7(b) with regard to any or all shares of Common Stock issuable upon exercise of this Warrant, this Section 7(b) shall be of no force or effect with regard to those shares of Warrant Stock referenced in the Waiver Notice; provided, further, that this provision shall be of no further force or effect (i) during the sixty-one (61) days immediately preceding the expiration of the term of this Warrant, (ii) upon the Holder’s receipt of a Call Notice, or (iii) upon the issuance of Common Stock pursuant to the exercise of this Warrant in connection with the Plan.

8. Call. Notwithstanding anything herein to the contrary, commencing twelve (12) months following the effective date of a registration statement under the Securities Act providing for the resale of the Warrant Stock and the shares of Common Stock issuable upon conversion of the Issuer’s Series A Preferred Stock issued pursuant to the Purchase Agreement (the “Registration Statement”), the Issuer, at its option, may call up to one hundred percent (100%) of this Warrant if the Per Share Market Value of the Common Stock has been greater than \$3.00 (as may be adjusted for any stock splits or

combinations of the Common Stock) for a period of twenty (20) consecutive Trading Days immediately prior to the date of delivery of the Call Notice (a “Call Notice Period”) by providing the Holder of this Warrant written notice pursuant to Section 13 (the “Call Notice”); provided, that (a) the Registration Statement is then in effect and has been effective, without lapse or suspension of any kind, for a period of 60 consecutive calendar days, (b) trading in the Common Stock shall not have been suspended by the Securities and Exchange Commission or the OTC Bulletin Board and (c) the Issuer is in material compliance with the terms and conditions of this Warrant and the other Transaction Documents (as defined in the Purchase Agreement); provided, further, that the Registration Statement is in effect from the date of delivery of the Call Notice until the date which is the later of (i) the date the Holder exercises the Warrant pursuant to the Call Notice and (ii) the 20th day after the Holder receives the Call Notice (the “Early Termination Date”). The rights and privileges granted pursuant to this Warrant with respect to the shares of Warrant Stock subject to the Call Notice (the “Called Warrant Shares”) shall expire on the Early Termination Date if this Warrant is not exercised with respect to such Called Warrant Shares prior to such Early Termination Date. In the event this Warrant is not exercised with respect to the Called Warrant Shares, the Issuer shall remit to the Holder of this Warrant (A) \$.01 per Called Warrant Share and (B) a new Warrant representing the number of shares of Warrant Stock, if any, which shall not have been subject to the Call Notice upon the Holder tendering to the Issuer the applicable Warrant certificate.

9. Definitions. For the purposes of this Warrant, the following terms have the following meanings:

“Additional Shares of Common Stock” means all shares of Common Stock issued by the Issuer after the original issue date, and all shares of Other Common, if any, issued by the Issuer after the original issue date, except: (i) securities issued (other than for cash) in connection with a merger, acquisition, or consolidation, (ii) securities issued pursuant to a bona fide firm underwritten public offering of the Issuer’s securities, (iii) securities issued pursuant to the conversion or exercise of convertible or exercisable securities issued or outstanding on or prior to the original issue date or issued pursuant to the Purchase Agreement, (iv) the Warrant Stock, (v) securities issued in connection with strategic alliances or other partnering arrangements so long as such issuances are not for the purpose of raising capital, (vi) Common Stock issued or options to purchase Common Stock granted or issued pursuant to the Issuer’s stock option plans and employee stock purchase plans as they now exist, (vii) any warrants issued to the placement agent for the transactions contemplated by the Purchase Agreement, and (viii) the payment of any dividend on the Series A Convertible Preferred Stock of the Issuer.

“Articles of Incorporation” means the Articles of Incorporation of the Issuer as in effect on the Original Issue Date, and as hereafter from time to time amended, modified, supplemented or restated in accordance with the terms hereof and thereof and pursuant to applicable law.

“Board” shall mean the Board of Directors of the Issuer.

“Capital Stock” means and includes (i) any and all shares, interests, participations or other equivalents of or interests in (however designated) corporate stock, including, without limitation, shares of preferred or preference stock, (ii) all partnership interests (whether general or limited) in any Person which is a partnership, (iii) all membership interests or limited liability company interests in any limited liability company, and (iv) all equity or ownership interests in any Person of any other type.

“Common Stock” means the Common Stock, par value \$.01 per share, of the Issuer and any other Capital Stock into which such stock may hereafter be changed.

“Common Stock Equivalent” means any Convertible Security or warrant, option or other right to subscribe for or purchase any Additional Shares of Common Stock or any Convertible Security.

“Convertible Securities” means evidences of Indebtedness, shares of Capital Stock or other Securities which are or may be at any time convertible into or exchangeable for Additional Shares of Common Stock. The term “Convertible Security” means one of the Convertible Securities.

“Final Plan Date” shall mean the date that is six months and twelve days after the Plan Closing Date.

“Governmental Authority” means any governmental, regulatory or self-regulatory entity, department, body, official, authority, commission, board, agency or instrumentality, whether federal, state or local, and whether domestic or foreign.

“Holders” mean the Persons who shall from time to time own any Warrant. The term “Holder” means one of the Holders.

“Independent Appraiser” means a nationally recognized or major regional investment banking firm or firm of independent certified public accountants of recognized standing (which may be the firm that regularly examines the financial statements of the Issuer) that is regularly engaged in the business of appraising the Capital Stock or assets of corporations or other entities as going concerns, and which is not affiliated with either the Issuer or the Holder of any Warrant.

“Issuer” means Chembio Diagnostics, Inc., a Nevada corporation, and its successors.

“Majority Holders” means at any time the Holders of Warrants exercisable for a majority of the shares of Warrant Stock issuable under the Warrants at the time outstanding.

“Original Issue Date” means May 5, 2004.

“OTC Bulletin Board” means the over-the-counter electronic bulletin board.

“Other Common” means any other Capital Stock of the Issuer of any class which shall be authorized at any time after the date of this Warrant (other than Common Stock) and which shall have the right to participate in the distribution of earnings and assets of the Issuer without limitation as to amount.

“Outstanding Common Stock” means, at any given time, the aggregate amount of outstanding shares of Common Stock, assuming full exercise, conversion or exchange (as applicable) of all options, warrants and other Securities which are convertible into or exercisable or exchangeable for, and any right to subscribe for, shares of Common Stock that are outstanding at such time.

“Person” means an individual, corporation, limited liability company, partnership, joint stock company, trust, unincorporated organization, joint venture, Governmental Authority or other entity of whatever nature.

“Per Share Market Value” means on any particular date (a) the closing bid price for a share of Common Stock in the over-the-counter market, as reported by the OTC Bulletin Board or in the National Quotation Bureau Incorporated or similar organization or agency succeeding to its functions of reporting prices) at the close of business on such date, or (b) if the Common Stock is not then reported by the OTC Bulletin Board or the National Quotation Bureau Incorporated (or similar organization or agency succeeding to its functions of reporting prices), then the average of the “Pink Sheet” quotes for the relevant determination period, or (c) if the Common Stock is not then publicly traded the fair market value of a share of Common Stock as determined by the Board in good faith; provided, however, that the Majority Holders, after receipt of the determination by the Board, shall have the right to select, jointly with the Issuer, an Independent Appraiser, in which case, the fair market value shall be the determination by such Independent Appraiser; and provided, further that all determinations of the Per Share Market Value shall be appropriately adjusted for any stock dividends, stock splits or other similar transactions during such period. The determination of fair market value shall be based upon the fair market value of the Issuer determined on a going concern basis as between a willing buyer and a willing seller and taking into account all relevant factors determinative of value, and shall be final and binding on all parties. In determining the fair market value of any shares of Common Stock, no consideration shall be given to any restrictions on transfer of the Common Stock imposed by agreement or by federal or state securities laws, or to the existence or absence of, or any limitations on, voting rights.

“Plan” shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company's then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company's outstanding warrants or options; (iii) offer the holders of the Company's warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

“Plan Closing Date” shall be December 19, 2007.

“Purchase Agreement” means the Series A Convertible Preferred Stock and Warrant Purchase Agreement dated as of May 5, 2004 among the Issuer and the investors a party thereto.

“Securities” means any debt or equity securities of the Issuer, whether now or hereafter authorized, any instrument convertible into or exchangeable for Securities or a Security, and any option, warrant or other right to purchase or acquire any Security. “Security” means one of the Securities.

“Securities Act” means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

“Subsidiary” means any corporation at least 50% of whose outstanding Voting Stock shall at the time be owned directly or indirectly by the Issuer or by one or more of its Subsidiaries, or by the Issuer and one or more of its Subsidiaries.

“Term” has the meaning specified in Section 1 hereof.

“Trading Day” means (a) a day on which the Common Stock is traded on the OTC Bulletin Board, or (b) if the Common Stock is not traded on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); provided, however, that in the event that the Common Stock is not listed or quoted as set forth in (a) or (b) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

“Voting Stock” means, as applied to the Capital Stock of any corporation, Capital Stock of any class or classes (however designated) having ordinary voting power for the election of a majority of the members of the Board of Directors (or other governing body) of such corporation, other than Capital Stock having such power only by reason of the happening of a contingency.

“Warrant Price” shall be as follows, except as may be adjusted from time to time as shall result from the adjustments specified in this Warrant, including Section 4 hereto:

- (i) For the period 4:01p.m. eastern time ET through 9:59p.m. ET on the Plan Closing Date, \$0.40 per share for all or any portion of this Warrant exercised for cash;
- (ii) For the period 4:01p.m. ET through 9:59p.m. ET on the Plan Closing Date, \$0.45 per share for all or any portion of this Warrant exercised through a Cashless Exercise;
- (iii) For the period beginning 10:00p.m. ET on the Plan Closing Date through 9:59p.m. ET on the Final Plan Date, \$0.45 for all or any part of this Warrant exercised by a Holder who exercised at least 10% of all of such Holder's warrants and options for cash at the Plan Closing Date;
- (iv) For the period beginning 10:00p.m. ET on the Plan Closing Date, \$0.90 per share for any Holder that did not exercise at least 10% of all of such Holder's warrants and options for cash at an exercise price of \$0.40 per share at the Plan Closing Date; and
- (v) For the period beginning 10:00p.m. ET on the Final Plan Date, \$0.90 per share for all or any portion of this Warrant that has not been exercised on or before 9:59p.m. ET on the Final Plan Date.

“Warrant Share Number” means at any time the aggregate number of shares of Warrant Stock which may at such time be purchased upon exercise of this Warrant, after giving effect to all prior adjustments and increases to such number made or required to be made under the terms hereof.

“Warrant Stock” means Common Stock issuable upon exercise of any Warrant or Warrants or otherwise issuable pursuant to any Warrant or Warrants.

“Warrants” means the Warrants issued and sold pursuant to the Purchase Agreement, including, without limitation, this Warrant, and any other warrants of like tenor issued in substitution or exchange for any thereof pursuant to the provisions of Section 2(c), 2(d) or 2(e) hereof or of any of such other Warrants.

10. Other Notices. In case at any time:

(a) the Issuer shall make any distributions to the holders of Common Stock; or

(b) the Issuer shall authorize the granting to all holders of its Common Stock of rights to subscribe for or purchase any shares of Capital Stock of any class or other rights; or

(c) there shall be any reclassification of the Capital Stock of the Issuer; or

(d) there shall be any capital reorganization by the Issuer; or

(e) there shall be any (i) consolidation or merger involving the Issuer or (ii) sale, transfer or other disposition of all or substantially all of the Issuer's property, assets or business (except a merger or other reorganization in which the Issuer shall be the surviving corporation and its shares of Capital Stock shall continue to be outstanding and unchanged and except a consolidation, merger, sale, transfer or other disposition involving a wholly-owned Subsidiary); or

(f) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Issuer or any partial liquidation of the Issuer or distribution to holders of Common Stock; then, in each of such cases, the Issuer shall give written notice to the Holder of the date on which (i) the books of the Issuer shall close or a record shall be taken for such dividend, distribution or subscription rights or (ii) such reorganization, reclassification, consolidation, merger, disposition, dissolution, liquidation or winding-up, as the case may be, shall take place. Such notice also shall specify the date as of which the holders of Common Stock of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their certificates for Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, disposition, dissolution, liquidation or winding-up, as the case may be. Such notice shall be given at least twenty (20) days prior to the record date or effective date for the event specified in such notice.

11. Amendment and Waiver. Any term, covenant, agreement or condition in this Warrant may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), by a written instrument or written instruments executed by the Issuer and the Majority Holders; provided, however, that no such amendment or waiver shall reduce the Warrant Share Number, increase the Warrant Price, shorten the period during which this Warrant may be exercised or modify any provision of this Section 11 without the consent of the Holder of this Warrant.

12. Governing Law. **THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.**

13. Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earlier of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice prior to 5:00 p.m., eastern time, on a Trading Day, (ii) the Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice later than 5:00 p.m., eastern time, on any date and earlier than 11:59 p.m., eastern time, on such date, or (iii) actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be with respect to the Holder of this Warrant or of Warrant Stock issued pursuant hereto, addressed to such Holder at its last known address or facsimile number appearing on the books of the Issuer maintained for such purposes, or with respect to the Issuer, addressed to:

Chembio Diagnostics, Inc.
3661 Horseblock Road
Medford, NY 11763
Attention: Lawrence A. Siebert, President
Tel. No.: (631) 924-1135
Fax No.: (631) 924-6033

Copies of notices to the Issuer shall be sent to Patton Boggs LLP, 1801 California Street, Suite 4900, Denver, CO 80202, Attention: Alan Talesnick, Tel. No.: (303) 830-1776, Fax No.: (303) 894-9239. Copies of notices to the Holder shall be sent to Jenkins & Gilchrist Parker Chapin LLP, 405 Lexington Avenue, New York, New York 10174, Attention: Christopher S. Auguste, Facsimile No.: (212) 704-6288. Any party hereto may from time to time change its address for notices by giving at least ten (10) days written notice of such changed address to the other party hereto.

14. Warrant Agent. The Issuer may, by written notice to each Holder of this Warrant, appoint an agent for the purpose of issuing shares of Warrant Stock on the exercise of this Warrant pursuant to subsection (b) of Section 2 hereof, exchanging this Warrant pursuant to subsection (d) of Section 2 hereof or replacing this Warrant pursuant to subsection (d) of Section 3 hereof, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

15. Remedies. The Issuer stipulates that the remedies at law of the Holder of this Warrant in the event of any default or threatened default by the Issuer in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that, to the fullest extent permitted by law, such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

16. Successors and Assigns. This Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and assigns of the Issuer, the Holder hereof and (to the extent provided herein) the Holders of Warrant Stock issued pursuant hereto, and shall be enforceable by any such Holder or Holder of Warrant Stock.

17. Modification and Severability. If, in any action before any court or agency legally empowered to enforce any provision contained herein, any provision hereof is found to be unenforceable, then such provision shall be deemed modified to the extent necessary to make it enforceable by such court or agency. If any such provision is not enforceable as set forth in the preceding sentence, the unenforceability of such provision shall not affect the other provisions of this Warrant, but this Warrant shall be construed as if such unenforceable provision had never been contained herein.

18. Headings. The headings of the Sections of this Warrant are for convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Issuer has executed this Warrant as of the day and year first above written.

CHEMBIO DIAGNOSTICS, INC.

By:
Name: Lawrence A. Siebert
Title: President

No.: _____
Original Date of Issuance: May 5, 2009

Number of Shares: _____
Reissuance Date: December 19, 2007

EXERCISE FORM

CHEMBIO DIAGNOSTICS, INC.

The undersigned _____, pursuant to the provisions of the within Warrant, hereby elects to purchase _____ shares of Common Stock of Chembio Diagnostics, Inc. covered by the within Warrant.

Dated: _____

Signature

Address

Number of shares of Common Stock beneficially owned or deemed beneficially owned by the Holder on the date of Exercise: _____

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and all rights evidenced thereby and does irrevocably constitute and appoint _____, attorney, to transfer the said Warrant on the books of the within named corporation.

Dated: _____

Signature

Address

No.: _____
Original Date of Issuance: May 5, 2009

Number of Shares: _____
Reissuance Date: December 19, 2007

PARTIAL ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the right to purchase _____ shares of Warrant Stock evidenced by the within Warrant together with all rights therein, and does irrevocably constitute and appoint _____, attorney, to transfer that part of the said Warrant on the books of the within named corporation.

Dated: _____

Signature

Address

FOR USE BY THE ISSUER ONLY:

This Warrant No. W-____ canceled (or transferred or exchanged) this _____ day of _____, _____, shares of Common Stock issued therefor in the name of _____, Warrant No. W-____ issued for _____ shares of Common Stock in the name of _____.

CHEMBIO DIAGNOSTICS, INC.

SECOND AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES B 9% CONVERTIBLE PREFERRED STOCK

PURSUANT TO SECTION 78.1955 OF THE
NEVADA REVISED STATUTES

The undersigned, Richard J. Larkin, does hereby certify that:

1. He is the Chief Financial Officer of Chembio Diagnostics, Inc., a Nevada corporation (the “Corporation”).
2. The Corporation is authorized to issue 10,000,000 shares of preferred stock.
3. The following resolutions were duly adopted by the Board of Directors:

WHEREAS, the Articles of Incorporation of the Corporation provides for a class of its authorized stock known as preferred stock, comprised of 10,000,000 shares, \$0.01 par value, issuable from time to time in one or more series;

WHEREAS, the Board of Directors of the Corporation is authorized to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of preferred stock and the number of shares constituting any Series and the designation thereof, of any of them; and

WHEREAS, it is the desire of the Board of Directors of the Corporation, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to a series of the preferred stock, which shall consist of, except as otherwise set forth in the Purchase Agreement, up to 175 shares of the preferred stock which the Corporation has the authority to issue, as follows;

WHEREAS, the Board of Directors with shareholder consent desires to amend certain provisions as follows;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issuance of a series of preferred stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such series of preferred stock as follows:

TERMS OF PREFERRED STOCK

Section 1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement. For the purposes hereof, the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 7(e).

“Bankruptcy Event” means any of the following events: (a) the Corporation or any Significant Subsidiary (as such term is defined in Rule 1.02(s) of Regulation S-X) thereof commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to the Corporation or any Significant Subsidiary thereof; (b) there is commenced against the Corporation or any Significant Subsidiary thereof any such case or proceeding that is not dismissed within 60 days after commencement; (c) the Corporation or any Significant Subsidiary thereof is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered; (d) the Corporation or any Significant Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 days; (e) the Corporation or any Significant Subsidiary thereof makes a general assignment for the benefit of creditors; (f) the Corporation or any Significant Subsidiary thereof calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts; or (g) the Corporation or any Significant Subsidiary thereof, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Base Conversion Price” shall have the meaning set forth in Section 7(b).

“Buy-In” shall have the meaning set forth in Section 6(d)(iii).

“Change of Control Transaction” means the occurrence after the date hereof of any of (i) an acquisition after the date hereof by an individual or legal entity or “group” (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Corporation, by contract or otherwise) of in excess of 50% of the voting securities of the Corporation, or (ii) the Corporation merges into or consolidates with any other Person, or any Person merges into or consolidates with the Corporation and, after giving effect to such transaction, the stockholders of the Corporation immediately prior to such transaction own less than 50% of the aggregate voting power of the Corporation or the successor entity of such transaction, or (iii) the Corporation sells or transfers its assets, as an entirety or substantially as an entirety, to another Person and the stockholders of the Corporation immediately prior to such transaction own less than 50% of the aggregate voting power of the acquiring entity immediately after the transaction, (iv) a replacement at one time or within a one year period of more than one-half of the members of the Corporation’s board of directors which is not approved by a majority of those individuals who are members of the board of directors on the date hereof (or by those individuals who are serving as members of the board of directors on any date whose nomination to the board of directors was approved by a majority of the members of the board of directors who are members on the date hereof), or (v) the execution by the Corporation of an agreement to which the Corporation is a party or by which it is bound, providing for any of the events set forth above in (i) or (iv).

“Closing Date” means the Trading Day when all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Holders’ obligations to pay the Subscription Amount and (ii) the Corporation’s obligations to deliver the Securities have been satisfied or waived.

“Commission” means the Securities and Exchange Commission.

“Common Stock” means the Corporation’s common stock, par value \$0.01 per share, and stock of any other class into which such shares may hereafter have been reclassified or changed.

“Common Stock Equivalents” means any securities of the Corporation or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Conversion Amount” means the sum of the Stated Value at issue.

“Conversion Date” shall have the meaning set forth in Section 6(a).

“Conversion Price” shall have the meaning set forth in Section 6(b).

“Conversion Shares” means, collectively, the shares of Common Stock into which the shares of Preferred Stock are convertible in accordance with the terms hereof.

“Conversion Shares Registration Statement” means a registration statement that meets the requirements of the Registration Rights Agreement and registers the resale of all Conversion Shares by the Holder, who shall be named as a “selling stockholder” thereunder, all as provided in the Registration Rights Agreement.

“Dividend Payment Date” shall have the meaning set forth in Section 3(a).

“Dilutive Issuance” shall have the meaning set forth in Section 7(b).

“Dilutive Issuance Notice” shall have the meaning set forth in Section 7(b).

“Effective Date” means the date that the Conversion Shares Registration Statement is declared effective by the Commission.

“Equity Conditions” shall mean, during the period in question, (i) the Corporation shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion, if any, (ii) all liquidated damages and other amounts owing in respect of the Preferred Stock shall have been paid; (iii) there is an effective Conversion Shares Registration Statement pursuant to which the Holder is permitted to utilize the prospectus thereunder to resell all of the shares issuable pursuant to the Transaction Documents (and the Corporation believes, in good faith, that such effectiveness will continue uninterrupted for the foreseeable future), (iv) the Common Stock is trading on the Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed for trading on a Trading Market (and the Corporation believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted for the foreseeable future), (v) there is a sufficient number of authorized but unissued and otherwise unreserved shares of Common Stock for the issuance of all of the shares issuable pursuant to the Transaction Documents, (vi) there is then existing no Triggering Event or event which, with the passage of time or the giving of notice, would constitute a Triggering Event, (vii) all of the shares issued or issuable pursuant to the transaction proposed would not violate the limitations set forth in Sections 6(c) and (viii) no public announcement of a pending or proposed Fundamental Transaction, Change of Control Transaction or acquisition transaction has occurred that has not been consummated.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exempt Issuance” means the issuance of (a) shares of Common Stock or options to employees, officers, consultants, or directors of the Corporation pursuant to any stock or option plan or other resolution duly adopted by a majority of the non-employee members of the Board of Directors of the Corporation or a majority of the members of a committee of non-employee directors established for such purpose, up to a total of 400,000 shares of Common Stock in each of fiscal 2005 and 2006, subject in each case to adjustment for any subsequent stock splits or the like, (b) securities upon the exercise of or conversion of any Securities issued hereunder, convertible securities, options or warrants issued and outstanding on the date of this Agreement, provided that such securities have not been amended since the date of this Agreement to increase the number of such securities or to decrease the exercise or conversion price of any such securities (except pursuant to any anti-dilution adjustment contained therein), (c) securities issued pursuant to acquisitions or strategic transactions, provided any such issuance shall only be to a Person which is, itself or through its subsidiaries, an operating company in a business reasonably deemed by the Corporation’s Board of Directors to be strategically advantageous to the business of the Corporation and in which the Corporation receives benefits in addition to the investment of funds, but shall not include a transaction in which the Corporation is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities, (d) shares issued in Bona fide firm underwritten public offerings each of which has gross proceeds of at least equal to \$20,000,000, (e) Securities underlying placement agent warrants issued in connection with this transaction, and (f) shares issued as dividend payments on the Series A and Series B Stock.

“Final Plan Date” shall mean the date that is six months and twelve days after the Plan Closing Date.

“Forced Conversion Date” shall have the meaning set forth in Section 8(a).

“Fundamental Transaction” shall have the meaning set forth in Section 7(e).

“Holder” shall have the meaning given such term in Section 2.

“Junior Securities” means the Common Stock and all other equity or equity equivalent securities of the Corporation other than those securities that are (a) outstanding on the Original Issue Date and (b) which are explicitly senior or pari passu in rights or liquidation preference to the Preferred Stock.

“Liquidation” shall have the meaning given such term in Section 5.

“New York Courts” shall have the meaning given such term in Section 10(e).

“Notice of Conversion” shall have the meaning given such term in Section 6(a).

“Original Issue Date” shall mean the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

“Person” means a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

“Plan” shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company’s then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company’s outstanding warrants or options; (iii) offer the holders of the Company’s warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

“Plan Closing Date” shall mean December 19, 2007.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of the Original Issue Date, to which the Corporation and the original Holders are parties, as amended, modified or supplemented from time to time in accordance with its terms.

“Registration Rights Agreement” means the Registration Rights Agreement, dated as of the date of the Purchase Agreement, to which the Corporation and the original Holder are parties, as amended, modified or supplemented from time to time in accordance with its terms.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Share Delivery Date” shall have the meaning given such term in Section 6(d).

“Stated Value” shall have the meaning given such term in Section 2.

“Subscription Amount” shall mean, as to each Purchaser, the amount to be paid for the Preferred Stock purchased pursuant to the Purchase Agreement as specified below such Purchaser’s name on the signature page of the Purchase Agreement and next to the heading “Subscription Amount”, in United States Dollars and in immediately available funds.

“Subsidiary” shall have the meaning given to such term in the Purchase Agreement.

“Threshold Period” shall have the meaning set forth in Section 6(a).

“Trading Day” means a day on which the Common Stock is traded on a Trading Market.

“Trading Market” means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the OTC Bulletin Board, the Nasdaq SmallCap Market, the American Stock Exchange, the New York Stock Exchange or the Nasdaq National Market.

“Transaction Documents” shall have the meaning set forth in the Purchase Agreement.

“Triggering Event” shall have the meaning set forth in Section 9(a).

“Triggering Redemption Amount” for each share of Preferred Stock means the sum of (i) the greater of (A) 130% of the Stated Value and (B) the product of (a) the VWAP on the Trading Day immediately preceding the date of the Triggering Event and (b) the Stated Value divided by the then Conversion Price, (ii) all accrued but unpaid dividends thereon and (iii) all liquidated damages and other amounts due in respect of the Preferred Stock.

“Triggering Redemption Payment Date” shall have the meaning set forth in Section 9(b).

“VWAP” means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg Financial L.P. (based on a Trading Day from 9:30 a.m. Eastern Time to 4:02 p.m. Eastern Time); (b) if the Common Stock is not then listed or quoted on a Trading Market and if prices for the Common Stock are then reported in the “Pink Sheets” published by the Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (c) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Purchasers and reasonably acceptable to the Corporation.

Section 2. Designation, Rank, Amount and Par Value. The series of preferred stock shall be designated as its Series B 9% Convertible Preferred Stock (the “Preferred Stock”) and the number of shares so designated shall be 175 (which shall not be subject to increase without the consent of all of the holders of the Preferred Stock (each, a “Holder” and collectively, the “Holders”). Each share of Preferred Stock shall have a par value of \$0.01 per share and a stated value equal to \$50,000 (the “Stated Value”). The Preferred Stock shall rank pari passu to the Corporation’s Series A Convertible Preferred Stock as to payment of dividends and liquidation preference. Capitalized terms not otherwise defined herein shall have the meaning given such terms in Section 1 hereof.

Section 3. Dividends.

a) Dividends in Cash or in Kind. Holders shall be entitled to receive and the Corporation shall pay, cumulative dividends at the rate per share (as a percentage of the Stated Value per share) of 9% per annum (subject to increase pursuant to Section 9(b)), payable semiannually on July 1 and January 1, beginning with the first such date after the Original Issue Date and on any Conversion Date (except that, if such date is not a Trading Day, the payment date shall be the next succeeding Trading Day)(“Dividend Payment Date”). The form of dividend payments to each Holder shall be made at the sole election of the Corporation, in cash, in shares of Preferred Stock, or in shares of Common Stock, provided, however, that any Holder of a majority of the issued and outstanding Preferred Stock at any Dividend Payment Date may elect whether to receive such dividend in cash, in Common Stock or in shares of Preferred Stock in its sole discretion. If the Company elects to pay a dividend in shares of Common Stock, the number of shares of Common Stock to be issued to the Holder shall be an amount equal to the quotient of (i) the dividend amount divided by (ii) the volume weighted average trading price (the “VWAP”) of the Common Stock for the 10 trading days preceding the dividend record date. As used in this Certificate, the term “volume weighted average trading price”, or VWAP, shall mean, for any period of time, the sum of the purchases charged for all shares sold during that period of time divided by the number of shares sold during that period of time. If the Company elects to pay any dividend in shares of Preferred Stock, the number of shares of Preferred Stock to be issued to the holder shall be an amount equal to the quotient of (i) the amount of the dividend payment divided by (ii) the VWAP of the Common Stock for the 10 trading days preceding the dividend record date and then issuing that number of shares of Preferred Stock that would at the time of calculation be convertible into the number of shares determined by dividing the amount of the dividend payment by the 10-day VWAP. The Holders shall have the same rights and remedies with respect to the delivery of any such shares as if such shares were being issued pursuant to Section 6. On the Closing Date the Corporation shall have notified the Holders whether or not it may lawfully pay cash dividends. The Corporation shall promptly notify the Holders at any time the Corporation shall become able or unable, as the case may be, to lawfully pay cash dividends. The Corporation must provide the Holder with at least 15 calendar days’ notice of its election to pay a regularly scheduled dividend in Preferred Stock or Common Stock. Dividends on the Preferred Stock shall be calculated on the basis of a 360-day year, shall accrue daily commencing on the Original Issue Date, and shall be deemed to accrue from such date whether or not earned or declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends. Except as otherwise provided herein, if at any time the Corporation pays dividends partially in cash and partially in shares, then such payment shall be distributed ratably among the Holders based upon the number of shares of Preferred Stock held by each Holder. Any dividends, whether paid in cash or shares, that are not paid within three Trading Days following a Dividend Payment Date shall continue to accrue and shall entail a late fee, which must be paid in cash, at the rate of 18% per annum or the lesser rate permitted by applicable law (such fees to accrue daily, from the Dividend Payment Date through and including the date of payment).

b) So long as any Preferred Stock shall remain outstanding, neither the Corporation nor any Subsidiary thereof shall redeem, purchase or otherwise acquire directly or indirectly any Junior Securities. So long as any Preferred Stock shall remain outstanding, neither the Corporation nor any Subsidiary thereof shall directly or indirectly pay or declare any dividend or make any distribution (other than a dividend or distribution described in Section 6 or dividends due and paid in the ordinary course on preferred stock of the Corporation at such times when the Corporation is in compliance with its payment and other obligations hereunder) upon, nor shall any distribution be made in respect of, any Junior Securities so long as any dividends due on the Preferred Stock remain unpaid, nor shall any monies be set aside for or applied to the purchase or redemption (through a sinking fund or otherwise) of any Junior Securities or shares *pari passu* with the Preferred Stock.

Section 4. Voting Rights. Except as otherwise provided herein and as otherwise required by law, the Preferred Stock shall have no voting rights. However, so long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of 51% of the shares of the Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend this Certificate of Designation, (b) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a Liquidation (as defined in Section 5) senior to or otherwise *pari passu* with the Preferred Stock, (c) amend its articles of incorporation or other charter documents so as to affect adversely any rights of the Holders, (d) increase the authorized number of shares of Preferred Stock, or (e) enter into any agreement with respect to the foregoing. Notwithstanding the foregoing, so long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of 75% of the shares of Preferred Stock then outstanding, (a) decrease the dividend rate of 9% per annum as provided in Section 3a, (b) amend the anti-dilution adjustment for subsequent equity sales as provided in Section 7b, or (c) amend the terms for a forced conversion as provided in Section 8a.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a “Liquidation”), the Holders shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus, for each share of Preferred Stock an amount equal to the Stated Value per share plus any accrued and unpaid dividends thereon and any other fees or liquidated damages owing thereon before any distribution or payment shall be made to the holders of any Junior Securities, and if the assets of the Corporation shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be distributed among the Holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full, *pari passu* with the Corporation’s Series A Convertible Preferred Stock treated together as a class based upon the liquidation preferences of each such series. A Fundamental Transaction or Change of Control Transaction shall not be treated as a Liquidation. The Corporation shall mail written notice of any such Liquidation, not less than 45 days prior to the payment date stated therein, to each record Holder.

Section 6. Conversion.

a) Conversions at Option of Holder. Each share of Preferred Stock shall be convertible into that number of shares of Common Stock (subject to the limitations set forth in Sections 6(c)) determined by dividing the Stated Value of such share of Preferred Stock by the Conversion Price, at the option of the Holder, at any time and from time to time from and after the Original Issue Date. Holders shall effect conversions by providing the Corporation with the form of conversion notice attached hereto as Annex A (a “Notice of Conversion”). Each Notice of Conversion shall specify the number of shares of Preferred Stock to be converted, the number of shares of Preferred Stock owned prior to the conversion at issue, the number of shares of Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Notice of Conversion to the Corporation by facsimile (the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion to the Corporation is deemed delivered hereunder. The calculations and entries set forth in the Notice of Conversion shall control in the absence of manifest or mathematical error. To effect conversions, as the case may be, of shares of Preferred Stock, a Holder shall not be required to surrender the certificate(s) representing such shares of Preferred Stock to the Corporation unless all of the shares of Preferred Stock represented thereby are so converted, in which case the Holder shall deliver the certificate representing such share of Preferred Stock promptly following the Conversion Date at issue. Shares of Preferred Stock converted into Common Stock or redeemed in accordance with the terms hereof shall be canceled and may not be reissued.

b) Conversion Price. The conversion price for the Preferred Stock shall equal \$0.40 per share for the holders of the Preferred Stock on the Plan Closing Date (the “Conversion Price”), provided, however, that the Conversion Price for the Preferred Stock held by Lawrence A. Siebert shall be \$0.48 per share on the Plan Closing Date.

c) Beneficial Ownership Limitation. The Corporation shall not effect any conversion of the Preferred Stock, and the Holder shall not have the right to convert any portion of the Preferred Stock to the extent that after giving effect to such conversion, the Holder (together with the Holder’s affiliates), as set forth on the applicable Notice of Conversion, would beneficially own in excess of 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon conversion of the Preferred Stock with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) conversion of the remaining, nonconverted Stated Value of Preferred Stock beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Corporation (including the Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 6(c), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act. To the extent that the limitation contained in this Section 6(c) applies, the determination of whether the Preferred Stock is convertible (in relation to other securities owned by the Holder together with any affiliates) and of which shares of Preferred Stock is convertible shall be in the sole discretion of such Holder, and the submission of a Notice of Conversion shall be deemed to be such Holder’s determination of whether the shares of Preferred Stock may be converted (in relation to other securities owned by such Holder) and which shares of the Preferred Stock is convertible, in each case subject to such aggregate percentage limitations. To ensure compliance with this restriction, the Holder will be deemed to represent to the Corporation each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this paragraph and the Corporation shall have no obligation to verify or confirm the accuracy of such determination. For purposes of this Section 6(c), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in the most recent of the following: (A) the Corporation’s most recent Form 10-QSB or Form 10-KSB, as the case may be, (B) a more recent public announcement by the Corporation or (C) any other notice by the Corporation or the Corporation’s transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Corporation shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Preferred Stock, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The provisions of this Section 6(c) may be waived by the Holder upon, at the election of the Holder, not less than 61 days’ prior notice to the Corporation, and the provisions of this Section 6(c) shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver). Notwithstanding anything set forth in this Section 6(c), the 4.99% beneficial ownership restriction set forth in this Section 6(c) shall not apply to Common Stock issuable upon conversion of the Preferred Stock in connection with the Plan.

d) Mechanics of Conversion

i. Delivery of Certificate Upon Conversion. Not later than three Trading Days after each Conversion Date (the “Share Delivery Date”), the Corporation shall deliver to the Holder (A) a certificate or certificates which, after the Effective Date, shall be free of restrictive legends and trading restrictions (other than those required by the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of shares of Preferred Stock, and (B) a bank check in the amount of accrued and unpaid dividends (if the Corporation has elected or is required to pay accrued dividends in cash). After the Effective Date, the Corporation shall, upon request of the Holder, deliver any certificate or certificates required to be delivered by the Corporation under this Section electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions if the Corporation’s transfer agent is a participant in such system. If in the case of any Notice of Conversion such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the Holder shall be entitled to elect by written notice to the Corporation at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Corporation shall immediately return the certificates representing the shares of Preferred Stock tendered for conversion.

ii. Obligation Absolute; Partial Liquidated Damages. The Corporation’s obligations to issue and deliver the Conversion Shares upon conversion of Preferred Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Corporation or any violation or alleged violation of law by the Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to the Holder in connection with the issuance of such Conversion Shares. In the event a Holder shall elect to convert any or all of the Stated Value of its Preferred Stock, the Corporation may not refuse conversion based on any claim that such Holder or any one associated or affiliated with the Holder of has been engaged in any violation of law, agreement or for any other reason, unless, an injunction from a court, on notice, restraining and or enjoining conversion of all or part of this Preferred Stock shall have been sought and obtained and the Corporation posts a surety bond for the benefit of the Holder in the amount of 150% of the Stated Value of Preferred Stock outstanding, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to such Holder to the extent it obtains judgment. In the absence of an injunction precluding the same, the Corporation shall issue Conversion Shares or, if applicable, cash, upon a properly noticed conversion. If the Corporation fails to deliver to the Holder such certificate or certificates pursuant to Section 6(e)(i) within two Trading Days of the Share Delivery Date applicable to such conversion, the Corporation shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each \$5,000 of Stated Value of Preferred Stock being converted, \$50 per Trading Day (increasing to \$100 per Trading Day after 3 Trading Days and increasing to \$200 per Trading Day 6 Trading Days after such damages begin to accrue) for each Trading Day after the Share Delivery Date until such certificates are delivered. Nothing herein shall limit a Holder’s right to pursue actual damages for the Corporation’s failure to deliver certificates representing shares of Common Stock upon conversion within the period specified herein and such Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

iii. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. If the Corporation fails to deliver to the Holder such certificate or certificates pursuant to Section 6(d)(i) by a Share Delivery Date, and if after such Share Delivery Date and prior to any subsequent delivery of the certificates to Holders the Holder purchases (in an open market transaction or otherwise) Common Stock to deliver in satisfaction of a sale by such Holder of the Conversion Shares which the Holder was entitled to receive upon the conversion relating to such Share Delivery Date (a “Buy-In”), then the Corporation shall pay in cash to the Holder the amount by which (x) the Holder’s total purchase price (including brokerage commissions, if any) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that such Holder was entitled to receive from the conversion at issue multiplied by (2) the price at which the sell order giving rise to such purchase obligation was executed. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of shares of Preferred Stock with respect to which the aggregate sale price giving rise to such purchase obligation is \$10,000, under clause (A) of the immediately preceding sentence the Corporation shall be required to pay the Holder \$1,000. The Holder shall provide the Corporation written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Corporation. Nothing herein shall limit a Holder’s right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Corporation’s failure to timely deliver certificates representing shares of Common Stock upon conversion of the shares of Preferred Stock as required pursuant to the terms hereof.

iv. Reservation of Shares Issuable Upon Conversion. The Corporation covenants that it will at all times after June 30, 2005 reserve and keep available out of its authorized and unissued shares of Common Stock solely for the purpose of issuance upon conversion of the Preferred Stock and payment of dividends for three years from any point in time on the Preferred Stock, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of persons other than the Holders, not less than such number of shares of the Common Stock as shall (subject to any additional requirements of the Corporation as to reservation of such shares set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 7) upon the conversion of all outstanding shares of Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized, issued and fully paid, nonassessable and, if the Conversion Shares Registration Statement is then effective under the Securities Act, registered for public sale in accordance with such Conversion Shares Registration Statement.

v. Fractional Shares. Upon a conversion hereunder, the Corporation shall not be required to issue stock certificates representing fractions of shares of the Common Stock, but may if otherwise permitted, make a cash payment in respect of any final fraction of a share based on the VWAP at such time. If the Corporation elects not, or is unable, to make such a cash payment, the Holder shall be entitled to receive, in lieu of the final fraction of a share, one whole share of Common Stock.

vi. Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of the Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of such shares of Preferred Stock so converted and the Corporation shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Corporation, at any time while the Preferred Stock is outstanding: (A) shall pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation pursuant to this Preferred Stock or the Series A Convertible Preferred Stock), (B) subdivide outstanding shares of Common Stock into a larger number of shares, (C) combine (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issue by reclassification of shares of the Common Stock any shares of capital stock of the Corporation, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 7(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Equity Sales. If the Corporation or any Subsidiary thereof, as applicable, at any time while Preferred Stock is outstanding, shall offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock, at an effective price per share less than the then Conversion Price (such lower price, the “Base Conversion Price” and such issuances collectively, a “Dilutive Issuance”), as adjusted hereunder (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which is issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Conversion Price, such issuance shall be deemed to have occurred for less than the Conversion Price), then the Conversion Price shall be reduced to equal the Base Conversion Price. The Corporation shall notify the Holder in writing, no later than the Business Day following the issuance of any Common Stock or Common Stock Equivalents subject to this section, indicating therein the applicable issuance price, or of applicable reset price, exchange price, conversion price and other pricing terms (such notice the “Dilutive Issuance Notice”). For purposes of clarification, whether or not the Corporation provides a Dilutive Issuance Notice pursuant to this Section 7(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Conversion Shares based upon the Base Conversion Price regardless of whether the Holder accurately refers to the Base Conversion Price in the Notice of Conversion.

c) Subsequent Rights Offerings. If the Corporation, at any time while the Preferred Stock is outstanding, shall issue rights, options or warrants to all holders of Common Stock (and not to Holders) entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the VWAP at the record date mentioned below, then the Conversion Price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered (assuming receipt by the Corporation in full of all consideration payable upon exercise of such rights, options or warrants) would purchase at such VWAP. Such adjustment shall be made whenever such rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options or warrants.

d) Pro Rata Distributions. If the Corporation, at any time while Preferred Stock is outstanding, shall distribute to all holders of Common Stock (and not to Holders) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security, then in each such case the Conversion Price shall be determined by multiplying such Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

e) Fundamental Transaction. If, at any time while this Preferred Stock is outstanding, (A) the Corporation effects any merger or consolidation of the Corporation with or into another Person, (B) the Corporation effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Corporation or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Corporation effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then upon any subsequent conversion of this Preferred Stock, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion absent such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of Common Stock (the “Alternate Consideration”). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Corporation shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Corporation or surviving entity in such Fundamental Transaction shall file a new Certificate of Designations with the same terms and conditions and issue to the Holder new preferred stock consistent with the foregoing provisions and evidencing the Holder’s right to convert such preferred stock into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 7(e) and insuring that this Preferred Stock (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

f) Exempt Issuance. Notwithstanding the foregoing, no adjustment will be made under this Section 7 in respect of an Exempt Issuance.

g) Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

h) Notice to Holders.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any of this Section 7, the Corporation shall promptly mail to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Corporation issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Corporation shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

ii. Notice to Allow Conversion by Holder. If (A) the Corporation shall declare a dividend (or any other distribution) on the Common Stock; (B) the Corporation shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Corporation shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Corporation shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Corporation is a party, any sale or transfer of all or substantially all of the assets of the Corporation, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Corporation shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation; then, in each case, the Corporation shall cause to be filed at each office or agency maintained for the purpose of conversion of the Preferred Stock, and shall cause to be mailed to the Holders at their last addresses as they shall appear upon the stock books of the Corporation, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. Holders are entitled to convert the Conversion Amount of Preferred Stock during the 20-day period commencing the date of such notice to the effective date of the event triggering such notice.

Section 8. Forced Conversion.

a) As used herein, the “Forced Conversion Date” shall be the Plan Closing Date.

b) One minute after this Second Amended and Restated Certificate is effective with the Nevada Secretary of State (the “Conversion Time”) on the Forced Conversion Date, each share of Preferred Stock outstanding, automatically and without any action on the part of the holder thereof, shall convert into a number of fully paid and nonassessable shares of Common Stock equal to the quotient of (i) the Stated Value of the shares of Preferred Stock outstanding on the Forced Conversion Date divided by (ii) the Conversion Price in effect at the Conversion Time on the Forced Conversion Date. Any accrued but unpaid dividends on the Preferred Stock outstanding at the Conversion Time on the Forced Conversion Date will be issued by the Company at the Conversion Time on the Forced Conversion Date in shares of Common Stock, with the number of shares of Common Stock to be issued equal to the quotient of (i) the accrued unpaid dividend divided by (ii) the Conversion Price in effect at the Conversion Time on the Forced Conversion Date.

c) As soon as practicable after the Forced Conversion Date, the Corporation will send a notice to all Holders stating (i) the date as of which the Forced Conversion Date occurred, and (ii) how many shares of Common Stock the Holder’s Preferred Stock was converted into.

Section 9. Redemption Upon Triggering Events.

a) “Triggering Event” means any one or more of the following events (whatever the reason and whether it shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. the failure of a Conversion Shares Registration Statement to be declared effective by the Commission on or prior to the 210th day after the Original Issue Date;

ii. if, during the Effectiveness Period, the effectiveness of the Conversion Shares Registration Statement lapses for any reason for more than an aggregate of 25 calendar days (which need not be consecutive days) during any 12 month period, or the Holder shall not be permitted to resell Registrable Securities under the Conversion Shares Registration Statement for more than an aggregate of 25 calendar days (which need not be consecutive days) during any 12 month period, and in each case the shares of Common Stock into which such Holder’s Preferred Stock can be converted cannot be sold in the public securities market pursuant to Rule 144(k) under the Securities Act, provided, that the cause of such lapse or unavailability is not due to factors solely within the control of such holder of Preferred Stock;

iii. the Corporation shall fail to deliver certificates representing Conversion Shares issuable upon a conversion hereunder that comply with the provisions hereof prior to the 9th Trading Day after such shares are required to be delivered hereunder, or the Corporation shall provide written notice to any Holder, including by way of public announcement, at any time, of its intention not to comply with requests for conversion of any shares of Preferred Stock in accordance with the terms hereof;

iv. one of the Events (as defined in the Registration Rights Agreement) described in subsections (i), (ii) or (iii) of Section 2(b) of the Registration Rights Agreement shall not have been cured to the satisfaction of the Holders prior to the expiration of 30 days from the Event Date (as defined in the Registration Rights Agreement) relating thereto (other than an Event resulting from a failure of a Conversion Shares Registration Statement to be declared effective by the Commission on or prior to the 210th day after the Original Issue Date, which shall be covered by Section 9(a)(i));

v. the Corporation shall fail for any reason to pay in full the amount of cash due pursuant to a Buy-In within 15 days after notice therefor is delivered hereunder or shall fail to pay all amounts owed on account of an Event within 15 days of the date due;

vi. the Corporation shall fail to have available a sufficient number of authorized and unreserved shares of Common Stock to issue to such Holder upon a conversion hereunder;

vii. the Corporation shall fail to observe or perform any other covenant, agreement or warranty contained in, or otherwise commit any breach of the Transaction Documents, and such failure or breach shall not, if subject to the possibility of a cure by the Corporation, have been remedied within 30 calendar days after the date on which written notice of such failure or breach shall have been given;

viii. the Corporation shall redeem more than a de minimis number of Junior Securities;

ix. the Corporation shall be party to a Change of Control Transaction;

x. there shall have occurred a Bankruptcy Event; or

xi. the Common Stock shall fail to be listed or quoted for trading on a Trading Market for more than 7 Trading Days, which need not be consecutive Trading Days.

b) Upon the occurrence of a Triggering Event, each Holder shall (in addition to all other rights it may have hereunder or under applicable law) have the right, exercisable at the sole option of such Holder, to require the Corporation to redeem all of the Preferred Stock then held by such Holder for a redemption price, in cash, equal to the Triggering Redemption Amount. The Triggering Redemption Amount, if in cash or in shares, shall be due and payable or issuable, as the case may be, within 5 Trading Days of the date on which the notice for the payment therefor is provided by a Holder (the “Triggering Redemption Payment Date”). If the Corporation fails to pay the Triggering Redemption Amount hereunder in full pursuant to this Section on the date such amount is due in accordance with this Section (whether in cash or shares of Common Stock), the Corporation will pay interest thereon at a rate of 18% per annum (or such lesser amount permitted by applicable law), accruing daily from such date until the Triggering Redemption Amount, plus all such interest thereon, is paid in full. For purposes of this Section, a share of Preferred Stock is outstanding until such date as the Holder shall have received Conversion Shares upon a conversion (or attempted conversion) thereof that meets the requirements hereof or has been paid the Triggering Redemption Amount plus all accrued but unpaid dividends and all accrued but unpaid liquidated damages in cash.

Section 10. Miscellaneous.

a) No Debt. So long as any shares of Preferred Stock are outstanding, the Corporation will not and will not permit any of its Subsidiaries to directly or indirectly enter into, create, incur, assume or suffer to exist (or allow any of its Subsidiaries to do so) any indebtedness or liens of any kind on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom, other than (1) accounts payable, equipment leases, other current payables and other accrued liabilities incurred in connection with short-term operating liabilities, (2) accrued interest on the Corporation’s existing indebtedness as set forth on Schedule 4 hereto; (3) up to \$1,000,000 for non-equity linked debt financing in the event the Corporation achieves at least \$5,000,000 in contract revenues and an annualized gross profit of at least \$2,250,000 as of any fiscal quarter of 2005 (as reported in the SEC Reports); and (4) an additional \$1,000,000 for non-equity linked debt financing in the event the Corporation achieves at least \$7,500,000 in contract revenues and at least a 45% corporate gross margin for any trailing 12 month period (as reported in the SEC Reports).

b) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service, addressed to the Corporation, at the address set forth above, facsimile number **631-924-6033, Attn: Chief Financial Officer, Richard Larkin** such other address or facsimile number as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile telephone number or address of such Holder appearing on the books of the Corporation, or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (New York City time), (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 5:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

c) Absolute Obligation. Except as expressly provided herein, no provision of this Certificate of Designation shall alter or impair the obligation of the Corporation, which is absolute and unconditional, to pay the liquidated damages (if any) on, the shares of Preferred Stock at the time, place, and rate, and in the coin or currency, herein prescribed.

d) Lost or Mutilated Preferred Stock Certificate. If a Holder’s Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Preferred Stock so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership hereof, and indemnity, if requested, all reasonably satisfactory to the Corporation.

e) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the “New York Courts”). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Certificate of Designation and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Certificate of Designation or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Certificate of Designation, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

f) Waiver. Any waiver by the Corporation or the Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation. The failure of the Corporation or the Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation. Any waiver must be in writing.

g) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates applicable laws governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum permitted rate of interest.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

RESOLVED, FURTHER, that the Chairman, the president or any vice-president, the Chief Financial Officer or the secretary or any assistant secretary, of the Corporation be and they hereby are authorized and directed to prepare and file an Amended and Restated Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of the Nevada Revised Statutes.

IN WITNESS WHEREOF, the undersigned has executed this Amended and Restated Certificate this 19th day of December 2007.

Name: Richard J. Larkin
Title: Chief Financial Officer

ANNEX A

NOTICE OF CONVERSION

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO CONVERT SHARES OF PREFERRED STOCK)

The undersigned hereby elects to convert the number of shares of Series B 9% Convertible Preferred Stock indicated below, into shares of common stock, par value \$0.01 per share (the “Common Stock”), of Chembio Diagnostics, Inc., a Nevada corporation (the “Corporation”), according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Corporation in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any.

Conversion calculations:

Date to Effect Conversion: _____

Number of shares of Preferred Stock owned prior to Conversion: _____

Number of shares of Preferred Stock to be Converted: _____

Stated Value of shares of Preferred Stock to be Converted: _____

Number of shares of Common Stock to be Issued: _____

Applicable Conversion Price: _____

Number of shares of Preferred Stock subsequent to Conversion: _____

[HOLDER]

By: _____

Name:

Title:

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

To Purchase _____ Shares of Common Stock of

CHEMBIO DIAGNOSTICS, INC.

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, _____ (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the original date of issuance (the "Initial Exercise Date") and on or prior to the close of business on the fifth anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Chembio Diagnostics, Inc., a Nevada corporation (the "Company"), up to _____ (_____) shares (the "Warrant Shares") of Common Stock, par value \$0.01 per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated **January 26, 2005**, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

(a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); provided, however, within 5 Trading Days of the date said Notice of Exercise is delivered to the Company, the Holder shall have surrendered this Warrant to the Company and the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. If the Holder is Crestview Capital Master, LLC or any Affiliate thereof, then such Holder shall give the Company 5 Trading Days advance notice of any such exercise for the purpose of enabling the Company to notify other holders of Warrants of such intended exercise. If the Holder or its predecessor in interest received this Warrant as a result of the exercise of its rights to exchange securities purchased in connection with the Company's issuance and sale of Series A Preferred Stock, then this Warrant shall not be exercisable until and unless the Holder has received notice of Crestview's exercise pursuant to the previous sentence. The restrictions of the foregoing two sentences shall not apply to any other category of Holder.

(b) Exercise Price. The exercise price of the Common Stock under this Warrant shall be as follows, subject to adjustment hereunder (the "Exercise Price"):

(i) For the period 4:01p.m. eastern time ("ET") through 9:59p.m. ET on the Plan Closing Date, \$0.40 per share for all or any portion of this Warrant exercised for cash;

(ii) For the period 4:01p.m. ET through 9:59p.m. ET on the Plan Closing Date, \$0.45 per share for all or any portion of this Warrant exercised through a Cashless Exercise;

(iii) For the period beginning 10:00p.m. ET on the Plan Closing Date through 9:59p.m. ET on the Final Plan Date, \$0.45 for all or any part of this Warrant exercised by a Holder who exercised at least 10% of all of such Holder's warrants and options for cash at the Plan Closing Date;

(iv) For the period beginning 10:00p.m. ET on the Plan Closing Date, \$0.61 per share for any Holder that did not exercise at least 10% of all of such Holder's warrants and options for cash at an exercise price of \$0.40 per share at the Plan Closing Date; and

(v) For the period beginning 10:00p.m. ET on the Final Plan Date, \$0.61 per share for all or any portion of this Warrant that has not been exercised on or before 9:59p.m. ET on the Final Plan Date.

(c) Cashless Exercise.

(i) At the option of the Holder, this Warrant may be exercised by means of a "cashless exercise" (a "Cashless Exercise") in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP for the ten-Trading Day period that ends on the first Trading Day immediately preceding the date of such election;

(B) = the applicable Exercise Price of this Warrant in effect on the date of exercise, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(ii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated on the Plan Closing Date received from a Holder who exercises its warrants on cashless basis at \$0.45 per share before 10:00p.m. ET on the Plan Closing Date, the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated between and inclusive of the Plan Closing Date and the Final Plan Date received from a Holder who exercises at least 10% of all of such Holder's warrants and options for cash before 10:00p.m. ET on the Plan Closing Date the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iv) Notwithstanding anything herein to the contrary, a Holder who does not exercise (i) at least 10% of all of such Holder's warrants and options issued by the Company for cash at an exercise price of \$0.40 per share before 10:00p.m. ET on the Plan Closing Date, or (ii) its warrants on cashless basis at \$0.45 per share by 10:00p.m. ET on the Plan Closing Date, shall not be permitted to exercise its Warrants on a cashless basis pursuant to Section 2(c)(i) above until April 1, 2008.

d) Exercise Limitations.

(i) Holder's Restrictions. The Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2(c) or otherwise, to the extent that after giving effect to such issuance after exercise, the Holder (together with the Holder's affiliates), as set forth on the applicable Notice of Exercise, would beneficially own in excess of 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to such issuance. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other shares of Preferred Stock or Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, it being acknowledged by Holder that the Company is not representing to Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder) and of which a portion of this Warrant is exercisable shall be in the sole discretion of such Holder, and the submission of a Notice of Exercise shall be deemed to be such Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder) and of which portion of this Warrant is exercisable, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-QSB or Form 10-KSB, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The provisions of this Section 2(d) may be waived by the Holder upon, at the election of the Holder, not less than 61 days' prior notice to the Company, and the provisions of this Section 2(d) shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver). Notwithstanding anything set forth in this Section 2(d), the 4.99% beneficial ownership restriction set forth in this Section 2(d) shall not apply to Common Stock issuable upon the exercise of Warrants in connection with the Plan.

(e) For purposes of this warrant, the term "Plan" shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company's then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company's outstanding warrants or options; (iii) offer the holders of the Company's warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

(f) "Plan Closing Date" shall be December 19, 2007.

(g) "Final Plan Date" shall mean the date that is six months and twelve days after the Plan Closing Date.

(h) Mechanics of Exercise.

(i) Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

(ii) Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission ("DWAC") system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within 3 Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above ("Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the

date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(vii) prior to the issuance of such shares, have been paid.

(iii) Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

(iv) Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(iv) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

(v) Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a “Buy-In”), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder’s total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (1) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Company. Nothing herein shall limit a Holder’s right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company’s failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

(vi) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

(vii) Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

(viii) Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company pursuant to this Warrant, the Company’s Series A Convertible Preferred Stock or the Company’s Series B Convertible Preferred Stock), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(b) Subsequent Equity Sales. If the Company or any Subsidiary thereof, as applicable, at any time while this Warrant is outstanding, shall offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock, at an effective price per share less than the then Exercise Price (such lower price, the “Base Share Price” and such issuances collectively, a “Dilutive Issuance”), as adjusted hereunder (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which is issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price), then, the Exercise Price shall be reduced to equal the Base Share Price and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. The Company shall notify the Holder in writing, no later than the Trading Day following the issuance of any Common Stock or Common Stock Equivalents subject to this section, indicating therein the applicable issuance price, or of applicable reset price, exchange price, conversion price and other pricing terms (such notice the “Dilutive Issuance Notice”). For purposes of clarification, whether or not the Company provides a Dilutive Issuance Notice pursuant to this Section 3(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Warrant Shares based upon the Base Share Price regardless of whether the Holder accurately refers to the Base Share Price in the Notice of Exercise.

(c) Pro Rata Distributions. If the Company, at any time prior to the Termination Date, shall distribute to all holders of Common Stock (and not to Holders of the Warrants) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security other than the Common Stock (which shall be subject to Section 3(b)), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then, upon any subsequent conversion of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise absent such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Alternate Consideration receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in an all cash transaction, cash equal to the value of this Warrant as determined in accordance with the Black-Scholes option pricing formula (the “Alternate Consideration”). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(d) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(e) Exempt Issuance. Notwithstanding the foregoing, no adjustments, Alternate Consideration nor notices shall be made, paid or issued under this Section 3 in respect of an Exempt Issuance or any issuance of Common Stock or Common Stock Equivalents upon conversion of the preferred stock or the exercise of warrants and/or options in connection with the Plan.

(f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares of Common Stock owned or held by or for the account of the Company, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

(g) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(h) Notice to Holders.

(i) Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

(ii) Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last addresses as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice to the effective date of the event triggering such notice.

Section 4. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon

surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “Warrant Register”), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an “accredited investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

(a) Title to Warrant. Prior to the Termination Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price (or by means of a cashless exercise), the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

(m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: December ____, 2007

CHEMBIO DIAGNOSTICS, INC.

By:

Name:

Lawrence A. Siebert

Title:

President

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

NOTICE OF EXERCISE

TO: CHEMBIO DIAGNOSTICS, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

Dated: _____, _____

Holder’s Signature: _____

Holder’s Address: _____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

CHEMBIO DIAGNOSTICS, INC.

**SECOND AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES C 7% CONVERTIBLE PREFERRED STOCK**

PURSUANT TO SECTION 78.1955 OF THE
NEVADA REVISED STATUTES

The undersigned, Richard J. Larkin, does hereby certify that:

1. He is the Chief Financial Officer of Chembio Diagnostics, Inc., a Nevada corporation (the “Corporation”).
2. The Corporation is authorized to issue 10,000,000 shares of preferred stock, 297.82698 of which have been issued.
3. The following resolutions were duly adopted by the Board of Directors:

WHEREAS, the Articles of Incorporation of the Corporation provides for a class of its authorized stock known as preferred stock, comprised of 10,000,000 shares, \$0.01 par value, issuable from time to time in one or more series;

WHEREAS, the Board of Directors of the Corporation is authorized to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of preferred stock and the number of shares constituting any Series and the designation thereof, of any of them; and

WHEREAS, it is the desire of the Board of Directors of the Corporation, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to a series of the preferred stock, which shall consist of, except as otherwise set forth in the Purchase Agreement, up to 205 shares of the preferred stock which the Corporation has the authority to issue, as follows;

WHEREAS, the Board of Directors with shareholder consent desires to amend certain provisions as follows:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issuance of a series of preferred stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such series of preferred stock as follows:

TERMS OF PREFERRED STOCK

Section 1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement. For the purposes hereof, the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 7(e).

“Bankruptcy Event” means any of the following events: (a) the Corporation or any Significant Subsidiary (as such term is defined in Rule 1-02(w) of Regulation S-X) thereof commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to the Corporation or any Significant Subsidiary thereof; (b) there is commenced against the Corporation or any Significant Subsidiary thereof any such case or proceeding that is not dismissed within 60 days after commencement; (c) the Corporation or any Significant Subsidiary thereof is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered; (d) the Corporation or any Significant Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment; (e) the Corporation or any Significant Subsidiary thereof makes a general assignment for the benefit of creditors; (f) the Corporation or any Significant Subsidiary thereof calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts; or (g) the Corporation or any Significant Subsidiary thereof, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Base Conversion Price” shall have the meaning set forth in Section 7(b).

“Buy-In” shall have the meaning set forth in Section 6(d)(iii).

“Change of Control Transaction” means the occurrence after the date hereof of any of (i) an acquisition after the date hereof by an individual or legal entity or “group” (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Corporation, by contract or otherwise) of in excess of 50% of the aggregate voting power of the Corporation, or (ii) the Corporation merges into or consolidates with any other Person, or any Person merges into or consolidates with the Corporation and, after giving effect to such transaction, the stockholders of the Corporation immediately prior to such transaction own less than 50% of the aggregate voting power of the Corporation or the successor entity of such transaction, or (iii) the Corporation sells or transfers its assets, as an entirety or substantially as an entirety, to another Person and the stockholders of the Corporation immediately prior to such transaction own less than 50% of the aggregate voting power of the acquiring entity immediately after the transaction, or (iv) the execution by the Corporation of an agreement to which the Corporation is a party or by which it is bound, providing for any of the events set forth above.

“Closing Date” means the Trading Day when all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) each Holder’s obligations to pay the Subscription Amount and (ii) the Corporation’s obligations to deliver the Securities have been satisfied or waived.

“Commission” means the Securities and Exchange Commission.

“Common Stock” means the Corporation’s common stock, par value \$0.01 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed into.

“Common Stock Equivalents” means any securities of the Corporation or the Subsidiaries which would entitle the holder thereof to acquire, directly or indirectly, at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Conversion Amount” means the sum of the Stated Value at issue.

“Conversion Date” shall have the meaning set forth in Section 6(a).

“Conversion Price” shall have the meaning set forth in Section 6(b).

“Conversion Shares” means, collectively, the shares of Common Stock into which the shares of Preferred Stock are convertible in accordance with the terms hereof.

“Conversion Shares Registration Statement” means a registration statement that meets the requirements of the Registration Rights Agreement and registers the resale of all Conversion Shares by the Holder, who shall be named as a “selling stockholder” thereunder, all as provided in the Registration Rights Agreement.

“Dilutive Issuance” shall have the meaning set forth in Section 7(b).

“Dilutive Issuance Notice” shall have the meaning set forth in Section 7(b).

“Dividend Payment Date” shall have the meaning set forth in Section 3(a).

“Effective Date” means the date that the Conversion Shares Registration Statement is declared effective by the Commission.

“Equity Conditions” means, during the period in question, (i) the Corporation shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion of the applicable Holder on or prior to the dates so requested or required, if any, (ii) the Corporation shall have paid all liquidated damages and other amounts owing to the applicable Holder in respect of the Preferred Stock, (iii) there is an effective Conversion Shares Registration Statement pursuant to which the Holders are permitted to utilize the prospectus thereunder to resell all of the shares of Common Stock issuable pursuant to the Transaction Documents (and the Corporation believes, in good faith, that such effectiveness will continue uninterrupted for the foreseeable future), (iv) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed for trading on such Trading Market (and the Corporation believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted for the foreseeable future), (v) there is a sufficient number of authorized, but unissued and otherwise unreserved, shares of Common Stock for the issuance of all of the shares of Common Stock issuable pursuant to the Transaction Documents, (vi) there is no existing Triggering Event or no existing event which, with the passage of time or the giving of notice, would constitute a Triggering Event, (vii) the issuance of the shares in question to the applicable Holder would not violate the limitations set forth in Section 6(c), (viii) there has been no public announcement of a pending or proposed Fundamental Transaction or Change of Control Transaction that has not been consummated and (ix) the applicable Holder is not in possession of any information that constitutes, or may constitute, material non-public information.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulation promulgated thereunder.

“Exempt Issuance” means the issuance of (a) shares of Common Stock or options to employees, officers, consultants, or directors of the Corporation pursuant to any stock or option plan or other resolution duly adopted by a majority of the non-employee members of the Board of Directors of the Corporation or a majority of the members of a committee of non-employee directors established for such purpose, (b) securities upon the exercise of or conversion of any Securities issued hereunder, convertible securities, options or warrants issued and outstanding on the date of the Purchase Agreement, provided that such securities have not been amended since the date of the Purchase Agreement to increase the number of such securities or to decrease the exercise or conversion price of any such securities (except pursuant to any anti-dilution adjustment contained therein), (c) securities issued pursuant to acquisitions or strategic transactions, provided any such issuance shall only be to a Person which is, itself or through its subsidiaries, an operating company in a business reasonably deemed by the Corporation’s Board of Directors to be strategically advantageous to the business of the Corporation and in which the Corporation receives benefits in addition to the investment of funds, but shall not include a transaction in which the Corporation is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities, (d) shares issued as dividend payments on the Series A Convertible Preferred Stock, the Series B 9% Convertible Preferred Stock and the Preferred Stock, and (e) shares of Common Stock or Common Stock Equivalents issued between the Plan Closing Date and the Final Plan Date in connection with the Company’s Plan.

“Final Plan Date” shall mean the date that is six months and twelve days after the Plan Closing Date.

“Fundamental Transaction” shall have the meaning set forth in Section 7(e).

“Holder” shall have the meaning given such term in Section 2.

“Junior Securities” means the Common Stock and all other Common Stock Equivalents of the Corporation other than those securities which are explicitly senior or paripassu to the Preferred Stock in dividend rights or liquidation preference.

“Liquidation” shall have the meaning given such term in Section 5.

“New York Courts” shall have the meaning given such term in Section 10(e).

“Notice of Conversion” shall have the meaning given such term in Section 6(a).

“Original Issue Date” shall mean the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

“Person” means a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

“Plan” shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company’s then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company’s outstanding warrants or options; (iii) offer the holders of the Company’s warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

“Plan Closing Date” shall mean December 19, 2007.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of September 29, 2006, to which the Corporation and the original Holders are parties, as amended, modified or supplemented from time to time in accordance with its terms.

“Registration Rights Agreement” as to a Holder, means the Registration Rights Agreement entered into to which the Corporation and such Holder are parties, as amended, modified or supplemented from time to time in accordance with its terms.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Share Delivery Date” shall have the meaning given such term in Section 6(d).

“Stated Value” shall have the meaning given such term in Section 2.

“Subscription Amount” shall mean, as to each Purchaser, the amount to be paid for the Preferred Stock purchased pursuant to the Purchase Agreement (or, if applicable to a Holder, any other Securities Purchase Agreement entered into for the sale of Preferred Stock as permitted hereunder) as specified below such Purchaser’s name on the signature page of the Purchase Agreement (or other Securities Purchase Agreement, as applicable) and next to the heading “Subscription Amount”, in United States Dollars and in immediately available funds.

“Subsidiary” shall have the meaning given to such term in the Purchase Agreement.

“Threshold Period” shall have the meaning set forth in Section 6(a).

“Trading Day” means a day on which the Common Stock is traded on a Trading Market.

“Trading Market” means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the OTC Bulletin Board, the Nasdaq SmallCap Market, the American Stock Exchange, the New York Stock Exchange or the Nasdaq National Market.

“Transaction Documents” shall have the meaning set forth in the Purchase Agreement or, as to any Holders party to another Securities Purchase Agreement, as such term is defined in such agreement.

“Triggering Event” shall have the meaning set forth in Section 9(a).

“Triggering Redemption Amount” for each share of Preferred Stock means the sum of (i) the greater of (A) 130% of the Stated Value and (B) the product of (a) the VWAP on the Trading Day immediately preceding the date of the Triggering Event and (b) the Stated Value divided by the then Conversion Price, (ii) all accrued but unpaid dividends thereon and (iii) all liquidated damages and other amounts due in respect of the Preferred Stock.

“Triggering Redemption Payment Date” shall have the meaning set forth in Section 9(b).

“VWAP” means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg Financial L.P. (based on a Trading Day from 9:30 a.m. Eastern Time to 4:02 p.m. Eastern Time); (b) if the Common Stock is not then listed or quoted on a Trading Market and if prices for the Common Stock are then reported in the “Pink Sheets” published by the Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (c) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Purchasers and reasonably acceptable to the Corporation.

Section 2. Designation, Rank, Amount and Par Value. The series of preferred stock shall be designated as its Series C 7% Convertible Preferred Stock (the “Preferred Stock”) and the number of shares so designated shall be 205 (which shall not be subject to increase without the consent of all of the holders of the Preferred Stock (each, a “Holder” and collectively, the “Holders”). Each share of Preferred Stock shall have a par value of \$0.01 per share and a stated value equal to \$50,000 (the “Stated Value”). The Preferred Stock shall rank pari passu to the Corporation’s Series A Convertible Preferred Stock and the Corporation’s Series B 9% Convertible Preferred Stock as to payment of dividends and liquidation preference. Capitalized terms not otherwise defined herein shall have the meaning given such terms in Section 1 hereof.

Section 3. Dividends.

a) Dividends in Cash or in Kind. Holders shall be entitled to receive, and the Corporation shall pay, cumulative dividends at the rate per share (as a percentage of the Stated Value per share) of 7% per annum, payable semi-annually on January 1 and July 1, beginning on July 1, 2007 and on each Conversion Date (with respect only to Preferred Stock being converted) (each such date, a “Dividend Payment Date”) (if any Dividend Payment Date is not a Trading Day, the applicable payment shall be due on the next succeeding Trading Day) in cash or duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 3(a), or a combination thereof (the amount to be paid in shares of Common Stock, the “Dividend Share Amount”). The form of dividend payments to each Holder shall be determined in the following order of priority: (i) if funds are legally available for the payment of dividends and the Equity Conditions have not been met during the 20 consecutive Trading Days immediately prior to the applicable Dividend Payment Date, in cash only; (ii) if funds are legally available for the payment of dividends and the Equity Conditions have been met during the 20 consecutive Trading Days immediately prior to the applicable Dividend Payment Date, at the sole election of the Corporation, in cash or shares of Common Stock which shall be valued solely for such purpose at 90% of the average of the VWAPs for the 20 consecutive Trading Days ending on the Trading Day that is immediately prior to the Dividend Payment Date; (iii) if funds are not legally available for the payment of dividends and the Equity Conditions have been met during the 20 consecutive Trading Days immediately prior to the applicable Dividend Payment Date, in shares of Common Stock which shall be valued solely for such purpose at 90% of the average of the VWAPs for the 20 consecutive Trading Days ending on the Trading Day that is immediately prior to the Dividend Payment Date; (iv) if funds are not legally available for the payment of dividends and the Equity Condition relating to an effective Conversion Shares Registration Statement has been waived by such Holder, as to such Holder only, in unregistered shares of Common Stock which shall be valued solely for such purpose at 90% of the average of the VWAPs for the 20 consecutive Trading Days ending on the Trading Day that is immediately prior to the Dividend Payment Date; and (v) if funds are not legally available for the payment of dividends and the Equity Conditions have not been met during the 20 consecutive Trading Days immediately prior to the applicable Dividend Payment Date, then, at the election of such Holder, such dividends shall accrue to the next Dividend Payment Date or shall be accreted to, and increase, the outstanding Stated Value. The Holders shall have the same rights and remedies with respect to the delivery of any such shares as if such shares were being issued pursuant to Section 6. On the Closing Date the Corporation shall have notified the Holders whether or not it may legally pay cash dividends as of the Closing Date. The Corporation shall promptly notify the Holders at any time the Corporation shall become able or unable, as the case may be, to legally pay cash dividends. If at any time the Corporation has the right to pay dividends in cash or Common Stock, the Corporation must provide the Holders with at least 20 Trading Days’ notice of its election to pay a regularly scheduled dividend in Common Stock (the Corporation may indicate in such notice that the election contained in such notice shall continue for later periods until revised by a subsequent notice). Dividends on the Preferred Stock shall be calculated on the basis of a 360-day year, consisting of twelve 30 calendar day periods, shall accrue daily commencing on the Original Issue Date, and shall be deemed to accrue from such date whether or not earned or declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends. Except as otherwise provided herein, if at any time the Corporation pays dividends partially in cash and partially in shares, then such payment shall be distributed ratably among the Holders based upon the number of shares of Preferred Stock held by each Holder on such Dividend Payment Date. Any dividends, whether paid in cash or shares of Common Stock, that are not paid within three Trading Days following a Dividend Payment Date shall continue to accrue and shall entail a late fee, which must be paid in cash, at the rate of 18% per annum or the lesser rate permitted by applicable law (such fees to accrue daily, from the Dividend Payment Date through and including the date of payment). If at any time the Corporation delivers a notice to the Holders of its election to pay the dividends in shares of Common Stock, the Corporation shall timely file a prospectus supplement pursuant to Rule 424 disclosing such election.

b) So long as any Preferred Stock shall remain outstanding, neither the Corporation nor any Subsidiary thereof shall redeem, purchase or otherwise acquire directly or indirectly any Junior Securities. So long as any Preferred Stock shall remain outstanding, neither the Corporation nor any Subsidiary thereof shall directly or indirectly pay or declare any dividend or make any distribution (other than a dividend or distribution described in Section 6 or dividends due and paid in the ordinary course on preferred stock of the Corporation at such times when the Corporation is in compliance with its payment and other obligations hereunder) upon, nor shall any distribution be made in respect of, any Junior Securities so long as any dividends due on the Preferred Stock remain unpaid, nor shall any monies be set aside for or applied to the purchase or redemption (through a sinking fund or otherwise) of any Junior Securities.

Section 4. Voting Rights. Except as otherwise provided herein and as otherwise required by law, the Preferred Stock shall have no voting rights. However, so long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of at least 81% of the shares of the Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend this Certificate of Designation, (b) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a Liquidation (as defined in Section 5) senior to or otherwise pari passu with the Preferred Stock, (c) amend its articles of incorporation or other charter documents so as to affect adversely any rights of the Holders, (d) increase the authorized number of shares of Preferred Stock, or (e) enter into any agreement with respect to the foregoing.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a "Liquidation"), the Holders shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus, for each share of Preferred Stock an amount equal to the Stated Value per share plus any accrued and unpaid dividends thereon and any other fees or liquidated damages owing thereon before any distribution or payment shall be made to the holders of any Junior Securities, and if the assets of the Corporation shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be distributed among the Holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full, paripassu with the Corporation's Series A Convertible Preferred Stock and the Series B 9% Convertible Preferred Stock treated together as a class based upon the liquidation preferences of each such series. A Fundamental Transaction or Change of Control Transaction shall not be treated as a Liquidation. The Corporation shall mail written notice of any such Liquidation, not less than 45 days prior to the payment date stated therein, to each record Holder.

Section 6. Conversion.

a) Conversions at Option of Holder. Each share of Preferred Stock shall be convertible into that number of shares of Common Stock (subject to the limitations set forth in Sections 6(c)) determined by dividing the Stated Value of such share of Preferred Stock by the Conversion Price, at the option of the Holder, at any time and from time to time from and after the Original Issue Date. Holders shall effect conversions by providing the Corporation with the form of conversion notice attached hereto as Annex A (a "Notice of Conversion"). Each Notice of Conversion shall specify the number of shares of Preferred Stock to be converted, the number of shares of Preferred Stock owned prior to the conversion at issue, the number of shares of Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Notice of Conversion to the Corporation by facsimile (the "Conversion Date"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion to the Corporation is deemed delivered hereunder. The calculations and entries set forth in the Notice of Conversion shall control in the absence of manifest or mathematical error. To effect conversions, as the case may be, of shares of Preferred Stock, a Holder shall not be required to surrender the certificate(s) representing such shares of Preferred Stock to the Corporation unless all of the shares of Preferred Stock represented thereby are so converted, in which case such Holder shall deliver the certificate representing such shares of Preferred Stock promptly following the Conversion Date at issue. Shares of Preferred Stock converted into Common Stock or redeemed in accordance with the terms hereof shall be canceled and may not be reissued.

b) Conversion Price. The conversion price for the Preferred Stock shall equal \$0.48 per share for the holders of the Preferred Stock on the Plan Closing Date (the "Conversion Price").

c) Beneficial Ownership Limitation. The Corporation shall not effect any conversion of the Preferred Stock, and a Holder shall not have the right to convert any portion of the Preferred Stock, to the extent that, after giving effect to the conversion set forth on the applicable Notice of Conversion, such Holder (together with such Holder's Affiliates, and any other Person or entity acting as a group together with such Holder or any of such Holder's Affiliates) would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates shall include the number of shares of Common Stock issuable upon conversion of the Preferred Stock with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which are issuable upon (A) conversion of the remaining, unconverted Stated Value of Preferred Stock beneficially owned by such Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Corporation subject to a limitation on conversion or exercise analogous to the limitation contained herein (including the Warrants) beneficially owned by such Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 6(c), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. To the extent that the limitation contained in this Section 6(c) applies, the determination of whether the Preferred Stock is convertible (in relation to other securities owned by such Holder together with any Affiliates) and of how many shares of Preferred Stock are convertible shall be in the sole discretion of such Holder, and the submission of a Notice of Conversion shall be deemed to be such Holder's determination of whether the shares of Preferred Stock may be converted (in relation to other securities owned by such Holder together with any Affiliates) and how many shares of the Preferred Stock are convertible, in each case subject to such aggregate percentage limitations. To ensure compliance with this restriction, each Holder will be deemed to represent to the Corporation each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this paragraph and the Corporation shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 6(c), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as stated in the most recent of the following: (A) the Corporation's most recent Form 10-QSB or Form 10-KSB, as the case may be, (B) a more recent public announcement by the Corporation or (C) a more recent notice by the Corporation or the Corporation's transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Corporation shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Preferred Stock, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of Preferred Stock held by the applicable Holder. The Beneficial Ownership Limitation provisions of this Section 6(c) may be waived by such Holder, at the election of such Holder, upon not less than 61 days' prior notice to the Corporation, to change the Beneficial Ownership Limitation to 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon conversion of Preferred Stock held by the applicable Holder and the provisions of this Section 6(c) shall continue to apply. Upon such a change by a Holder of the Beneficial Ownership Limitation from such 4.99% limitation to such 9.99% limitation, the Beneficial Ownership Limitation shall not be further waived by such Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 6(c) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of Preferred Stock. Notwithstanding anything set forth in this Section 6(c), the 4.99% and 9.99% beneficial ownership limitations imposed by this Section 6(c) shall not apply to Common Stock issuable upon conversion of the Preferred Stock in connection with the Plan.

d) Mechanics of Conversion.

i. Delivery of Certificate Upon Conversion. Not later than three Trading Days after each Conversion Date (the "Share Delivery Date"), the Corporation shall deliver to the Holder (A) a certificate or certificates which, after the Effective Date, shall be free of restrictive legends and trading restrictions (other than those required by the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of shares of Preferred Stock, and (B) a bank check in the amount of accrued and unpaid dividends (if the Corporation has elected or is required to pay accrued dividends in cash). After the Effective Date, the Corporation shall, upon request of the Holder, deliver any certificate or certificates required to be delivered by the Corporation under this Section electronically through the Depository Trust Company or another established clearing corporation performing similar functions if the Corporation's transfer agent is a participant in such system. If in the case of any Notice of Conversion such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the Holder shall be entitled to elect by written notice to the Corporation at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Corporation shall immediately return the certificates representing the shares of Preferred Stock tendered for conversion.

ii. Obligation Absolute; Partial Liquidated Damages. The Corporation's obligation to issue and deliver the Conversion Shares upon conversion of Preferred Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by a Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by such Holder or any other Person of any obligation to the Corporation or any violation or alleged violation of law by such Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to such Holder in connection with the issuance of such Conversion Shares; provided, however, that such delivery shall not operate as a waiver by the Corporation of any such action that the Corporation may have against such Holder. In the event a Holder shall elect to convert any or all of the Stated Value of its Preferred Stock, the Corporation may not refuse conversion based on any claim that such Holder or any one associated or affiliated with such Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and/or enjoining conversion of all or part of the Preferred Stock of such Holder shall have been sought and obtained, and the Corporation posts a surety bond for the benefit of such Holder in the amount of 150% of the Stated Value of Preferred Stock which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to such Holder to the extent it obtains judgment. In the absence of such injunction, the Corporation shall issue Conversion Shares and, if applicable, cash, upon a properly noticed conversion. If the Corporation fails to deliver to a Holder such certificate or certificates pursuant to Section 6(e)(i) on the second Trading Day after the Share Delivery Date applicable to such conversion, the Corporation shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each \$5,000 of Stated Value of Preferred Stock being converted, \$50 per Trading Day (increasing to \$100 per Trading Day after the third Trading Day and increasing to \$200 per Trading Day after the sixth Trading Day after such damages begin to accrue) for each Trading Day after such second Trading Day after the Share Delivery Date until such certificates are delivered. Nothing herein shall limit a Holder's right to pursue actual damages or declare a Triggering Event pursuant to Section 9 for the Corporation's failure to deliver Conversion Shares within the period specified herein and such Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The Exercise of any such rights shall not prohibit a Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

iii. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. If the Corporation fails to deliver to a Holder the applicable certificate or certificates by the Share Delivery Date pursuant to Section 6(e)(i), and if after such Share Delivery Date such Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder's brokerage firm purchases, shares of Common Stock to deliver in satisfaction of a sale by such Holder of the Conversion Shares which such Holder was entitled to receive upon the conversion relating to such Share Delivery Date (a "Buy-In"), then the Corporation shall (A) pay in cash to such Holder (in addition to any other remedies available to or elected by such Holder) the amount by which (x) such Holder's total purchase price (including any brokerage commissions) for the shares of Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that such Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of such Holder, either reissue (if surrendered) the shares of Preferred Stock equal to the number of shares of Preferred Stock submitted for conversion or deliver to such Holder the number of shares of Common Stock that would have been issued if the Corporation had timely complied with its delivery requirements under Section 6(e)(i). For example, if a Holder purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of shares of Preferred Stock with respect to which the actual sale price (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, the Corporation shall be required to pay such Holder \$1,000. The Holder shall provide the Corporation written notice indicating the amounts payable to such Holder in respect of the Buy-In and, upon request of the Corporation, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Corporation's failure to timely deliver certificates representing shares of Common Stock upon conversion of the shares of Preferred Stock as required pursuant to the terms hereof.

iv. Reservation of Shares Issuable Upon Conversion. The Corporation covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock solely for the purpose of issuance upon conversion of the Preferred Stock and payment of dividends for three years from any point in time on the Preferred Stock, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holders, not less than such number of shares of the Common Stock as shall (subject to any additional requirements of the Corporation as to reservation of such shares set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 7) upon the conversion of all outstanding shares of Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized, issued and fully paid, nonassessable and, if the Conversion Shares Registration Statement is then effective under the Securities Act, registered for public sale in accordance with such Conversion Shares Registration Statement.

v. Fractional Shares. Upon a conversion hereunder, the Corporation shall not be required to issue stock certificates representing fractions of shares of Common Stock, but may if otherwise permitted, make a cash payment in respect of any final fraction of a share based on the VWAP at such time. If the Corporation elects not, or is unable, to make such a cash payment, the Holders shall be entitled to receive, in lieu of the final fraction of a share, one whole share of Common Stock.

vi. Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of the Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holders of such shares of Preferred Stock so converted and the Corporation shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Corporation, at any time while this Preferred Stock is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any other Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation upon conversion of, or payment of a dividend on, this Preferred Stock, the Series A Convertible Preferred Stock or the Series B 9% Convertible Preferred Stock); (B) subdivides outstanding shares of Common Stock into a larger number of shares; (C) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares; or (D) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of the Corporation, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of the Corporation) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section 7(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Equity Sales. If, at any time while this Preferred Stock is outstanding, the Corporation or any Subsidiary, as applicable, sells or grants any option to purchase or sells or grants any right to reprice its securities, or otherwise disposes of or issues (or announces any sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock at an effective price per share that is lower than the then Conversion Price (such lower price, the “Base Conversion Price” and such issuances collectively, a “Dilutive Issuance”) (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share that is lower than the Conversion Price, such issuance shall be deemed to have occurred for less than the Conversion Price on such date of the Dilutive Issuance), then the Conversion Price shall be reduced to equal the Base Conversion Price. Notwithstanding the foregoing, no adjustment will be made under this Section 7(b) in respect of an Exempt Issuance. The Corporation shall notify the Holders in writing, no later than the Business Day following the issuance of any Common Stock or Common Stock Equivalents subject to this Section 7(b), indicating therein the applicable issuance price, or applicable reset price, exchange price, conversion price and other pricing terms (such notice, the “Dilutive Issuance Notice”). For purposes of clarification, whether or not the Corporation provides a Dilutive Issuance Notice pursuant to this Section 7(b), upon the occurrence of any Dilutive Issuance, the Holders are entitled to receive a number of Conversion Shares based upon the Base Conversion Price on or after the date of such Dilutive Issuance, regardless of whether a Holder accurately refers to the Base Conversion Price in the Notice of Conversion.

c) Subsequent Rights Offerings. If the Corporation, at any time while the Preferred Stock is outstanding, shall issue rights, options or warrants to all holders of Common Stock (and not to Holders) entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the VWAP at the record date mentioned below, then the Conversion Price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered (assuming receipt by the Corporation in full of all consideration payable upon exercise of such rights, options or warrants) would purchase at such VWAP. Such adjustment shall be made whenever such rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options or warrants.

d) Pro Rata Distributions. If the Corporation, at any time while Preferred Stock is outstanding, shall distribute to all holders of Common Stock (and not to Holders) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security, then in each such case the Conversion Price shall be determined by multiplying such Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

e) Fundamental Transaction. If, at any time while this Preferred Stock is outstanding, (A) the Corporation effects any merger or consolidation of the Corporation with or into another Person, (B) the Corporation effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Corporation or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Corporation effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then upon any subsequent conversion of this Preferred Stock, the Holders shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of Common Stock (the “Alternate Consideration”). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Corporation shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holders shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Corporation or surviving entity in such Fundamental Transaction shall file a new Certificate of Designation with the same terms and conditions and issue to the Holders new preferred stock consistent with the foregoing provisions and evidencing the Holders’ right to convert such preferred stock into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 7(e) and insuring that this Preferred Stock (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

f) Exempt Issuance. Notwithstanding the foregoing, no adjustment will be made under this Section 7 in respect of an Exempt Issuance.

g) Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

h) Notice to Holders.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provisions of this Section 7, the Corporation shall promptly mail to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Corporation issues a variable rate security, despite the prohibition thereon in the Purchase Agreement (or other Securities Purchase Agreement if applicable to a Holder), the Corporation shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

ii. Notice to Allow Conversion by Holder. If (A) the Corporation shall declare a dividend (or any other distribution) on the Common Stock; (B) the Corporation shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Corporation shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Corporation shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Corporation is a party, any sale or transfer of all or substantially all of the assets of the Corporation, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Corporation shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation; then, in each case, the Corporation shall cause to be filed at each office or agency maintained for the purpose of conversion of the Preferred Stock, and shall cause to be mailed to the Holders at their last addresses as they shall appear upon the stock books of the Corporation, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. Holders are entitled to convert the Conversion Amount of Preferred Stock during the 20-day period commencing the date of such notice to the effective date of the event triggering such notice.

Section 8. Forced Conversion.

a) As used herein, the “Forced Conversion Date” shall be the Plan Closing Date.

b) One minute after this Second Amended and Restated Certificate is effective with the Nevada Secretary of State (the “Conversion Time”) on the Forced Conversion Date, each share of Preferred Stock outstanding, automatically and without any action on the part of the holder thereof, shall convert into a number of fully paid and nonassessable shares of Common Stock equal to the quotient of (i) the Stated Value of the shares of Preferred Stock outstanding on the Forced Conversion Date divided by (ii) the Conversion Price in effect at the Conversion Time on the Forced Conversion Date. Any accrued but unpaid dividends on the Preferred Stock outstanding at the Conversion Time on the Forced Conversion Date will be issued by the Company at the Conversion Time on the Forced Conversion Date in shares of Common Stock, with the number of shares of Common Stock to be issued equal to the quotient of (i) the accrued unpaid dividend divided by (ii) the Conversion Price in effect at the Conversion Time on the Forced Conversion Date.

c) As soon as practicable after the Forced Conversion Date, the Corporation will send a notice to all Holders stating (i) the date as of which the Forced Conversion Date occurred, and (ii) how many shares of Common Stock the Holder’s Preferred Stock was converted into.

Section 9. Redemption Upon Triggering Events.

a) “Triggering Event” means any one or more of the following events (whatever the reason and whether it shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. the failure of a Conversion Shares Registration Statement to be declared effective by the Commission on or prior to the 210th day after the Original Issue Date;

ii. if, during the Effectiveness Period, the effectiveness of the Conversion Shares Registration Statement lapses for any reason for more than an aggregate of 25 calendar days (which need not be consecutive days) during any 12 month period, or the Holder shall not be permitted to resell Registrable Securities under the Conversion Shares Registration Statement for more than an aggregate of 25 calendar days (which need not be consecutive days) during any 12 month period, and in each case the shares of Common Stock into which such Holder’s Preferred Stock can be converted cannot be sold in the public securities market pursuant to Rule 144(k) under the Securities Act, provided, that the cause of such lapse or unavailability is not due to factors solely within the control of such holder of Preferred Stock;

iii. the Corporation shall fail to deliver certificates representing Conversion Shares issuable upon a conversion hereunder that comply with the provisions hereof prior to the 9th Trading Day after such shares are required to be delivered hereunder, or the Corporation shall provide written notice to any Holder, including by way of public announcement, at any time, of its intention not to comply with requests for conversion of any shares of Preferred Stock in accordance with the terms hereof;

iv. one of the Events (as defined in the Registration Rights Agreement) described in subsections (i), (ii) or (iii) of Section 2(b) of the Registration Rights Agreement shall not have been cured to the satisfaction of the Holders prior to the expiration of 30 days from the Event Date (as defined in the Registration Rights Agreement) relating thereto (other than an Event resulting from a failure of a Conversion Shares Registration Statement to be declared effective by the Commission on or prior to the 210th day after the Original Issue Date, which shall be covered by Section 9(a)(i));

v. the Corporation shall fail for any reason to pay in full the amount of cash due pursuant to a Buy-In within 15 days after notice therefor is delivered hereunder or shall fail to pay all amounts owed on account of an Event within 15 days of the date due;

vi. the Corporation shall fail to have available a sufficient number of authorized and unreserved shares of Common Stock to issue to such Holder upon a conversion hereunder;

vii. the Corporation shall fail to observe or perform any other covenant, agreement or warranty contained in, or otherwise commit any breach of the Transaction Documents, and such failure or breach shall not, if subject to the possibility of a cure by the Corporation, have been remedied within 30 calendar days after the date on which written notice of such failure or breach shall have been given;

viii. the Corporation shall redeem more than a de minimis number of Junior Securities other than as to repurchases of Common Stock or Common Stock Equivalents from departing officers and directors of the Corporation, provided that, while any of the Preferred Stock remains outstanding, such repurchases shall not exceed an aggregate of \$100,000 from all officers and directors;

ix. the Corporation shall be party to a Change of Control Transaction;

x. there shall have occurred a Bankruptcy Event; or

xi. the Common Stock shall fail to be listed or quoted for trading on a Trading Market for more than 7 Trading Days, which need not be consecutive Trading Days.

b) Upon the occurrence of a Triggering Event, each Holder shall (in addition to all other rights it may have hereunder or under applicable law) have the right, exercisable at the sole option of such Holder, to require the Corporation to redeem all of the Preferred Stock then held by such Holder for a redemption price, in cash, equal to the Triggering Redemption Amount. The Triggering Redemption Amount shall be due and payable within 5 Trading Days of the date on which the notice for the payment therefor is provided by a Holder (the "Triggering Redemption Payment Date"). If the Corporation fails to pay the Triggering Redemption Amount hereunder in full pursuant to this Section on the date such amount is due in accordance with this Section, the Corporation will pay interest thereon at a rate of 18% per annum (or such lesser amount permitted by applicable law), accruing daily from such date until the Triggering Redemption Amount, plus all such interest thereon, is paid in full. For purposes of this Section, a share of Preferred Stock is outstanding until such date as the Holder shall have received Conversion Shares upon a conversion (or attempted conversion) thereof that meets the requirements hereof or has been paid the Triggering Redemption Amount plus all accrued but unpaid dividends and all accrued but unpaid liquidated damages in cash.

Section 10. Miscellaneous.

a) No Debt. So long as at least 5 shares of Preferred Stock are outstanding, the Corporation will not and will not permit any of its Subsidiaries to directly or indirectly enter into, create, incur, assume or suffer to exist (or allow any of its Subsidiaries to do so) any indebtedness or liens of any kind on or with respect to any of its property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom, other than (1) accounts payable, equipment leases, other current payables and other accrued liabilities incurred in connection with short-term operating liabilities, (2) accrued interest on the Corporation's existing indebtedness as set forth on Schedule 10 hereto, and (3) up to \$2,000,000 for non-equity linked debt financing.

b) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service, addressed to the Corporation, at the address set forth above, facsimile number **631-924-6033, Attn: Chief Financial Officer, Richard Larkin** such other address or facsimile number as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile telephone number or address of such Holder appearing on the books of the Corporation, or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (New York City time), (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 5:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

c) Absolute Obligation. Except as expressly provided herein, no provision of this Certificate of Designation shall alter or impair the obligation of the Corporation, which is absolute and unconditional, to pay the liquidated damages (if any) on, the shares of Preferred Stock at the time, place, and rate, and in the coin or currency, herein prescribed.

d) Lost or Mutilated Preferred Stock Certificate. If a Holder's Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Preferred Stock so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership hereof, and indemnity, if requested, all reasonably satisfactory to the Corporation.

e) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the “New York Courts”). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Certificate of Designation and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Certificate of Designation or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Certificate of Designation, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

f) Waiver. Any waiver by the Corporation or the Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation. The failure of the Corporation or the Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation. Any waiver must be in writing.

g) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates applicable laws governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum permitted rate of interest.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

j) Status of Converted or Redeemed Preferred Stock. Shares of Preferred Stock may only be issued if permitted pursuant to the Purchase Agreement. If any shares of Preferred Stock shall be converted, redeemed or reacquired by the Corporation, such shares shall resume the status of authorized but unissued shares of preferred stock and shall no longer be designated as Series C 7% Convertible Preferred Stock.

RESOLVED, FURTHER, that the Chairman, the president or any vice-president, the Chief Financial Officer and the secretary or any assistant secretary, of the Corporation be and they hereby are authorized and directed to prepare and file a Restated and Amended Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of the Nevada Revised Statutes.

IN WITNESS WHEREOF, the undersigned have executed this Certificate this 19th day of December, 2007.

Richard J. Larkin
Title: Chief Financial Officer

ANNEX A

NOTICE OF CONVERSION

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO CONVERT SHARES OF PREFERRED STOCK)

The undersigned hereby elects to convert the number of shares of Series C 7% Convertible Preferred Stock indicated below, into shares of common stock, par value \$0.01 per share (the “Common Stock”), of Chembio Diagnostics, Inc., a Nevada corporation (the “Corporation”), according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a Person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Corporation in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any.

Conversion calculations:

Date to Effect Conversion: _____

Number of shares of Preferred Stock owned prior to Conversion: _____

Number of shares of Preferred Stock to be Converted: _____

Stated Value of shares of Preferred Stock to be Converted: _____

Number of shares of Common Stock to be Issued: _____

Applicable Conversion Price: _____

Number of shares of Preferred Stock subsequent to Conversion: _____

[HOLDER]

By: _____

Name:

Title:

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

To Purchase _____ Shares of Common Stock of

CHEMBIO DIAGNOSTICS, INC.

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, _____ (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the original date of issuance (the "Initial Exercise Date") and on or prior to the close of business on the fifth anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Chembio Diagnostics, Inc., a Nevada corporation (the "Company"), up to _____ (_____) shares (the "Warrant Shares") of Common Stock, par value \$0.01 per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated **October 5, 2006**, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

(a) Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); and, within 3 Trading Days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within 3 Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within 1 Business Day of receipt of such notice. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.

(b) The exercise price of the Common Stock under this Warrant shall be as follows, subject to adjustment hereunder (the "Exercise Price"):

(i) For the period 4:01p.m. eastern time ("ET") through 9:59p.m. ET on the Plan Closing Date, \$0.40 per share for all or any portion of this Warrant exercised for cash;

(ii) For the period 4:01p.m. ET through 9:59p.m. ET on the Plan Closing Date, \$0.45 per share for all or any portion of this Warrant exercised through a Cashless Exercise;

(iii) For the period beginning 10:00p.m. ET on the Plan Closing Date through 9:59p.m. ET on the Final Plan Date, \$0.45 for all or any part of this Warrant exercised by a Holder who exercised at least 10% of all of such Holder's warrants and options for cash at the Plan Closing Date;

(iv) For the period beginning 10:00p.m. ET on the Plan Closing Date, \$1.00 per share for any Holder that did not exercise at least 10% of all of such Holder's warrants and options for cash at an exercise price of \$0.40 per share at the Plan Closing Date; and

(v) For the period beginning 10:00p.m. ET on the Final Plan Date, \$1.00 per share for all or any portion of this Warrant that has not been exercised on or before 9:59p.m. ET on the Final Plan Date.

(c) Cashless Exercise.

(i) At the option of the Holder, this Warrant may be exercised by means of a “cashless exercise” (a “Cashless Exercise”) in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP for the ten-Trading Day period that ends on the first Trading Day immediately preceding the date of such election;

(B) = the applicable Exercise Price of this Warrant in effect on the date of exercise, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(ii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated on the Plan Closing Date received from a Holder who exercises its warrants on cashless basis at \$0.45 per share before 10:00p.m. ET on the Plan Closing Date, the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated between and inclusive of the Plan Closing Date and the Final Plan Date received from a Holder who exercises at least 10% of all of such Holder's warrants and options for cash before 10:00p.m. ET on the Plan Closing Date the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form. Any Exercise Form dated on the Final Plan Date must be received by the Company within five Trading Days of the Final Plan Date to be effective.

(iv) Notwithstanding anything herein to the contrary, a Holder who does not exercise (i) at least 10% of all of such Holder's warrants and options issued by the Company for cash at an exercise price of \$0.40 per share before 10:00p.m. ET on the Plan Closing Date, or (ii) its warrants on cashless basis at \$0.45 per share by 10:00p.m. ET on the Plan Closing Date, shall not be permitted to exercise its Warrants on a cashless basis pursuant to Section 2(c)(i) above until April 1, 2008.

(d) The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2(c) or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, such Holder (together with such Holder's Affiliates, and any other person or entity acting as a group together with such Holder or any of such Holder's Affiliates), as set forth on the applicable Notice of Exercise, would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by such Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Preferred Stock or Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by such Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by a Holder that the Company is not representing to such Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and such Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which a portion of this Warrant is exercisable shall be in the sole discretion of a Holder, and the submission of a Notice of Exercise shall be deemed to be each Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-QSB or Form 10-KSB, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The “Beneficial Ownership Limitation” shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Beneficial Ownership Limitation provisions of this Section 2(d)(i) may be waived by such Holder, at the election of such Holder, upon not less than 61 days' prior notice to the Company to change the Beneficial Ownership Limitation to 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant, and the provisions of this Section 2(d) shall continue to apply. Upon such a change by a Holder of the Beneficial Ownership Limitation from such 4.99% limitation to such 9.99% limitation, the Beneficial Ownership Limitation may not be further waived by such Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d)(i) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant. Notwithstanding anything set forth in this Section 2(d), the 4.99% and 9.99% beneficial ownership limitations imposed by this Section 2(d) shall not apply to Common Stock issuable upon the exercise of Warrants in connection with the Plan.

(e) Mechanics of Exercise.

(i) Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

(ii) Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission (“DWAC”) system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within 3 Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant

and payment of the aggregate Exercise Price as set forth above (“Warrant Share Delivery Date”). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(vii) prior to the issuance of such shares, have been paid.

(iii) Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

(iv) Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(iv) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

(v) Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder’s brokerage firm otherwise purchases shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a “Buy-In”), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder’s total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (1) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Company. Nothing herein shall limit a Holder’s right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company’s failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

(vi) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

(vii) Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

(viii) Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

(f) For purposes of this warrant, the term “Plan” shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company’s then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company’s outstanding warrants or options; (iii) offer the holders of the Company’s warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

(g) “Plan Closing Date” shall be December 19, 2007.

(h) “Final Plan Date” shall mean the date that is six months and twelve days after the Plan Closing Date.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant, the Company’s Series A Convertible Preferred Stock, the Company’s Series B 9% Convertible Preferred Stock or the Company’s Series C 7% Convertible Preferred Stock), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(b) Subsequent Equity Sales. If the Company or any Subsidiary thereof, as applicable, at any time while this Warrant is outstanding, shall offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of

Common Stock, at an effective price per share less than the then Exercise Price (such lower price, the “Base Share Price” and such issuances collectively, a “Dilutive Issuance”), as adjusted hereunder (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then, the Exercise Price shall be reduced to equal the Base Share Price and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. The Company shall notify the Holder in writing, no later than the Trading Day following the issuance of any Common Stock or Common Stock Equivalents subject to this section, indicating therein the applicable issuance price, or of applicable reset price, exchange price, conversion price and other pricing terms (such notice the “Dilutive Issuance Notice”). For purposes of clarification, whether or not the Company provides a Dilutive Issuance Notice pursuant to this Section 3(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Warrant Shares based upon the Base Share Price regardless of whether the Holder accurately refers to the Base Share Price in the Notice of Exercise.

(c) Pro Rata Distributions. If the Company, at any time prior to the Termination Date, shall distribute to all holders of Common Stock (and not to Holders of the Warrants) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security other than the Common Stock (which shall be subject to Section 3(b)), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation and any additional consideration, and Alternate Consideration receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in an all cash transaction, cash equal to the value of this Warrant as determined in accordance with the Black-Scholes option pricing formula (the “Alternate Consideration”). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(d) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(e) Exempt Issuance. Notwithstanding the foregoing, no adjustments, Alternate Consideration nor notices shall be made, paid or issued under this Section 3 in respect of an Exempt Issuance, or in respect of any issuance of Common Stock or Common Stock Equivalents upon conversion of the preferred stock or the exercise of warrants and/or options in connection with the Plan.

(f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares of Common Stock owned or held by or for the account of the Company, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

(g) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(h) Notice to Holders.

(i) Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

(ii) Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address

as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice to the effective date of the event triggering such notice.

Section 4. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “Warrant Register”), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an “accredited investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) promulgated under the Securities Act.

Section 5. Miscellaneous.

(a) Title to Warrant. Prior to the Termination Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price (or by means of a cashless exercise), the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in

order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

(m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: December ____, 2007

CHEMBIO DIAGNOSTICS, INC.

By:

Name: Lawrence A. Siebert

Title: President

Original Date of Issuance: October 5, 2006
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: October 5, 2011

NOTICE OF EXERCISE

TO: CHEMBIO DIAGNOSTICS, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

Original Date of Issuance: October 5, 2006
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: October 5, 2011

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

To Purchase _____ Shares of Common Stock of

CHEMBIO DIAGNOSTICS, INC.

Original Date of Issuance: _____

Reissuance Date: December 19, 2007

Warrant No.: _____

Expires: _____

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, _____ (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the original date of issuance (the "Initial Exercise Date") and on or prior to the close of business on the fifth anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Chembio Diagnostics, Inc., a Nevada corporation (the "Company"), up to _____ (_____) shares (the "Warrant Shares") of Common Stock, par value \$0.01 per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated October 5, 2006, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

(a) Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); and, within 3 Trading Days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within 3 Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within 1 Business Day of receipt of such notice. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.

(b) Exercise Price. The exercise price of the Common Stock under this Warrant shall be as follows, subject to adjustment hereunder (the "Exercise Price"):

- (i) For the period 4:01p.m. eastern time ET through 9:59p.m. ET on the Plan Closing Date, \$0.40 per share for all or any portion of this Warrant exercised for cash;
- (ii) For the period 4:01p.m. ET through 9:59p.m. ET on the Plan Closing Date, \$0.45 per share for all or any portion of this Warrant exercised through a Cashless Exercise;
- (iii) For the period beginning 10:00p.m. ET on the Plan Closing Date through 9:59p.m. ET on the Final Plan Date, \$0.45 for all or any part of this Warrant exercised by a Holder who exercised at least 10% of all of such Holder's warrants and options for cash at the Plan Closing Date;
- (iv) For the period beginning 10:00p.m. ET on the Plan Closing Date, \$1.00 per share for any Holder that did not exercise at least 10% of all of such Holder's warrants and options for cash at an exercise price of \$0.40 per share at the Plan Closing Date; and
- (v) For the period beginning 10:00p.m. ET on the Final Plan Date, \$1.00 per share for all or any portion of this Warrant that has not been exercised on or before 9:59p.m. ET on the Final Plan Date.

(c) Cashless Exercise.

(i) At the option of the Holder, this Warrant may be exercised by means of a "cashless exercise" (a "Cashless Exercise") in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A),

where:

(A) = the VWAP for the ten-Trading Day period that ends on the first Trading Day immediately preceding the date of such election;

(B) = the applicable Exercise Price of this Warrant in effect on the date of exercise, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(ii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated on the Plan Closing Date received from a Holder who exercises its warrants on cashless basis at \$0.45 per share before 10:00p.m. ET on the Plan Closing Date, the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated between and inclusive of the Plan Closing Date and the Final Plan Date received from a Holder who exercises at least 10% of all of such Holder's warrants and options for cash before 10:00p.m. ET on the Plan Closing Date the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form. Any Exercise Form dated on the Final Plan Date must be received by the Company within five Trading Days of the Final Plan Date to be effective.

(iv) Notwithstanding anything herein to the contrary, a Holder who does not exercise (i) at least 10% of all of such Holder's warrants and options issued by the Company for cash at an exercise price of \$0.40 per share before 10:00p.m. ET on the Plan Closing Date, or (ii) its warrants on cashless basis at \$0.45 per share by 10:00p.m. ET on the Plan Closing Date, shall not be permitted to exercise its Warrants on a cashless basis pursuant to Section 2(c)(i) above until April 1, 2008.

(d) The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2(c) or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, such Holder (together with such Holder's Affiliates, and any other person or entity acting as a group together with such Holder or any of such Holder's Affiliates), as set forth on the applicable Notice of Exercise, would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by such Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other [Preferred Stock or Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by such Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by a Holder that the Company is not representing to such Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and such Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which a portion of this Warrant is exercisable shall be in the sole discretion of a Holder, and the submission of a Notice of Exercise shall be deemed to be each Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-QSB or Form 10-KSB, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Beneficial Ownership Limitation provisions of this Section 2(d)(i) may be waived by such Holder, at the election of such Holder, upon not less than 61 days' prior notice to the Company to change the Beneficial Ownership Limitation to 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant, and the provisions of this Section 2(d) shall continue to apply. Upon such a change by a Holder of the Beneficial Ownership Limitation from such 4.99% limitation to such 9.99% limitation, the Beneficial Ownership Limitation may not be further waived by such Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d)(i) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant. Notwithstanding anything set forth in this Section 2(d), the 4.99% and 9.99% beneficial ownership limitations imposed by this Section 2(d) shall not apply to Common Stock issuable upon the exercise of Warrants in connection with the Plan.

(e) Mechanics of Exercise.

(i) Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

(ii) Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission ("DWAC") system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within 3 Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above ("Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated

to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(vii) prior to the issuance of such shares, have been paid.

(iii) Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

(iv) Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(iv) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

(v) Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (1) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Company. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

(vi) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

(vii) Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

(viii) Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

(f) For purposes of this warrant, the term "Plan" shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company's then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company's outstanding warrants or options; (iii) offer the holders of the Company's warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

(g) "Plan Closing Date" shall be December 19, 2007.

(h) "Final Plan Date" shall mean the date that is six months and twelve days after the Plan Closing Date.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant, the Company's Series A Convertible Preferred Stock, the Company's Series B 9% Convertible Preferred Stock or the Company's Series C 7% Convertible Preferred Stock), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) Subsequent Equity Sales. If the Company or any Subsidiary thereof, as applicable, at any time while this Warrant is outstanding, shall offer, sell, grant any option to purchase or offer, sell or grant any right to reprice its securities, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock, at an effective price per share less than the then Exercise Price (such lower price, the "Base Share Price" and such issuances collectively, a

“Dilutive Issuance”), as adjusted hereunder (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then, the Exercise Price shall be reduced to equal the Base Share Price and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. The Company shall notify the Holder in writing, no later than the Trading Day following the issuance of any Common Stock or Common Stock Equivalents subject to this section, indicating therein the applicable issuance price, or of applicable reset price, exchange price, conversion price and other pricing terms (such notice the “Dilutive Issuance Notice”). For purposes of clarification, whether or not the Company provides a Dilutive Issuance Notice pursuant to this Section 3(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Warrant Shares based upon the Base Share Price regardless of whether the Holder accurately refers to the Base Share Price in the Notice of Exercise.

(c) Pro Rata Distributions. If the Company, at any time prior to the Termination Date, shall distribute to all holders of Common Stock (and not to Holders of the Warrants) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security other than the Common Stock (which shall be subject to Section 3(b)), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation and any additional consideration, and Alternate Consideration receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in an all cash transaction, cash equal to the value of this Warrant as determined in accordance with the Black-Scholes option pricing formula (the “Alternate Consideration”). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(d) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(e) Exempt Issuance. Notwithstanding the foregoing, no adjustments, Alternate Consideration nor notices shall be made, paid or issued under this Section 3 in respect of an Exempt Issuance, or in respect of any issuance of Common Stock or Common Stock Equivalents upon conversion of the preferred stock or the exercise of warrants and/or options in connection with the Plan.

(f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares of Common Stock owned or held by or for the account of the Company, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

(g) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(h) Notice to Holders.

(i) Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

(ii) Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a

notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice to the effective date of the event triggering such notice.

Section 4.

Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “Warrant Register”), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an “accredited investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) promulgated under the Securities Act.

Section 5.

Miscellaneous.

(a) Title to Warrant. Prior to the Termination Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price (or by means of a cashless exercise), the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use

commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

(m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: December _____, 2007

By:
Name: Lawrence A. Siebert
Title: President

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

NOTICE OF EXERCISE

TO: CHEMBIO DIAGNOSTICS, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity:

Signature of Authorized Signatory of Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

Original Date of Issuance: _____
Warrant No.: _____

Reissuance Date: December 19, 2007
Expires: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to _____ whose address is _____.

Dated: December __, 2007

Holder's Signature: _____

Holder's Address: _____

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

CHEMBIO DIAGNOSTICS, INC.

STOCK OPTION AGREEMENT
(Incentive Option)

THIS STOCK OPTION AGREEMENT (the "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 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 \$.01 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) The Option may be exercised at any time after _____ (the "Trigger Date").

(b) The period for exercise of the Option shall terminate at 5:00 p.m., Eastern Standard Time on _____, 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 thirty days 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 thirty days 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. 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.

10. 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.

11. 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.

12. 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 12. 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 personally, each such Notice shall be effective when delivered to the address for the respective party set forth in this Section 12, 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 Diagnostics, Inc.
Attn: President
3361 Horseblock Road
Medford, New York 11763
Facsimile No. (516) 924-6033

(b) if to the Optionee: _____

Either party may change its respective address for purposes of this Section 12 by giving the other party Notice of the new address in the manner set forth above.

13. 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 DIAGNOSTICS, INC.

Date: _____
Lawrence Siebert, President

OPTIONEE

Date: _____

Name

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

CHEMBIO DIAGNOSTICS, INC.

NOTICE AND AGREEMENT OF EXERCISE OF OPTION

I hereby exercise my Chembio Diagnostics, Inc. Stock Option dated as of _____ as to _____ shares of the \$.01 par value common stock (the "Option Shares") of Chembio Diagnostics, 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 \$.01 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.

Name	Signature
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(Optionee - Print Name of Spouse if you wish joint registration)	Address
	City, State and Zip Code

* * * * *

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL TO THE HOLDER OF THE SECURITIES (UNLESS THE ISSUER IN ITS SOLE DISCRETION DETERMINES TO USE ITS OWN COUNSEL), WITH ANY SUCH COUNSEL TO THE HOLDER AND ANY SUCH OPINION OF SUCH COUNSEL TO BE REASONABLY ACCEPTABLE TO THE ISSUER, THAT REGISTRATION UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

WARRANT TO PURCHASE
SHARES OF COMMON STOCK
OF
CHEMBIO DIAGNOSTICS, INC.

Expires May 4, 2009

No.:
Original Date of Issuance: May 5, 2004

Number of Shares:
Reissuance Date: December 19, 2007

FOR VALUE RECEIVED, subject to the provisions hereinafter set forth, the undersigned, Chembio Diagnostics, Inc., a Nevada corporation (together with its successors and assigns, the "Issuer"), hereby certifies that _____ or its registered assigns is entitled to subscribe for and purchase, during the Term (as hereinafter defined), up to _____ (_____) shares (subject to adjustment as hereinafter provided) of the duly authorized, validly issued, fully paid and non-assessable Common Stock of the Issuer, at an exercise price per share equal to the Exercise Price then in effect, subject, however, to the provisions and upon the terms and conditions hereinafter set forth. Capitalized terms used in this Warrant and not otherwise defined herein shall have the respective meanings specified in Section 6 hereof.

1. Term. The term of this Warrant shall commence on _____ and shall expire at 5:00 p.m., eastern time, on May 4, 2009 (such period being the "Term").

2. Method of Exercise Payment; Issuance of New Warrant; Transfer and Exchange.

(a) Time of Exercise. The purchase rights represented by this Warrant may be exercised in whole or in part anytime during the Term.

(b) Method of Exercise. The Holder hereof may exercise this Warrant, in whole or in part, by the surrender of this Warrant (with the exercise form attached hereto duly executed) at the principal office of the Issuer, and by the payment to the Issuer of an amount of consideration therefor equal to the Exercise Price in effect on the date of such exercise multiplied by the number of shares of Warrant Stock with respect to which this Warrant is then being exercised, payable at such Holder's election (i) by certified or official bank check or by wire transfer to an account designated by the Issuer, or (ii) by "cashless exercise" in accordance with the provisions of section (2)(c).

(c) Cashless Exercise. (i) At the option of the Holder, this Warrant may be exercised by means of a "cashless exercise" (a "Cashless Exercise") in which the Holder shall be entitled to receive a certificate for the number of shares of Warrant Stock equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP for the ten-Trading Day period that ends on the first Trading Day immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant in effect on the date of exercise, as adjusted; and

(X) = the number of shares of Warrant Stock issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(ii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated on the Plan Closing Date received from a Holder who exercises its warrants on cashless basis at \$0.45 per share before 10:00p.m. ET on the Plan Closing Date, the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iii) Notwithstanding anything herein to the contrary, for any Notice of Exercise Form dated between and inclusive of the Plan Closing Date and the Final Plan Date received from a Holder who exercises at least 10% of all of such Holder's warrants and options for cash before 10:00p.m. ET on the Plan Closing Date the value of (A) in the equation set forth in Section 2(c)(i) above shall be equal to the greater of \$0.53 or the VWAP for the ten-Trading Day period that ends on the second Trading Day prior to the date of the Notice of Exercise Form.

(iv) Notwithstanding anything herein to the contrary, a Holder who does not exercise (i) at least 10% of all of such Holder's warrants and options issued by the Company for cash at an exercise price of \$0.40 per share before 10:00p.m. ET on the Plan Closing Date, or (ii) its warrants on cashless basis at \$0.45 per share by 10:00p.m. ET on the Plan Closing Date, shall not be permitted to exercise its Warrants on a cashless basis pursuant to Section 2(c)(i) above until April 1, 2008.

(d) Issuance of Stock Certificates. In the event of any exercise of the rights represented by this Warrant in accordance with and subject to the terms and conditions hereof, (i) certificates for the shares of Warrant Stock so purchased shall be dated the date of such exercise and delivered

to the Holder hereof within a reasonable time, after such exercise, and (ii) unless this Warrant has expired, a new Warrant representing the number of shares of Warrant Stock, if any, with respect to which this Warrant shall not then have been exercised (less any amount thereof which shall have been canceled in payment or partial payment of the Exercise Price as hereinabove provided) shall also be issued to the Holder hereof at the Issuer's expense within such time.

(e) Transferability of Warrant. Subject to Section 2(f), this Warrant may be transferred by a Holder without the consent of the Issuer. If transferred pursuant to this paragraph and subject to the provisions of subsection (f) of this Section 2, this Warrant may be transferred on the books of the Issuer by the Holder hereof in person or by duly authorized attorney, upon surrender of this Warrant at the principal office of the Issuer, properly endorsed (by the Holder executing an assignment in the form attached hereto) and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. This Warrant is exchangeable at the principal office of the Issuer for Warrants for the purchase of the same aggregate number of shares of Warrant Stock, each new Warrant to represent the right to purchase such number of shares of Warrant Stock as the Holder hereof shall designate at the time of such exchange. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant except as to the number of shares of Warrant Stock issuable pursuant thereto.

(f) Compliance with Securities Laws.

(i) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant or the shares of Warrant Stock to be issued upon exercise hereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Warrant Stock to be issued upon exercise hereof except pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

(ii) The Holder of this Warrant by acceptance hereof, represents that it has not been organized, reorganized or recapitalized specifically for the purpose of investing in the Issuer; has sufficient business and financial knowledge and experience so as to be capable of evaluating the merits and risks of its investment in the Issuer; has had an opportunity to discuss the Issuer's business, management and financial affairs with the Issuer's management, and had all questions answered to its satisfaction.

(iii) This Warrant and all certificates representing shares of Warrant Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL TO THE HOLDER OF THE SECURITIES (UNLESS THE ISSUER IN ITS SOLE DISCRETION DETERMINES TO USE ITS OWN COUNSEL), WITH ANY SUCH COUNSEL TO THE HOLDER AND ANY SUCH OPINION OF SUCH COUNSEL TO BE REASONABLY ACCEPTABLE TO THE ISSUER, THAT REGISTRATION UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

3. Loss, Theft, Destruction of Warrants. Upon receipt of evidence satisfactory to the Issuer of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same number of shares of Common Stock.

4. Adjustment of Exercise Price. The price at which such shares may be purchased upon exercise of this Warrant shall be subject to adjustment from time to time as set forth in this Section 4.

(a) Subdivisions and Combinations. If at any time the Issuer shall:

- (i) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or
- (ii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (1) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (2) the Exercise Price then in effect shall be adjusted to equal (A) the Exercise Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment.

(b) Form of Warrant after Adjustments. The form of this Warrant need not be changed because of any adjustments in the Exercise Price or the number and kind of Securities purchasable upon the exercise of this Warrant.

(c) Notwithstanding any other provision set forth in this Section 4, no adjustment to the Exercise Price shall be required because of any issuance or sale of Additional Shares of Common Stock or Common Stock Equivalents in connection with the Plan.

5. Fractional Share. No fractional shares of Warrant Stock will be issued in connection with any exercise of this Warrant. As to the remaining fraction of a share, if any, which Holder would otherwise be entitled to purchase at the time, if any, that all whole shares of Warrant Stock available hereunder have been purchased to the exercise of this Warrant, the Issuer shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price. The Issuer shall pay this cash adjustment for fractional shares one time only.

6. Definitions. For the purposes of this Warrant, the following terms have the following meanings:

"Board" shall mean the Board of Directors of the Issuer.

"Common Stock" means the Common Stock, par value \$.01 per share, of the Issuer and any other Capital Stock into which such stock may hereafter be changed.

"Final Plan Date" shall mean the date that is six months and twelve days after the Plan Closing Date.

"Holders" mean the Persons who shall from time to time own any Warrant. The term "Holder" means one of the Holders.

"Issuer" means Chembio Diagnostics, Inc., a Nevada corporation, and its successors.

"Original Issue Date" means «Year_Issued».

"OTC Bulletin Board" means the over-the-counter electronic bulletin board.

"Person" means an individual, corporation, limited liability company, partnership, joint stock company, trust, unincorporated organization, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" shall mean any action the Company takes, with any required approval of the holders thereof, on or before the Final Plan Date as contemplated by the Plan Summary and accompanying materials provided to holders on December 4, 2007, in connection with the reduction or other modification of terms of the Company's then-outstanding preferred stock, warrants and options, including, but not limited to, actions the Company takes to (i) facilitate the conversion of the Series A, B and C Convertible Preferred Stock; (ii) reduce the exercise price of any of the Company's outstanding warrants or options; (iii) offer the holders of the Company's warrants and options the opportunity to exercise such warrants and options on a cash and/or cashless basis; and (iv) make other amendments to the documents governing these securities to effect these modifications, and to facilitate the conversion and exercise of these securities.

"Plan Closing Date" shall be December 19, 2007.

"Securities" means any debt or equity securities of the Issuer, whether now or hereafter authorized, any instrument convertible into or exchangeable for Securities or a Security, and any option, warrant or other right to purchase or acquire any Security. "Security" means one of the Securities.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

"Term" has the meaning specified in Section 1 hereof.

"Trading Day" means (a) a day on which the Common Stock is traded on the OTC Bulletin Board, or (b) if the Common Stock is not traded on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); provided, however, that in the event that the Common Stock is not listed or quoted as set forth in (a) or (b) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

"Warrants" means this Warrants, and any other warrants of like tenor issued in substitution or exchange for any thereof pursuant to the provisions hereof.

"Exercise Price" shall be as follows, except as may be adjusted from time to time as shall result from the adjustments specified in this Warrant:

(i) For the period 4:01p.m. eastern time ("ET") through 9:59p.m. ET on the Plan Closing Date, \$0.40 per share for all or any portion of this Warrant exercised for cash;

(ii) For the period 4:01p.m. ET through 9:59p.m. ET on the Plan Closing Date, \$0.45 per share for all or any portion of this Warrant exercised through a Cashless Exercise;

(iii) For the period beginning 10:00p.m. ET on the Plan Closing Date through 9:59p.m. ET on the Final Plan Date, \$0.45 for all or any part of this Warrant exercised by a Holder who exercised at least 10% of all of such Holder's warrants and options for cash at the Plan Closing Date;

(iv) For the period beginning 10:00p.m. ET on the Plan Closing Date, \$___ per share for any Holder that did not exercise at least 10% of all of such Holder's warrants and options for cash at an exercise price of \$0.40 per share at the Plan Closing Date; and

(v) For the period beginning 10:00p.m. ET on the Final Plan Date, \$___ per share for all or any portion of this Warrant that has not been exercised on or before 9:59p.m. ET on the Final Plan Date.

"Warrant Stock" means Common Stock issuable upon exercise of any Warrant or Warrants or otherwise issuable pursuant to any Warrant or Warrants.

7. Amendment and Waiver. Any term, covenant, agreement or condition in this Warrant may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), by a written instrument or written instruments executed by the Issuer and the majority of the Holders.

8. Governing Law. **THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.**

9. Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earlier of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice prior to 5:00 p.m., eastern time, on a Trading Day, (ii) the Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice later than 5:00 p.m., eastern time, on any date and earlier than 11:59 p.m., eastern time, on such date, or (iii) actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be with respect to the Holder of this Warrant or of Warrant Stock issued pursuant hereto, addressed to such Holder at its last known address or facsimile number appearing on the books of the Issuer maintained for such purposes, or with respect to the Issuer, addressed to:

Chembio Diagnostics, Inc.
3661 Horseblock Road
Medford, NY 11763
Attention: Lawrence A. Siebert, President
Tel. No.: (631) 924-1135

Fax No.: (631) 924-6033

Copies of notices to the Issuer shall be sent to Patton Boggs LLP, 1801 California Street, Suite 4900, Denver, CO 80202, Attention: Alan Talesnick, Tel. No.: (303) 830-1776, Fax No.: (303) 894-9239. Copies of notices to the Holder shall be sent to _____, Facsimile No.: . Any party hereto may from time to time change its address for notices by giving at least ten (10) days written notice of such changed address to the other party hereto.

10. Successors and Assigns. This Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and assigns of the Issuer, the Holder hereof and (if applicable) the Holders of Warrant Stock.

11. Modification and Severability. If, in any action before any court or agency legally empowered to enforce any provision contained herein, any provision hereof is found to be unenforceable, then such provision shall be deemed modified to the extent necessary to make it enforceable by such court or agency. If any such provision is not enforceable as set forth in the preceding sentence, the unenforceability of such provision shall not affect the other provisions of this Warrant, but this Warrant shall be construed as if such unenforceable provision had never been contained herein.

12. Headings. The headings of the Sections of this Warrant are for convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Issuer has caused this Warrant to be executed by its officer thereunto duly authorized.

Original Issue Date:
Revised Issue Date:

May 5, 2004
December 19, 2007

CHEMBIO DIAGNOSTICS, INC.

Lawrence A. Siebert, President

No.: _____
Original Date of Issuance: May 5, 2004

Number of Shares: _____
Reissuance Date: December 19, 2007

EXERCISE FORM
CHEMBIO DIAGNOSTICS, INC.

The undersigned _____, pursuant to the provisions of the within Warrant, hereby elects to purchase _____ shares of Common Stock of Chembio Diagnostics, Inc. covered by the within Warrant.

Date: _____ Signature _____
Address _____

Number of shares of Common Stock beneficially owned or deemed beneficially owned by the Holder on the date of Exercise: _____

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and all rights evidenced thereby and does irrevocably constitute and appoint _____, attorney, to transfer the said Warrant on the books of the within named corporation.

Date: _____ Signature _____
Address _____

PARTIAL ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the right to purchase _____ shares of Warrant Stock evidenced by the within Warrant together with all rights therein, and does irrevocably constitute and appoint _____, attorney, to transfer that part of the said Warrant on the books of the within named corporation.

Date: _____ Signature _____
Address _____

FOR USE BY THE ISSUER ONLY:

This Warrant No. W-_____ canceled (or transferred or exchanged) this _____ day of _____, _____, shares of Common Stock issued therefor in the name of _____, Warrant No. W-_____ issued for _____ shares of Common Stock in the name of _____.

List of Subsidiaries

Chembio Diagnostics Systems, Inc. (Delaware)

Chembio Diagnostics Nigeria Limited (Nigeria)

Chembio Diagnostics (Africa) Limited (Tanzania)

CONSENT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in Registration Statement No. 333-69460 and Registration Statement No. 333-141555 on Form S-8 of our report dated March 7, 2008 relating to the consolidated balance sheets of Chembio Diagnostics Inc. and Subsidiaries as of December 31, 2007 and 2006 and the consolidated statements of operations, stockholders' equity (deficit) and cash flows for the two years in the period ended December 31, 2007 appearing in this Annual Report on Form 10-KSB of Chembio Diagnostics, Inc. for the year ended December 31, 2007.

/s/Lazar Levine & Felix LLP

New York, New York
March 11, 2008

CERTIFICATION

I, Lawrence A. Siebert, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 12, 2008

/s / Lawrence A. Siebert

Lawrence A. Siebert

Chief Executive Officer, President, and Chairman

(Principal Executive Officer)

CERTIFICATION

I, Richard J. Larkin, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 12, 2008

/s / Richard J. Larkin
Richard J. Larkin
Chief Financial Officer
(Principal Financial Officer)

CHEMBIO DIAGNOSTICS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this annual report on Form 10-KSB of Chembio Diagnostics, Inc. (the "Company") for the fiscal year ended December 31, 2007, each of the undersigned, Lawrence A. Siebert, the Chief Executive Officer, President and Chairman of the Company, and Richard J. Larkin, the Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. This Form 10-KSB for the fiscal year ended December 31, 2007 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-KSB for the fiscal year ended December 31, 2007 fairly presents, in all material respects, the financial condition and results of operations of Chembio Diagnostics, Inc. for the periods presented therein.

Date: March 12, 2008

/s/ Lawrence A. Siebert

Lawrence A. Siebert

Chief Executive Officer, President and Chairman

(Principle Executive Officer)

/s./ Richard J. Larkin

Richard J. Larkin

Chief Financial Officer

(Principle Financial Officer)