

CHEMBIO DIAGNOSTICS, INC.
Form 10-Q
August 08, 2013

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

FORM 10 - Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from: _____ to _____

000-30379

(Commission File Number)

Chembio Diagnostics, Inc.

(Exact name of registrant as specified in its charter)

Nevada

88-0425691

(State or other jurisdiction of incorporation) (IRS Employer Identification Number)

3661 Horseblock Road

Medford, New York 11763

(Address of principal executive offices including zip code)

(631) 924-1135

(Registrant's telephone number, including area code)

N/A

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

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

Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No _

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company x
(Do not check if a smaller reporting company)

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

Yes No

As of August 6, 2013, the Registrant had 9,324,783 shares outstanding of its \$.01 par value common stock.

Quarterly Report on FORM 10-Q
For The Quarterly Period Ended
June 30, 2013

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PART I

Item 1. FINANCIAL STATEMENTS

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF

- ASSETS -

	June 30, 2013 (Unaudited)	December 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	\$8,645,392	\$2,951,859
Accounts receivable, net of allowance for doubtful accounts of \$24,000 and \$58,000 at June 30, 2013 and December 31, 2012, respectively	3,894,207	4,821,357
Inventories	3,848,295	2,488,071
Prepaid expenses and other current assets	730,383	747,463
TOTAL CURRENT ASSETS	17,118,277	11,008,750
FIXED ASSETS, net of accumulated depreciation	1,832,570	1,427,646
OTHER ASSETS:		
Deferred tax asset, net of valuation allowance	4,197,113	4,233,194
License agreements, net of current portion	350,000	400,000
Deposits on manufacturing equipment	1,975	223,584
Deposits and other assets	41,976	41,976
TOTAL ASSETS	\$23,541,911	\$17,335,150
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$3,929,431	\$3,303,923
Current portion of loans payable	-	51,236
Customer deposits	-	23,224
TOTAL CURRENT LIABILITIES	3,929,431	3,378,383
OTHER LIABILITIES:		
Loans payable - net of current portion	-	82,247
TOTAL LIABILITIES	3,929,431	3,460,630
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock – 10,000,000 shares authorized, none outstanding	-	-
Common stock - \$.01 par value; 100,000,000 shares authorized, 9,324,783 and 8,036,232 shares issued and outstanding for June 30, 2013 and December 31, 2012, respectively	93,248	80,362
Additional paid-in capital	46,765,088	41,116,149
Accumulated deficit	(27,245,856)	(27,321,991)
TOTAL STOCKHOLDERS' EQUITY	19,612,480	13,874,520
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$23,541,911	\$17,335,150

See accompanying notes to condensed consolidated financial statements

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

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
REVENUES:				
Net product sales	\$5,061,691	\$5,811,190	\$11,374,881	\$12,174,342
License and royalty revenue				
R&D, milestone and grant revenue	331,831	272,701	696,794	562,801
TOTAL REVENUES	5,393,522	6,083,891	12,071,675	12,737,143
Cost of product sales	3,112,347	3,513,267	7,096,610	6,833,656
GROSS MARGIN	2,281,175	2,570,624	4,975,065	5,903,487
OPERATING EXPENSES:				
Research and development expenses	1,500,645	979,044	2,545,904	2,358,174
Selling, general and administrative expenses	1,160,256	1,079,201	2,322,336	2,313,169
	2,660,901	2,058,245	4,868,240	4,671,343
INCOME (LOSS) FROM OPERATIONS	(379,726)	512,379	106,825	1,232,144
OTHER INCOME (EXPENSE):				
Gain on sale of fixed asset	7,500	-	7,500	-
Interest income	897	1,598	2,235	3,117
Interest expense	-	(2,317)	(335)	(4,758)
	8,397	(719)	9,400	(1,641)
INCOME (LOSS) BEFORE INCOME TAXES	(371,329)	511,660	116,225	1,230,503
Income tax provision (benefit)	(130,340)	203,130	40,090	488,530
NET (LOSS) INCOME	\$(240,989)	\$308,530	\$76,135	\$741,973
Basic earnings (loss) per share	\$(0.03)	\$0.04	\$0.01	\$0.09
Diluted earnings (loss) per share	\$(0.03)	\$0.04	\$0.01	\$0.09
Weighted average number of shares outstanding, basic	9,259,506	7,987,105	8,664,478	7,960,714
Weighted average number of shares outstanding, diluted	9,259,506	8,525,199	9,230,840	8,512,770

See accompanying notes to condensed consolidated financial statements

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

	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and grants	\$ 12,998,825	\$ 13,520,115
Cash paid to suppliers and employees	(12,197,954)	(11,733,120)
Interest received	2,235	3,117
Interest paid	(335)	(4,758)
Net cash provided by operating activities	802,771	1,785,354
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of and deposits on fixed assets	(415,649)	(447,621)
Net cash used in investing activities	(415,649)	(447,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from option and warrant exercises	31,432	84,897
Proceeds from sale of common stock, net	5,512,500	-
Expenses from sale of common stock	(104,038)	-
Payment of loan obligation	(133,483)	(28,967)
Payment of capital lease obligation	-	(14,576)
Net cash provided by financing activities	5,306,411	41,354
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents - beginning of the period	5,693,533	1,379,087
	2,951,859	3,010,954
Cash and cash equivalents - end of the period	\$8,645,392	\$4,390,041
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	\$76,135	\$741,973
Adjustments:		
Depreciation and amortization	282,334	269,896
Provision for deferred taxes	36,081	439,677
(Recovery of) doubtful accounts	(34,000)	-
Share based compensation	221,931	179,253
Changes in assets and liabilities:		
Accounts receivable	961,150	782,972
Inventories	(1,360,224)	(841,036)
Prepaid expenses and other current assets	17,080	(54,565)
Accounts payable and accrued liabilities	625,508	(149,233)
Customer deposits and deferred revenue	(23,224)	415,919
Net cash provided by operating activities	\$802,771	\$1,785,354
Supplemental disclosures for non-cash investing and financing activities:		
Deposits on manufacturing equipment transferred to fixed assets	\$294,813	\$55,794

See accompanying notes to condensed consolidated financial statements

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CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(UNAUDITED)

NOTE 1 — DESCRIPTION OF BUSINESS:

Chembio Diagnostics, Inc. (the "Company" or "Chembio") and its subsidiary, Chembio Diagnostic Systems, Inc., develop, manufacture, and market rapid diagnostic tests that detect infectious diseases. The Company's main products are three rapid tests for the detection of HIV antibodies in whole blood, serum and plasma samples, two of which were approved by the FDA in 2006; the third is sold for export only. Lateral Flow Rapid HIV tests represented 80 % of the Company's product revenues in the first six months of 2013. The Company's products based on its patented Dual Path Platform (DPP®) platform represented approximately 16 % of the Company's product revenues in the first six months of 2013. The Company also has other rapid tests that together represented approximately 4 % of sales in the first six months of 2013. The Company's products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments both domestically and internationally. Chembio's products are sold under the Company's STAT PAK®, SURE CHECK® or DPP® registered trademarks, or under the private labels of its marketing partners. For example the Clearview® label is owned by Alere, Inc. ("Alere"), which is the Company's exclusive marketing partner for its rapid HIV lateral flow test products in the United States. These products employ lateral flow technologies that are proprietary and/or licensed to the Company. All of the Company's products that are currently being developed are based on its patented DPP®, which is a unique diagnostic point-of-care platform that has certain advantages over lateral flow technology. In December 2012, the Company received FDA approval for its DPP® HIV 1/2 Assay for the detection of HIV antibodies in saliva, whole blood, serum and plasma samples.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a) Basis of Presentation:

The preceding (a) condensed consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and (b) the unaudited interim condensed consolidated financial statements as of June 30, 2013 and for the six-month periods ended June 30, 2013 and 2012, respectively, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, previously filed with the SEC.

On May 30, 2012, the Company effected a 1-for-8 reverse split of its common stock. This was done to allow the Company to move to the NASDAQ trading market from the QTCQB market, which occurred on June 7, 2012. As a result of the reverse stock split, the outstanding 63,967,263 common shares were reduced to 7,995,918 outstanding common shares on May 30, 2012. The effect of the reverse stock split has been retroactively reflected for all periods in these financial statements.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's condensed consolidated financial position as of June 30, 2013, its condensed consolidated results of operations for the three- and six-month periods ended June 30, 2013 and 2012, respectively, and its condensed consolidated cash flows for the six-month periods ended June 30, 2013 and 2012, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(UNAUDITED)

b) Revenue Recognition

The Company recognizes revenue for product sales in accordance with ASC 605, which provides that revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates and returns.

For certain contracts, the Company recognizes revenue from non-milestone contracts and grant revenues when earned. Grants are invoiced after expenses are incurred. Revenues from projects or grants funded in advance are deferred until earned. As of June 30, 2013 and December 31, 2012, all advanced revenues were earned.

The Company follows Financial Accounting Standards Board ("FASB") authoritative guidance ("guidance") prospectively for the recognition of revenue under the milestone method. The Company applies the milestone method of revenue recognition for certain collaborative research projects defining milestones at the inception of the agreement.

c) Inventories:

Inventories consist of the following at:

	June 30, 2013	December 31, 2012
Raw materials	\$ 1,794,792	\$ 1,418,071
Work in process	902,718	561,530
Finished goods	1,150,785	508,470
	\$ 3,848,295	\$ 2,488,071

d) Earnings Per Share:

On May 30, 2012, the Company effected a 1-for-8 reverse split of its common stock. This was done to allow the Company to move to the NASDAQ trading market from the OTCQB market, which occurred on June 7, 2012. As a result of the stock split, the outstanding 63,967,263 common shares were reduced to 7,995,918 outstanding common shares on May 30, 2012. The effect of the reverse stock split has been retroactively reflected for all periods in these financial statements.

Basic earnings per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding for the period. Diluted income per share reflects the potential dilution from the exercise or conversion of other securities into common stock, but only if dilutive. The following securities, presented on a common share equivalent basis for the three and six-month periods ended June 30, 2013 and 2012, have been included in the earnings per share computations:

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Basic	9,259,506	7,987,105	8,664,478	7,960,714
Diluted	9,259,506	8,525,199	9,230,840	8,512,770

The following securities, presented on a common share equivalent basis for the three and six-month periods ended June 30, 2013 and 2012, have been included in the diluted per share computations as the exercise prices of these securities were less than the stock price as of June 30, 2013 and 2012, respectively:

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	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
1999 and 2008 Plan Stock Options	532,523	538,094	566,362	552,056

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CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(UNAUDITED)

There were 169,662 and 99,594 options outstanding as of June 30, 2013 and 2012, respectively, that were not included in the calculation of diluted per common share equivalent for the three and six months ended June 30, 2013 and 2012, respectively, because the effect would have been anti-dilutive as of June 30, 2013 and 2012, respectively.

e)Employee Stock Option Plan:

The Company had a 1999 Stock Option Plan ("SOP"). The total number of options available under the SOP was 375,000. As of June 30, 2013, there were 93,750 outstanding options under this SOP. No additional options may be issued under the SOP because it is more than 10 years after its adoption.

Effective June 3, 2008, the Company's stockholders voted to approve the 2008 Stock Incentive Plan ("SIP"), initially with 625,000 shares of Common Stock available to be issued. At the Annual Stockholder meeting on September 22, 2011, the Company's stockholders voted to approve an increase to the shares of Common Stock issuable under the SIP by 125,000 to 750,000. Under the terms of the SIP, the Compensation Committee of the Company's Board has the discretion to select the persons to whom awards are to be granted and the number of shares of common stock to be covered by each grant. Awards can be incentive stock options, restricted stock and/or restricted stock units. The awards become vested at such times and under such conditions as determined by the Compensation Committee. A