

CHEMBIO DIAGNOSTICS, INC.
Form POS AM
April 20, 2007

Registration No. 333-125942

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

**POST EFFECTIVE AMENDMENT NO. 3 TO
FORM SB-2**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Chembio Diagnostics, Inc.

(Name of small business issuer in its charter)

Nevada	6282	88-0425691
(State or Jurisdiction of Incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**3661 Horseblock Road
Medford, New York 11763
(631) 924-1135**

(Address and telephone number of principal executive offices)

**Lawrence A. Siebert
3661 Horseblock Road
Medford, New York 11763
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(Name, address and telephone number of agent for service)

Copy of all communications to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE (3)

Title Of Each Class of Securities To Be Registered	Number of Units/Shares To Be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price (1)	Amount Of Registration Fee
Common Stock, \$0.01 par value per share (2)	8,158,530	\$.60	\$4,895,118	Previously Paid

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended (the "Act"), based on the average of the bid and ask prices for the Registrant's common stock as reported on the OTC Bulletin Board on June 15, 2005.

(2) Represents shares of common stock registered for resale by the holders (the "Selling Stockholders") of shares of 9% Series B Convertible Preferred Stock consisting of (i) 2,353,423 shares of common stock that may be issued to pay semi-annual dividends to the Selling Stockholders, and (ii) 5,805,107 shares of common stock that may be issued to the Selling Stockholders under the anti-dilution provisions of the 9% Series B Convertible Preferred Stock.

(3) Pursuant to Rule 429, this Post-Effective Amendment registers the resale of 18,610,710 shares of common stock, which represents shares that the Company has previously registered which (i) are subject to Rule 144(k) under the Securities Act, or (ii) were previously sold by selling security holders. This Post-Effective Amendment applies to shares we previously registered in the registration statements on Form SB-2 first filed with the Securities and Exchange Commission on June 7, 2004 (Commission File Number 333-116219), March 28, 2005 (Commission File Number 333-123600), and June 17, 2005 (Commission File 333-125942). Because this Post-Effective Amendment amends the Company's June 17, 2005 registration statement (Commission File No. 333-125942), the shares of common stock identified in this fee table only represent those shares for which the Company was required to pay a fee in the June registration statement. Accordingly, although pursuant to Rule 429 this Registration Statement covers the resale of a total of 18,610,710 shares, there are only 8,158,530 shares listed "To Be Registered" because those are the only shares for which a fee was paid in the June registration statement.

The 18,610,710 shares of common stock to be registered for resale hereby consist of (i) 9,670,316 shares of our common stock which stockholders own or may acquire upon the exercise of warrants and options to purchase shares of our common stock which were initially registered in the Company's registration statement on Form SB-2 first filed with the Securities and Exchange Commission on June 7, 2004 (Commission File Number 333-116219); and (ii) 8,940,394 shares of our common stock which stockholders own or may acquire upon the exercise of warrants and options to purchase shares of our common stock which were initially registered in the Company's registration statement on Form SB-2 first filed with the Securities and Exchange Commission on March 28, 2005 (Commission File Number 333-123600).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

EXPLANATORY NOTE

Pursuant to Rule 429 promulgated under the Securities Act of 1933, as amended, the prospectus included in this registration statement is a joint prospectus that updates and replaces the prospectus included in the registration statements on Form SB-2 first filed with the Securities and Exchange Commission on June 7, 2004 (Commission File Number 333-116219), March 28, 2005 (Commission File Number 333-123600) and June 17, 2005 (Commission File 333-125942), and constitutes the prospectus for this registration statement.

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither the selling security holders nor we are soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 20, 2007

**PROSPECTUS
CHEMBIO DIAGNOSTICS, INC.**

18,610,710 SHARES OF COMMON STOCK

This prospectus relates to the sale by certain stockholders of Chembio Diagnostics, Inc. of up to 18,610,710 shares of our common stock which they own, upon the exercise of warrants and options to purchase shares of our common stock. The 18,610,710 shares consist of (i) 9,670,316 shares of our common stock which stockholders own or may acquire upon the exercise of warrants and options to purchase shares of our common stock which were initially registered in the Company's registration statement on Form SB-2 first filed with the Securities and Exchange Commission on June 7, 2004 (Commission File Number 333-116219); and (ii) 8,940,394 shares of our common stock which stockholders own or may acquire upon the exercise of warrants and options to purchase shares of our common stock which were initially registered in the Company's registration statement on Form SB-2 first filed with the Securities and Exchange Commission on March 28, 2005 (Commission File Number 333-123600).

Our common stock is quoted on the OTC Bulletin Board under the symbol "CEMI." On April 19, 2007 the closing bid and asked prices for one share of our common stock were \$.591 and \$.599, respectively, as reported by the OTC Bulletin Board website. These over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

These securities are speculative and involve a high degree of risk. You should consider carefully the "Risk Factors" beginning on Page 5 of this prospectus before making a decision to purchase our stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2007

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the financial statements and notes thereto appearing elsewhere in, or incorporated by reference into, this Prospectus. Consequently, this summary does not contain all of the information that you should consider before investing in our Common Stock. You should carefully read the entire Prospectus, including the “Risk Factors” section, and the documents and information incorporated by reference into this Prospectus before making an investment decision.

This Prospectus relates to 18,610,710 shares of our Common Stock, consisting of 140,691 outstanding restricted shares and 18,470,019 shares issuable upon exercise of currently outstanding options, which may be offered for sale from time to time by the Selling Stockholders identified in this Prospectus. We anticipate that the Selling Stockholders will offer the Shares for sale at prevailing market prices on the OTC Bulletin Board on the date of such sale. We will not receive any proceeds from these sales. We are paying the expenses incurred in registering the Shares, but all selling and other expenses incurred by each of the Selling Stockholders will be borne by such Selling Stockholder.

Our Corporate Information

Chembio Diagnostic Systems Inc. was formed in 1985. Since inception we have been involved in developing, manufacturing, selling and distributing medical diagnostic tests, including rapid tests that detect a number of infectious diseases and for pregnancy. On May 5, 2004, Chembio Diagnostic Systems Inc. completed a merger through which it became a wholly-owned subsidiary of Chembio Diagnostics, Inc., formerly known as Trading Solutions.com, Inc. (“Chembio” or the “Company”). As a result of this transaction, the management and business of Chembio Diagnostic Systems Inc. became the management and business of the Company.

Our Business

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

On March 13, 2007, we were issued United States patent # 7,189,522 for our Dual Path Platform (“DPP™”) rapid test system. We believe that as a result of the patent protection we now have with DPP™, we have a significant opportunity to develop and license many new rapid tests in a number of fields including but not limited to infectious diseases. We have already completed initial development on some products in this new platform. We believe the DPP™ provides significant advantages over standard single path lateral flow assays, and we are developing most of our new products using this platform.

Our products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments. Our products are sold either under our STAT-PAK® or SURE CHECK® registered trademarks and/or the private labels of our marketing partners, such as the Inverness Clearview® label.

We have a history of losses, and we continue to incur operating and net losses. We have non-exclusive licenses to lateral flow patents held by Inverness and Abbott Laboratories, Inc., and to reagents including those that are used in our HIV rapid tests. These licenses do not necessarily insulate us from patent challenges by other patent holders. We

have filed applications for two lateral flow patents that incorporate features that we believe may further protect us from patent challenges.

Our main products are as follows:

- HIV Rapid Tests: HIV 1/2 STAT-PAK® Cassette, HIV 1/2 SURE CHECK® and HIV 1/2 STAT-PAK® Dipstick;
- Chagas Rapid Test: Chagas STAT-PAK; and
- Tuberculosis (TB): Prima TB STAT-PAK and Veterinary products.

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We also are in the process of developing rapid tests employing our patented DPP™ technology including, but not limited to, an oral fluid rapid HIV test and a human tuberculosis test.

We manufacture all of the products we sell. All of these products, as well as those that are under development, employ various formats of lateral flow technology. Lateral flow, whether single or dual path, generally refers to the process of a sample flowing from the point of application on a test strip to provide a test result on a portion of a strip downstream from either the point of application of the sample or of another reagent. We believe we have expertise and proprietary know-how in the field of lateral flow technology.

Our principal executive offices are located at 3661 Horseblock Road, Medford, New York 11763. Our telephone number is (631) 924-1135. Our website address is www.chembio.com.

Summary Financial Data

The following table presents summary historical financial information for the fiscal years ended December 31, 2006 and 2005. The financial statements are set forth beginning on page F-1 of this prospectus, and you should read this information for a more complete understanding of the presentation of this information.

	<u>Year Ended</u> <u>December 31,</u> <u>2006</u>	<u>Year Ended</u> <u>December 31,</u> <u>2005</u>
Revenue	\$ 6,502,480	\$ 3,940,730
Operating Expenses	6,596,761	4,630,133
Net Loss	(4,995,020)	(3,252,000)
Current Assets	6,953,668	2,468,193
Total Assets	7,906,577	3,016,406
Current Liabilities	1,840,435	1,818,474
Total Liabilities	2,297,193	1,963,703
Convertible Redeemable Preferred Stockholders' Equity (Deficit)	6,549,191	n/a
	(939,807)	(1,052,703)

RISK FACTORS

You should carefully consider each of the following risk factors and all of the other information provided in this Prospectus before purchasing our Common Stock. The risks described below are those we currently believe may materially affect us. An investment in our Common Stock involves a high degree of risk, and should be considered only by persons who can afford the loss of their entire investment.

Risks related to our industry, business and strategy

Because we may not be able to obtain necessary regulatory approvals for some of our products, we may not generate revenues in the amounts we expect, or in the amounts necessary to continue our business.

All of our proposed and existing products are subject to regulation in the U.S. by the U.S. Food and Drug Administration, the U.S. Department of Agriculture and/or other domestic and international governmental, public health agencies, regulatory bodies or non-governmental organizations. In particular, we are subject to strict

governmental controls on the development, manufacture, labeling, distribution and marketing of our products. The process of obtaining required approvals or clearances varies according to the nature of, and uses for, a specific product. These processes can involve lengthy and detailed laboratory testing, human or animal clinical trials, sampling activities, and other costly, time-consuming procedures. The submission of an application to a regulatory authority does not guarantee that the authority will grant an approval or clearance for product. Each authority may impose its own requirements and can delay or refuse to grant approval or clearance, even though a product has been approved in another country.

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

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

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

For example, the European Union and other jurisdictions have recently established a requirement that diagnostic medical devices used to test human biological specimens must receive regulatory approval known as a CE mark, or be registered under the ISO 13.485 medical device directive. The letters “CE” are the abbreviation of the French phrase “Conforme Européene,” which means “European conformity.” ISO (“International Organization for Standardization”) is the world’s largest developer of standards with 148 member countries. As such, export to the European and other jurisdictions without the CE or ISO 13.485 mark is not possible. Although we are not currently selling products to countries requiring CE marking, we expect that we will do so in the near future in order to grow our business. We are in the process of implementing quality and documentary procedures in order to obtain CE and ISO 13.485 registration, and we are not aware of any material reason why such approvals will not be granted. However, if for any reason CE or ISO 13.485 registration is not granted, our ability to export our products could be adversely impacted.

We can manufacture and sell our products only if we comply with regulations of government agencies such as the FDA and USDA. We have implemented a quality system that is intended to comply with applicable regulations. Although FDA approval is not required for the export of our products, there are export regulations promulgated by the FDA that specifically relate to the export of our products. Although we believe that we meet the regulatory standards required for the export of our products, these regulations could change in a manner that could adversely impact our ability to export our products.

Our products may not be able to compete with new diagnostic products or existing products developed by well-established competitors, which would negatively affect our business.

The diagnostic industry is focused on the testing of biological specimens in a laboratory or at the point-of-care and is highly competitive and rapidly changing. Our principal competitors often have considerably greater financial, technical and marketing resources than we do. Several companies produce diagnostic tests that compete directly with our testing product line, including but not limited to, Orasure Technologies, Inverness Medical and Trinity Biotech. As new products enter the market, our products may become obsolete or a competitor’s products may be more effective or more effectively marketed and sold than ours. Although we have no specific knowledge of any competitor’s product that will render our products obsolete, if we fail to maintain and enhance our competitive position or fail to introduce new products and product features, our customers may decide to use products developed by our competitors, which could result in a loss of revenues and cash flow.

We are developing an oral fluid rapid HIV test as well as other applications utilizing our Dual Path Platform™ technology, which we believe could enhance our competitive position in HIV rapid testing and other fields. However, we have not completed development of any DPP™ product, and we still have technical, manufacturing, regulatory and marketing challenges to meet before we will know whether we can successfully commercialize products incorporating this technology. There can be no assurance that we will overcome these challenges.

We have granted Inverness exclusive rights to market our SURE CHECK® HIV 1/2 globally and our HIV 1/2 STAT PAK® in the U.S. Inverness has no rapid HIV tests that are approved for marketing in the U.S., we are not aware of any rapid HIV products that Inverness is even contemplating for the U.S., and Inverness is obligated to inform us of any such products as soon as it is able to do so. Inverness does have rapid HIV tests manufactured by certain of its subsidiaries outside the U.S. that are being actively marketed outside the U.S., primarily in developing countries. Our HIV 1/2 STAT PAK cassette and dipstick products compete against these Inverness Products, and we specifically acknowledge in our agreements with Inverness the existence of such other products. Moreover, except for a product in the HIV barrel field as defined in our agreement with Inverness, Inverness is permitted under our agreements to market certain types of permitted competing rapid HIV tests in the U.S. Under these conditions, we could choose to terminate the applicable agreement with Inverness or change the agreement to a non-exclusive agreement, and Inverness would expand the lateral flow license granted to the Company to allow the Company to market the product independently or through other marketing partners. While we believe that Inverness is committed to successfully marketing our products particularly in the U.S. and other developed countries where our products are or become approved for marketing, Inverness may choose to develop or acquire competing products for marketing in the U.S. as well as other markets where they are marketing our SURE CHECK® HIV 1/2 product, and such an action could have at least a temporary material adverse effect on the marketing of these products until such time as alternative marketing arrangements could be implemented. While we also believe that the expansion of our license to the Inverness lateral flow patents substantially facilitates our ability to make alternative marketing arrangements, there can be no assurance that the modification of marketing arrangements and the possible corresponding delays or suspension of sales would not have a material adverse effect on our business.

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

We own no issued patents covering single path lateral flow technology, and the field of lateral flow technology is complex and characterized by a substantial amount of litigation, so the risk of potential patent challenges is ongoing for us in spite of our pending patent applications.

Although we have been granted non-exclusive licenses to lateral flow patents owned by Inverness Medical Innovations, Inc. and Abbott Laboratories, Inc., there is no assurance that their lateral flow patents will not be challenged or that licenses from other parties may not be required, if available at all. In the event that it is determined that a license is required and it is not possible to negotiate a license agreement under a necessary patent, we may be able to modify our HIV rapid test products and other products such that a license would not be necessary. However, this alternative could delay or limit our ability to sell these products in the U.S. and other markets, which would adversely affect our results of operations, cash flows and business.

During 2005 and 2006, we made substantial additions to our intellectual property portfolio as a result of the development of a new rapid test platform, Dual Path Platform (DPP™). This platform has shown improved sensitivity as compared with conventional platforms in a number of preliminary studies using well characterized HIV, tuberculosis and other samples. This technology formed the basis of two patent applications that we filed, and may result in additional applications covering additional uses of this technology platform. On March 13, 2007, one of these patent applications was approved by the United States Patent & Trademark Office, which issued United States patent no. 7,189,522 for our DPP™ rapid test system. Also, we believe that this new lateral flow platform is outside of the scope of currently issued patents in the field of lateral flow technology, thereby offering the possibility of a greater freedom to operate. There is no assurance that our patents or our products incorporating the patent claims will not be

challenged at some time in the future.

New developments in health treatments or new non-diagnostic products may reduce or eliminate the demand for our products.

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

We may not have sufficient resources to effectively introduce and market our products, which could materially harm our operating results.

Introducing and achieving market acceptance for our rapid HIV tests and other new products will require substantial marketing efforts and will require us or our contract partners to make significant expenditures. In the U.S. and other developed world markets where we will begin to market our FDA-approved products through Inverness and through other partners, we have no history upon which to base market or customer acceptance of these products. In some instances we will be totally reliant on the marketing efforts and expenditures of our contract partners. If they do not have or commit the expertise and resources to effectively market the products that we manufacture, our operating results will be materially harmed.

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The success of our business depends on our ability to raise additional capital through the sale of debt or equity or through borrowing, and we may not be able to raise capital or borrow funds in amounts necessary to continue our business, or at all.

Although our revenues and gross margins increased significantly in recent periods, we sustained significant operating losses in 2006, 2005 and 2004. At December 31, 2006, we had a stockholders' deficiency of \$940,000 and a working capital surplus of \$5,113,000. Including the funds received from the Series C 7% Convertible Preferred Stock offering, we believe our resources are sufficient to fund our needs through the end of 2007 and into early 2008. Our liquidity and cash requirements will depend on several factors. These factors include: (1) the level of revenue growth; (2) the extent to which, if any, that revenue growth improves operating cash flows; (3) our investments in research and development, facilities, marketing, regulatory approvals and other investments we may determine to make; and (4) our investment in capital equipment and the extent to which this investment improves cash flow through operating efficiencies. If our resources are not sufficient to fund our needs through 2007, there are no assurances that we will be successful in raising sufficient capital.

On March 30, 2006, we sold \$1 million of additional Series B Preferred stock to a Series B Preferred shareholder pursuant to provisions of the January 2005 Series B 9% Preferred Stock financing agreements. Such provisions were exclusive to said shareholder.

On June 29, 2006, we borrowed \$1,300,000. The loan was repaid in part on September 27, 2006 and the balance converted on October 5, 2006 and is secured by a lien on our assets. See Note 1 of the financial statements for further details.

On September 29, 2006 and October 5, 2006, we completed the Series C Offering for \$8,150,000. Some of the proceeds were used to repay the loan borrowed on June 29, 2006. We believe this Series C offering will be enough to supply our cash needs through the end of 2007.

Our objective of increasing international sales is critical to our business plan and if we fail to meet this objective, we may not generate revenues in the amounts we expect, or in amounts necessary to continue our business.

We intend to attempt to increase international sales of our products. A number of factors can slow or prevent international sales, or substantially increase the cost of international sales, including:

- regulatory requirements and customs regulations;
- cultural and political differences;
- foreign exchange rates, currency fluctuations and tariffs;
- dependence on and difficulties in managing international distributors or representatives;
- the creditworthiness of foreign entities;
- difficulties in foreign accounts receivable collection; and
- economic conditions and the absence of available funding sources.

If we are unable to increase our revenues from international sales, our operating results will be materially harmed.

We rely on trade secret laws and agreements with our key employees and other third parties to protect our proprietary rights, and we cannot be sure that these laws or agreements adequately protect our rights.

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

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We seek to protect our proprietary products under trade secret and copyright laws, enter into license agreements for various materials and methods employed in our products, and enter into strategic relationships for distribution of the products. These strategies afford only limited protection. We currently have no foreign patents, although we have several license agreements for reagents. Our SURE CHECK trademark has been registered in the U.S.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain information that we regard as proprietary. We may be required to expend substantial resources in asserting or protecting our intellectual property rights, or in defending suits related to intellectual property rights. Disputes regarding intellectual property rights could substantially delay product development or commercialization activities because some of our available funds would be diverted away from our business activities. Disputes regarding intellectual property rights might include state, federal or foreign court litigation as well as patent interference, patent reexamination, patent reissue, or trademark opposition proceedings in the U.S. Patent and Trademark Office.

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

In order to sell our rapid HIV tests and generate expected revenue from these tests, we will need to arrange for a license to patents for detection of the HIV-2 virus, and we may not be able to do so.

Although the current licensor of the peptides used in our HIV tests claims an HIV-2 patent, other companies have also claimed such patents. Even though HIV-2 is a type of the HIV virus estimated to represent only a small fraction of the known HIV cases worldwide, it is still considered to be an important component in the testing regimen for HIV in many markets. HIV-2 patents often are found in most of the countries of North America and Western Europe, as well as in Japan, Korea, South Africa and Australia. Access to a license for one or more HIV-2 patents may be necessary to sell HIV-2 tests in countries where such patents are in force, or to manufacture in countries where such patents are in force and then sell into non-patent markets. Since HIV-2 patents are in force in the U.S., we may be restricted from manufacturing a rapid HIV-2 test in the U.S. and selling into other countries, even if there were no HIV-2 patents in those other countries. The license agreement that we have in effect for the use and sale of the Adaltis HIV 1 and 2 peptides that are used in our HIV rapid test does not necessarily insulate us from claims by other parties that we need to obtain a license to other HIV-1 and/or HIV-2 patents. Although we have discussed additional HIV-2 licenses that would be advantageous for some markets, if we are unable to complete these discussions successfully our business and operating results could be materially harmed.

Our continued growth depends on retaining our current key employees and attracting additional qualified personnel, and we may not be able to do so.

Our success will depend to a large extent upon the skills and experience of our executive officers, management and sales, marketing, operations and scientific staff. Although we have not experienced unusual retention and/or recruitment problems to date, we may not be able to attract or retain qualified employees in the future due to the intense competition for qualified personnel among medical products businesses.

If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to effectively manufacture, sell and market our products to meet the demands of our strategic partners in a timely fashion, or to support internal research and development programs. Although we believe we will be successful in attracting and retaining qualified personnel, competition for experienced scientists and other personnel from numerous companies and academic and other research institutions may limit our ability to do so on acceptable terms.

We have entered into employment contracts with our President, Lawrence Siebert, and our Vice President of Research and Development, Javan Esfandiari. Due to the specific knowledge and experience of these executives regarding the industry, technology and market, the loss of the services of either one of them would likely have a material adverse effect on the Company. The contract with Mr. Siebert has a term of two years ending May 2008, and the contract with Mr. Esfandiari has a term of three years ending May 2007. We have obtained a key man insurance policy for Mr. Esfandiari.

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We believe our success depends on our ability to participate in large government programs in the U.S. and worldwide and we may not be able to do so.

We believe it to be in our best interests to meaningfully participate in the Presidential Emergency Plan for Aids Relief Program, UN Global Fund initiatives and other programs funded by large donors. We have initiated several strategies to participate in these programs. Participation in these programs requires alignment with the many other participants in these programs including the World Health Organization, U.S. Center for Disease Control, U.S. Agency for International Development, non-governmental organizations, and HIV service organizations. If we are unsuccessful in our efforts to participate in these programs, our operating results could be materially harmed.

We have a history of incurring net losses and we cannot be certain that we will be able to achieve profitability.

Since the inception of Chembio Diagnostic Systems, Inc. in 1985 and through the period ended December 31, 2006, we have incurred net losses. As of December 31, 2006, we have an accumulated deficit of \$(27,073,494). We incurred net losses of \$(4,995,020) and \$(3,252,000) in 2006 and 2005, respectively.

We expect to continue to make substantial expenditures for sales and marketing, regulatory submissions, product development and other purposes. Our ability to achieve profitability in the future will primarily depend on our ability to increase sales of our products, reduce production and other costs and successfully introduce new products and enhanced versions of our existing products into the marketplace. If we are unable to increase our revenues at a rate that is sufficient to achieve profitability, our operating results would be materially harmed.

To the extent that we are unable to obtain sufficient product liability insurance or that we incur product liability exposure that is not covered by our product liability insurance, our operating results could be materially harmed.

We may be held liable if any of our products, or any product which is made with the use or incorporation of any of the technologies belonging to us, causes injury of any type or is found otherwise unsuitable during product testing, manufacturing, marketing, sale or usage. Although we have obtained product liability insurance, this insurance may not fully cover our potential liabilities. In addition, as we attempt to bring new products to market, we may need to increase our product liability coverage which would be a significant additional expense that we may not be able to afford. If we are unable to obtain sufficient insurance coverage at an acceptable cost to protect us, we may be forced to abandon efforts to commercialize our products or those of our strategic partners, which would reduce our revenues.

Risks related to our Common Stock

Our Common Stock is classified as penny stock and is extremely illiquid, so investors may not be able to sell as much stock as they want at prevailing market prices.

Our Common Stock is classified as penny stock. Penny stocks generally are equity securities with a price of less than \$5.00 and trade on the over-the-counter market. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the price of the Shares being registered in this Prospectus. In addition, the “penny stock” rules adopted by the Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), subject the sale of the shares of the Common Stock to regulations that impose sales practice requirements on broker-dealers, causing many broker-dealers to not trade penny stocks or to only offer the stocks to sophisticated investors that meet specified net worth or net income criteria identified by the Commission. These regulations contribute to the lack of liquidity of penny stocks.

The average daily trading volume of our Common Stock on the over-the-counter market was less than 36,000 shares per day over the three months ended March 31, 2007. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices. Since the certificates of

designation creating our series A and series B preferred stock contain restrictions on our ability to declare and pay dividends on our Common Stock, the lack of liquidity of our Common Stock could negatively impact the rate of return on your investment.

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Sales of a substantial number of shares of our Common Stock into the public market by the selling stockholders may result in significant downward pressure on the price of our Common Stock and could affect the ability of our stockholders to realize the current trading price of our Common Stock.

At the time of effectiveness of the registration statement, the number of shares of our Common Stock eligible to be immediately sold in the market will increase significantly. If the selling stockholders sell significant amounts of our stock, our stock price could drop. Even a perception by the market that selling stockholders will sell in large amounts after the registration statement is effective could place significant downward pressure on our stock price.

You will experience substantial dilution upon the conversion of the shares of preferred stock and the exercise of warrants that we issued in three private placements and the warrants and options that were assumed in connection with the merger.

On May 5, 2004, we completed three separate private placements in which we issued 151,579.84 shares of our series A preferred stock and warrants to acquire 9,094,801 shares of our Common Stock at an exercise price of \$.90 per share. The shares of series A preferred stock are convertible into 7,578,985 shares of our Common Stock. We also issued warrants to purchase 425,000 shares of our Common Stock at an exercise price of \$0.72 per share and warrants to purchase 510,000 shares of Common Stock at an exercise price of \$1.08 per share to designees of our placement agents. We also issued warrants pursuant to an employment agreement with Mark L. Baum, our former president and former member of our board of directors, to purchase 425,000 shares and 425,000 shares of our Common Stock, respectively, at exercise prices of \$0.60 and \$0.90 per share, respectively. In connection with the acquisition of Chembio Diagnostic Systems, Inc., we assumed the obligation to issue 690,000 shares of our Common Stock upon the exercise of warrants, which warrants are exercisable at prices ranging from \$0.45 to \$4.00 per share. We also adopted the stock option plan of Chembio Diagnostic Systems Inc. and assumed the entire obligation to issue 704,000 common shares upon the exercise of the options outstanding as of the merger date. On January 28, 2005, we completed a private placement in which we issued 100 shares of our 9% Series B Convertible Preferred Stock, which we refer to as the "Series B Stock," together with warrants to purchase 7,786,960 shares of our Common Stock. For each \$.61 invested in this private placement, an investor received (a) \$.61 of face amount of Series B Stock, which is convertible into one share of our Common Stock, and (b) a five-year warrant to acquire .95 of a share of our Common Stock. Each full share of the Series B Stock was purchased for \$50,000, with fractional shares of Series B Stock being purchased by investments of less than \$50,000. In connection with the January 28, 2005 offering, we also issued to the placement agent Series B Stock in an aggregate amount equal to 5% of the amount of cash proceeds from the private placement, together with accompanying warrants to purchase our Common Stock. We also issued to the placement agent warrants to purchase 737,712 shares of our Common Stock. As of March 31, 2006, there were 1,529,750 options issued and outstanding under the stock option plan and 1,470,250 options available for issuance under the stock option plan. As a result, the conversion of the outstanding preferred stock and the exercise of the outstanding warrants and options will result in substantial dilution to the holders of our Common Stock.

On March 30, 2006, we issued to an investor 20 shares (face amount \$1,000,000) of the Company's series B preferred stock with warrants to purchase a total of 1,557,377 shares of our Common Stock at an exercise price of \$0.61 per share for a period of five years. We agreed to issue, and the investor agreed to purchase for \$1,000,000, the securities described above pursuant to the terms of a Securities Purchase Agreement dated January 26, 2005 by and among the Company and various purchasers. This transaction represents the second closing under the Agreement, and was triggered upon our achievement, as of the fourth fiscal quarter of 2005, certain financial milestones. As compensation for services rendered to the Company by Midtown Partners & Co., LLC for the second closing, we agreed to issue to Midtown two shares (face amount \$100,000) of our Series B Preferred Stock and warrants to purchase a total of 155,738 shares of our Common Stock at an exercise price of \$.061 per share for a period of five years.

On June 29, 2006, we issued \$1,300,000 of secured debentures to four investors. Pursuant to the terms of these debentures, investors agreed to receive back from the Company the full amount of their principal investment, plus interest on the unpaid principal sum outstanding at the rate of 0.667% per month. Each investor was also granted a

warrant to purchase up to 400 shares of Common Stock for each \$1,000 of such investor's subscription amount, with an exercise price of \$0.75 per share, exercisable for a five year term.

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On September 29, 2006 and October 5, 2006, we completed a private placement for \$8,150,000, consisting of 165 shares of 7% series C convertible preferred stock, which we refer to as the "Series C Stock," together with warrants to purchase 2,578,125 shares of our Common Stock. For each \$0.80 of consideration received, an investor received (a) \$0.80 of face amount of series C stock, which shall pay cumulative dividends in cash or shares at the rate of 7% per annum payable semiannually beginning in 2007, and which is convertible into one share of the Common Stock, and (b) a five-year warrant to acquire shares of our Common Stock, equal to 25% of the investor's subscription amount divided by \$0.85, with an exercise price of \$1.00 share. Each full share of the Series C Stock was purchased for \$50,000, with fractional shares of series C preferred stock being purchased by investments of less than \$50,000. In connection with this private placement, we employed Midtown Partners & Co., LLC to serve as the placement agent with respect to investors investing \$1,000,000 in this offering. As compensation for services rendered to the Company, we agreed to (i) pay Midtown a cash fee equal to 5% of the amount of cash proceeds we received from the investors Midtown solicited; and (ii) issue to Midtown warrants to purchase 62,500 shares of our Common Stock. The warrants issued to Midtown are exercisable for a period of five years from their issuance and have an exercise price of \$1.00 per share.

Our management and larger stockholders exercise significant control over our Company and may approve or take actions that may be adverse to your interests.

As of March 31, 2007, our named executive officers, directors and 5% stockholders beneficially owned approximately 21.49% of our voting power. For the foreseeable future, to the extent that our current stockholders vote similarly, they will be able to exercise control over many matters requiring approval by the board of directors or our stockholders. As a result, they will be able to:

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

USE OF PROCEEDS

We will not receive proceeds from the sale of shares under this prospectus by the selling security holders. If any of the shares registered are not issued as dividends, or under the anti-dilution provisions, to the holders of the series B preferred stock or the Series C preferred stock, we will not sell these shares to third parties and will de-register those shares.

DILUTION

We are not selling any common stock in this offering. The selling security holders are current stockholders of the Company. As such, there is no dilution resulting from the common stock to be sold in this offering.

SELLING SECURITY HOLDERS

The securities are being offered by the named selling security holders below. The selling security holders hold one or more of the following securities which are described in section "Description of Securities": Common stock, Series A preferred stock which is convertible into common stock at \$.60 per share, Series B preferred stock which is convertible into common stock at \$.61 per share, options to purchase common stock at prices ranging from \$0.45 per

share to \$1.00 per share, or warrants to purchase common stock exercisable at prices ranging from \$0.45 per share to \$4.00 per share. However, the table below assumes the immediate conversion by all Series A and B preferred stock into common stock and the immediate exercise of all options and warrants to purchase common stock, without regard to other factors which may determine whether such rights of conversion or purchase are exercised. These factors include but are not limited to the other rights associated with remaining a preferred stockholder, the terms of these agreements, and the specific conversion or exercise price of the securities held by such selling security holder and its relation to the market price. The selling security holders may from time to time offer and sell pursuant to this prospectus up to an aggregate of 140,691 shares of common stock now owned by them, 18,345,394 shares issuable to them upon the exercise of warrants that they hold and 124,625 shares issuable to them upon the exercise of options that they hold. The selling security holders may, from time to time, offer and sell any or all of the shares that are registered under this prospectus, although they are not obligated to do so.

Certain of the individuals listed below received the shares offered hereby in connection with the merger described under the caption "Description of Business - Merger." In connection with the merger, we agreed to prepare and file at our expense, as promptly as practical, and in any event, by June 4, 2004, a registration statement with the Securities and Exchange Commission covering the resale of the shares received in the merger by the individuals listed below. The list of selling security holders also includes Mark L. Baum, who acquired, or has the right to acquire, the shares and warrants indicated next to his name pursuant to an employment agreement dated May 5, 2004 with Chembio Diagnostics, Inc. Also named as selling security holders are designees of H.C. Wainwright & Co., Inc. and WellFleet Partners, Inc., each of which received common stock and warrants to purchase the indicated number of shares of common stock in connection with serving as placement agents in connection with our May 5, 2004 private placement of series A preferred stock.

Certain of the entities or individuals listed below acquired the shares offered hereby in connection with our May 5, 2004 private placement of series A preferred stock. Pursuant to this private placement, we received \$2.2 million in cash as payment for 73.3333 shares of preferred stock that are convertible into 3,666,664 shares of common stock. We also issued to the investors in the series A preferred stock warrants to acquire 4.4 million shares of common stock at an exercise price of \$.90 per share. Based on the \$2.2 million paid, the purchase price per common share is \$.60, without allocating any portion of the purchase price to the warrants. At the same time as this transaction, a conversion of \$1,009,803 face amount and accrued interest of convertible notes that had been issued in March 2004 occurred. Of this conversion, \$330,696 face amount and interest was converted into 826,741 shares of common for a conversion price, based on the face amount of the notes, of \$.40 per share; and \$679,107 face amount and interest was converted into 33.83682 shares of our series A preferred, together with warrants to purchase 2,030,217 shares of common stock at \$.90 per share. The 33.83682 shares of series A preferred are convertible into 1,691,835 shares of our common stock, which based on the face amount of the notes, represents a purchase price of \$.40 per share of common stock, without allocating any portion of the purchase price to the warrants. Also simultaneously with the other two private placement transactions, we issued 44.40972 shares of our series A preferred stock, convertible into 2,220,486 shares of our common stock, together with warrants to purchase 2,664,584 shares of our common stock at an exercise price of \$.90 per share, in exchange for \$1,332,292 face amount of our debt obligations. Based on the face amount of these obligations, the price per common share is \$.60 per share, without allocating any portion of the purchase price to the warrants. On December 29, 2004 the Company converted \$361,560 of additional debt into 12.05199 shares of series A preferred stock and associated warrants to purchase 723,120 shares of common stock. Also in connection with these three private placements, we agreed to prepare and file at our expense, as promptly as practical, and in any event, by a specified date, a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon conversion of the series A preferred stock and the shares of common stock issuable upon exercise of the warrants.

Certain of the entities or individuals listed below acquired the shares offered hereby in connection with our January 28, 2005 private placement of series B preferred stock. Pursuant to this private placement, we received \$5 million in cash as payment for (a) 100 shares of preferred stock that are convertible into 8,196,800 shares of common stock, and (b) warrants to acquire 7,786,960 shares of common stock at an exercise price of \$.61 per share. Based on the \$5 million paid, the purchase price per common share is \$.61, without allocating any portion of the purchase price to the warrants. Also in connection with these private placements, we agreed to prepare and file at our expense, as promptly as practical, and in any event, by a specific date, a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon conversion of the series B preferred stock and the shares of common stock issuable upon exercise of the warrants. In connection with the private placement, the Company issued to the placement agent, Midtown Partners & Co., LLC, or its designees, 4.98 shares of series B preferred stock that are convertible into 409,012 shares of common stock, together with warrants to acquire 388,588 shares of common stock at an exercise price of \$.61 per share. The Company also issued to Midtown Partners & Co., LLC, or its designees, warrants to purchase 737,712 shares of the Company's common stock at an exercise price of \$.80 per share.

In connection with the series B private placement, three of the investors in the series A preferred stock collectively acquired .95 share of series B preferred stock, convertible into 77,868 shares of common stock, together with warrants to acquire 73,972 shares of common stock. In addition, one investor in our series A preferred stock converted all of his interests in the series A preferred stock for a .4 share of series B preferred stock, convertible into 32,786 shares of common stock, together with warrants to acquire 38,933 shares of common stock.

The following table sets forth, to the Company's best knowledge and belief, with respect to the selling security holders:

- the number of shares of common stock beneficially owned as of March 31, 2007 and prior to the offering contemplated hereby;
- the number of shares of common stock eligible for resale and to be offered by each selling security holder pursuant to this prospectus;
- the number of shares owned by each selling security holder after the offering contemplated hereby assuming that all shares eligible for resale pursuant to this prospectus actually are sold;
- the percentage of shares of common stock beneficially owned by each selling security holder after the offering contemplated hereby; and
- in notes to the table, additional information concerning the selling security holders including any NASD affiliations and any relationships, excluding non-executive employee and other non-material relationships, that a selling security holder had during the past three years with the registrant or any of its predecessors or affiliates.

Selling security holders (C)	Number of Shares of Common Stock Owned	Number of Shares to be Offered (B)	Number of Shares Owned After Offering	Percentage of Shares of Common Stock Owned After Offering
	Before Offering (A)			Offering
Alpha Capital AG ^{2,3}	2,057,539	660,000	1,397,539	10.73%
Bassett, Truman ¹	42,526	3,866	38,660	0.33%
Baum, Mark L. ²	1,646,930	980,000	666,930	5.19%
Bell, Lon E. ²	302,233	151,178	151,055	1.26%
Beller, Claudio ²	155,597	75,997	79,600	0.67%
BioEquity Partners, Inc. ^{1,4}	109,375	84,375	25,000	0.21%
Breitbart, Ted ^{1,5}	18,208	14,208	4,000	0.03%
Bruce, Richard ¹	125,500	500	125,000	1.05%
Calamaro, Jean-Paul ²	329,616	153,667	175,949	1.46%
Chrust, Steve ¹	107,656	11,605	96,051	0.82%
Clarke, John R. ^{1,6}	158,400	158,400	-	0.00%
Crestview Capital Master, LLC ⁷	16,572,249	4,672,130	11,900,119	46.93%
Dabush, Ami ²	578,663	303,906	274,757	2.24%
Daedalus Consulting, Inc. ⁸	35,963	35,963	-	0.00%
Diamond Deecembra ⁸	143,853	143,853	-	0.00%
DKR Soundshore Oasis Holding Fund, Ltd. ⁹	600,750	584,016	16,734	0.14%
Eckert, Christopher & Lynn ^{2,10}	199,917	100,000	99,917	0.84%
Engel, Sam ¹	4,118	374	3,744	0.03%
Esfandiari, Javan ¹	254,580	2,007	252,573	2.11%
FAMALOM, LLC ⁸	179,817	179,817	-	0.00%
Feldman, Stephen ¹	2,055	187	1,868	0.02%
Fuchs, Ari ^{2,6}	49,058	44,000	5,058	0.04%
Ginsberg, Mike ¹	2,375	216	2,159	0.02%
Glass, Marc ¹	20,708	1,883	18,825	0.16%
Goldberg, Jeffrey ^{1,11}	52,875	27,875	25,000	0.21%
Greenblatt, Phil ¹	10,347	941	9,406	0.08%
Gregoretti, Gordan	81,220	38,933	42,287	0.36%
Gressel, Daniel ^{1,12}	462,501	42,046	420,455	3.56%
Guzikowski, Frank J. ¹	178,114	16,192	161,922	1.38%
H.C. Wainwright & Co. ^{1,13}	390,867	355,867	35,000	0.29%
Haendler, Kurt ¹	434,665	130,904	303,761	2.54%
Haendler, Renata ¹	139,419	59,133	80,286	0.68%
Haendler, Tomas ^{2,14}	541,157	86,257	454,900	3.83%
Haim, Eduardo ¹	7,115	647	6,468	0.06%
Hamblett, Michael ¹⁵	522,096	247,691	274,405	2.28%
Hanson, Andrew Merz ^{2,16}	127,558	60,471	67,087	0.57%
Ide, Bruce J. ^{2,17}	504,597	160,961	343,636	2.86%
Jacob, Sam ¹	10,000	10,000	-	0.00%
Jacoby, Richard A. ²	492,013	213,811	278,202	2.29%
Joffe, Wendy ²	37,599	13,635	23,964	0.20%
Jordan, Bruce ¹⁸	107,006	51,426	55,580	0.47%
JP Turner ^{1,5}	41,250	41,250	-	0.00%
Keskinen, Karen ¹	1,579	144	1,435	0.01%

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Klaus, Elaine ¹	2,242	204	2,038	0.02%
Knasin, Paul and Ellen ²	162,322	76,608	85,714	0.72%
Koch, Scott F. ^{1,6}	158,400	158,400	-	0.00%
Kreger, Richard ¹⁸	650,821	303,897	346,924	2.80%
Kurzman Partners, LP ¹⁹	70,479	31,146	39,333	0.33%
Lankenau, Robert ¹	228,190	82,310	145,880	1.23%
Lanouette, Kevin P.	35,141	15,573	19,568	0.17%
Larkin, Richard ²	200,693	30,486	170,207	1.42%
Lawrence, Colin ¹	7,115	647	6,468	0.06%
Ledowitz, Bill ¹	7,118	647	6,471	0.06%
Lifshitz, Joshua ²⁰	102,634	84,246	18,388	0.16%
Little Gem Life Sciences Fund LLC ²¹	184,312	88,933	95,379	0.81%
Lyashchenko, Konstantin ¹	35,500	500	35,000	0.30%
Maloney & Company, LLC	52,228	38,933	13,295	0.11%
Mayer-Wolf, Mike ¹	18,379	1,671	16,708	0.14%
McCarthy, Michael ¹	4,145	377	3,768	0.03%
Metasequoia, LLC ²	39,980	20,000	19,980	0.17%
Midtown Partners & Co., LLC ²²	203,402	56,824	146,578	1.23%
Millennium 3 Opportunity Fund, LLC ²³	3,464,187	1,557,376	1,906,811	12.93%
Moran, Sean	24,243	23,360	883	0.01%
MSAS Trust ²	779,775	300,000	479,775	3.90%
Nite Capital, LP	762,441	350,409	412,032	3.36%
Pelossof, Avi ²	672,286	34,650	637,636	5.29%
Pelossof, Elior ²	90,667	45,354	45,313	0.38%
Phillips, Chris ⁸	91,271	22,421	68,850	0.58%
Poole, Colin ²	142,461	75,589	66,872	0.57%
Poole, John G. ¹	68,365	6,215	62,150	0.53%
Raker, Gilbert ²	86,515	45,354	41,161	0.35%
Reibman, Spencer ¹	1,707	1,707	-	0.00%
Rohan, J. Rory ¹⁸	580,643	303,897	276,746	2.25%
Rojas, Zilma ¹	15,500	500	15,000	0.13%
Sandler, J & S ¹	8,287	753	7,534	0.06%
Sandler, Mark and Lori ²	197,415	100,000	97,415	0.82%
Schnipper, Steve ²⁴	167,109	132,208	34,901	0.29%
Schwartz, Eric ¹	5,496	500	4,996	0.04%
Seren, Stanley ¹	8,287	753	7,534	0.06%
Shapiro, Alex ¹	112,412	10,219	102,193	0.87%
Siderowf, Richard ^{2,25}	86,805	28,377	58,428	0.50%
Siebert Best, Ellen ²	43,688	14,188	29,500	0.25%
Siebert, Lawrence ²⁶	6,570,644	-	6,570,644	39.72%
Sive Paget & Reisel ¹	2,055	187	1,868	0.02%
Smith, Robin ^{1,27}	119,883	34,000	85,883	0.73%
Spatacco, Jr., Anthony J. ²⁸	52,542	45,976	6,566	0.06%
Speer, Sandy ¹	95,468	2,315	93,153	0.79%
Spilka, R. Edward ^{2,29}	326,389	100,000	226,389	1.90%
Starboard Capital Markets, LLC ³⁰	9,979	7,043	2,936	0.02%
Starobin Partners ^{1,5}	110,000	90,000	20,000	0.17%

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Straightline Capital				
Opportunities Fund I, LLC ²	793,297	401,255	392,042	3.14%
Talesnick, Alan L. ^{2,31}	251,482	94,930	156,552	1.31%
TCMP3 Partners	350,869	155,737	195,132	1.62%
Thunderbird Global				
Corporation ^{2,32}	1,061,822	302,356	759,466	6.17%
Total M.I.S., Inc. ²	599,760	300,000	299,760	2.44%
Tyson, John ^{2,33}	16,250	16,250	-	0.00%
Vicis Capital Master Fund ^{2,34}	5,925,533	3,000,000	2,925,533	16.96%
Wachs, Mark ²	15,676	15,118	558	0.00%
Weiss, Gunther ¹	28,334	2,576	25,758	0.22%
Westbury Diagnostics, Inc. ²	154,741	77,403	77,338	0.65%
TOTALS	53,897,049	18,610,710	35,286,339	

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(A) Includes shares underlying series A and series B preferred stock into which the series A and series B preferred stock is convertible, and shares underlying warrants and/or options held by the selling security holder that are covered by this prospectus, including any convertible securities that, due to contractual restrictions, may not be exercisable within 60 days of the date of this prospectus.

(B) The number of shares of common stock to be sold assumes that the selling security holder elects to sell all the shares of common stock held by the selling security holder that are covered by this prospectus.

(C) It is our understanding that any selling security holder that is an affiliate of a broker-dealer purchased the securities offered hereunder in the ordinary course of business, and at the time of the purchase, had no agreements or understanding to distribute the securities.

[1] The sale of all of these shares is currently registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement in a single joint prospectus.

[2] The sale of all of these shares, except for less than 235,000 that represent dividend shares, currently is registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement, in a single joint prospectus.

[3] Konrad Ackerman has ultimate control over Alpha Capital AG and the shares held by Alpha Capital AG.

[4] Provides marketing consulting services to the Company.

[5] Affiliated with Wellfleet Partners.

[6] Affiliated with HC Wainwright, investment banking services.

[7] Affiliated with Dillion Capital, a NASD member. Robert Hoyt has ultimate control over Crestview Capital Master, LLC and the shares held by Crestview Capital Master, LLC.

[8] Affiliated with Midtown Partners & Co., LLC, investment banking services.

[9] DKR SoundShore Oasis Holding Fund Ltd. (the "Fund") is a master fund in a master-feeder structure. The Fund's investment manager is DKR Oasis Management Company LP (the "Investment Manager"). Pursuant to an investment management agreement among the Fund, the feeder funds and the Investment Manager, the Investment Manager has the authority to do any and all acts on behalf of the Fund, including voting any shares held by the Fund. Mr. Seth Fischer is the managing partner of Oasis Management Holdings LLC, one of the general partners of the Investment Manager. Mr. Fischer has ultimate responsibility for trading with respect to the Fund. Mr. Fischer disclaims beneficial ownership of the shares.

[10] Christopher Eckert is an employee of Smith Barney.

[11] Affiliated with Wellfleet Partners and Starobin Partners, investment banking services.

[12] Former Director of CDS.

[13] NASD member.

[14] Former President of CDS and Director.

[15] Employee of Starboard Capital Markets, LLC, investment banking services.

[16] Assisted the Company in fundraising.

[17] Former Director of CDS.

[18] Employee of Midtown Partners & Co., LLC, investment banking services.

[19] Affiliated with Needham & Company, investment banking services, until February 4, 2005.

[20] Except for 26,393 shares, the sale of these shares is registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement, in a single joint prospectus.

[21] Except for 81,582 shares, the sale of these shares is registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement, in a single joint prospectus.

[22] NASD member, assisted the Company in fundraising.

[23] Fred Fraenkel and Udi Toledano have ultimate control over Millennium 3 Opportunity Fund and the shares held by Millennium 3 Opportunity Fund.

[24] Except for 51,578 shares, the sale of these shares is registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement, in a single joint prospectus.

[25] Registered sales representative with RBC Dain Rauscher.

[26] Except for 663,078 shares, the sale of these shares is registered under Chembio's Registration Statement on Form SB-2 that became effective with the SEC on November 4, 2004. The sale of these shares also is included in this Prospectus so that Chembio can make any future amendments for the Registration Statement of which this Prospectus is a part, together with amendments of the 2004 Registration Statement, in a single joint prospectus.

[27] Provided marketing consulting services; affiliated with Wellfleet Partners and Starobin Partners.

[28] Assisted the Company in fundraising; employee of Starboard Capital Markets LLC.

[29] Stockholder of Lehman Brothers.

[30] NASD member.

[31] Partner at Patton Boggs LLP, our legal counsel.

[32] WSITE International Foundation ("WSITE") is the ultimate beneficiary of Thunderbird Global Corporation. Gustavo Montilla is the Chairman of WSITE International Foundation and controls the daily affairs of WSITE.

[33] Provides marketing consulting services.

[34] Vicis Capital Master Fund's investment manager is Vicis Capital, LLC. Shad Stastney, John Succo, and Sky Lucas have the ultimate control over the shares held by Vicis Capital Master Fund.

PLAN OF DISTRIBUTION

The Shares covered by this Prospectus are being registered by us for the account of the Selling Stockholders.

The Shares offered by this Prospectus may be sold from time to time directly by or on behalf of the Selling Stockholders in one or more transactions on the OTC Bulletin Board or on any stock exchange on which the Common Stock may be listed at the time of sale, in privately negotiated transactions, or through a combination of these methods. The Selling Stockholders may sell Shares through one or more agents, brokers or dealers or directly to purchasers. These brokers or dealers may receive compensation in the form of commissions, discounts or concessions from the Selling Stockholders and/or purchasers of the Shares, or both. Compensation as to a particular broker or dealer may be in excess of customary commissions. The Selling Stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale or non-sale related transfer. If a Selling Stockholder is an employee, officer or director of the Company, he or she will be subject to our policies concerning trading and other transactions in the Company's securities.

Each Selling Stockholder of the Shares and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their Shares on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A Selling Stockholder may use any one or more of the following methods when selling the Shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
 - purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
 - an exchange distribution in accordance with the rules of the applicable exchange;
 - privately negotiated transactions;
 - settlement of short sales entered into after the date of this Prospectus;
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
 - a combination of any such methods of sale;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or
 - any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this Prospectus. There is no assurance that the Selling Stockholders will sell all or a portion of the stock being offered hereby.

In connection with the sale of Shares, the Selling Stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the Shares in the course of hedging the positions they assume. The Selling Stockholders may also sell the Shares short and deliver these Shares to close out short positions, or loan or pledge the Shares to broker-dealers or other financial institutions that in turn may sell these Shares. The Selling Stockholders may also enter into option or other transactions with broker-dealers or other financial institutions that require the delivery to the broker-dealer or other financial institution of the Shares, which the

broker-dealer or other financial institution may resell pursuant to this Prospectus, or enter into transactions in which a broker-dealer makes purchases as a principal for resale for its own account or through other types of transactions.

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In connection with the sales, a Selling Stockholder and any participating broker or dealer may be deemed to be “underwriters” within the meaning of the Securities Act, and any commissions they receive and the proceeds of any sale of Shares may be deemed to be underwriting discounts or commissions under the Securities Act. A Selling Stockholder who is deemed to be an “underwriter” within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The Selling Stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M. Regulation M may limit the timing of purchases and sales of shares of our Common Stock by the Selling Stockholders and any other person. Furthermore, Regulation M may restrict, for a period of up to five business days prior to the commencement of the distribution, the ability of any person engaged in a distribution of shares of our Common Stock to engage in market-making activities with respect to these shares. All of the foregoing may affect the marketability of shares of our Common Stock and the ability of any person or entity to engage in market-making activities with respect to shares of our Common Stock.

To the extent required, the Shares to be sold, the names of the persons selling the Shares, the respective purchase prices and public offering prices, the names of any agent, dealer or underwriter and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this Prospectus is a part.

We are bearing all of the fees and expenses relating to the registration of the Shares. Any underwriting discounts, commissions or other fees payable to broker-dealers or agents in connection with any sale of the Shares will be borne by the Selling Stockholders. In order to comply with certain states’ securities laws, if applicable, the Shares may be sold in such jurisdictions only through registered or licensed brokers or dealers. In certain states, the Shares may not be sold unless the Shares have been registered or qualified for sale in such state, or unless an exemption from registration or qualification is available and is obtained and complied with. Sales of the Shares must also be made by the Selling Stockholders in compliance with all other applicable state securities laws and regulations.

The Selling Stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the Shares against certain liabilities in connection with the offering of the Shares arising under the Securities Act.

We have notified the Selling Stockholders of the need to deliver a copy of this Prospectus in connection with any sale of the Shares.

LEGAL PROCEEDINGS

The validity of the Shares being offered hereby has been passed upon for the Company by Patton Boggs LLP. A partner of Patton Boggs LLP owns 82,101 shares of Common Stock, 1.44731 shares of series A preferred stock (which are convertible into 72,365 shares of Common Stock) and a warrant to purchase 94,930 shares of our Common Stock.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Directors and Executive Officers

Lawrence A. Siebert (50), President, Chief Executive Officer and Director. Mr. Siebert was appointed President of Chembio Diagnostics, Inc. and a member of our board of directors upon consummation of the merger. Mr. Siebert has been Chairman of Chembio Diagnostic Systems Inc. for approximately 12 years and its President since May 2002. Mr. Siebert’s background is in private equity and venture capital investing. From 1982 to 1991, Mr. Siebert was associated with Stanwich Partners, Inc, which during that period invested in middle market manufacturing and

distribution companies. From 1992 to 1999, Mr. Siebert was an investment consultant and business broker with Siebert Capital Corp. and Siebert Associates LLC, and was a principal investor in a privately held test and measurement company which was sold in 2002. Mr. Siebert received a JD from Case Western Reserve University School of Law in 1981 and a BA with Distinction in Economics from the University of Connecticut in 1978.

Richard J. Larkin (50), Chief Financial Officer. Mr. Larkin was appointed as Chief Financial Officer of Chembio Diagnostics, Inc. upon consummation of the merger. Mr. Larkin oversees our financial activities and information systems. Mr. Larkin has been the Chief Financial Officer of Chembio Diagnostic Systems Inc. since September 2003. Prior to joining Chembio Diagnostic Systems Inc., Mr. Larkin served as CFO at Visual Technology Group from May 2000 to September 2003, and also led their consultancy program that provided hands-on expertise in all aspects of financial service, including the initial assessment of client financial reporting requirements within an Enterprise Resource Planning (Manufacturing) environment through training and implementation. Prior to joining VTG, he served as CFO at Protex International Corporation from May 1987 to January 2000. Mr. Larkin holds a BBA in Accounting from Dowling College and is a member of the American Institute of Certified Public Accountants.

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Javan Esfandiari (40), Director of Research and Development. Mr. Esfandiari joined Chembio Diagnostic Systems, Inc, in 2000. Mr. Esfandiari co-founded, and became a co-owner of Sinovus Biotech AB where he served as Director of Research and Development concerning lateral flow technology until Chembio Diagnostic Systems Inc. acquired Sinovus Biotech AB in 2000. From 1993 to 1997, Mr. Esfandiari was Director of Research and Development with On-Site Biotech/National Veterinary Institute, Uppsala, Sweden, which was working in collaboration with Sinovus Biotech AB on development of veterinary lateral flow technology. Mr. Esfandiari received his B.Sc. in Clinical Chemistry and his M. Sc. in Molecular Biology from Lund University, Sweden. He has published articles in various veterinary journals and has co-authored articles on tuberculosis serology with Dr. Lyashchenko.

Richard Bruce (52), Vice President, Operations. Mr. Bruce was hired in April 2000 as Director of Operations. He is responsible for manufacturing, maintenance, inventory, shipping, receiving and warehouse operations. Prior to joining Chembio Diagnostic Systems Inc., he held director level positions at Wyeth Laboratories from 1984 to 1993. From 1993 to 1998, he held various management positions in the Operations department at bioMérieux Inc. From 1998 to 2000, he held a management position at V.I. Technologies. Mr. Bruce has over 25 years of operations management experience with Fortune 500 companies in the field of in-vitro diagnostics and blood fractionation. Mr. Bruce received his BS in Management from National Louis University in 1997.

Les Stutzman (55), VP of Marketing. In 2005, Mr. Stutzman joined Chembio as Vice President of Marketing to lead the development and launch of rapid tests for veterinary and human TB and other veterinary products. Mr. Stutzman has spent over twenty years in marketing leadership positions within various diagnostics companies. He has held Global Director and Business Development Director positions in Marketing for diagnostic companies including bioMérieux Inc., (formerly Organon Teknika Corp.), Durham, North Carolina from 1997 to 2002 and TREK Diagnostic Systems, Cleveland, Ohio from 2002 to 2005. Mr. Stutzman received his MBA in Marketing from Duke University Fuqua School of Business in 1988 and his Masters in Microbiology from Wagner College in 1982. Mr. Stutzman is MT (ASCP) SM certified.

Tom Ippolito (44), VP of Regulatory Affairs, QA and QC. Mr. Ippolito joined Chembio in June 2005. He has over twenty years experience with in vitro diagnostics for infectious diseases, protein therapeutics, vaccine development, Process Development, Regulatory Affairs and Quality Management. Over the years, Mr. Ippolito has held Vice President level positions at Biospecific Technologies, Corp. from 2000 - 2005, Director level positions in Quality Assurance, Quality Control, Process Development and Regulatory Affairs at United Biomedical, Inc. from 1987 - 2000. Mr. Ippolito is the Course Director for “drug development process” and “FDA Regulatory Process” for the BioScience Certificate Program at the New York State University of Stony Brook, a program he has been a part of since its inception in 2003.

Alan Carus, CPA (68), Director, Audit Committee chair. Mr. Carus was elected to Chembio’s Board of Directors on April 15, 2005. He is a co-founder of LARC Strategic Concepts LLC, a consulting firm dedicated to guiding emerging companies to next stage development. Prior to co-founding LARC Strategic Concepts LLC, Mr. Carus was Senior Vice President of Maritime Overseas Corporation (“MOC”) and a senior executive of Overseas Ship holding Group, Inc. (“OSG”) from 1981 to 1998 when he retired. MOC was managing agent for OSG, one of the world’s largest ship-owners. He was a member of OSG’s senior management committee and had senior responsibility in areas relating to administration, accounting, tax, finance, budgets, long-range projections and human resources. Mr. Carus was involved in numerous acquisitions, debt and equity offerings, complex transaction structuring, and was active in the management of OSG’s major investments in the cruise industry and other development stage companies. From 1964 to 1981, he was with Ernst & Young (including predecessors), the last seven years as a partner. Mr. Carus has a B.B.A. from the Baruch School of Business of the City College of New York.

Dr. Gary Meller (55), Director. Dr. Meller was elected to our Board of Directors on March 15, 2005. Dr. Meller has been the president of CommSense Inc., a healthcare business development company, since 2001. CommSense Inc. works with clients in Europe, Asia, North America and the Middle East on medical information technology, medical records, pharmaceutical product development and financing, health services operations and strategy, and new product

and new market development. From 1999 until 2001 Dr. Meller was the executive vice president, North America, of NextEd Ltd., a leading internet educational services company in the Asia Pacific region. Dr. Meller also is a limited partner and a member of the Advisory Board of Crestview Capital Master LLC, which was the lead investor in our series B preferred stock private placement. Dr. Meller is a graduate of the University of New Mexico School of Medicine and has an MBA from the Harvard Business School.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our common stock by each person or entity known by us to be the beneficial owner of more than 5% of the outstanding shares of common stock, each of our directors and each of our “named executive officers” and all of our directors and executive officers as a group as of March 31, 2007.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Lawrence Siebert ⁽²⁾ 3661 Horseblock Road Medford, NY 11763	2,141,919	17.68%
Javan Esfandiari ⁽³⁾ 3661 Horseblock Road Medford, NY 11763	229,580	1.92%
Richard J. Larkin ⁽⁴⁾ 3661 Horseblock Road Medford, NY 11763	145,261	1.22%
Alan Carus ⁽⁵⁾ 3661 Horseblock Road Medford, NY 11763	90,000	0.76%
Les Stutzman ⁽¹⁾ 3661 Horseblock Road Medford, NY 11763	25,000	0.21%
Gary Meller ⁽⁶⁾ 3661 Horseblock Road Medford, NY 11763	87,000	0.73%
All officers and directors as a group⁽⁷⁾	2,718,760	21.49%
Mark Baum ⁽⁸⁾ 580 Second Street, Suite 102 Encinitas, CA 92024	1,408,597	11.18%
Crestview Capital Partners, LLC 95 Revere Drive, Suite A Northbrook, Illinois 60062	1,328,393	11.30%
Avi Pelosof ⁽⁹⁾	650,113	

3661 Horseblock Road Medford, NY 11763	5.41%
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Beneficial ownership is determined in accordance with the Rule 13d-3(a) of the Securities Exchange Act of 1934, as amended, and generally includes voting or investment power with respect to securities. Except as subject to community property laws, where applicable, the person named above has sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by him.

The beneficial ownership percent in the table is calculated with respect to the number of outstanding shares (11,642,540) of our common stock outstanding as of January 12, 2007. Each stockholder's ownership is calculated as the number of shares of common stock owned plus the number of shares of common stock into which any preferred stock, warrants, options or other convertible securities owned by that stockholder can be converted within 60 days. In addition to the 11,642,540 shares of common stock outstanding, our outstanding series A, B and C preferred stock is convertible into a total of approximately 17.9 million shares of preferred stock, and there are warrants to purchase approximately 16.7 million shares of common stock outstanding. This table does not include convertible securities which, due to contractual restrictions, are not exercisable within 60 days of the date of this prospectus. Specifically, at no time may a holder of shares of series A, series B or series C preferred stock convert shares of the series A, series B or series C preferred stock if the number of shares of common stock to be issued pursuant to such conversion would exceed, when aggregated with all other shares of common stock owned by such holder at such time, the number of shares of common stock which would result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act) in excess of either 4.999% or 9.999% of the then issued and outstanding shares of common stock outstanding at such time, unless the holder has provided us with sixty-one (61) days notice that the holder has elected to waive this restriction. As a result of this provision, holders of preferred stock that is convertible into common stock and holders of warrants to purchase common stock who, with 61 days' advance notice, can convert those securities into more than 5% of our outstanding stock are not required to be listed in this table.

The term "named executive officer" refers to our principal executive officer, our two most highly compensated executive officers other than the principal executive officer who were serving as executive officers at the end of 2006, and two additional individuals for whom disclosure would have been provided but for the fact that the individuals were not serving as executive officers of the Company at the end of 2006.

None of the preferred shares can be converted into common stock and none of the warrants can be exercised if the conversion or exercise would result in the holder owning more than 4.99% of our outstanding common stock unless the holder provides the Company with 61 days advance written notice.

- (1) Includes 25,000 shares issuable upon exercise of options exercisable within 60 days.
- (2) Includes 220,000 shares issuable upon exercise of options exercisable within 60 days and 140,697 warrants. Does not include 1,937,220 shares issuable upon conversion of series A preferred stock, 2,324,666 shares issuable upon exercise of warrants, 88,971 shares issuable upon conversion of series B preferred stock and 77,868 shares issuable upon exercise of warrants because they can be exercised only upon 61 days prior notice and therefore are not exercisable within 60 days.
- (3) Includes 207,500 shares issuable upon exercise of options exercisable within 60 days and 2,007 shares issuable upon exercise of warrants. Does not include 25,000 shares issuable upon exercise of options that are not exercisable within the next 60 days
- (4) Includes 137,500 shares issuable upon exercise of options exercisable within 60 days and 260 shares issuable upon exercise of warrants. Does not include 30,236 shares issuable upon conversion of series A preferred stock and 25,196 shares issuable upon exercise of warrants because they can be exercised only upon 61 days prior notice and therefore are not exercisable within 60 days.
- (5) Includes 51,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 36,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
- (6) Includes 51,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 36,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
- (7) Includes footnotes (1)-(6)
- (8) Includes 850,000 shares issuable upon exercise of warrants. Does not include 108,333 shares issuable upon conversion of series A preferred stock and 130,000 shares issuable upon exercise of warrants because they can be exercised only upon 61 days prior notice and therefore are not exercisable within 60 days.
- (9) Includes 300,000 shares issuable upon exercise of options exercisable within 60 days and 22,555 shares issuable upon exercise of warrants. Does not include 10,078 shares issuable upon conversion of series A preferred stock and 12,095 shares issuable upon exercise of warrants because they can be exercised only upon 61 days prior notice and therefore are not exercisable within 60 days. Mr. Pelosof voluntarily resigned from the Company on December 6, 2006, effective January 31, 2007.

DESCRIPTION OF SECURITIES

Pursuant to our articles of incorporation, as amended, we are authorized to issue 100,000,000 shares of common stock, par value \$0.01 per share and 10,000,000 shares of preferred stock, par value \$0.01 per share. Below is a description of our common stock, shares of which are being offered in this prospectus and a description of our preferred stock.

Common stock

Holders of the common stock are entitled to one vote for each share held by them of record on our books in all matters to be voted on by the stockholders. Holders of common stock are entitled to receive dividends as may be legally declared from time to time by the board of directors, and in the event of our liquidation, dissolution or winding up, to share ratably in all assets remaining after payment of liabilities. Declaration of dividends on common stock is subject to the discretion of the board of directors and will depend upon a number of factors, including our future earnings, capital requirements and financial condition. We have not declared dividends on our common stock in the past and we currently anticipate that retained earnings, if any, in the future will be applied to our expansion and development rather than the payment of dividends. Additionally, pursuant to the certificate of designation authorizing and creating the series A preferred stock, we are restricted from paying dividends on the common stock without the approval of holders of at least three-fourths of the then outstanding shares of our series A preferred stock.

The holders of common stock have no preemptive or conversion rights and are not subject to further calls or assessments. There are no redemption or sinking fund provisions applicable to the common stock. Our articles of incorporation require the approval of the holders of a majority of our outstanding common stock for the election of directors and for other fundamental corporate actions, such as mergers and sales of substantial assets, or for an

amendment to our articles of incorporation. There exists no provision in our articles of incorporation or our bylaws that would delay, defer or prevent a change in control of the Company.

Action Stock Transfer acts as our transfer agent and registrar.

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Series A Preferred Stock

Dividends. Holders of series A preferred stock are entitled to an 8% per annum dividend per share. The dividend accrues and is payable semi-annually either in cash, in shares of series A preferred stock or in shares of common stock. Accrued but unpaid dividends are also payable upon the conversion or redemption of the shares of series A preferred stock and upon our liquidation, dissolution or winding up.

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

Voting Rights. As long as any shares of series A preferred stock are outstanding, we cannot take any of the following actions without the separate class vote or written consent of at least three-fourths of the then outstanding shares of our series A preferred stock:

- amend, alter or repeal the provisions of the series A preferred stock so as to adversely affect any right, preference, privilege or voting power of the series A preferred stock;
- repurchase, redeem or pay dividends on shares of common stock or any other shares of our equity securities that by their terms do not rank senior to the series A preferred stock, other than de minimus repurchases from our employees in certain circumstances;
- amend our articles of incorporation or bylaws so as to affect materially and adversely any right, preference, privilege or voting power of the series A preferred stock;
- effect any distribution with respect to any equity securities that by their terms do not rank senior to the series A preferred stock;
- reclassify our outstanding securities;
- voluntarily file for bankruptcy, liquidate our assets or make an assignment for the benefit of our creditors; or
- change the nature of our business.

In addition, as long as at least \$1,000,000 of series A preferred stock is outstanding, we cannot, without the affirmative vote or consent of the holders of at least three-fourths of the shares of the series A preferred stock outstanding at the time, authorize, create, issue or increase the authorized or issued amount of any class or series of stock, except for the issuance of shares of series A preferred stock with respect to the payment of dividends on the outstanding shares of series A preferred stock.

Except with respect to items set forth above upon which the series A preferred stock shall be entitled to vote separately as a class and except as otherwise required by Nevada law, the series A preferred stock does not have any voting rights. The common stock into which the series A preferred stock is convertible will have, upon issuance, all the same voting rights as other issued and outstanding shares of our common stock.

Conversion. The series A preferred stock is convertible, at the option of the holders, into shares of common stock at a conversion price of \$.60 per share. Based on its original purchase price of \$30,000 per share, each share of series A preferred stock is convertible into 50,000 shares of common stock. The series A preferred stock is issuable in fractional shares. The series A preferred stock contains adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of our capital stock. The series A preferred stock

also provides for adjustment of the conversion price if the Company sells common stock at a price, or issues a security convertible into common stock with a conversion price, less than the then-current conversion price for the series A preferred stock.

Each share of the series A preferred stock will automatically convert into common stock on the date that the closing bid price for the common stock exceeds \$1.50 for a period of ten (10) consecutive trading days, if the following conditions are satisfied:

- such date is at least one hundred eighty (180) days following the effective date of this registration statement; and
- this registration statement has been effective, without lapse or suspension of any kind, for a period of sixty (60) days (or the common stock into which the series A preferred stock is convertible can be freely traded pursuant to Rule 144(k) under the Securities Act).

Redemption. In the event of:

- a consolidation, merger, or other business combination involving Chembio Diagnostics, Inc.;
- the sale of more than 50% of our assets; or
- the closing of a purchase, tender or exchange offer made to and accepted by holders of more than 50% of our outstanding shares of common stock;

each holder of series A preferred stock has the right to require us to redeem all or a portion of such holder's shares of series A preferred stock at a price per share of series A preferred stock equal to 100% of the then current liquidation preference amount for the series A preferred stock, plus any accrued and unpaid dividends; provided that we will have the sole option to pay the redemption price in cash or shares of common stock. If we elect to pay the redemption price in shares of common stock, the price per share will be based upon the lesser of the conversion price for the series A preferred stock or the closing bid price for the common stock, in each case measured on the day preceding the date of delivery of the notice of redemption by such holder. In the event we elect to pay the redemption price in shares of common stock, demand registration rights will be granted on those additional shares.

Upon the occurrence of any of the following events:

- the lapse or unavailability of this registration statement;
- the suspension from listing of the common stock for a period of seven (7) consecutive days;
- our failure or inability to comply with a conversion request from a holder of series A preferred stock; or
- our material breach of any of our representations or warranties contained in the series A preferred stock documentation that continues uncured for a period of ten (10) days;

each holder of series A preferred stock has the right to require us to redeem all or a portion of that holder's shares of series A preferred stock at a price per share of series A preferred stock equal to 120% of the then current liquidation preference amount for the series A preferred stock, plus any accrued and unpaid dividends; provided that with respect to some of the triggering events referenced above, we will have the sole option to pay the redemption price in cash or shares of common stock. If we elect to pay the redemption price in shares of common stock, the price per share will be based upon the lesser of the conversion price for the series A preferred stock and the closing bid price for the common stock, in each case measured on the day preceding the date of delivery of the notice of redemption by such holder. In the event we elect to pay the redemption price in shares of common stock, demand registration rights will be granted on those additional shares.

Rank; Liquidation Preference. The holders of our series A preferred stock rank prior to the holders of our common stock and, unless otherwise consented to by the holders of series A preferred stock, prior to all other classes of capital

stock that we may establish, other than our series B preferred stock, with respect to the distribution of its assets upon a bankruptcy, liquidation or other similar event. The liquidation preference for the series A preferred stock is an amount equal to \$30,000.00 per share plus any accrued and unpaid dividends.

Series B Preferred Stock

Dividends. Holders of series B preferred stock are entitled to a 9% per annum dividend per share. The dividend accrues and is payable semi-annually in cash, in shares of series B preferred stock, or in shares of common stock, at our option. Accrued but unpaid dividends are also payable upon the conversion or redemption of the shares of series B preferred stock and upon a liquidation event.

In the event any dividend is issued, any holder of the majority of the outstanding series B preferred stock at the dividend payment date, may elect whether to receive dividends on series B preferred stock in cash, in common stock or in shares of series B preferred stock in its sole discretion. As of the date of this prospectus, Crestview Capital Master LLC holds a majority of the outstanding shares of the series B preferred stock.

This prospectus covers 73,770 shares of our common stock which represents the number of shares of our common stock that may be issued in payment of three years of dividends on the currently outstanding shares of our series B preferred stock assuming that each share of our series B preferred stock remains issued and outstanding for three years, and that we pay all of the dividends in those three years in shares of our common stock.

Voting Rights. As long as any shares of series B preferred stock are outstanding, we cannot take any of the following actions without the separate class vote or written consent of 51% of the holders of the then outstanding shares of series B preferred stock:

- amend, alter or repeal the provisions of the series B preferred stock so as to adversely affect any right, preference, privilege or voting power of the series B preferred stock;
- authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a liquidation event, senior to or otherwise pari passu with the series B preferred stock;
- amend our articles of incorporation or by-laws so as to adversely affect any rights of the series B preferred stock;
- increase the authorized number of shares of series B preferred stock; or
- enter into any agreement with respect to the foregoing.
- Notwithstanding the foregoing, so long as any shares of series B preferred stock are outstanding, the Company shall not, without the affirmative vote of the holders of 75% of the shares of series B preferred stock then outstanding, (a) decrease the dividend rate of 9% per annum; (b) amend the anti-dilution adjustment for subsequent equity sales; or (c) amend the terms for a forced conversion.

Conversion. The series B preferred stock is convertible, at the option of the holders, into shares of our common stock at a conversion price of \$.61 per share. Based on the original purchase price of \$50,000 per share, each share of series B preferred stock is convertible into 81,968 shares of our common stock. The series B preferred stock is issuable in fractional shares. The series B preferred stock contains adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of our capital stock. The series B preferred stock also provides for adjustment of the conversion price if Company sells common stock at a price, or issues a security convertible into common stock with a conversion price, less than the then-current conversion price for the series B preferred stock.

Redemption. In the event of:

- a consolidation, merger, or other business combination involving Chembio Diagnostics, Inc.;

- the sale of all or substantially all of our assets;
- the acquisition by another person of in excess of 50% of our voting securities; or
- certain specified triggering events (involving (A) the lapse or unavailability of a registration statement, (B) the suspension from listing of our common stock for a period of seven consecutive days, (C) our failure or inability to comply with a conversion request from a holder of series B preferred stock, (D) our breach of any of our representations or warranties contained in the series B preferred stock documentation that continues uncured for a period of 30 days, or (E) our becoming subject to certain bankruptcy events),

each holder of series B preferred stock has the right to require us to redeem all of that holder's shares of series B preferred stock at a price per share of series B preferred stock equal to the sum of (i) the greater of (a) \$65,000 or (b) the product of (x) the daily volume weighted average price of our common stock as reported on the OTC Bulletin Board on the date immediately preceding such event by Bloomberg Financial L.P. and (y) the quotient of \$65,000 divided by the then current conversion price for the series B preferred stock, plus (ii) any accrued but unpaid dividends, plus (iii) all liquidated damages and other amounts due in respect of the series B preferred stock.

Rank; Liquidation Preference. The holders of series B preferred stock rank pari passu to the holders of our series A preferred stock and prior to the holders of our common stock and, unless otherwise consented to by the holders of series B preferred stock, prior to all other classes of capital stock that we may establish, with respect to (i) the payment of dividends and (ii) the distribution of our assets upon a bankruptcy, liquidation or other similar event. The liquidation preference for the series B preferred stock is an amount equal to \$50,000 per share plus any accrued and unpaid dividends and liquidated damages owing thereon.

Series C Preferred Stock

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

This prospectus covers 2,734,375 shares of our common stock which represents the number of shares of our common stock that may be issued in payment of three years of dividends on the currently outstanding shares of our series C preferred stock assuming that each share of our series C preferred stock remains issued and outstanding for three years, and that we pay all of the dividends in those three years in shares of our common stock.

Voting Rights. As long as any shares of series C preferred stock are outstanding, we cannot take any of the following actions without the separate class vote or written consent of 81% of the then outstanding shares of series C preferred stock:

- amend, alter or repeal the provisions of the series C preferred stock so as to adversely affect any right, preference, privilege or voting power of the series C preferred stock;
- authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a liquidation event, senior to or otherwise pari passu with the series C preferred stock;
- amend our articles of incorporation or by-laws so as to adversely affect any rights of the series B preferred stock;
- increase the authorized number of shares of series C preferred stock; or
- enter into any agreement with respect to the foregoing.

Conversion. The series C preferred stock is convertible, at the option of the holders, into shares of our common stock at a conversion price of \$.80 per share. Based on the original purchase price of \$50,000 per share, each share of series C preferred stock is convertible into 62,500 shares of our common stock. The series C preferred stock is issuable in fractional shares. The series C preferred stock contains adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of our capital stock. The series C preferred stock also provides for adjustment of the conversion price if Company sells common stock at a price, or issues a security convertible into common stock with a conversion price, less than the then-current conversion price for the series C preferred stock.

Redemption. In the event of:

- a consolidation, merger, or other business combination involving Chembio Diagnostics, Inc.,
- the sale of all or substantially all of our assets;
- the acquisition by another person of in excess of 50% of our voting securities; or
- certain specified triggering events (involving (A) the lapse or unavailability of a registration statement, (B) the suspension from listing of our common stock for

a period of seven consecutive days, (C) our failure or inability to comply with a conversion request from a holder of series C preferred stock, (D) our breach of any of our representations or warranties contained in the series C preferred stock documentation that continues uncured for a period of 30 days, or (E) our becoming subject to certain bankruptcy events),

each holder of series C preferred stock has the right to require us to redeem all of that holder's shares of series C preferred stock at a price per share of series C preferred stock equal to the sum of (i) the greater of (a) \$65,000 or (b) the product of (x) the daily volume weighted average price of our common stock as reported on the OTC Bulletin Board on the date immediately preceding such event by Bloomberg Financial L.P. and (y) the quotient of \$65,000 divided by the then current conversion price for the series C preferred stock, plus (ii) any accrued but unpaid dividends, plus (iii) all liquidated damages and other amounts due in respect of the series C preferred stock.

Rank; Liquidation Preference. The holders of series C preferred stock rank pari passu to the holders of our series A preferred stock, series B preferred stock and, prior to the holders of our common stock, unless otherwise consented to by the holders of series C preferred stock, prior to all other classes of capital stock that we may establish, with respect to (i) the payment of dividends and (ii) the distribution of our assets upon a bankruptcy, liquidation or other similar event. The liquidation preference for the series C preferred stock is an amount equal to \$50,000 per share plus any accrued and unpaid dividends and liquidated damages owing thereon.

INTEREST OF NAMED EXPERTS AND COUNSEL

The validity of the common stock covered by this Registration Statement has been passed upon for the Company by Patton Boggs LLP. A partner of Patton Boggs LLP owns 82,101 shares of common stock, 1,44731 shares of series A preferred stock (which are convertible into 72,365 shares of common stock) and a warrant to purchase 94,930 shares of our common stock.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our directors and officers are indemnified by our bylaws against amounts actually and necessarily incurred by them in connection with the defense of any action, suit or proceeding in which they are a party by reason of being or having been directors or officers of Chembio Diagnostics, Inc. or of our subsidiary. Our articles of incorporation provide that none of our directors or officers shall be personally liable for damages for breach of any fiduciary duty as a director or officer involving any act or omission of any such director or officer. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to such directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities, other than the payment by Chembio Diagnostics, Inc. of expenses incurred or paid by such director, officer or controlling person in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mark L. Baum, our former president prior to the merger and a former director of the company, entered into a nine-month employment agreement with the Company, effective upon the closing of the merger, pursuant to which Mr. Baum received 400,000 shares of our common stock as well as a warrant to acquire 425,000 shares of common stock at \$.60 per share and a warrant to acquire an additional 425,000 shares of common stock at \$.90 per share. The warrants expire five years after the date of grant. Pursuant to the employment agreement, Mr. Baum was to advise the Company concerning management, marketing, strategic planning, corporate structure, business operations, expansion of services, acquisitions and business opportunities, matters related to our public reporting obligations, and our overall

needs through February 5, 2005. Mr. Baum also invested \$65,000 in the private placement of series A preferred stock, pursuant to which he received 2.167 shares of series A preferred stock convertible into 108,350 shares of common stock, and a warrant to purchase 130,020 shares of common stock. Mr. Baum also owns 300,000 shares of our common stock in addition to the stock and warrants described above. In November 2004 as payment of dividends on the series A preferred he received 4,333 shares of common stock. Prior to the merger, Mr. Baum was the sole director and officer of the Company. On March 18, 2005, as compensation for Mr. Baum's service on the board of directors of the Company, the exercise price of Mr. Baum's warrant to acquire 425,000 shares of common stock at \$.90 per share was reduced to \$.75 per share. Mr. Baum received no other compensation for his services on the board of directors.

Lawrence A. Siebert, the president and chairman of the board of directors of the Company beginning at the time of and after the merger, and the president and chairman of Chembio Diagnostic Systems Inc. since May 2002, held two promissory notes issued by Chembio Diagnostic Systems Inc. One note was issued on August 1, 1999 in the original principal amount of \$338,125, bearing interest at a rate of 11% per annum. The other was issued on April 25, 2001 in the original principal amount of \$795,937, bearing interest at a rate of 12% per annum. Mr. Siebert converted the entire outstanding principal amount of the 11% note and \$561,875 principal amount of the 12% note into 30 shares of the Company's series A preferred stock, together with warrants to acquire 1,800,000 shares of common stock at \$.90 per share, pursuant to the Company's private placement of its series A preferred stock on May 5, 2004. The shares of series A preferred stock held by Mr. Siebert are convertible into 1,547,100 shares of the Company's common stock. The remaining debt of \$234,062 held by Mr. Siebert was exchanged on December 29, 2004 into 7.80208 shares of the Company's series A preferred stock, together with warrants to acquire 468,125 shares of common stock at \$.90 per share, pursuant to the terms of the Company's private placement of its series A preferred stock on May 5, 2004. As of December 31, 2006, \$65,287.39 of accrued interest on the debt is also due to Mr. Siebert, but is not accruing interest. The accrued interest will be paid out according to the terms of the Company's private placement of its series B preferred stock on January 28, 2005. Mr. Siebert also invested \$50,000 in our series B preferred stock private placement pursuant to which he received one share of series B preferred stock convertible into 81,967 shares of common stock and a warrant to purchase 77,868 shares of common stock.

Mr. Siebert also invested \$18,700 in Chembio Diagnostic Systems Inc. pursuant to a private placement of convertible notes on March 22, 2004. Mr. Siebert converted the entire principal amount of the note that he received, together with accrued interest thereon, into .942 shares of the Company's series A preferred stock, together with warrants to acquire 56,520 shares of common stock at \$.90 per share, pursuant to the Company's private placement of its series A preferred stock on May 5, 2004. In November of 2004 as payment of dividends on the series A preferred he received 61,884 shares of common stock. Mr. Siebert exercised a warrant to purchase 66,869 shares of common stock on December 30, 2004 at a price of \$0.45 per share. These shares were gifted by Mr. Siebert to a third party. In May of 2005 as payment of dividends on the series A preferred he received 72,234 shares of common stock. In July of 2005 as payment of dividends on the series B preferred he received .03871 shares of series B preferred stock. In November of 2005 as payment of dividends on the series A preferred he received 77,488 shares of common stock. In January of 2006 as payment of dividends on the series B preferred he received .04674 shares of series B preferred stock. In June of 2006 as payment of dividends on the series A preferred and series B preferred, Mr. Siebert received 22,714 shares of common stock. In July and August of 2006 as payment of dividends on the series B preferred, Mr. Siebert received 3,295 shares of common stock. In November of 2006 as payment of dividends on the series A preferred he received 55,860 shares of common stock. In January 2007 as payment of dividends on the series B preferred, Mr. Siebert received 3,292 shares of common stock.

Mr. Siebert prior to March 22, 2004 had either advanced funds to Chembio Diagnostic Systems, Inc. or paid vendors directly on Chembio Diagnostic Systems, Inc.'s behalf. The total amount so paid or advanced totaled \$182,181 and was repaid in the fourth quarter of 2006.

Richard J. Larkin, the Chief Financial Officer of the Company, invested \$10,000 in Chembio Diagnostic Systems Inc. pursuant to the March 22, 2004 private placement of convertible notes. Mr. Larkin converted the entire principal amount of the note that he received, together with accrued interest thereon, into .504 shares of the Company's series A preferred stock, together with warrants to acquire 30,240 shares of common stock at \$.90 per share, pursuant to the Company's private placement of our series A preferred stock on May 5, 2004. In November of 2004 as payment of dividends on the series A preferred he received 1,007 shares of common stock. In May of 2005 as payment of dividends on the series A preferred he received 999 shares of common stock. In November of 2005 as payment of dividends on the series A preferred he received 1,007 shares of common stock. In May of 2006 as payment of dividends on the series A preferred he received 1007 shares of common stock. In June of 2006 as payment of dividends on the series A preferred Mr. Larkin received 265 shares of common stock. In November of 2006 as payment of dividends on the series A preferred he received 726 shares of common stock.

Avi Pelossof, vice president of sales and marketing of the Company from May 5, 2004 to January 31, 2007, invested \$4,000 in the Company pursuant to the March 22, 2004 private placement of convertible notes. Mr. Pelossof converted the entire principal amount of the note that he received, together with accrued interest thereon, into .202 shares of the Company's series A preferred stock, together with warrants to acquire 22,555 shares of common stock at \$.90 per share, pursuant to the Company's private placement of its series A preferred stock on May 5, 2004. In November of 2004 as payment of dividends on the series A preferred he received 403 shares of common stock. In May of 2005 as payment of dividends on the series A preferred he received 399 shares of common stock. In November of 2005 as payment of dividends on the series A preferred he received 403 shares of common stock. In May of 2006 as payment of dividends on the series A preferred he received 403 shares of common stock. In June of 2006 as payment of dividends on the series A preferred Mr. Pelossof received 106 shares of common stock. In November of 2006 as payment of dividends on the series A preferred he received 290 shares of common stock.

In addition, Mr. Pelossof exercised 100,000 options in December 2006 at \$.60 per share, and another 50,000 options in January 2007 at \$.75 per share.

Dr. Gary Meller, a non-employee director of the Company, currently serves as a limited partner and a member of the Advisory Board of Crestview Capital Master LLC, referred to herein as Crestview, which was the lead investor, investing \$3 million, in our series B preferred stock private placement in January 2005, and which subsequently invested an additional \$1 million in our series B preferred in March 2006. Crestview also invested \$2 million in our series C preferred stock private placement. in September 2006.

As referred to above, in January 2005, for a purchase price of \$3 million, we issued Crestview 60 shares of our series B preferred stock, and warrants to purchase 4,672,130 shares of our common stock at a warrant exercise price of \$.61 per share. In July 2005, we issued Crestview dividends on these series B preferred shares in the form of 2.32274 additional series B preferred shares.

In March 2006, for a purchase price of \$1 million, we issued Crestview 20 shares of series B preferred shares with warrants to purchase 1,557,377 shares of common stock at a warrant exercise price of \$.61 per share. These shares were issued in connection with our January 2005 private placement as described herein. Subsequently, in July 2006, we issued dividends on all of Crestview's shares in the form of 220,301 shares of common stock. In September 2006, for a purchase price of \$2 million, we issued 40 shares of series C preferred shares to Crestview together with warrants to purchase 625,000 shares of common stock at an exercise price of \$1.00 per share.

In January 2007, because of comments from the staff of the SEC concerning a registration statement that the Company filed in January 2007, Crestview agreed to reduce the number of its shares of common stock covered by the January 2007 registration statement to 2,000,000. Crestview also agreed to waive any penalties that we would otherwise owe Crestview because of the failure to register all of Crestview's shares in that registration statement. In return, we agreed that, upon request by Crestview, we will file one or more registration statements with the SEC in order to register the resale of other shares beneficially owned by Crestview. The cost of any such registration statements shall be borne by us.

The series B preferred shares owned by Crestview are convertible into a total of 6,747,748 shares of common stock, and the series C preferred shares owned by Crestview are convertible into a total of 2,500,000 shares of common stock.

Crestview invested \$2,000,000 in our series C preferred stock private placement on September 29, 2006. We also received an investment of \$2,000,000 on that date from Inverness. A certificate of designation for the series C preferred was filed with the Secretary of State of Nevada reflecting the agreed upon conversion price of \$.85. The series C preferred stock private placement for an aggregate of \$8,150,000 (including the \$2,000,000 invested by each of Crestview and Inverness) was completed on October 5, 2006. During the period between September 29, 2006 and October 5, 2006, we requested the assistance of Crestview and others in identifying to us prospective investors. A representative of Crestview informed Mr. Siebert on October 3, 2006 of a conversation he had earlier that day with a fund manager that the fund would be interested in investing a substantial amount in the offering, but only at a conversion price of no more than \$.80.

At a board of directors meeting on October 4, 2006, Mr. Siebert expressed his recommendation that the board approve lowering the conversion price to \$.80 in order to be able to obtain the additional funds. The board discussed the bridge financing of \$1,300,000 in promissory notes which had been completed in June 2006, the noteholders who expected to convert their notes into the series C preferred stock, and the restrictions on future equity sales by us in the bridge financing purchase agreement that necessitated finalizing promptly the series C preferred stock offering. After discussion to approve the funding, the motion was approved unanimously, with the exception of Gerald Eppner¹ who abstained. Mr. Eppner stated that he understood the benefits of the economics of the transaction and our need to proceed quickly, but that he did not wish to vote in favor.

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

¹ Mr. Eppner resigned from the board of directors on January 30, 2007.

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The first meeting of the audit committee to review the series C preferred stock offering was held on October 27, 2006. The audit committee decided it would review the role of Crestview in the series C preferred stock offering, Crestview's status as a possible control person, the role of Dr. Gary Meller in the offering and his relationship with Crestview, and whether the audit committee should recommend new corporate governance procedures to be implemented or any action to be taken by the board of directors. The audit committee utilized legal counsel to assist in its review. The audit committee held seven meetings during the period from October 27, 2006 to January 10, 2007. Messrs. Carus and Eppner attended all of the meetings. Mr. Carus concluded that: (i) he was satisfied with the review, and (ii) although with fewer time constraints, there could have been more deliberation regarding the change in the conversion price, he believed there was no inappropriate conduct, that the Company had not suffered any damage and that the matter should be closed. Mr. Eppner stated his concerns that: (i) Crestview is an affiliate of the Company, (ii) there was no participation by the Company in the reduction in the conversion price from \$.85 to \$.80, (iii) although he agreed with Mr. Carus that the \$.80 price may have been acceptable to the Company, it was not as good as a higher price, (iv) Mr. Siebert should not have allowed this to happen, and that because he did, it was evidence of control by Crestview, and (v) disclosure of the review of the audit committee should be made in a registration statement that was to be filed shortly thereafter.

Director Independence

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

Since we are not currently subject to corporate governance standards relating to the independence of our directors, we choose to define an "independent" director in accordance with the NASDAQ Global Market's requirements for independent directors (NASDAQ Marketplace Rule 4200). We do not currently have an independent director under the above definition. We do not list that definition on our Internet website.

DESCRIPTION OF BUSINESS

General

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

On March 13, 2007, we were issued United States patent #7,189,522 for our Dual Path Platform (DPP™) rapid test system. We believe that as a result of the patent protection we now have with DPP™, we have a significant opportunity to develop and license many new rapid tests in a number of fields including but not limited to infectious diseases. We have already completed initial development on some products in this new platform. We believe the DPP™ provides significant advantages over standard single path lateral flow assays, and are developing most of our new products using this platform.

Our products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments. Our products are sold either under

our STAT-PAK® or SURE CHECK® registered trademarks and/or the private labels of our marketing partners, such as is the case with the Inverness Clearview® label.

Rapid HIV Tests

A major component of our revenue growth in 2006 was increased sales of our rapid HIV tests. A large percentage of individuals that are HIV positive worldwide are unaware of their status. Part of the reason for this is that even those that do get tested in public health settings will often not return or call back for their test results when samples have to be sent out to a laboratory that can take at least several days to process. The increased availability, greater efficacy and reduced costs for anti-retroviral treatments (ARVs) for HIV is also having a tremendous impact on the demand for testing, as the stigma associated with the disease is lessened and the ability to resume normal activities is substantially improved.

All three of our rapid HIV tests are qualitative “yes/no” tests for the detection of antibodies to HIV 1 & 2 with results available within approximately 15 minutes. The tests differ only in the method of sample collection and test procedure, flexibility with different sample types, and cost of manufacture. Our rapid HIV tests have been marketed under our SURE CHECK® and STAT-PAK® trademarks. Pursuant to our agreement with Inverness Medical Innovations, Inc., the SURE CHECK® product is now being marketed globally (with limited exceptions) by Inverness as Clearview® Complete HIV 1/2 and the cassette format of our STAT-PAK (we also have a third product known as HIV 1/2 STAT-PAK dipstick) is now being marketed by Inverness in the United States as Clearview HIV 1/2 STAT-PAK®. We continue to market our STAT-PAK® cassette and dipstick outside the United States through other marketing channels.

Regulatory Status:

Rapid HIV Tests

The FDA approved our Pre-Market Applications for our SURE CHECK HIV 1/2 (now Inverness’ Clearview® Complete HIV 1-2 and HIV 1/2 STAT-PAK (now Inverness’ Clearview HIV 1/2 STAT-PAK) products on May 25, 2006. A Clinical Laboratory Improvement Act (“CLIA”) waiver was granted by the FDA for the HIV 1/2 STAT-PAK on November 20, 2006. Labeling changes to the Inverness Clearview® brands for both products were approved during the first quarter of 2007. CLIA waiver is still pending for the Clearview Complete HIV 1-2; accordingly this product is presently only available as a non-waived product. CLIA waiver is required in order to market the products in public health clinics and physicians’ offices where the level of training is traditionally less than the training at clinical laboratories and hospitals. Public health clinics and physicians’ offices now constitute the largest portion of the available market for our products. We were advised by the FDA in February 2007 that additional user studies will be required in order to obtain CLIA waiver for the Clearview Complete HIV 1/2, and this work is in progress. We believe that we will be able to receive a CLIA waiver for this product during 2007.

Our third rapid HIV test, HIV 1/2 STAT-PAK *Dipstick*, though not FDA approved, qualifies under FDA export regulations to sell, subject to any required approval by the importing country, to customers outside the United States. The dipstick product is our most competitively priced version of our three rapid HIV tests, and was designed primarily for resource-constrained, donor-funded markets that have large test volume needs.

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

Partners Involved in the Products:

On September 29, 2006 we executed marketing and license agreements with Inverness. These agreements not only provide for the marketing of our rapid HIV tests in the United States, but also grant us a license to Inverness’ single path lateral flow patents that may be applicable to our other products, including those that we had under development at the time of the grant. As part of these agreements we settled litigation that had been ongoing with another company, StatSure Diagnostics, Inc., relating to the barrel device that is incorporated into our Sure Check® (now Inverness Clearview Complete) HIV 1/2 product.

In 2004 we entered into a thirteen-year supply and technology transfer agreement with FIOCRUZ-Bio-Manguinhos (“FBM”), an affiliate of the Ministry of Health of Brazil relating to our HIV 1/2 STAT-PAK product. FBM will supply this product, which will eventually be produced by FBM completely in Brazil, to the Brazilian public health market and potentially other markets in the region.

In September 2005 we were designated as the confirmatory test in Uganda's national rapid testing protocol, and through the offices we have established in East Africa and Nigeria, each staffed with experienced executives, we hope to be selected in more such national testing protocols. In February 2006 our HIV 1/2 STAT-PAK was designated by the Nigerian Ministry of Health in four out of the eight screening protocols in the Nigerian Interim Rapid Testing Algorithm. We have identified and/or appointed distributors in several countries in Africa (Kenya, Mozambique, South Africa, and others) so that we will be positioned to service those markets if we are selected in their national testing protocols. Our focus is on those African countries that are receiving funding from PEPFAR and other large relief programs.

In January 2006, we became one of four recommended global suppliers to former President Clinton's HIV/AIDS Initiative ("CHAI"), and through that we hope to generate revenues in many of the nearly sixty countries that have agreements with CHAI.

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In November 2006, we received an order for 990,000 units of our Sure Check product from our distributor in Mexico, a division of Bio-Rad Laboratories, Inc. This distribution agreement is the one exception to our otherwise global exclusive agreement with Inverness as it relates to this product. Approximately half of this order was shipped during the fourth quarter of 2006 and the balance has been shipped during the first quarter of 2007. Absent other arrangements, this exception to Inverness' global exclusivity will be eliminated on September 29, 2007.

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

CHAGAS RAPID TEST

We have completed development of a rapid test for the detection of antibodies to Chagas disease. This product, Chagas STAT-PAK, was developed in collaboration with a consortium of leading researchers in Latin America that have granted us an exclusive license to their recombinant antigens. Although the Chagas disease is endemic only in regions of Latin America there are an estimated 16-18 million existing Chagas disease cases, resulting in approximately 20,000 deaths annually, and an estimated 300,000 new cases each year. Chagas disease is transmitted by a parasitic bug which lives in cracks and crevices of poor-quality houses usually in rural areas, through blood transfusions or congenitally from infected mother to fetus. There is an effective therapy available to treat the early chronic phase, but this therapy only eliminates the infection if it is administered to children that are diagnosed with the disease. Our Chagas STAT-PAK product is the only rapid test for Chagas disease which has performed well in multi-center studies in endemic regions of Latin America.

In January 2006, we received a \$1.2 million order from the Pan American Health Organization to supply our Chagas disease rapid tests for a screening program in Bolivia. These tests were delivered in the first three quarters of 2006. The Pan American Health Organization, headquartered in Washington D.C., is affiliated with the World Health Organization, and that procurement was used to implement a nationwide Chagas screening program for all children under the age of 10 in endemic regions of Bolivia. We are actively looking at developing additional business opportunities for this product in those regions of Latin America that are impacted by this disease

Other Products

Prior to 2005, a majority of our revenues were from the contract manufacture of private label pregnancy tests for regional pharmacies, drug stores and mass merchants in the United States, Europe, Canada and Central America. However, as a result of pricing pressures, regulatory changes and potential patent litigation in this field, and in order to focus our efforts on rapid HIV tests we sold substantially all of the business related to our private label pregnancy tests. We have retained a profit share derived from the sales of these products by the buyer. This has resulted in a substantial reduction of our revenues from these products and this is no longer a material part of our revenues. We also have other commercially available products, such as rapid tests for Lyme disease and other products, whose aggregate revenues are currently not material to us. We also are involved in the development of new products, as described below under "Research and Development".

Lateral Flow Technology

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

appear to confirm that the test has been validly run in accordance with the instructions for use.

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

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

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