

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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from: _____ to _____

000-30379

(Commission File Number)



Chembio Diagnostics, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation)

88-0425691

(IRS Employer Identification Number)

555 Wireless Blvd.

Hauppauge, NY 11788

(Address of principal executive offices including zip code)

(631) 924-1135

(Registrant's telephone number, including area code)

N/A

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

Yes No

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

Yes No

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

Title of each class

Common Stock, \$0.01 par value

Trading Symbol

CEMI

Name of each exchange on which registered

The NASDAQ Stock Market LLC

As of July 29, 2022, the registrant had 30,224,606 shares outstanding of its common stock, \$.01 par value.



**Quarterly Report on Form 10-Q
For The Quarterly Period Ended
June 30, 2022**

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

DPP, STAT-PAK, STAT-VIEW and SURE CHECK are our registered trademarks, and CHEMBIO and MICRO READER are our trademarks. For convenience, these trademarks appear in this report without ® and ™ symbols, and that practice does not mean that we will not assert, to the fullest extent under applicable law, our rights to the trademarks.

FORWARD-LOOKING STATEMENTS AND STATISTICAL ESTIMATES

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

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

Forward-looking statements and statistical estimates inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted or expressed in this report. These risks and uncertainties include those described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, or our 2021 Form 10-K, as filed with the Securities and Exchange Commission or the SEC, on March 3, 2022, Part II, Item 1A, “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, as filed with the SEC on May 5, 2022, and in Part II, Item 1A, “Risk Factors,” of this report. You should interpret many of the risks identified in these reports as being heightened as a result of the ongoing and numerous adverse impacts of COVID-19. Investors are cautioned not to place undue reliance on any forward-looking statements or statistical estimates, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement or statistical estimate, whether as a result of new information, future events or otherwise.

PART I
Item 1. FINANCIAL STATEMENTS
**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	December 31,
	June 30,	2021
	2022	2021
	<u> </u>	<u> </u>
- ASSETS -		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22,837,453	\$ 28,772,892
Accounts receivable, net of allowance for doubtful accounts of \$242,671 and \$243,042 at June 30, 2022 and December 31, 2021, respectively	4,255,944	11,441,107
Inventories, net	11,308,660	12,920,451
Prepaid expenses and other current assets	2,498,447	2,096,399
TOTAL CURRENT ASSETS	<u>40,900,504</u>	<u>55,230,849</u>
FIXED ASSETS:		
Property, plant and equipment, net	8,843,954	8,556,773
Finance lease right-of-use asset, net	172,676	191,870
OTHER ASSETS:		
Operating lease right-of-use assets, net	5,841,382	5,891,906
Goodwill	-	3,022,787
Deposits and other assets	297,024	358,010
TOTAL ASSETS	<u>\$ 56,055,540</u>	<u>\$ 73,252,195</u>
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 10,051,649	\$ 13,127,993
Current portion of long-term debt	3,000,000	1,200,000
Operating lease liabilities	905,516	886,294
Finance lease liabilities	73,724	68,176
TOTAL CURRENT LIABILITIES	<u>14,030,889</u>	<u>15,282,463</u>
OTHER LIABILITIES:		
Long-term operating lease liabilities	5,877,063	5,976,151
Long-term finance lease liabilities	115,943	139,678
Long-term debt, net	16,126,833	17,589,003
TOTAL LIABILITIES	<u>36,150,728</u>	<u>38,987,295</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock - 10,000,000 shares authorized; none outstanding	-	-
Common stock - \$0.01 par value; 100,000,000 shares authorized; 30,272,663 shares and 30,104,986 shares issued at June 30, 2022 and December 31, 2021, respectively	302,727	301,050
Additional paid-in capital	167,041,203	165,772,636
Accumulated deficit	(146,746,597)	(131,009,860)
Treasury Stock, 48,057 shares at cost, at June 30, 2022 and December 31, 2021	(206,554)	(206,554)
Accumulated other comprehensive loss	(485,967)	(592,372)
TOTAL STOCKHOLDERS' EQUITY	<u>19,904,812</u>	<u>34,264,900</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 56,055,540</u>	<u>\$ 73,252,195</u>

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
REVENUES:				
Net product sales	\$ 8,858,146	\$ 3,931,383	\$ 27,385,602	\$ 7,956,045
R&D and grant revenue	8,046	727	26,219	1,107,366
Government grant income	-	2,280,000	-	5,630,000
License and royalty revenue	295,238	250,000	566,220	493,058
TOTAL REVENUES	9,161,430	6,462,110	27,978,041	15,186,469
COSTS AND EXPENSES:				
Cost of product sales	8,086,849	4,039,696	23,310,710	7,588,137
Research and development expenses	2,042,351	2,796,981	3,696,057	5,660,319
Selling, general and administrative expenses	5,249,980	6,001,353	12,196,250	12,086,422
Impairment, restructuring, severance and related costs	-	1,961,156	3,043,179	2,044,243
TOTAL COSTS AND EXPENSES	15,379,180	14,799,186	42,246,196	27,379,121
LOSS FROM OPERATIONS	(6,217,750)	(8,337,076)	(14,268,155)	(12,192,652)
OTHER EXPENSE:				
Interest (expense) income, net	(728,414)	(727,374)	(1,461,976)	(1,439,851)
LOSS BEFORE INCOME TAXES	(6,946,164)	(9,064,450)	(15,730,131)	(13,632,503)
Income tax (expense)/benefit	(279)	65	(6,606)	67,955
NET LOSS	\$ (6,946,443)	\$ (9,064,385)	\$ (15,736,737)	\$ (13,564,548)
Basic and diluted loss per share	\$ (0.23)	\$ (0.45)	\$ (0.52)	\$ (0.67)
Weighted average number of shares outstanding, basic and diluted	30,222,758	20,219,617	30,156,768	20,191,657

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net loss	\$ (6,946,443)	\$ (9,064,385)	\$ (15,736,737)	\$ (13,564,548)
Other comprehensive income/(loss):				
Foreign currency translation adjustments, net of tax	(241,746)	301,102	106,405	(154,620)
Comprehensive loss	\$ (7,188,189)	\$ (8,763,283)	\$ (15,630,332)	\$ (13,719,168)

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the six months ended June 30, 2022

	Common Stock		Additional Paid-in-Capital	Treasury Stock		Accumulated Deficit	AOCI	Total
	Shares	Amount		Shares	Amount			
Balance at December 31, 2021	30,104,986	\$ 301,050	\$ 165,772,636	(48,057)	\$ (206,554)	\$(131,009,860)	\$ (592,372)	\$34,264,900
Common Stock:								
Restricted stock issued	164,930	1,649	264,437	-	-	-	-	266,086
Restricted stock compensation	-	-	229,563	-	-	-	-	229,563
Shares tendered for withholding taxes	-	-	(38,514)	-	-	-	-	(38,514)
Options:								
Stock option compensation	-	-	255,254	-	-	-	-	255,254
Comprehensive income	-	-	-	-	-	-	348,151	348,151
Net loss	-	-	-	-	-	(8,790,294)	-	(8,790,294)
Balance at March 31, 2022	30,269,916	\$ 302,699	\$ 166,483,376	(48,057)	\$ (206,554)	\$(139,800,154)	\$ (244,221)	\$26,535,146
Common Stock:								
Restricted stock issued	2,747	28	(28)	-	-	-	-	-
Restricted stock compensation	-	-	276,024	-	-	-	-	276,024
Shares tendered for withholding taxes	-	-	(1,154)	-	-	-	-	(1,154)
Options:								
Stock option compensation	-	-	282,985	-	-	-	-	282,985
Comprehensive loss	-	-	-	-	-	-	(241,746)	(241,746)
Net loss	-	-	-	-	-	(6,946,443)	-	(6,946,443)
Balance at June 30, 2022	<u>30,272,663</u>	<u>\$ 302,727</u>	<u>\$ 167,041,203</u>	<u>(48,057)</u>	<u>\$ (206,554)</u>	<u>\$(146,746,597)</u>	<u>\$ (485,967)</u>	<u>\$19,904,812</u>

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the six months ended June 30, 2021

	Common Stock		Additional Paid-in-Capital	Treasury Stock		Accumulated Deficit	AOCI	Total
	Shares	Amount		Shares	Amount			
Balance at December 31, 2020	20,223,498	\$ 202,235	\$ 124,961,514	(41,141)	\$ (190,093)	\$ (97,106,331)	\$ (90,916)	\$ 27,776,409
Common Stock:								
Restricted stock issued	62,197	622	58,909	-	-	-	-	59,531
Restricted stock compensation	-	-	309,010	-	-	-	-	309,010
Shares tendered for withholding taxes	-	-	(115,059)	-	-	-	-	(115,059)
Options:								
Stock option compensation	-	-	211,140	-	-	-	-	211,140
Comprehensive loss	-	-	-	-	-	-	(455,722)	(455,722)
Net loss	-	-	-	-	-	(4,500,163)	-	(4,500,163)
Balance at March 31, 2021	20,285,695	\$ 202,857	\$ 125,425,514	(41,141)	\$ (190,093)	\$ (101,606,494)	\$ (546,638)	\$ 23,285,146
Common Stock:								
Restricted stock issued	51,677	517	(517)	-	-	-	-	-
Restricted stock compensation	-	-	288,053	-	-	-	-	288,053
Shares tendered for withholding taxes	-	-	(4,454)	-	-	-	-	(4,454)
Options:								
Stock option compensation	-	-	297,791	-	-	-	-	297,791
Comprehensive income	-	-	-	-	-	-	301,102	301,102
Net loss	-	-	-	-	-	(9,064,385)	-	(9,064,385)
Balance at June 30, 2021	<u>20,337,372</u>	<u>\$ 203,374</u>	<u>\$ 126,006,387</u>	<u>(41,141)</u>	<u>\$ (190,093)</u>	<u>\$ (110,670,879)</u>	<u>\$ (245,536)</u>	<u>\$ 15,103,253</u>

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED
(Unaudited)

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and grants	\$ 35,162,834	\$ 14,493,073
Cash paid to suppliers and employees	(38,112,997)	(28,559,938)
Cash paid for operating leases	(722,204)	(696,188)
Cash paid for finance leases	(9,166)	(10,312)
Interest and taxes, net	(1,120,612)	(1,135,295)
Net cash used in operating activities	(4,802,145)	(15,908,660)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent application costs	-	(28,023)
Acquisition of and deposits on fixed assets	(1,135,332)	(1,270,989)
Net cash used in investing activities	(1,135,332)	(1,299,012)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of withholding tax on stock award	(39,668)	(119,513)
Payments on finance lease	(34,421)	(29,820)
Net cash used in financing activities	(74,089)	(149,333)
Effect of exchange rate changes on cash	76,127	(144,947)
DECREASE IN CASH AND CASH EQUIVALENTS	(5,935,439)	(17,501,952)
Cash and cash equivalents - beginning of the period	28,772,892	23,066,301
Cash and cash equivalents - end of the period	\$ 22,837,453	\$ 5,564,349
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Net loss	\$ (15,736,737)	\$ (13,564,548)
Adjustments:		
Depreciation and amortization	1,211,567	1,390,897
Share based compensation	1,309,912	1,165,632
Non-cash inventory adjustment	335,524	863,612
Benefit from deferred tax liability	-	(69,941)
Provision of (recovery of) doubtful accounts	(371)	(103,258)
Impairment	3,033,565	1,273,945
Changes in assets and liabilities:		
Accounts receivable	7,185,534	503,563
Inventories	1,276,267	(4,067,502)
Prepaid expenses and other current assets	(402,048)	(285,825)
Deposits and other assets	60,986	138,698
Accounts payable and accrued liabilities	(3,076,344)	(1,951,422)
Deferred revenue	-	(1,202,511)
Net cash used in operating activities	\$ (4,802,145)	\$ (15,908,660)

See accompanying notes to condensed consolidated financial statements

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022
(Unaudited)

NOTE 1 — DESCRIPTION OF BUSINESS:

Chembio Diagnostics, Inc. (“Chembio”) and its subsidiaries (collectively with Chembio, the “Company”) develop and commercialize point-of-care diagnostic tests used for the rapid detection and diagnosis of infectious diseases, including sexually transmitted disease, insect vector and tropical disease, COVID-19 and other viral and bacterial infections, enabling expedited treatment.

The Company’s product portfolio is based upon our proprietary DPP technology, a diagnostic platform that provides high-quality, cost-effective results in 15 to 20 minutes using fingertip blood, nasal swabs and other sample types. The DPP technology platform addresses the rapid diagnostic test market, which includes infectious diseases such as sexually transmitted infections and HIV, Gastroenterology and Women’s Health. Compared with traditional lateral flow technology, the DPP technology platform can provide:

- Enhanced sensitivity and specificity: This is achieved via the Company’s proprietary approach to separating the sample path from the buffer path, together with patent and other proprietary strategies, which differ significantly from traditional lateral flow test.
- Advanced multiplexing capabilities: Through advanced multiplexing, the DPP platform can detect and differentiate up to eight distinct test results from a single patient sample, which can deliver greater clinical value than other rapid tests currently on the market.
- Objective results: For some diagnostic applications, the Company’s easy-to-use, highly portable, battery-operated DPP Micro Reader optical analyzers can report accurate results in approximately 15 seconds, making it well-suited for decentralized testing where real-time results enable patients to be clinically assessed while they are still on site. Objective results produced by the DPP Micro Reader can reduce the possibility of the types of human error that can be experienced in the visual interpretations required by many rapid tests.

The Company targets the market for rapid diagnostic test solutions for infectious diseases, which is driven by the high prevalence of infectious diseases globally, an increase in the geriatric population, growing demand for rapid test results, and advancements in multiplexing. The Company has a broad portfolio of infectious disease products, which prior to 2020 were focused principally on sexually transmitted disease and fever and tropical disease. In February 2020 the Company began the process of shifting substantially all of its resources to seek to leverage the DPP technology platform to address the acute and escalating need for diagnostic testing for COVID-19. The Company is continuing to pursue:

- an emergency use authorization (“EUA”), from the U.S. Food and Drug Administration (the “FDA”), as well as 510(k) clearance from the FDA, for the DPP SARS-CoV-2 Antigen test system;
- an EUA from the FDA for the DPP Respiratory Antigen Panel; and
- a Clinical Laboratory Improvement Amendment (“CLIA”), waiver from the FDA for the DPP HIV-Syphilis test system.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The accompanying unaudited condensed consolidated financial statements include the accounts of Chembio and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Certain reclassifications have been made to the unaudited condensed consolidated balance sheet of the prior year to conform to the current year presentation. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as filed with the SEC.

Going Concern Considerations

The Company continued to experience market, clinical trial and regulatory complications in seeking to develop and commercialize a portfolio of COVID-19 test systems during the continuing, but evolving, uncertainty resulting from COVID-19. For the three and six months ended June 30, 2022, the Company also continued to incur significant expenses in connection with pending legal matters (see Note 6 – Commitments, Contingencies, and Concentrations: Litigation).

The Company performed an assessment to determine whether there were conditions or events that, considered in the aggregate, raised substantial doubt about the Company's ability to continue as a going concern within one year after the date the accompanying unaudited condensed consolidated financial statements are being issued. Initially, this assessment did not consider the potential mitigating effect of management's plans that had not been fully implemented. Because, as described below, substantial doubt was determined to exist as the result of this initial assessment, management then assessed the mitigating effect of its plans to determine if it is probable that the plans (1) would be effectively implemented within one year after the date the accompanying unaudited condensed consolidated financial statements are issued and (2) when implemented, would mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern.

The Company achieved significant revenue growth in recent years while profitability has not been at levels as expected. It has taken steps including investments in automation to mitigate headwinds such as labor availability, volatile capacity planning and implementation of operational efficiency targets to proactively monitor production with the overarching goal of profitable growth. The Company undertook measures to increase its total revenues and improve its liquidity position by continuing to develop the Global Competitiveness Program. The main pillars of the Global Competitiveness Program include the following:

- Focus on higher margin business in growth markets
- Lower manufacturing costs
- Reduce infrastructure costs
- Strategic review of non-core businesses and assets

In addition, the Company will continue to focus on regulatory approvals for its DPP SARS-CoV-2 Antigen test system, DPP Respiratory Antigen Panel, and DPP HIV-Syphilis test system. These measures and other plans and initiatives have been designed to provide the Company with adequate liquidity to meet its obligations for at least the twelve-month period following the date the accompanying unaudited condensed consolidated financial statements are being issued. The Company's execution of its plans continue to depend, however, on factors and uncertainties that are beyond the Company's control, or that may not be addressable on terms acceptable to the Company or at all. The Company considered in particular how:

- The ongoing healthcare and economic impacts of COVID-19 on the global customer base for the Company's non-COVID-19 products continue to negatively affect the timing and rate of recovery of the Company's revenues from those products.
- Although the Company has entered into agreements to distribute third-party COVID-19 products in the United States, its ability to sell those products could be constrained because of staffing and supply chain limitations affecting the suppliers of those products.

The Company further considered how these factors and uncertainties could impact its ability over the next year to meet the obligations specified in the Credit Agreement with the Lender (as defined in Note 7 – Long-Term Debt). Those obligations include covenants requiring: i) minimum cash balance of \$3.0 million and ii) minimum total revenue amounts for the twelve months preceding each quarter end. For the next four quarters, the minimum total revenue requirements range from \$45.6 million for the twelve months ending September 30, 2022 to \$50.1 million for the twelve months ending June 30, 2023. Upon an event of default under the Credit Agreement, the Lender could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In such an event, there can be no assurance that the Company would have sufficient liquidity to fund payment of the amounts that would be due under the Credit Agreement or that, if such liquidity were not available, the Company would be successful in raising additional capital on acceptable terms, or at all, or in completing any other endeavor to continue to be financially viable and continue as a going concern. The Company's inability to raise additional capital on acceptable terms in the near future, whether for purposes of funding payments required under the Credit Agreement or providing additional liquidity needed for its operations, could have a material adverse effect on its business, prospects, results of operations, liquidity and financial condition.

Accordingly, management determined the Company could not be certain that the Company's plans and initiatives would be effectively implemented within one year after the date on which the accompanying unaudited condensed consolidated financial statements are being issued. Without giving effect to the prospect of raising additional capital, increasing product revenue in the near future or executing other mitigating plans, many of which are beyond the Company's control, it is unlikely that the Company will be able to generate sufficient cash flows to meet its required financial obligations, including its debt service and other obligations due to third parties. The existence of these conditions raises substantial doubt about the Company's ability to continue as a going concern for the twelve-month period following the date on which the accompanying unaudited condensed consolidated financial statements are being issued.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date the accompanying unaudited condensed consolidated financial statements are issued. As such, the accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

(b) Significant Accounting Policies:

During the three and six months ended June 30, 2022, there have been no significant changes to the Company's summary of significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC.

(c) Fair Value of Financial Instruments:

The carrying values for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments. Included in cash and cash equivalents were \$ 17.1 million and \$25.0 million as of June 30, 2022 and December 31, 2021, respectively, of money market funds that are Level 1 fair value measurements under the hierarchy. The fair value of the Company's total debt of \$20.0 million (carrying value of \$19.1 million) and \$20.0 million (carrying value of \$18.8 million) as of June 30, 2022 and December 31, 2021 respectively, is a Level 2 fair value measurement under the hierarchy and the Company's debt face value approximates the recorded value, as the rate is based upon the current rates available to the Company for similar financial instruments.

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

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

(d) Cash and Cash Equivalents:

Cash and cash equivalents are defined as short-term, highly liquid investments, such as money market funds, with original maturities of three months or less at date of purchase.

(e) Loss Per Share:

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period excluding unvested restricted stock. Diluted net loss per share is computed using the treasury stock method if the additional shares are dilutive. For all periods presented, basic and diluted net loss per share are the same as any additional shares would be anti-dilutive.

There were 3,776,436 and 1,867,045 options outstanding as of June 30, 2022 and 2021, respectively, that were not included in the calculation of diluted per common share equivalents for the three and six months ended June 30, 2022 and 2021, respectively, because the effect would have been anti-dilutive.

There were 1,759,307 and 803,062 shares of restricted stock outstanding as of June 30, 2022 and 2021, respectively, that were not included in the calculation of diluted per common share equivalents for the three and six months ended June 30, 2022 and 2021, respectively, because the effect would have been anti-dilutive.

(f) Income Taxes:

At the end of each interim reporting period, the Company estimates its effective tax rate expected to be applied for the full year. This estimate is used to determine the income tax provision or benefit on a year-to-date basis, and may change in subsequent interim periods. Accordingly, the Company's effective tax rate for the three months ended June 30, 2022 and 2021 was 0.0% and (1.1)% respectively. For the six months ended June 30, 2022 and 2021 the effective tax rate was (0.04)% and 0.51% respectively. The Company's effective tax rates for both periods were affected primarily by a full valuation allowance on domestic net deferred tax assets.

(g) Recently Issued Accounting Standards Affecting the Company:

Recently Adopted

ASU 2021-10 - Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, which creates Accounting Standards Codification ("ASC") 832 and aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard 20, Accounting for Government Grants and Disclosure of Government Assistance), or a contribution model (for example, in ASC 958-605, Not-for-Profit Entities – Revenue Recognition). The FASB broadly defined "government assistance" in ASC 832 to ensure that assistance received from most types of governmental entities or other related organizations would be disclosed. Entities are required to provide the new disclosures prospectively for all transactions with a government entity that are accounted for under either a grant or a contribution accounting model and are reflected in the financial statements at the date of initially applying the new amendments, and to new transactions entered into after that date. Retrospective application of the guidance is permitted. The Company adopted the standard effective January 1, 2022 and has determined that the adoption did not have an impact on the Company's consolidated financial statements.

Not Yet Adopted

ASU 2020-06 - Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity

On August 5, 2020, the FASB issued ASU 2020-06, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The ASU is part of the FASB’s simplification initiative, which aims to reduce unnecessary complexity in GAAP. ASU 2020-06 simplifies the guidance in GAAP on the issuer’s accounting for convertible debt instruments, requires entities to provide expanded disclosures about “the terms and features of convertible instruments” and how the instruments have been reported in the entity’s financial statements. It also removes from ASC 815-40-25-10 certain conditions for equity classification and amends certain guidance in ASC 260 on the computation of EPS for convertible instruments and contracts on an entity’s own equity. An entity can use either a full or modified retrospective approach to adopt the ASU’s guidance. The ASU’s amendments are effective for smaller public business entities fiscal years beginning after December 15, 2023. The Company continues to assess the potential impact of the standard and will disclose the nature and reason for any elections that the Company makes.

ASU 2021-08—Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

On October 28, 2021, the FASB issued ASU 2021-08,1 which amends ASC 805 to “require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination.” Under current GAAP, an acquirer generally recognizes such items at fair value on the acquisition date. ASU 2021-08 amends ASC 805 to add contract assets and contract liabilities to the list of exceptions to the recognition and measurement principles that apply to business combinations and to “require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606.” While primarily related to contract assets and contract liabilities that were accounted for by the acquiree in accordance with ASC 606, “the amendments also apply to contract assets and contract liabilities from other contracts to which the provisions of Topic 606 apply, such as contract liabilities from the sale of nonfinancial assets within the scope of Subtopic 610-20.” The ASU’s amendments are effective for public business entities for the fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments. The Company continues to assess the potential impact of the standard and will disclose the nature and reason for any elections that the Company makes.

NOTE 3 — REVENUE:

Disaggregation of Revenue

The following table disaggregates Total Revenues by revenue type:

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021		
	Exchange Transactions	Non-Exchange Transactions	Total	Exchange Transactions	Non-Exchange Transactions	Total
	Net product sales	\$ 8,858,146	\$ -	\$ 8,858,146	\$ 3,931,383	\$ -
R&D and grant revenue	8,046	-	8,046	727	-	727
Government grant income	-	-	-	-	2,280,000	2,280,000
License and royalty revenue	295,238	-	295,238	250,000	-	250,000
	<u>\$ 9,161,430</u>	<u>\$ -</u>	<u>\$ 9,161,430</u>	<u>\$ 4,182,110</u>	<u>\$ 2,280,000</u>	<u>\$ 6,462,110</u>

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2021		
	Exchange Transactions	Non-Exchange Transactions	Total	Exchange Transactions	Non-Exchange Transactions	Total
	Net product sales	\$ 27,385,602	\$ -	\$ 27,385,602	\$ 7,956,045	\$ -
R&D and grant revenue	26,219	-	26,219	1,107,366	-	1,107,366
Government grant income	-	-	-	-	5,630,000	5,630,000
License and royalty revenue	566,220	-	566,220	493,058	-	493,058
	<u>\$ 27,978,041</u>	<u>\$ -</u>	<u>\$ 27,978,041</u>	<u>\$ 9,556,469</u>	<u>\$ 5,630,000</u>	<u>\$ 15,186,469</u>

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

The following table disaggregates Total Revenues by geographic location:

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	Africa	\$ 3,144,599	\$ 1,466,356	\$ 3,911,951
Asia	439,661	53,592	455,219	270,547
Europe & Middle East	1,299,000	806,209	2,022,745	3,406,485
Latin America	834,689	487,517	13,392,079	745,536
United States	3,443,481	3,648,436	8,196,047	7,952,687
	<u>\$ 9,161,430</u>	<u>\$ 6,462,110</u>	<u>\$ 27,978,041</u>	<u>\$ 15,186,469</u>

NOTE 4 — INVENTORY:

Inventories are presented net of reserves and consist of the following at:

	June 30, 2022	December 31, 2021
Raw materials	\$ 6,661,210	\$ 7,306,095
Work in process	1,471,848	3,556,878
Finished goods	3,175,602	2,057,478
	<u>\$ 11,308,660</u>	<u>\$ 12,920,451</u>

During the three months ended June 30, 2022 and 2021, the Company recognized a \$0.3 million and \$0.9 million charge, respectively, related to the write-down of inventory.

NOTE 5 — STOCKHOLDERS' EQUITY:

(a) Common Stock

During the three and six months ending June 30, 2022 and 2021, there were no options exercised.

(b) Preferred Stock

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

(c) Treasury Stock

Chembio has 48,057 shares of treasury stock acquired upon the vesting of restricted stock awards related to the tax withholding requirements paid on behalf of the employees.

(d) Options, Restricted Stock, and Restricted Stock Units

The Board or its Compensation Committee may make grants of options, restricted stock, and restricted stock units pursuant to equity incentive plans that have been approved by Chembio's stockholders.

NOTE 6 — COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS:

a) Concentrations:

The following table discloses product sales the Company had to each customer that purchased in excess of 10% of the Company's net product sales for the periods indicated:

	For the three months ended				For the six months ended				Accounts Receivable as of	
	June 30, 2022		June 30, 2021		June 30, 2022		June 30, 2021		June 30, 2022	December 31, 2021
	Product Sales	% of Product Sales	Product Sales	% of Product Sales	Product Sales	% of Product Sales	Product Sales	% of Product Sales		
Customer 1	\$ 1,947,390	22%	\$ *	*	\$ 3,431,910	\$ 13%	\$ *	\$ *	\$ 1,534,560	\$ *
Customer 2	1,729,310	20%	1,014,638	26%	*	*	1,151,615	15%	1,066,340	1,433,305
Customer 3	1,633,957	18%	*	*	*	*	*	*	996,619	*
Customer 4	*	*	*	*	12,339,644	45%	*	*	399,420	7,672,845

Revenue includes product sales only, while accounts receivable reflects the total due from the customer, including freight.

The following table discloses purchases the Company had to each vendor that purchased in excess of 10% of the Company's net purchases for the periods indicated:

	For the three months ended				For the six months ended				Accounts Payable as of	
	June 30, 2022		June 30, 2021		June 30, 2022		June 30, 2021		June 30, 2022	December 31, 2021
	Purchases	% of Purchases	Purchases	% of Purchases	Purchases	% of Purchases	Purchases	% of Purchases		
Vendor 1	*	*	*	*	*	*	*	*	*	1,361,383
Vendor 2	*	*	*	*	1,589,033	15%	*	*	166,945	353,097
Vendor 3	\$ 1,317,233	19%	\$ *	*	\$ 3,640,838	\$ 35%	\$ *	\$ *	\$ 187,630	\$ *

In the tables above, an asterisk (*) indicates that indicates that sales, accounts receivable, purchases or accounts payable, as applicable to the tabular column, did not exceed 10% for the period indicated.

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

We have capital purchase obligations of \$0.5 million related to additional automated manufacturing equipment with payments expected to come due during 2022 based on vendor performance milestones.

The Company has a minimum volume commitment of 10 million STAT-PAK units to be manufactured by Reszon through December 31, 2024.

b) Employment Contracts:

The Company has multi-year contracts with three key employees. The contracts call for salaries presently aggregating \$1,178,000 per year. The contracts expire in December 2022 and December 31, 2024. The following table is a schedule of future minimum salary commitments:

2022	\$	589,000
2023		383,000
2024		383,000

c) Benefit Plan:

Chembio has a 401(k) plan established for the Company's employees whereby it matches 40% of the first 5% of salary (or up to 2% of salary) that an employee contributes to the plan. Matching contribution expenses totaled approximately \$37,778 and \$29,933 for the three months ended June 30, 2022 and 2021, respectively. Matching contribution expenses totaled approximately \$104,913 and \$65,388 for the six months ended June 30, 2022 and 2021, respectively.

d) Leases:

The Company leases facilities in New York, Germany, Malaysia, and Brazil, and certain equipment.

The Company's facility leases generally include optional renewal periods. Upon entering into a new facility lease, the Company evaluates the leasehold improvements and regulatory requirements related to its operations in that location. To the extent that the initial lease term of the related facility lease is less than the useful life of the leasehold improvements and potential regulatory costs associated with moving the facility, the Company concludes that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term and the related payments are reflected in the right-of-use asset and lease liability.

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

The components of lease expense were as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2022	2021	2022	2021
Operating lease expense	\$ 372,232	\$ 402,329	\$ 775,617	\$ 810,795
Finance lease cost				
Amortization of right-of-use assets	\$ 17,850	\$ 17,038	35,429	32,796
Interest on lease liabilities	4,480	5,368	9,166	10,312
Total finance lease expense	\$ 22,330	\$ 22,406	\$ 44,595	\$ 43,108

Supplemental cash flow information related to leases was as follows.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	\$ 361,325	\$ 348,317	\$ 722,204	\$ 696,188
Operating cash flows for finance leases	4,480	5,368	9,166	10,312
Financing cash flows for finance leases	17,491	15,538	34,421	29,820
Right-of-use assets obtained in exchange for lease obligations:				
Finance leases	-	25,609	16,234	25,609
Operating leases	717,956	694,668	717,956	694,668

Supplemental balance sheet information related to leases was as follows:

	June 30, 2022	June 30, 2021
Finance Leases		
Finance lease right of use asset	\$ 356,997	\$ 340,762
Accumulated depreciation	(184,321)	(114,815)
Finance lease right of use asset, net	\$ 172,676	\$ 225,947
Weighted Average Remaining Lease Term		
Operating leases	7.0 years	7.9 years
Finance leases	2.4 years	3.4 years
Weighted Average Discount Rate		
Operating leases	8.75%	8.73%
Finance leases	9.05%	8.43%

Maturities of lease liabilities were as follows.

	June 30, 2022		June 30, 2021	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
2022	\$ 731,574	\$ 43,942	\$ 708,344	\$ 41,812
2023	1,428,820	87,884	1,447,249	83,624
2024	1,220,150	60,116	1,221,017	83,624
2025	1,049,441	16,731	1,018,875	55,856
2026	1,080,925	5,940	1,049,442	12,471
Thereafter	3,643,521	355	4,724,446	1,680
Total lease payments	\$ 9,154,431	\$ 214,968	\$ 10,169,373	\$ 279,067
Less: imputed interest	2,371,852	25,301	2,909,688	39,166
Total	\$ 6,782,579	\$ 189,667	\$ 7,259,685	\$ 239,901

e) Litigation:

SEC Investigation

The SEC is conducting a non-public, fact-finding investigation relating to the public offering of common stock that Chembio completed in May 2020 (the “May 2020 Offering”) and to the FDA’s revocation in June 2020 of an emergency use authorization for the DPP COVID-19 IgM/IgG system that was issued by the FDA in April 2020. Chembio received subpoenas from the SEC in July 2020 and April 2021 seeking the production of documents in connection with this investigation. In addition, the SEC delivered subpoenas in April 2021 to five of Chembio’s employees (including its three executive officers, who consist of its Chief Executive Officer and President, its former Executive Vice President and Chief Financial Officer, and its Executive Vice President and Chief Scientific and Technology Officer). An additional subpoena was issued in June 2021 to Chembio’s former Interim Chief Executive Officer and Executive Chair. Each subpoena requested the production of documents relating to the same matters as are the subject of the subpoenas Chembio received. One current employee, the Chief Executive Officer, also received a testimonial subpoena from the SEC. Chembio and the six individuals are cooperating fully in the SEC’s investigation and expect to continue to do so.

The SEC’s letters transmitting the subpoenas expressly provide that the inquiry does not mean that the SEC or its staff have concluded that anyone has violated the federal securities laws or have a negative opinion of any person, entity or security. The Company cannot predict the scope, duration or outcome of the investigation or the impact, if any, of the investigation on its results of operations.

Legal Proceedings

Stockholder Litigation

Putative Stockholder Securities Class-Action Litigation

In 2020 four purported securities class-action lawsuits were filed in the United States District Court for the Eastern District of New York by alleged stockholders of Chembio:

- Sergey Chernysh v. Chembio Diagnostics, Inc., Richard L. Eberly, and Gail S. Page, filed on June 18, 2020;
- James Gowen v. Chembio Diagnostics, Inc., Richard L. Eberly, and Gail S. Page, filed on June 22, 2020;
- Anthony Bailey v. Chembio Diagnostics, Inc. Richard J. Eberly, Gail S. Page, and Neil A. Goldman, filed on July 3, 2020; and;
- Special Situations Fund III QP, L.P., Special Situations Cayman Fund, L.P., and Special Situations Private Equity Fund, L.P. v. Chembio Diagnostics, Inc., Richard Eberly, Gail S. Page, Robert W. Baird & Co. Inc. and Dougherty & Company LLC, filed August 17, 2020.

The plaintiffs in each of the above cases alleged claims under Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), Rule 10b-5 thereunder and Section 20(a) of the Exchange Act. Special Situations Fund III QP, L.P., Special Situations Cayman Fund, L.P. and Special Situations Private Equity Fund, L.P. (collectively, the “Special Situations Funds”) also asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the “Securities Act”) relating to the May 2020 Offering.

Chembio and the plaintiffs entered into Court-approved stipulations relieving Chembio and the other defendants of the obligation to respond to the complaints in these cases pending the designation of a lead plaintiff pursuant to the Private Securities Litigation Reform Act of 1995. Eight motions for appointment as lead plaintiff were filed by various prospective lead plaintiffs. However, all but two of these motions were withdrawn or otherwise abandoned, leaving before the Court two motions for appointment as lead plaintiff - one filed by the Special Situations Funds and one by Municipal Employees’ Retirement System of Michigan. By order entered December 29, 2020, Magistrate Judge Lindsay consolidated the cases and appointed the Special Situations Funds and Municipal Employees’ Retirement System of Michigan (together, the “Lead Plaintiffs”), as co-lead plaintiffs and their respective counsel as co-lead counsel. The consolidated cases are now pending under the caption “In re Chembio Diagnostics, Inc. Securities Litigation.”

The Lead Plaintiffs filed their Consolidated Amended Complaint (the “CAC”) on February 12, 2021. In summary, the CAC purported to allege claims based on assertedly false and misleading statements and omissions concerning the performance of the DPP COVID-19 IgM/IgG System, as well as an asserted failure to timely disclose that the emergency use authorization that had been granted by the FDA with respect to the DPP COVID-19 IgM/IgG System “was - or was at an increased risk of - being revoked.” The CAC named as defendants Chembio, Richard L. Eberly, Gail S. Page, Neil A. Goldman, Javan Esfandiari, Katherine L. Davis, Mary Lake Polan, John Potthoff (together, the “Chembio Defendants”) and the underwriters for the May 2020 Offering, Robert W. Baird & Co., Inc. and Dougherty & Company LLC (the “Underwriter Defendants”).

The CAC purported to assert five counts under the Securities Act and the Exchange Act. Counts I through III were brought under the Securities Act, allegedly on behalf of a purported class consisting of all persons who purchased Chembio common stock directly in or traceable to the May 2020 Offering pursuant to Chembio’s shelf registration statement on Form S 3 (File No. 333-227398) and the related prospectus, as supplemented by a prospectus supplement dated May 7, 2020 (the “Securities Act Class”). Count I purported to allege a claim for violation of Section 11 of the Securities Act against all defendants other than Messrs. Eberly and Esfandiari. Count II purported to allege a claim for violation of Section 12 of the Securities Act against all defendants other than Messrs. Eberly and Esfandiari. Count III purported to allege a claim under Section 15 of the Securities Act against Ms. Davis, Dr. Polan, Dr. Potthoff, Ms. Page and Mr. Goldman.

Counts IV and V alleged claims under the Exchange Act on behalf of a purported class consisting of all persons who purchased Chembio common stock on the open market from March 12, 2020 through June 16, 2020 (the “Exchange Act Class”). Count IV purported to allege a claim for violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder against Chembio, Mr. Eberly, Ms. Page, Mr. Goldman and Mr. Esfandiari. Count V purported to allege a claim under Section 20(a) of the Exchange Act against Mr. Eberly, Ms. Page, Mr. Goldman and Mr. Esfandiari.

In their CAC, the Lead Plaintiffs sought, on behalf of the Securities Act Class and the Exchange Act Class, among other things, an award of damages in an amount to be proven at trial, as well as an award of reasonable costs, including attorneys’ fees and expenses, expert fees, pre-judgment and post-judgment interest, and such other relief as the Court deems just and proper. The Lead Plaintiffs also sought rescission “or a rescissory measure of damages” on behalf of the Securities Act Class as to Count II.

Pursuant to an order entered by the Court on January 29, 2021, any defendant wishing to move against the amended complaint was required to file, by February 18, 2021, a letter requesting a pre-motion conference. On that date, the defendants submitted letters to the Court requesting a pre-motion conference regarding anticipated motions to dismiss the CAC, and the Lead Plaintiffs responded on February 24, 2021. In its January 29, 2021 order, the Court indicated that it would consider a briefing schedule on motions to dismiss after it had received and reviewed the parties’ correspondence.

On March 5, 2021, the Court entered an order in which it advised the parties that it had determined a pre motion conference was not necessary and established a briefing schedule on the defendants’ anticipated motions to dismiss. However, the defendants subsequently agreed with the Lead Plaintiffs’ counsel to a modification of the schedule, which was then approved by the Court. Pursuant to that schedule, defendants’ motions and supporting papers were filed on March 26, 2021, the Lead Plaintiffs’ opposition papers were filed on April 16, 2021, and the defendants’ reply papers were filed on April 30, 2021.

The Court issued its Opinion and Order (the “February 23 Order”) on the defendants’ motions to dismiss on February 23, 2022. In its February 23 Order, the Court: (i) dismissed Counts I and II without prejudice as to all defendants named in those Counts except the Underwriter Defendants as to which Counts I and II were not dismissed; (ii) dismissed Count III without prejudice as to all defendants named in that Count; and (iii) dismissed Counts IV and V with prejudice as to all defendants named in those Counts. The Court gave Lead Plaintiffs fourteen days within which to attempt to replead their claims under the Securities Act against Chembio, Ms. Page, Mr. Goldman, Ms. Davis, Ms. Polan and Mr. Potthoff.

On March 4, 2022, Lead Plaintiffs filed a letter motion in which they advised the Court that they intended to file an amended complaint, but that they wished to first seek reconsideration of the Court's February 23 Order. They accordingly requested, and the Court granted, an adjournment of the deadline for filing an amended complaint until three business days after the Court's ruling on Lead Plaintiffs' anticipated motion for reconsideration. The Court also granted a request by the Underwriter Defendants to extend the time for them to file their answer to the CAC, and set May 2, 2022 as the date for the filing of that answer.

On March 7, 2022, Magistrate Judge John Wicks entered an order requiring that the parties meet and confer regarding the scheduling of discovery in the case, requiring that the parties submit a Proposed Scheduling Order by March 23, and setting a hearing (via Zoom) on March 30. The Chembio Defendants filed a letter motion requesting that the Court adjourn the initial conference and suspend the other requirements in the March 7, 2022 order. Magistrate Judge Wicks granted the letter motion on March 14, and further ordered that the initial conference would be rescheduled "following the resolution of all preliminary dispositive issues."

On March 9, 2022, Lead Plaintiffs filed a motion for partial reconsideration of the Court's February 23 Order. In their motion, Lead Plaintiffs requested that the Court reconsider and reverse its dismissal of Counts IV and V with prejudice, and its dismissal of Counts I, II and III without prejudice. The Chembio Defendants filed their memorandum in opposition to this motion on March 23, 2022; Lead Plaintiffs filed their reply memorandum in support of the motion on March 30, 2022.

On April 26, 2022, the Court entered an order canceling the previously-set May 2 date by which the Underwriter Defendants were required to file their answer to the CAC, and providing that the Underwriter Defendants' answer to an amended complaint shall be due within three weeks after such amended complaint has been served.

On April 28, 2022, Lead Plaintiffs expressed a willingness to participate in a mediation with the Chembio Defendants. Thereafter, on July 14, 2022, all parties in the *In re Chembio Diagnostics, Inc. Securities Litigation* action participated in a mediation. The mediation was adjourned without an agreement to resolve the action, but the parties are continuing to discuss a potential negotiated resolution with the mediator's assistance.

On July 21, 2022, the Court denied Lead Plaintiffs' motion for partial reconsideration. Lead Plaintiffs filed their Second Consolidated Amended Complaint (the "SAC") on July 26, 2022. The SAC purports to allege three counts under the Securities Act on behalf of the Securities Act Class. Count I purports to allege a claim for violation of Section 11 of the Securities Act against Chembio, Ms. Page, Mr. Goldman, Ms. Davis, Dr. Polan, Dr. Potthoff and the Underwriter Defendants. Count II purports to allege a claim for violation of Section 12 of the Securities Act against Chembio, Ms. Page, and the Underwriter Defendants. Count III purports to allege a claim under Section 15 of the Securities Act against Ms. Page, Mr. Goldman, Ms. Davis, Dr. Polan and Dr. Potthoff.

In order to facilitate the parties' ongoing discussions concerning a potential settlement, the parties have agreed that the defendants may have until August 23, 2022 within which to respond to the SAC. The defendants have accordingly submitted a letter to the Court requesting that the date by which they are required to respond to the SAC be moved to August 23, 2022; the Court granted the defendants' request on August 1, 2022. At this stage of the litigation, the Company is not able to predict the probability of a favorable or unfavorable outcome.

Putative Stockholder Derivative Litigation

On September 11, 2020, a putative stockholder derivative action captioned *Karen Wong, derivatively on behalf of Chembio Diagnostics, Inc., Plaintiff v. Richard L. Eberly, Gail S. Page, Neil A. Goldman, Javan Esfandiari, Katherine L. Davis, Mary Lake Polan and John G. Potthoff, Defendants, and Chembio Diagnostics, Inc., Nominal Defendant* (the "Wong complaint") was filed purportedly on Chembio's behalf in the United States District Court for the Eastern District of New York. The Wong complaint purports to assert a claim for violation of Section 14(a) of the Exchange Act and Rule 14a-9 thereunder based on ostensibly false and misleading statements and omissions concerning the Company's rapid COVID-19 antibody test in the proxy statement disseminated in advance of Chembio's Annual Meeting of Stockholders held on July 28, 2020. The Wong complaint also asserts claims against the individual defendants for purported breaches of fiduciary duties owed to Chembio, as well as unjust enrichment.

The Wong complaint requests a declaration that the individual defendants have breached or aided and abetted the breach of their fiduciary duties to Chembio, an award of damages to Chembio, restitution, and an award of the plaintiff's costs and disbursements in the action, including reasonable attorneys' and experts' fees, costs and expenses, and improvements to Chembio's corporate governance and internal procedures regarding compliance with laws. Pursuant to a stipulation by which the individual defendants named in the Wong complaint agreed to waive service of process, the Court ordered that the time for defendants to answer or otherwise respond to the complaint be extended to November 19, 2020. The parties subsequently entered into a stipulation for a stay of proceedings in the action relating to the Wong complaint pending final disposition of motions to dismiss the pending putative class-action litigation, subject to certain conditions. The stipulation provides for a stay that lasts until all motions to dismiss the class action litigation have been finally resolved. Wong can, however, terminate the stipulation on 14 days' notice if a related derivative action is not stayed for a similar or longer duration. Further, if the defendants in the Wong action agree to engage in a mediation "or other similar formal process" with plaintiffs in any related class action or derivative action during the pendency of the stay or for a one-year period following its termination, they must promptly provide notice of the mediation to Wong, not object to Wong's participation in the mediation (subject to the consent of the other involved parties), and if consent to Wong's participation is not provided, they must separately engage in mediation or a similar formal process with Wong. The Court entered an order granting the requested stay on November 3, 2020.

On March 31, 2022, a second putative stockholder derivative action captioned Michelle Chen, derivatively on behalf of Chembio Diagnostics, Inc., Plaintiff v. Richard L. Eberly, Gail S. Page, Neil A. Goldman, Javan Esfandiari, Katherine L. Davis, Mary Lake Polan and John G. Potthoff, Defendants, and Chembio Diagnostics, Inc., Nominal Defendant (the "Chen complaint") was filed purportedly on behalf of Chembio in the Supreme Court for the State of New York, County of Suffolk. The Chen complaint purports to assert a claim for breach of fiduciary duty against the defendants based on ostensibly false and misleading statements and omissions concerning the Company's rapid COVID-19 antibody test. The Chen complaint goes on to allege that the misconduct asserted in the complaint gave rise to the filing of the consolidated securities litigation described above.

The parties in the Chen action have agreed to a stipulated stay of the action which shall continue until a motion to certify a class in the class action has been decided. Chen can, however, terminate the stay on seven days' notice if a related derivative action is not stayed for the same or a longer duration. The stipulation also provides that if the defendants agree to engage in a formal mediation with the class action plaintiffs or the plaintiff in any other related derivative action, they must notify Chen of the mediation and participate with Chen in a mediation "or other settlement talks," whether separately or in combination with a mediation involving other related actions.

The plaintiffs in the Wong and Chen actions took part in the July 14, 2022 mediation described above, and are engaged in continuing discussions concerning a potential resolution of these actions. At this stage of the litigation, the Company is not able to predict the probability of a favorable or unfavorable outcome.

Employee Litigation

On March 19, 2021, John J. Sperzel III, Chembio's former chief executive officer, filed a fifteen-count complaint in the United States District Court for the Eastern District of New York. The complaint was filed following the dismissal of an action previously filed by Mr. Sperzel in the United States District Court in Maine, which was dismissed for lack of personal jurisdiction over Chembio. In summary, the complaint filed in the Eastern District of New York alleges that Chembio wrongfully refused to allow Mr. Sperzel to exercise certain options to purchase, for an aggregate exercise price of \$943,126, a total of 266,666 shares of common stock that were allegedly vested as of the date of his separation from Chembio, on January 3, 2020. The complaint alleges that under the terms of the applicable stock incentive plans, Mr. Sperzel had thirty days after the date on which he ceased to qualify as an "Eligible Person" under the plans within which to exercise the options, and asserts that by reason of his alleged continued service to Chembio, he remained an "Eligible Person" and ostensibly retained the right to exercise the options. The Compensation Committee of the Board determined that the options expired on February 3, 2020, thirty days after Mr. Sperzel's separation from Chembio, and that a purported attempt by Mr. Sperzel to exercise the options after that date was not valid.

Count I of the complaint purports to allege that Chembio breached Mr. Sperzel's separation agreement by refusing to allow him to exercise the stock options. Counts II through XI of the complaint purport to allege claims for breach of each of ten separate stock option agreements, collectively asserting damages of "at least" \$3,190,198. Count XII of the complaint alleges a breach of Mr. Sperzel's separation agreement based on Chembio's purported failure to pay Mr. Sperzel consulting fees to which he claims to be entitled for consulting services allegedly performed following his separation. Count XIII of the complaint alleges a claim for breach of an implied covenant of good faith and fair dealing under Nevada common law based on the allegation that Chembio prevented Mr. Sperzel from obtaining the benefits of the stock option agreements and separation agreement. Mr. Sperzel alleges that he suffered damages in excess of \$3 million as a result of the purported breach of the covenant of good faith and fair dealing. Count XIV of the complaint purports to assert a claim for quantum meruit, alleging that "it is reasonable for Sperzel to expect payment in exchange for ... services" he allegedly provided to Chembio and, based on allegations that upon his separation Mr. Sperzel was not informed as to the pending expiration of the stock options he later sought to exercise, that Chembio has been unjustly enriched. Finally, Count XV of the complaint seeks a declaratory judgment that Mr. Sperzel is relieved from performance under his separation agreement due to asserted material breaches of the agreement based on the allegations summarized above. The complaint seeks compensatory damages in an unspecified amount, a declaration, as described above, and an award of Mr. Sperzel's costs and expenses in the litigation, including reasonable attorneys' fees, expert costs and disbursements. The complaint requests a trial by jury. In his initial disclosures served in discovery, Mr. Sperzel claims entitlement to recover damages in a total amount not less than \$10 million, together with prejudgment interest at the rate of 9% per annum.

On May 20, 2021, Chembio filed its answer and affirmative defenses denying the material allegations of Mr. Sperzel's complaint. Chembio and Mr. Sperzel are presently engaged in discovery. All discovery in the case was completed on June 28, 2022. On July 6, 2022, pursuant to local court rules, Chembio filed a formal notice with the District Court stating its intention to file a motion for summary judgment on all of Mr. Sperzel's claims. Mr. Sperzel's responsive letter and factual statements were due on July 27, 2022 and were timely filed. At this stage of the litigation, the Company is not able to predict the probability of a favorable or unfavorable outcome.

Other

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

Nasdaq Communications

On April 5, 2022, the Company received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market notifying it that, because the bid price for shares of the Company's common stock had closed below the \$1.00 per share minimum Bid Price Requirement for thirty consecutive business days, its common stock may be subject to delisting by as early as October 3, 2022 if the Company has been unable to regain compliance with the Bid Price Requirements or to qualify for an additional period to regain compliance by such date, all as described in more detail in the Current Report on Form 8-K filed with the SEC on April 7, 2022. The closing price of the Company's common stock was \$1.08 on August 4, 2022, which was the second day since February 18, 2022 that such closing price was equal to or greater than \$1.00. If the Company's closing bid price remains at or above \$1.00 for ten consecutive business days it will regain compliance with the Bid Price Requirement. There can be no assurance that the Company will be able to regain compliance with the Bid Price Requirement. The Company's inability to regain compliance with the Bid Price Requirement would, and the existence of the pending deficiency letter could, materially impair its ability to raise capital. Moreover, if the Company were unable to regain compliance with the Bid Price Requirement, the common stock would likely then trade only in the over-the-counter market and the market liquidity of the common stock could be adversely affected and its market price could decrease. If the Company's common stock were to trade on the over-the-counter market, selling its common stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and the Company could face significant material adverse consequences, including: a limited availability of market quotations for its securities; reduced liquidity with respect to its securities; a determination that its shares are a "penny stock," which will require brokers trading in its securities to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for its securities; a reduced amount of news and analyst coverage; and a decreased ability to issue additional securities or obtain additional financing in the future. These factors could result in lower prices and larger spreads in the bid and ask prices for the Company's common stock and would substantially impair its ability to raise additional funds and could result in a loss of institutional investor interest and fewer development opportunities for the Company.

NOTE 7 — LONG-TERM DEBT:

On September 3, 2019, Chembio entered into a Credit Agreement and Guaranty (the "Credit Agreement") with Perceptive Credit Holdings II, LP (the "Lender"). The Credit Agreement provides for a \$20.0 million senior secured term loan credit facility, which was drawn in full on September 4, 2019. Under the terms of the Credit Agreement, Chembio may use the proceeds (i) for general working capital purposes and other permitted corporate purposes, (ii) to refinance certain of Chembio's existing indebtedness and (iii) to pay fees, costs and expenses incurred in connection with the Credit Agreement, including the Lender's closing cost amount of \$550,000, which was netted from the proceeds, and a financing fee of \$600,000 (3.0% of gross proceeds) payable to Craig-Hallum Capital Group LLC, Chembio's financial advisor for the financing.

Principal outstanding under the Credit Agreement bears interest at a rate per annum equal to the sum of (a) the greater of the one-month London Interbank Offered Rate and 2.5% plus (b) 8.75%. At any time at which an event of default has occurred and is continuing, the interest rate will increase by 4.0%. Accrued interest is payable on a monthly basis. On June 30, 2022 the interest rate was 11.25%.

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

Chembio's obligations under the Credit Agreement are secured by a first priority, perfected lien on substantially all of its property and assets, including its equity interests in subsidiaries.

As of June 30, 2022, the loan balance, net of unamortized discounts and debt issuance costs, was \$19.1 million, and Chembio was in compliance with its loan covenants.

NOTE 8 — EQUITY INCENTIVE PLAN:

(a) Equity Plans:

Effective June 19, 2014, Chembio's stockholders voted to approve the 2014 Stock Incentive Plan (the "2014 Plan"), with 800,000 shares of common stock available to be issued. Under the terms of the 2014 Plan, the Board or its Compensation Committee has the discretion to select the persons to whom awards are to be granted. Awards can be in the form of Equity Award Units. The awards vest at such times and under such conditions as determined by the Board or its Compensation Committee. Cumulatively through March 31, 2022, there were 732,064 Equity Award Units expired, forfeited or exercised. At June 30, 2022, 46,875 Equity Award Units were outstanding and 21,061 shares were not issued. All shares that expired, forfeited or were not issued rolled over into the 2019 Plan. No Equity Award Units remain available to be issued under the 2014 Plan.

Effective June 18, 2019, Chembio's stockholders voted to approve the 2019 Omnibus Incentive Plan (the "2019 Plan"), with 2,400,000 shares of common stock available to be issued. At the Annual Stockholder Meeting on June 25, 2021, Chembio's stockholders voted to approve an increase to the shares of common stock issuable under the SIP by 2,400,000 to 4,800,000. In addition, shares of common stock underlying any outstanding award granted under the 2019 Plan that, following the effective date of the 2019 Plan, expire, or are terminated, surrendered or forfeited for any reason without issuance of such shares, shall be available for the grant of new awards under the 2019 Plan. Under the terms of the 2019 Plan, the Board or its Compensation Committee has the discretion to select the persons to whom awards are to be granted. Awards can be in the form of options, stock appreciation rights, restricted stock, restricted stock units, performance stock units or other stock-based awards under the 2019 Plan (collectively, "2019 Equity Units"). The 2019 Equity Units become vested at such times and under such conditions as determined by the Board or its Compensation Committee. Cumulatively through June 30, 2022, 1,048,966 2019 Equity Units have been cancelled or forfeited. At June 30, 2022, 4,950,291 2019 Equity Units were outstanding, and 35,629 2019 Equity Units were available to be awarded.

(b) Stock Compensation Expense:

Stock-based compensation expense (net of forfeitures) recognized in the condensed consolidated statements of operations was classified as follows:

	For the three months ended		For the six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Cost of product sales	\$ 57,096	\$ 43,368	\$ 111,346	\$ 72,136
Research and development expenses	112,318	139,469	203,507	223,704
Selling, general and administrative expenses	389,595	403,007	995,059	869,792
	<u>\$ 559,009</u>	<u>\$ 585,844</u>	<u>\$ 1,309,912</u>	<u>\$ 1,165,632</u>

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

	For the three months ended June 30, 2022	For the six months ended June 30, 2022
Expected term (in years)	5.5	6.0
Expected volatility	95.80%	91.62%
Expected dividend yield	N/A	N/A
Risk-free interest rate	3.09%	1.97%

The following table provides stock option activity for the six months ended June 30, 2022:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at December 31, 2021	1,600,372	\$ 4.18	6.59 years	\$ -
Granted	2,481,968	1.24		-
Exercised	-	-		-
Forfeited	121,159	2.93		-
Expired	184,745	5.63		-
Outstanding at June 30, 2022	3,776,436	\$ 2.21	8.37 years	\$ -
Exercisable at June 30, 2022	636,924	\$ -	5.08 years	\$ -

The following table summarizes information about stock options outstanding at June 30, 2022:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable			
	Number of Shares	Average Remaining Contract Term (Year)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
1 to 2.79999	2,924,253	8.57	\$ 1.42	\$ -	317,758	\$ 2.36	\$ -
2.8 to 4.59999	27,720	8.94	3.06	-	8,311	3.07	-
4.6 to 6.39999	777,588	8.04	4.81	-	263,980	4.90	-
6.4 to 8.19999	46,875	0.86	8.15	-	46,875	8.15	-
Total	3,776,436	8.37	\$ 2.21	\$ -	636,924	\$ 3.85	\$ -

As of June 30, 2022, there was \$2,667,985 of net unrecognized compensation cost related to stock options that had not vested, which is expected to be recognized over a weighted-average period of approximately 3.10 years. The total fair value of shares vested during the six months ended June 30, 2022 and 2021 was \$913,063 and \$335,579, respectively.

The following table summarizes information about restricted stock, restricted stock units and performance stock units outstanding as of June 30, 2022:

	Number of Shares & Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	705,325	\$ 3.34
Granted	1,308,547	0.75
Vested	172,041	3.73
Forfeited	82,524	2.28
Outstanding at June 30, 2022	1,759,307	\$ 1.43

As of June 30, 2022, there was \$1,829,654 of net unrecognized compensation cost related to restricted stock and restricted stock units that had not vested, which is expected to be recognized over a weighted average period of approximately 2.28 years.

NOTE 9 — GEOGRAPHIC INFORMATION AND ECONOMIC DEPENDENCY:

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

	For the three months ended June 30		For the six months ended June 30	
	2022	2021	2022	2021
Africa	\$ 3,144,599	\$ 1,466,356	\$ 3,911,951	\$ 2,811,215
Asia	439,661	53,593	455,219	270,547
Europe & Middle East	995,716	805,482	1,713,624	2,299,216
Latin America	834,689	487,517	13,379,742	745,536
United States	3,443,481	1,118,435	7,925,066	1,829,531
	<u>\$ 8,858,146</u>	<u>\$ 3,931,383</u>	<u>\$ 27,385,602</u>	<u>\$ 7,956,045</u>

Property, plant and equipment by geographic area were as follows at:

	June 30, 2022	December 31, 2021
Asia	\$ 81,430	\$ 86,041
Europe & Middle East	93,324	113,883
Latin America	77,056	36,224
United States	8,592,144	8,320,625
	<u>\$ 8,843,954</u>	<u>\$ 8,556,773</u>

NOTE 10 — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities consisted of:

	June 30, 2022	December 31, 2021
Accounts payable – suppliers	\$ 3,776,360	\$ 7,745,592
Accrued commissions and royalties	2,015,752	1,359,691
Accrued payroll	427,215	494,258
Accrued vacation	692,275	421,416
Accrued bonuses	1,473,481	1,378,706
Accrued professional fees	715,212	522,935
Accrued expenses – other	951,354	1,205,395
TOTAL	<u>\$ 10,051,649</u>	<u>\$ 13,127,993</u>

NOTE 11 — GOODWILL AND INTANGIBLE ASSETS:

The following table reflects changes in goodwill:

Beginning balance at December 31, 2021	\$ 3,022,787
Impairment	(3,033,565)
Change in foreign currency exchange rate	10,778
Balance at June 30, 2022	<u>\$ -</u>

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

The quantitative goodwill impairment test is performed using a one-step process. The process is to compare the fair value of a reporting unit with its carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit is impaired, and an impairment loss is recognized in an amount equal to that excess.

The Company operates as a single operating segment and has one reporting unit. The Company recognized an impairment loss of its goodwill totaling \$3.0 million for the six months ended June 30, 2022.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes, or the accompanying financial statements, included elsewhere in this report. In addition to historical information, the following discussion contains forward-looking statements that involves risks, uncertainties and assumptions. See "Forward-Looking Statements" above. Please read Part II, Item 1A. "Risk Factors" of this report for a discussion of factors that could cause our actual results to differ materially from our expectations.

We develop and commercialize point-of-care diagnostic tests used for the rapid detection and diagnosis of infectious diseases, including sexually transmitted disease, insect vector and tropical disease, COVID-19 and other viral and bacterial infections, enabling expedited treatment.

Our product portfolio is based upon our proprietary DPP technology, a diagnostic platform that provides high-quality, cost-effective results in 15 to 20 minutes using fingertip blood, nasal swabs and other sample types. The DPP technology platform addresses the rapid diagnostic test market, which includes infectious diseases, cardiac markers, cholesterol and lipids, pregnancy and fertility, and drugs of abuse. Compared with traditional lateral flow technology, the DPP technology platform can provide enhanced sensitivity and specificity, advanced multiplexing capabilities and, with the DPP Micro Reader, quantitative results.

We target the market for rapid diagnostic test solutions for infectious diseases, which is driven by the high prevalence of infectious diseases globally, an increase in the geriatric population, growing demand for rapid test results, and advancements in multiplexing. We have a broad portfolio of infectious disease products, which prior to 2020 were focused principally on sexually transmitted disease and fever and tropical disease. In February 2020 we began the process of shifting substantially all of our resources to seek to leverage the DPP technology platform to address the acute and escalating need for diagnostic testing for COVID-19. We are continuing to pursue:

- an emergency use authorization, or EUA, from the U.S. Food and Drug Administration, or FDA, as well as 510(k) clearance from the FDA, for the DPP SARS-CoV-2 Antigen test system;
- an EUA from the FDA for the DPP Respiratory Panel; and
- a Clinical Laboratory Improvement Amendment, or CLIA, waiver from the FDA for the DPP HIV-Syphilis test system.

Our products are sold globally, directly and through distributors, to medical laboratories and hospitals, governmental and public health entities, nongovernmental organizations, medical professionals, and retail establishments. We continue to seek to expand our commercial distribution channels.

Our board of directors has initiated a review of strategic alternatives, including a potential sale or merger transaction, and of our financing strategy. We have retained Craig-Hallum Capital Group LLC as our financial advisor to assist with the strategic review. We have not set a timetable for completion of the strategic review process, and there can be no assurance that the process will result in a transaction at this time or at all. Even if a sale, merger or financing transaction is consummated, it may not return any value to holders of our common stock. Regardless of whether we execute a sale, merger or financing transaction, the adverse pressures that we have experienced may continue or intensify, and we will likely continue to face all of the risks we currently face, including the risk that we may not be able to continue as a going concern.

Going Concern Considerations

The Company continued to experience market, clinical trial and regulatory complications in seeking to develop and commercialize a portfolio of COVID-19 test systems during the continuing, but evolving, uncertainty resulting from COVID-19. For the three and six months ended June 30, 2022, the Company also continued to incur significant expenses in connection with pending legal matters (see Note 6 – Commitments, Contingencies, and Concentrations: Litigation).

The Company performed an assessment to determine whether there were conditions or events that, considered in the aggregate, raised substantial doubt about the Company's ability to continue as a going concern within one year after the date the accompanying unaudited condensed consolidated financial statements are being issued. Initially, this assessment did not consider the potential mitigating effect of management's plans that had not been fully implemented. Because, as described below, substantial doubt was determined to exist as the result of this initial assessment, management then assessed the mitigating effect of its plans to determine if it is probable that the plans (1) would be effectively implemented within one year after the date the accompanying unaudited condensed consolidated financial statements are issued and (2) when implemented, would mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern.

The Company achieved significant revenue growth in recent years while profitability has not been at levels as expected. It has taken steps including investments in automation to mitigate headwinds such as labor availability, volatile capacity planning and implementation of operational efficiency targets to proactively monitor production with the overarching goal of profitable growth. The Company undertook measures to increase its total revenues and improve its liquidity position by continuing to develop the Global Competitiveness Program. The main pillars of the Global Competitiveness Program include the following:

- Focus on higher margin business in growth markets
- Lower manufacturing costs
- Reduce infrastructure costs
- Strategic review of non-core businesses and assets

In addition, the Company will continue to focus on regulatory approvals for its DPP SARS-CoV-2 Antigen test system, DPP Respiratory Antigen Panel, and DPP HIV-Syphilis test system. These measures and other plans and initiatives have been designed to provide the Company with adequate liquidity to meet its obligations for at least the twelve-month period following the date the accompanying unaudited condensed consolidated financial statements are being issued. The Company's execution of its plans continue to depend, however, on factors and uncertainties that are beyond the Company's control, or that may not be addressable on terms acceptable to the Company or at all. The Company considered in particular how:

- The ongoing healthcare and economic impacts of COVID-19 on the global customer base for the Company's non-COVID-19 products continue to negatively affect the timing and rate of recovery of the Company's revenues from those products.
- Although the Company has entered into agreements to distribute third-party COVID-19 products in the United States, its ability to sell those products could be constrained because of staffing and supply chain limitations affecting the suppliers of those products.

The Company further considered how these factors and uncertainties could impact its ability over the next year to meet the obligations specified in the Credit Agreement with the Lender (as defined in Note 7 – Long-Term Debt). Those obligations include covenants requiring: i) minimum cash balance of \$3.0 million and ii) minimum total revenue amounts for the twelve months preceding each quarter end. For the next four quarters, the minimum total revenue requirements range from \$45.6 million for the twelve months ending September 30, 2022 to \$50.1 million for the twelve months ending June 30, 2023. Upon an event of default under the Credit Agreement, the Lender could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In such an event, there can be no assurance that the Company would have sufficient liquidity to fund payment of the amounts that would be due under the Credit Agreement or that, if such liquidity were not available, the Company would be successful in raising additional capital on acceptable terms, or at all, or in completing any other endeavor to continue to be financially viable and continue as a going concern. The Company's inability to raise additional capital on acceptable terms in the near future, whether for purposes of funding payments required under the Credit Agreement or providing additional liquidity needed for its operations, could have a material adverse effect on its business, prospects, results of operations, liquidity and financial condition.

Accordingly, management determined the Company could not be certain that the Company's plans and initiatives would be effectively implemented within one year after the date on which the accompanying unaudited condensed consolidated financial statements are being issued. Without giving effect to the prospect of raising additional capital, increasing product revenue in the near future or executing other mitigating plans, many of which are beyond the Company's control, it is unlikely that the Company will be able to generate sufficient cash flows to meet its required financial obligations, including its debt service and other obligations due to third parties. The existence of these conditions raises substantial doubt about the Company's ability to continue as a going concern for the twelve-month period following the date on which the accompanying unaudited condensed consolidated financial statements are being issued.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date the accompanying unaudited condensed consolidated financial statements are issued. As such, the accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

Consolidated Results of Operations

Three Months Ended June 30, 2022 versus Three Months Ended June 30, 2021

The results of operations for the three months ended were as follows (dollars in thousands):

	June 30, 2022		June 30, 2021	
TOTAL REVENUES	\$ 9,161	100%	\$ 6,462	100%
OPERATING COSTS AND EXPENSES:				
Cost of product sales	8,087	88%	4,040	63%
Research and development expenses	2,042	22%	2,797	43%
Selling, general and administrative expenses	5,250	57%	6,001	93%
Impairment, restructuring, severance and related costs	-	-	1,961	30%
TOTAL OPERATING COSTS AND EXPENSES	15,379		14,799	
LOSS FROM OPERATIONS	(6,218)		(8,337)	
OTHER (EXPENSE) INCOME, NET	(728)		(727)	
LOSS BEFORE INCOME TAXES	(6,946)	(76)%	(9,064)	(140)%
Income tax (expense) benefit	-		-	
NET LOSS	\$ (6,946)		\$ (9,064)	

Percentages in the table reflect the percent of total revenues.

Total Revenues

Total revenues during the quarter ended June 30, 2022 were \$9.2 million, an increase of \$2.7 million, or 42%, compared to the quarter ended June 30, 2021. The increase in total revenues is primarily due to higher sales in Africa.

Gross Product Margin

Cost of product sales is primarily composed of material, labor, manufacturing overhead, depreciation, amortization, freight and distribution costs. Gross product margin is net product sales less cost of product sales, and gross product margin percentage is gross product margin as a percentage of net product sales.

Gross product margin increased by \$0.9 million, or 807% compared to the quarter ended June 30, 2021. The following schedule calculates gross product margin (dollars in thousands):

	For the three months ended June 30		Favorable/(unfavorable)	
	2022	2021	\$ Change	% Change
Net product sales	\$ 8,858	\$ 3,931	\$ 4,927	125%
Less: Cost of product sales	8,087	4,040	4,047	100%
Gross product margin	\$ 771	\$ (109)	\$ 880	807%
Gross product margin percentage	9%	(3)%		

The \$0.9 million increase in gross product margin was comprised of (a) \$1.0 million from favorable product margins and the impact of fixed manufacturing overhead, and (b) \$0.1 million from unfavorable product sales volume.

Research and Development

This category includes costs incurred for clinical and regulatory affairs and other research and development, as follows (dollars in thousands):

	For the three months ended June 30		Favorable/(unfavorable)	
	2022	2021	\$ Change	% Change
Clinical and regulatory affairs	\$ 544	\$ 871	\$ (327)	(38)%
Other research and development	1,498	1,926	(428)	(22)%
Total research and development	\$ 2,042	\$ 2,797	\$ (755)	(27)%

The decrease in total research and development costs for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 was primarily associated with work related to pursuing an EUA and 510(k) from the FDA for the DPP SARS-CoV-2 Antigen test system, and an EUA for the DPP Respiratory Panel, each pursuant to awards from the Biomedical Advanced Research and Development Authority, or BARDA (part of the U.S. Department of Health and Human Services' Office of the Assistant Secretary for Preparedness and Response).

Selling, General and Administrative Expense

Selling, general and administrative expense includes administrative expenses, sales and marketing costs (including commissions), and other corporate items.

The \$0.8 million, or 13%, decrease in selling, general and administrative expense for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 is principally due to lower legal costs.

Impairment, restructuring, severance and related costs

During the three months ended June 30, 2022, no impairment, restructuring, severance and related costs were recorded. For the three months ended June 30, 2021, \$2.0 million was incurred, of which \$1.3 was related to the write-off of intangible assets, net leasehold improvements, and net right-of-use assets for leases associated with our Malaysian operations and \$0.7 million was related to restructuring matters.

Other Income (Expense), net

Other income (expense), net, consists principally of interest expense on our long-term debt under the Credit Agreement on September 3, 2019, of which \$20 million (carrying value of \$19.1 million) was outstanding at June 30, 2022. For a description of Credit Agreement, please see “Liquidity and Capital Resources—Sources of Funds—Credit Agreement” below

Six Months Ended June 30, 2022 versus Six Months Ended June 30, 2021

The results of operations for the six months ended June 30, 2022 and 2021 were as follows (dollars in thousands):

	June 30, 2022		June 30, 2021	
TOTAL REVENUES	\$ 27,978	100%	\$ 15,186	100%
OPERATING COSTS AND EXPENSES:				
Cost of product sales	23,311	83%	7,588	50%
Research and development expenses	3,696	13%	5,660	37%
Selling, general and administrative expenses	12,196	44%	12,087	80%
Impairment, restructuring, severance and related costs	3,043	11%	2,044	13%
TOTAL OPERATING COSTS AND EXPENSES	42,246		27,379	
LOSS FROM OPERATIONS	(14,268)		(12,193)	
OTHER (EXPENSE) INCOME, NET	(1,462)		(1,440)	
LOSS BEFORE INCOME TAXES	(15,730)	(56)%	(13,633)	(90)%
Income tax benefit	(7)		68	
NET LOSS	\$ (15,737)		\$ (13,565)	

Percentages in the table reflect the percent of total revenues.

Total Revenues

Total revenues during the six months ended June 30, 2022 were \$28.0 million, an increase of \$12.8 million, or 84% compared to the six months ended June 30, 2021. The increase in total net revenues was composed of the following:

- \$19.4 million net increase in product sales, reflecting gains in Latin America, the U.S., and Africa, offset by lower sales in Europe and the Middle East. Higher sales in Latin American were primarily due to Bio-Manguinhos for DPP SARS-CoV 2 Antigen tests.
- \$6.6 million, or 91.8%, decrease in R&D, grant and license and royalty revenues were primarily associated with the completion of work related to pursuing an EUA and 510(k) from the FDA for the DPP SARS-CoV-2 Antigen test system, and an EUA for the DPP Respiratory Panel.

Gross Product Margin

Cost of product sales is primarily composed of material, labor, manufacturing overhead, depreciation, amortization, freight and distribution costs. Gross product margin is net product sales less cost of product sales, and gross product margin percentage is gross product margin as a percentage of net product sales.

Gross product margin increased by \$3.7 million, or 1007%, compared to the first six months ended of 2022. The following schedule calculates gross product margin (dollars in thousands):

	For the six months ended		Favorable/(unfavorable)	
	June 30, 2022	June 30, 2021	\$ Change	% Change
Net product sales	\$ 27,386	\$ 7,956	\$ 19,430	244%
Less: Cost of product sales	23,311	7,588	15,723	207%
Gross product margin	\$ 4,075	\$ 368	\$ 3,707	1,007%
Gross product margin percentage	15%	5%		

The \$3.7 million increase in gross product margin was composed of the following:

- \$0.9 million favorable product sales volume as described above, together with
- \$2.8 million from favorable product margins related to the impact of geographic mix on average selling price.

Research and Development

This category includes costs incurred for clinical and regulatory affairs and other research and development, as follows (dollars in thousands):

	For the six months ended		Favorable/(unfavorable)	
	June 30, 2022	June 30, 2021	\$ Change	% Change
Clinical and regulatory affairs	\$ 839	\$ 1,636	\$ (797)	(49)%
Other research and development	2,857	4,024	(1,167)	(29)%
Total Research and Development	\$ 3,696	\$ 5,660	\$ (1,964)	(35)%

The decrease in total research and development costs for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 was primarily associated with the end of the BARDA contract in late 2021.

Selling, General and Administrative Expense

Selling, general and administrative expense includes administrative expenses, sales and marketing costs (including commissions), and other corporate items.

Selling, general and administrative expenses for the six months ended June 30, 2022 were relatively consistent compared to the six months ended June 30, 2021.

Impairment, restructuring, severance and related costs

Impairment, restructuring, severance and related costs include an impairment loss of \$3.0 million during the first quarter of 2022 as a result of an impairment of goodwill due to the substantial decrease in our share price at March 31, 2022. The low price per share value at March 31, 2022 caused our book value to exceed our fair value. For the six months ended June 30, 2021, \$2.0 million was incurred, of which \$1.3 was related to the write-off of intangible assets, net leasehold improvements, and net right-of-use assets for leases associated with our Malaysian operations, \$0.7 million was related to restructuring matters and \$0.1 million related to severance charges.

Other (Expense) Income, net

Other income (expense), net consists principally of interest expense on our long-term debt under the Credit Agreement on September 3, 2019, of which \$20 million (carrying value of \$19.1 million) was outstanding at June 30, 2022. For a description of Credit Agreement, please see “Liquidity and Capital Resources—Sources of Funds—Credit Agreement” below

Liquidity and Capital Resources

Our cash and cash equivalents totaled \$22.8 million at June 30, 2022. We are obligated to maintain aggregate unrestricted cash of not less than \$3.0 million at all times under a covenant in the Credit Agreement.

During the six months ended June 30, 2022, we funded our business operations, including capital expenditures and working capital requirements, principally from cash and cash equivalents, using \$5.9 million of cash.

Factors and considerations with respect to our liquidity raised substantial doubt as to our ability to continue as a going concern through one year after the date that the accompanying financial statements are being issued. See “Going Concern Considerations” above.

We have considered how the uncertainties around the delivery of the full number of tests covered by customer orders may be affected by limitations of our staffing, supply chain and liquidity and other matters outside our control. We further considered how those uncertainties could impact our ability to meet the obligations specified in the Credit Agreement over the next twelve months, which include (a) a covenant requiring minimum total revenues for the twelve months preceding each quarter end, which requirements range from \$45.6 million for the twelve months ending September 30, 2022 to \$50.1 million for the twelve months ending June 30, 2023 and (b) an obligation requiring the payment of principal installments, commencing with the payment of \$300,000 on September 30, 2022. Upon an event of default under the Credit Agreement, the Lender could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In such an event, there can be no assurance that we would have sufficient liquidity to fund payment of the amounts that would be due under the Credit Agreement or that, if such liquidity were not available, we would be successful in raising additional capital on acceptable terms, or at all, or in completing any other endeavor to continue to be financially viable and continue as a going concern. Our inability to raise additional capital on acceptable terms or to otherwise generate cash in the near future, whether for purposes of funding payments required under the Credit Agreement or providing additional liquidity needed for our operations, could have a material adverse effect on our business, prospects, results of operations, liquidity and financial condition.

We cannot be certain that our plans and initiatives would be effectively implemented within one year after the filing date of this report, when the accompanying financial statements are being issued. Without giving effect to the prospect of raising additional capital pursuant to our at-the-market offering or likewise, increasing product revenue in the near future or executing other mitigating plans, many of which are beyond our control, it is unlikely that we will be able to generate sufficient cash flows to meet our required financial obligations, including our debt service and other obligations due to third parties. The existence of these conditions raises substantial doubt about our ability to continue as a going concern for the twelve-month period following the filing date of this report, when the accompanying financial statements are being issued.

Please see note 2 to the accompanying financial statements for additional information regarding our going concern assessment in connection with the accompanying financial statements. You are urged to read carefully the information provided in “Because of our liquidity limitations, we have concluded there is a substantial doubt about our ability to continue as a going concern and we may require additional capital to fund our operations, which capital may not be available to us on acceptable terms or at all” under Part II, Item 1A, “Risk Factors” of this report and “The failure to comply with the terms of the Credit Agreement could result in a default under its terms and, if uncured, could result in action against our pledged assets and dilution of our stockholders” under Part I, Item 1A, “Risk Factors” of our 2021 Form 10-K.

On April 5, 2022, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market notifying us that, because the bid price for shares of our common stock had closed below the \$1.00 per share minimum bid price requirement for thirty consecutive business days or the Bid Price Requirement, our common stock may be subject to delisting by as early as October 3, 2022 if we have been unable to regain compliance with the Bid Price Requirements or to qualify for an additional period to regain compliance by such date, all as described in more detail in the Current Report on Form 8-K we filed with the SEC on April 7, 2022. As of August 4, 2022, the closing price of our common stock was \$1.08, which was the second day since February 18, 2022 that such closing price was equal to or greater than \$1.00. If our closing bid price remains at or above \$1.00 for ten consecutive business days we will regain compliance with the Bid Price Requirement. There can be no assurance that we will be able to regain compliance with the Bid Price Requirement. Our inability to regain compliance with the Bid Price Requirement would, and the existence of the pending deficiency letter could, materially impair our ability to raise capital.

We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends. We have not entered into, and do not expect to enter into, investments for trading or speculative purposes. Our accounts receivable, accounts payable and inventory balances fluctuate from period to period, which affects our cash flow from operating activities. The amounts of these fluctuations vary depending on cash collections, client mix, raw material lead times, the mix of vendor terms, the timing of shipment of our products and the invoicing of our research and development activities. As of June 30, 2022, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934.

We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs and our planned growth initiatives. Our future working capital needs will depend on many factors, including the rate of our business and revenue growth, the availability and cost of human, material and other resources required to build and deliver products in accordance with our existing or future product orders, the timing of our continuing automation of U.S. manufacturing, and the timing of our investment in research and development as well as sales and marketing. If we are unable to increase our revenues and manage our expenses in accordance with our operating plan, we may need to reduce the level or slow the timing of the growth plans contemplated by our operating plan, which would likely curtail or delay the growth in our business contemplated by our operating plan and could impair or defer our ability to achieve profitability and generate cash flow, or to seek to raise additional funds through debt or equity financing, strategic relationships, or other arrangements. There can be no assurance that we would be able to complete any proposed financing on terms acceptable to us, or at all, or that we otherwise will be successful in any of our other endeavors to continue to be financially viable and continue as a going concern. Our inability to raise additional capital on acceptable terms could have a material adverse effect on our business, prospects, results of operations, liquidity and financial condition. If we were to raise additional funds through the issuance of equity or convertible securities, the issuance could result in substantial dilution to existing stockholders, and the holders of those new securities may have rights, preferences and privileges senior to those of the holders of common stock. Furthermore, any decline in the market price of our common stock could make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Sources of Funds

Credit Agreement. The following description summarizes certain key provisions of the Credit Agreement:

- **Principal Amount.** The Credit Agreement provides for a \$20,000,000 senior secured term loan credit facility, which was drawn in full on September 4, 2019. Under the terms of the Credit Agreement, we may use the proceeds (i) for general working capital purposes and other permitted corporate purposes, (ii) to refinance certain of our existing indebtedness and (iii) to pay fees, costs and expenses incurred in connection with the Credit Agreement, including the Lender's closing cost amount of \$550,000, which was netted from the proceeds, and a financing fee of \$600,000 (3.0% of gross proceeds) payable to Craig-Hallum Capital Group LLC, our financial advisor for the financing.
- **Interest Rate.** Principal outstanding under the Credit Agreement bears interest at a rate per annum equal to the sum of (a) the greater of the one-month London Interbank Offered Rate and 2.5% plus (b) 8.75%. At any time at which an event of default (as described under "—Default Provisions" below) has occurred and is continuing, the interest rate will increase by 4.0%. Accrued interest is payable on a monthly basis. On June 30, 2022, the interest rate was 11.25%.

- **Scheduled Repayment.** No principal repayments are due prior to September 30, 2022, unless we elect to prepay principal as described under “—Optional Prepayment” below or principal is accelerated pursuant to an event of default as described under “—Default Provisions” below. Principal installments in the amount of \$300,000 are payable on the last day of each of the eleven months from September 2022 through July 2023, and all remaining principal is payable at maturity on September 3, 2023.
- **Optional Prepayment.** We may prepay outstanding principal from time to time, subject to payment of a premium on the prepaid principal amount equal to 10% through September 3, 2020, 8% from September 4, 2020 through September 3, 2021, and 4% from September 4, 2021 through September 3, 2022. No premium will be due with respect to any prepayment made on or after September 4, 2022.
- **Guarantees.** Our subsidiaries Chembio Diagnostic Systems Inc. and Chembio Diagnostics Malaysia Sdn Bhd. have guaranteed, and the Lender from time to time may require our other subsidiaries to guarantee, our obligations under the Credit Agreement.
- **Security.** Our obligations under the Credit Agreement are secured by a first priority, perfected lien on substantially all of our property and assets, including our equity interests in our subsidiaries. Our subsidiary Chembio Diagnostic Systems Inc. has secured its guarantee of our Credit Agreement obligations with a lien on substantially all of its assets, and the Lender from time to time may require Chembio Diagnostics Malaysia Sdn Bhd. and any of our other subsidiaries that has guaranteed our Credit Agreement obligations to do the same.
- **Representations and Warranties; Financial and Other Covenants.** In the Credit Agreement we made customary representations and warranties as well as customary affirmative and negative covenants, including covenants limiting additional indebtedness, liens, guarantees, mergers and acquisitions, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates, and fundamental changes. The Credit Agreement also contains financial covenants requiring that (i) we maintain aggregate unrestricted cash of not less than \$3,000,000 at all times and (ii) we achieve specified minimum rolling four-quarter (“last twelve month”) total revenue amounts as of September 30, 2019 and the last day of each calendar quarter thereafter. For the next year, the minimum total revenue requirements range from \$45.6 million for the twelve months ending September 30, 2022, and \$50.1 million for the twelve months ending June 30, 2023. The minimum total revenue amounts were developed for purposes of the Credit Agreement and do not reflect the internal estimates and plans used by our management and board of directors to understand and evaluate our operating performance, to establish budgets, and to establish operational goals for managing our business. We therefore do not believe that the covenant requirements provide useful information to investors or others in enhancing an understanding of our future prospects.
- **Default Provisions.** The Credit Agreement provides for customary events of default, including events of default based on non-payment of amounts due under the Credit Agreement, defaults on other debt, misrepresentations, covenant breaches, changes of control, insolvency, bankruptcy and the occurrence of a material adverse effect on our company. Upon an event of default resulting from a voluntary or involuntary proceeding for bankruptcy, insolvency or receivership, the amounts outstanding under the Credit Agreement will become immediately due and payable and the Lender’s commitments will be automatically terminated. Upon the occurrence and continuation of any other event of default, the Lender may accelerate payment of all obligations and terminate its commitments under the Credit Agreement.

Equity and Equity-Related Securities. On July 19, 2021, we and Craig-Hallum Capital Group LLC, or Craig-Hallum, entered into the ATM Agreement, pursuant to which we may sell from time to time, at our option, up to an aggregate of \$60,000,000 of shares of common stock through Craig-Hallum, as sales agent. Any sales of shares made pursuant to the ATM Agreement will be made pursuant to our shelf registration statement on Form S-3 (File No. 333-254261) and the related prospectus previously declared effective by the SEC on May 5, 2021, as supplemented by a prospectus supplement dated July 19, 2021 that we filed with the SEC, pursuant to Rule 424(b)(5) under the Securities Act, on July 19, 2021, as such prospectus supplement may be amended or supplemented from time to time.

Prior to any sale of shares of common stock under the ATM Agreement, we may deliver a sales notice to Craig-Hallum that will set the parameters for such sale, including the number of shares to be issued and sold, the time period during which such sale is requested to be made, any limitation on the number of shares that may be sold in any one trading day and any minimum price below which sales may not be made. Under the ATM Agreement, Craig-Hallum is required to use commercially reasonable efforts consistent with its normal trading and sales practices to sell shares in accordance with the terms of the ATM Agreement and any applicable sales notice.

Subject to the terms and conditions of the ATM Agreement, Craig-Hallum may sell any shares of common stock only by methods deemed to be an “at the market” offering as defined in Rule 415 under the Securities Act, including sales made directly through the Nasdaq Capital Market, by means of ordinary brokers’ transactions, in negotiated transactions, to or through a market maker other than on an exchange or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices, or at negotiated prices and/or any other method permitted by law. If any sale of shares pursuant to the ATM Agreement is not made directly on the Nasdaq Capital Market or any other existing trading market for common stock at market prices at the time of sale, including a sale to Craig-Hallum acting as principal or a sale in a privately negotiated transaction, we must file a prospectus supplement describing the terms of such sale, the number of shares sold, the price of the shares, the applicable compensation, and such other information as may be required pursuant to Rules 424 and 430B under the Securities Act, as applicable, within the time required by Rule 424 under the Securities Act.

Under the terms of the ATM Agreement, we are to pay Craig-Hallum a placement fee of 3.5% of the gross sales price of shares of common stock sold, unless Craig-Hallum acts as principal, in which case we may sell the shares to Craig-Hallum as principal at a price we agree upon with Craig-Hallum. We are obligated to reimburse Craig-Hallum for certain expenses incurred in connection with the ATM Agreement, and we have provided Craig-Hallum with customary indemnification and contribution rights with respect to certain liabilities, including liabilities under the Securities Act and the Securities Exchange Act of 1934.

We are currently subject to General Instruction I.B.6 to Form S-3, or the Baby Shelf Rule, and the amount of funds we can raise through primary public offerings of securities in any twelve-month period using our existing registration statement on Form S-3 is limited to one-third of the aggregate market value of the voting and non-voting common equity held by non-affiliates.

The offering of shares of common stock pursuant to the ATM Agreement will terminate upon the earliest of (a) the sale of all of the shares registered for purposes of the offering pursuant to the ATM Agreement, (b) our mutual written agreement with Craig-Hallum, (c) written notice from Craig-Hallum, in its sole discretion, to us, and (d) five business days’ prior written notice from us, in our sole discretion, to Craig-Hallum.

As of the filing date of this report, we have issued and sold pursuant to the ATM Agreement a total of 9,709,328 shares of common stock at a volume-weighted average price of \$4.20 per share for gross proceeds of \$40.8 million and net proceeds, after giving effect to placement fees and other transaction costs, of \$38.8 million. Additional shares of common stock may be issued and sold pursuant to the ATM Agreement, but we cannot provide any assurance that will be able to issue any additional shares under the ATM Agreement at an acceptable price or at all. Furthermore, any such sales shall be subject to the Baby Shelf Rule.

Research and Development Awards. Under a contract we entered into with BARDA on December 2, 2020, a total of up to \$12.7 million of awards were available from BARDA to assist us in (a) developing, and pursuing an EUA from the FDA for, the DPP Respiratory Antigen Panel and (b) performing the clinical trials for and submitting the DPP SARS-CoV-2 Antigen test system to the FDA for 510(k) clearance. Of the total awards available under this contract, no government grant income was recognized during the six months ended June 30, 2022. The completion of milestones to earn the remaining awards are outside our control, and contingent to the EUA approval by the FDA.

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

	June 30, 2022
	<i>(in thousands)</i>
Cash and cash equivalents	\$ 22,837
Accounts receivable, net of allowance for doubtful amounts	4,256
Inventories, net	11,309
Prepaid expenses and other current assets	2,498
Total current assets	40,900
Less: Total current liabilities	(14,031)
Working capital	\$ 26,869

Our cash and cash equivalents at June 30, 2022, were held for working capital purposes. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends. We have not entered into, and do not expect to enter into, investments for trading or speculative purposes. Our accounts receivable and inventory balances fluctuate from period to period, which affects our cash flow from operating activities. Fluctuations vary depending on cash collections, client mix, raw material lead times, the mix of vendor terms, and the timing of shipment of our products and the invoicing of our research and development activities.

Uses of Funds

Cash Flow Used in Operating Activities. Our operations used \$4.8 million of cash during the six months ended June 30, 2022, primarily due to a \$3.1 million decrease in accounts payable and other accrued liabilities, \$0.4 million increase in deposits and other assets and a \$1.6 million decrease in inventory. Those uses of cash were partially offset by a \$7.2 million decrease in accounts receivable.

Capital Expenditures. Our capital expenditures totaled \$1.1 million in the six months ended June 30, 2022 compared to \$1.3 million in prior year period, which were primarily attributable to investments in automated manufacturing equipment, facilities, and other fixed assets.

We have capital purchase obligations of \$0.5 million related to additional automated manufacturing equipment with payments expected to come due during 2022 based on vendor performance milestones.

The Company has a minimum volume commitment of 10 million STAT-PAK units to be manufactured by Reszon through December 31, 2024.

Significant Accounting Policies and Critical Accounting Estimates

There were no significant changes in our accounting policies or critical accounting estimates during the three months ended June 30, 2022 to augment the significant accounting policies or critical accounting estimates disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2021 Form 10-K, other than those described in the notes to the condensed consolidated financial statements included elsewhere in this report.

Recently Issued Accounting Pronouncements

A discussion of recent accounting pronouncements was included in our 2021 Form 10-K and is updated in Note 2 to the condensed consolidated financial statements included elsewhere in this report.

ITEM 3. CONTROLS AND PROCEDURES

- (a) **Disclosure Controls and Procedures.** Under the supervision and with the participation of our senior management, consisting of our principal executive officer and our principal 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, or the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that as of June 30, 2022 our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our Exchange Act reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.
- (b) **Changes in Internal Control over Financial Reporting.** There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the three months ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

This information is set forth under “Note 6 – Commitments, Contingencies And Concentrations – Litigation” to the Consolidated Financial Statements of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors described in the sections captioned “Risk Factors,” in our 2021 Form 10-K and updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, as filed with the SEC on May 5, 2022. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the sections “Risk Factors” in our 2021 Form 10-K and Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, which could materially affect our business, financial condition, or future results. Moreover, you should interpret many of the risks identified in our 2021 Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 as being heightened as a result of the ongoing and numerous adverse impacts of COVID-19. The risks described in our 2021 Form 10-K, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 and in this report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition, and/or operating results.

Risks Related to Our Business and Our Industry

Our near term success is highly dependent on the success of the our DPP platform, and we cannot be certain that we will succeed in developing one or more of those systems or that, if we do, they will attain market acceptance or be successfully commercialized in the United States or elsewhere.

We do not currently have an Emergency Use Authorization, or EUA, from the U.S. Food and Drug Administration, or FDA, for any of the COVID-19 Diagnostic Test Systems or for our DPP Respiratory Panel. We also do not have a CLIA waiver from the FDA for our DPP HIV-Syphilis test system. Market and regulatory requirements continue to change at a rapid pace. There can be no assurance that, if we make a submission of any future EUA or CLIA waiver application, we will meet the requirements of the prioritization guidance in effect at the time of the submission or otherwise be successful in obtaining either (1) an EUA that would permit us to offer and sell the DPP SARS-CoV-2 Antigen test system or DPP Respiratory Panel in the United States or (2) a CLIA waiver for our DPP HIV-Syphilis test.

Even if we are able to obtain any such EUA or CLIA waiver, our product may not gain broad market acceptance among physicians, healthcare payers, patients, and the medical community. We cannot guarantee market acceptance of our product, and have somewhat limited information on which to estimate our anticipated level of sales. Our products will require healthcare providers and doctors to accept and adopt our technology. Our industry is susceptible to rapid technological developments and there can be no assurance that we will be able to match any new technological advances. Acceptance and use of any products we market will depend upon a number of factors including:

- perceptions by members of the health care community, including physicians, about the safety and effectiveness of our products;
- limitation on use or warnings required by the FDA or other global regulators in our product labeling;
- the cost of our products relative to competing products;
- convenience and ease of administration;
- potential advantages of alternative diagnostic and treatment methods;
- availability of reimbursement for our products from government or other healthcare payers;
- effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any; and
- the ability of our diagnostic solutions to address different variants.

In addition, with respect to any EUA we obtain, the FDA may revoke an EUA where it is determined that the underlying health emergency no longer exists or warrants such authorization, even if we obtain an EUA, we cannot predict how long such EUA would remain in place. Such revocation could materially adversely impact our business in a variety of ways, including if the relevant product is not yet approved by the FDA under a traditional approval pathway and if we have invested in the supply chain to provide any of our products under an EUA, and would require us to obtain a 510(k) or other marketing authorization from the FDA. If the FDA revokes a previously issued EUA prior to us having received regulatory approval to commercialize our DPP SARS-CoV-2 Antigen test system or DPP Respiratory Panel through a traditional approval pathway, we would be required to cease our commercialization efforts in the United States, which would substantially and negatively impact our business.

The failure of these products to find market acceptance would substantially harm our business and would adversely affect our revenue. If the DPP SARS-CoV-2 Antigen test system, DPP Respiratory Panel or DPP HIV-Syphilis test are not as successfully commercialized as expected, we may not be able to generate sufficient revenue to become profitable. Any failure of one of these products to be successfully commercialized in the United States may have a material adverse effect on our business, operating result financial condition and cash flows, and could result in a substantial decline in the price of our common stock. In addition, the production and widely administered use of efficacious vaccines for COVID-19 may reduce the demand for diagnostic tests and, as a result, the COVID-19 diagnostic testing market may not develop or substantially grow. Our future success is substantially dependent on the manner in which the market for diagnostic testing develops and grows. If the market develops in a manner that does not facilitate demand for our products, or fails to develop or grow in the manner in which we expect or at all, our business, financial condition, results of operations and cash flows may be negatively affected.

Clinical trials necessary to support a future test kit submission will be expensive and may require the enrollment of large numbers of subjects, and suitable subjects may be difficult to identify and recruit. Delays or failures in our clinical trials will prevent us from commercializing any modified or new test kits and will adversely affect our business, operating results and prospects.

Risks Related to Our Products

Industry adoption of alternative technology to our COVID-19 Diagnostic Test Systems could negatively impact our ability to compete successfully.

Customers or the industry as a whole could adopt alternative technologies for testing, including molecular point of care testing, which could result in lower demand for our antigen test. Various advances in the treatment and monitoring of patients could cause lower demand for the COVID-19 Diagnostic Test Systems, including our revised DPP SARS CoV 2 Antigen System or for antigen testing for COVID-19 as a whole.

Risks Related to Regulations

If we do not comply with FDA or other regulatory requirements, we may be required to suspend production or sale of our products or institute a recall, which could result in higher costs and a loss of revenues.

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

Our inability to comply with the applicable requirements of the FDA can result in, among other things, 483 notices, warning letters, administrative or judicially imposed sanctions such as injunctions, recall or seizure of products, civil penalties, withdrawal of product registrations, total or partial suspension of production, refusal to grant premarket clearance for devices, a determination that a device is not approvable, marketing clearances or approvals, or criminal prosecution. For example, in February 2020, we initially received a "not approvable" letter from the FDA with respect to our premarket approval submission on our DPP HIV Syphilis multiplex test for commercial use in the United States, in June 2020 we received notice from the FDA that the EUA for the DPP COVID-19 IgM/IgG System had been revoked, and in January 2021 we received notice from the FDA that it was declining to review the DPP SARS CoV 2 Antigen System based on its updated prioritization guidance, under which review of the system was not a priority. The ability of our suppliers to supply critical components or materials and of our distributors to sell our products could also be adversely affected if their operations are determined to be out of compliance. Such actions by the FDA and other regulatory bodies could adversely affect our revenues, costs and results of operations.

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

Financial, Economic and Financing Risks

Because of our liquidity limitations, we have concluded there is a substantial doubt about our ability to continue as a going concern and we may require additional capital to fund our operations, which capital may not be available to us on acceptable terms or at all.

As described under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Going Concern Considerations" and "—Liquidity and Capital Resources," management has determined we could not be certain that our plans and initiatives to increase our total revenues and improve our liquidity position would be effectively implemented within one year after the filing date of this report, when the accompanying financial statements are being issued. Without giving effect to the prospect of raising additional capital pursuant to our at-the-market offerings under the ATM Agreement, increasing product revenue in the near future or executing other mitigating plans, many of which are beyond our control, it is unlikely that we will be able to generate sufficient cash flows to meet our required financial obligations, including our debt service and other obligations due to third parties. The existence of these conditions raises substantial doubt about our ability to continue as a going concern for the twelve-month period following the filing date of this report, when the accompanying financial statements are being issued.

Our diagnostic test products require ongoing funding to continue our current development and operational plans, and we have a history of net losses. We may encounter challenges in fulfilling our obligations, and therefore receiving revenue, under those purchase orders. We will also incur costs associated with research and development activity, corporate administration, business development, debt service, marketing and selling of our products, and litigation. In addition, other unanticipated costs may arise.

As of June 30, 2022, our loan balance, net of unamortized discounts and debt issuance costs, of \$19.1 million under the Credit Agreement. We may face further liquidity challenges if we are unable to meet obligations set forth in the Credit Agreement, including a financial covenant requiring that we achieve specified minimum total revenue amounts measured as of the end of each quarter. A breach of the minimum total revenue covenant or any other covenant in the Credit Agreement would result in a default under the Credit Agreement, which could enable the Lender to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. We cannot assure you that, in such an event, we would have sufficient assets to pay amounts due under the Credit Agreement.

As a result, we may need to raise capital in one or more debt or equity offerings to fund our operations and obligations, including under the ATM Agreement. There can be no assurance, however, that we will be successful in raising the necessary capital or that any such offering will be available to us on terms acceptable to us, or at all. If we are unable to raise additional capital that may be needed on terms in sufficient amounts or on terms acceptable to us, it could have a material adverse effect on our company. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue our deliveries under our outstanding customer purchase orders or the development or commercialization of one or more of our products or one or more of our other research and development initiatives. The effects of COVID-19 have significantly disrupted world financial markets and negatively impacted U.S. market conditions, and they may reduce opportunities for us to seek out additional funding. A decline in the market price of our common stock, whether or not coupled with the suspension of trading of our common stock on the Nasdaq Capital Market, could make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate, or at all. Moreover, on April 5, 2022, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market notifying us that, because the bid price for shares of our common stock had closed below the \$1.00 per share minimum Bid Price Requirement for thirty consecutive business days, our common stock may be subject to delisting by as early as October 3, 2022 if we have been unable to regain compliance with the Bid Price Requirements or to qualify for an additional period to regain compliance by such date, all as described in more detail in the Current Report on Form 8-K we filed with the SEC on April 7, 2022. There can be no assurance that we will be able to regain compliance with the Bid Price Requirement. Our inability to regain compliance with the Bid Price Requirement would, and the existence of the pending deficiency letter could, materially impair our ability to raise capital.

Continuing doubt about our ability to continue as a going concern may materially and adversely affect the price of our common stock, and it may be more difficult for us to obtain financing. Any uncertainty about our ability to continue as a going concern may also adversely affect our relationships with current and future employees, suppliers, vendors, customers, grantors, creditors, regulators and investors, who may become concerned about our ability to meet our ongoing financial obligations. There is risk that, among other things:

- third parties lose confidence in our ability to continue to operate in the ordinary course, which could impact our ability to execute on our business strategy;
- it may become more difficult for us to attract, retain or replace employees;
- employees could be distracted from performance of their duties;

- we could lose some or a significant portion of our liquidity, either due to stricter credit terms from vendors, or, in the event we undertake a Chapter 11 proceeding and conclude that we need to procure debtor-in-possession financing, an inability to obtain any needed debtor-in-possession financing or to provide adequate protection to certain secured lenders to permit us to access some or all of our cash; and
- our vendors and service providers could seek to renegotiate the terms of our arrangements, terminate their relationships with us or require financial assurances from us.

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of this report. As such, the accompanying financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amount and classification of liabilities that may result should we be unable to continue as a going concern.

Additionally, we are currently subject to the Baby Shelf Rule and the amount of funds we can raise through primary public offerings of securities in any 12-month period using our registration statement on Form S-3 is limited to one-third of the aggregate market value of the voting and non-voting common equity held by non-affiliates. We will be limited by the Baby Shelf Rule until such time, if any, as our public float exceeds \$75 million.

Our failure to meet the minimum bid price for continued listing on the Nasdaq Capital Market could adversely affect our ability to publicly or privately sell equity securities and the liquidity of our common stock

On April 5, 2022, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market notifying it that, because the bid price for shares of our common stock had closed below the \$1.00 per share minimum Bid Price Requirement for thirty consecutive business days, our common stock may be subject to delisting by as early as October 3, 2022 if we are unable to regain compliance with the Bid Price Requirements or to qualify for an additional period to regain compliance by such date, all as described in more detail in the Current Report on Form 8-K filed with the SEC on April 7, 2022. The closing price of our common stock was \$1.08 on August 4, 2022, which was the second day since February 18, 2022 that such closing price was equal to or greater than \$1.00. If our closing bid price remains at or above \$1.00 for ten consecutive business days we will regain compliance with the Bid Price Requirement. There can be no assurance that we will be able to regain compliance with the Bid Price Requirement. Our inability to regain compliance with the Bid Price Requirement would, and the existence of the pending deficiency letter could, materially impair its ability to raise capital. Moreover, if we were unable to regain compliance with the Bid Price Requirement, our common stock would likely then trade only in the over-the-counter market and the market liquidity of our common stock could be adversely affected and their market price could decrease. If our common stock were to trade on the over-the-counter market, selling our common stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and we could face significant material adverse consequences, including: a limited availability of market quotations for our securities; reduced liquidity with respect to our securities; a determination that our shares are a “penny stock,” which will require brokers trading in our securities to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our securities; a reduced amount of news and analyst coverage; and a decreased ability to issue additional securities or obtain additional financing in the future. These factors could result in lower prices and larger spreads in the bid and ask prices for our common stock and would substantially impair our ability to raise additional funds (under the ATM Agreement or otherwise) and could result in a loss of institutional investor interest and fewer development opportunities for us.

There can be no assurance that our review of strategic alternatives and our financing strategy will result in a transaction satisfactory to holders of our common stock or any change at all.

Our board of directors has initiated a review of strategic alternatives, including a potential sale or merger transaction, and of our financing strategy. We have retained Craig-Hallum Capital Group LLC as our financial advisor to assist with the strategic review. We have not set a timetable for completion of the strategic review process, and there can be no assurance that the process will result in a transaction at this time or at all. Even if a sale, merger or financing transaction is consummated, it may not return any value to holders of our common stock. Regardless of whether we execute a sale, merger or financing transaction, the adverse pressures that we have experienced may continue or intensify, and we will likely continue to face all of the risks we currently face, including the risk that we may not be able to continue as a going concern. See “—Because of our liquidity limitations, we have concluded there is a substantial doubt about our ability to continue as a going concern and we may require additional capital to fund our operations, which capital may not be available to us on acceptable terms or at all.”

The pursuit of strategic alternatives or financing transactions may consume a substantial portion of the time and attention of our management and require additional capital resources and may be disruptive to our business, which could have a material adverse effect on our business, financial condition and results of operations.

We are not able to predict with certainty the amount of time and resources necessary to successfully identify, pursue and execute any strategic transaction or obtain additional financing. The diversion of management’s attention may materially adversely affect the conduct of our business, and, as a result, our financial condition and results of operations. The additional expense we accrue in connection with our review of strategic alternatives and pursuit of strategic or financing transactions may materially adversely impact our financial condition and partially offset the value of any strategic transaction we execute or additional financing we obtain.

ITEM 6. EXHIBITS

Number	Description
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
32.1	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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
104	Cover page interactive data file (embedded within the XBRL document)

SIGNATURES

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

Chembio Diagnostics, Inc.

Date: August 5, 2022

By: /s/ Richard Eberly

Richard Eberly
Chief Executive Officer and President

Date: August 5, 2022

By: /s / Lawrence J. Steenvoorden

Lawrence J. Steenvoorden
Chief Financial Officer and Executive Vice President

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard L. Eberly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chembio Diagnostics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer 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.
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 controls.

Date: August 5, 2022

/s/ Richard L. Eberly

Richard L. Eberly

Chief Executive Officer and President

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lawrence J. Steenvoorden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chembio Diagnostics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer 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.
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 controls.

Date: August 5, 2022

/s/ Lawrence J. Steenvoorden

Lawrence J. Steenvoorden

Chief Financial Officer and Executive Vice President

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

In connection with the Quarterly Report on Form 10-Q of Chembio Diagnostics, Inc. for the quarterly period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge on the date hereof:

1. the Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of Chembio Diagnostics, Inc. for the period presented therein.

Date: August 5, 2022

/s/ Richard L. Eberly

Richard L. Eberly
Chief Executive Officer and President

Date: August 5, 2022

/s/ Lawrence J. Steenvoorden

Lawrence J. Steenvoorden
Chief Financial Officer and Executive Vice President

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.
