EMERGING MARKETS INCOME FUND INC
Form N-30D
April 30, 2003

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Letter From the Chairman

Dear Shareholder:

Despite their usual volatility, emerging market debt securities as a whole delivered buoyant, double-digit returns over the last six months, far outpacing other fixed-income securities as well as general equity returns. The robust performance was driven by the elections of market-friendly governments in the key nations of Brazil and Ecuador. And the rising price of oil lifted the economies of several commodity-oriented emerging nations, particularly Russia and Ecuador. While emerging economies were hampered somewhat by lingering geopolitical uncertainty, we believe that over the longer term, potential growth in these developing economies and attractive yields make emerging market debt a useful addition to a well-balanced investment portfolio.

No matter what the future holds, there are several things you can do now to best position your investment portfolio for whatever comes next:

- First and foremost, you should talk with your financial adviser, who will work with you to find the best solutions for your individual investing needs.

- Secondly, now is a great time to review your investment plan. Every successful investment strategy begins with a plan, so whether you already have one or not, times like these provide the perfect opportunity to make sure your portfolio is on track. Even if your long-term goals haven't changed, your financial adviser can help you to decide what you can do now to achieve them in the ever-changing market.

As always, thank you for your confidence in our investment management teams. Please read on to learn more about your Fund's performance and the Manager's strategy.

Sincerely,

/s/ R. Jay Gerken

R. Jay Gerken
Chairman and Chief Executive Officer

March 14, 2003

[PHOTO}

R. Jay Gerken
Chairman and
Chief Executive
Officer

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Manager Overview

Performance Review

During the semi-annual period ended February 28, 2003, Salomon Brothers Emerging Markets Income Fund Inc. ("Fund") (formerly known as The Emerging Markets Income Fund Inc) performed very well posting a gain of 27.85% (based on its NAV) and 26.72% (based on market price), significantly outperforming the J.P. Morgan Emerging Markets Bond Index Plus ("EMBI+"), i a recognized index for this market, which returned 16.32%. Based on NAV, the Fund also considerably outperformed its Lipper peer group of closed-end emerging markets debt funds, which returned 20.03% for the period. ii

During the six months ended February 28, 2003, the Fund distributed income dividends to shareholders totaling $0.83 per share. The table below shows the annualized distribution yield and six-month total return based on the Fund's February 28, 2003 net asset value ("NAV") per share and its New York Stock Exchange ("NYSE") closing price. iii PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Price Per Share	Annualized Distribution Yield iv	Total Return for the Six-Month Period iv
$14.09 (NAV)	11.71%	27.85%
$14.60 (NYSE)	11.30%	26.72%

Market Overview

The period was characterized by a number of developments that affected investors' assessments of risk. Corporate misdeeds at Enron Corp., WorldCom Inc., Tyco International Ltd. and Global Crossing Ltd. shook investor confidence across virtually all risk-oriented markets. Investors also became concerned about the uncertain outlook for the U.S. economic growth, especially in light of expectations of the possible military action in Iraq. As a result, risk assets globally traded poorly with the U.S. equity market declining more than 7% v during the fiscal period. With an uncertain and weakening outlook for U.S. economic growth, investors anticipated an interest rate reduction by the Federal Reserve ("Fed"). vi The Fed eased credit conditions on November 6th when it cut the short-term federal funds ratevii by 50 basis points (i.e., half a percentage point), to 1.25%, the lowest level in 41 years. This rate cut contributed to the equity market rally in the fourth calendar quarter and eased investors' concerns towards riskier asset classes.

Emerging Markets Debt

Emerging markets debt, as measured by the EMBI+, returned 16.32% for the period. The markets remained volatile during the first half of the reporting period but staged a year-end rally that continued into January and February of 2003. Country performance was solid and the performance of all countries' markets reflected in the Index, with the exception of Venezuela, posted gains for the fiscal period. The market performance during this period was primarily driven by presidential elections in Brazil and Ecuador and the resulting pro-market reforms that the winning candidates put forth. The market rally for emerging markets debt was also supported by stronger-than-expected economic data in

the U.S. as well as by higher oil prices, which increased revenues for many

oil-exporting countries in the emerging markets. During the period, oil prices increased by more than $10 per barrel to almost $40.

During the period, EMBI+ sovereign spreads (i.e., the difference between yields on sovereign debt and U.S. Treasuries) tightened by 179 basis points (1.79%), closing at 707 basis points (7.07%) over U.S. Treasuries. This is important as declining spreads often indicate a declining risk perception in the market and generally lead to an increase in bond prices. Return volatility was approximately 10%, substantially below long-term historical levels of 15-16%.

Developments in some of the key emerging markets over the period are described below. (The performances of the following debt markets are measured by the EMBI+.)

Brazil. The market for Brazilian debt, which was the second best performer in the EMBI+ during this period, posted a gain of 30.57%. The Brazilian market rebounded following presidential elections in October as markets reacted favorably to comments from new President Lula and his top advisers. The Fund's overweight position in Brazilian debt relative to the EMBI+ positively contributed to its performance during this period. As of the period's close, approximately 25% of the Fund's total investments were invested in Brazilian debt.

Ecuador. Despite its inability to secure an agreement with the International Monetary Fund ("IMF"),viii the country returned 24.61% for the period. This performance was primarily due to the austerity decree passed by newly elected President Gutierrez in January which demonstrated the government's determination to implement prudent fiscal measures. As a result of which, the country has subsequently reached agreement with the IMF on a new program. During this fiscal period, the Fund remained overweighted Ecuadorian debt relative to the EMBI+, which helped the performance of the Fund.

Colombia. The market for Colombian debt finished the fiscal period on a strong note, returning 20.79% for the period. The country continued to make progress in economic and political reforms and has gained important support from the U.S. During the period the Fund remained overweighted Colombian debt relative to the benchmark.

Mexico. The country's strong credit fundamentals combined with higher oil prices supported the performance of Mexico's debt market, which returned 9.63% for the period. Mexico's strong fiscal position has enabled the country to avoid budget cuts in the current economic slowdown. The primary risk to stability is political, as President Fox continues to work with the congressional opposition. The Fund is currently market-weight Mexico relative to the EMBI+.

Venezuela. Faced with political instability and economic turmoil, Venezuela's market returned negative 4.42%. The general strike organized by opposition parties started on December 2nd with the stated goal of removing President Chavez from office. The strike has shut down most commerce in the country including the oil industry, the largest generator of tax revenues and export earnings. The strike started winding down at the end of January, however, it has already had a devastating impact on the domestic economy. We believe this will have a long-term negative effect on the country's ability to service its debt. The Fund continues to have no exposure to Venezuela.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Turkey. The market returned 19.97% for the period as the country's strategic importance combined with significant IMF support has attracted investor

interest. The domestic economy has stabilized with a return of investor confidence, a decline in interest rates and a stronger currency. In addition, the market reacted positively to the outcome of the November general elections that were won by the Justice and Development Party ("AKP"). While the Fund's overweighted position in Turkey versus the EMBI+ helped the Fund during the period, we reduced the allocation to an underweighted position as we were concerned that Turkey's inability to approve U.S. troops' deployment on Turkish soil may impair the potential for economic aid.

Russia. The Russian debt market generated a return of 22.35% for the period. Despite the slowdown of industrial production, Russia's macroeconomic fundamentals remain strong and its economy continues to benefit from high oil prices. President Putin used this period of prosperity to promote his reform agenda. Last December, Moody's Investors Serviceix upgraded Russia's credit rating to Ba2. While we are happy with Russia's progress, we have reduced the Fund's exposure as we are concerned that Russian bond prices may have overshot real economic improvements in Russia.

Bulgaria. The market for Bulgarian debt returned 10.15% for the period as investors were encouraged by the announcement that Bulgaria was among the 10 countries invited to join the European Union in 2004. Based on the government's fiscal performance and active management of its liabilities, Fitch Ratingsx upgraded Bulgaria's long-term foreign-currency ratings to BB from BB-. The Fund remained overweight Bulgarian debt relative to the EMBI+ during most of the period, but we have reduced this exposure to an underweight position. As in the case with Russia, we are concerned that Bulgarian bonds have become overpriced.

Market Outlook

We think that higher yields available through emerging markets debt should support investor interest in these markets in 2003. Our main concern at this point would be increased risk volatility in global markets, which we remain vigilant in monitoring. We anticipate that the U.S. economy will improve as the year progresses. However, we believe that the timing of a recovery will be influenced by the manner and timeliness in which the geopolitical issues abroad, specifically the tensions in Iraq, are resolved.

Looking for Additional Information?

Salomon Brothers Emerging Markets Income Fund Inc. is traded on the New York Stock Exchange under the symbol "EMD" and its closing market price is available in most newspapers under the New York Stock Exchange listings. Daily net asset value closing prices are available online under symbol XEMDX. Barron's and The Wall Street Journal's Monday editions carry closed-end fund tables that will provide weekly net asset value per share information. In addition, the Fund issues a quarterly allocation press release that can be found on most major financial web sites.

In a continuing effort to provide information concerning Salomon Brothers Emerging Markets Income Fund Inc., shareholders may call 1-888-777-0102 or 1-800-SALOMON (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Standard Time (EST), for the Fund's current net asset value, market price and other information regarding the Fund's portfolio holdings and allocations.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Thank you for your investment in Salomon Brothers Emerging Markets Income Fund Inc. We look forward to continuing to help you meet your investment objectives.

Sincerely,

/s/ Peter J. Wilby	/s/ James E. Craige
Peter J. Wilby, CFA President	James E. Craige, CFA Executive Vice President

March 14, 2003

The information provided in this letter by the Manager is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole. Portfolio holdings and breakdowns are as of February 28, 2003 and are subject to change. Please refer to pages 6 through 9 for a list and percentage breakdown of the Fund's holdings.

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i The EMBI+ is a total return index that tracks the traded market for U.S. dollar-denominated Brady and other similar sovereign restructured bonds traded in the emerging markets. Please note that an investor cannot invest directly in an index.

ii Lipper is a major independent mutual fund tracking organization. Average annual returns are based on the six-month period ended February 28, 2003, calculated among 12 funds in the closed-end emerging markets debt fund category with reinvestment of dividends and capital gains, excluding sales charges.

iii NAV is a price that reflects the market value of the Fund's underlying portfolio. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's common shares.

iv Total returns are based on changes in NAV or the market price, respectively. Total returns assume the reinvestment of all dividends and/or capital gains distributions in additional shares. Annualized distribution yield is the Fund's current quarterly income dividend rate, annualized, and then divided by the NAV or the market price noted in this report. The annualized distribution yield assumes a current quarterly income dividend rate of $0.4125 for four quarters. This rate is as of February 28, 2003 and is subject to change.

v Based upon the performance of the S&P 500 Index, which is a market capitalization-weighted index of 500 widely held common stocks. Please note that an investor cannot invest directly in an index.

vi The Fed is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

vii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans. The federal funds rate often points to the direction

of U.S. interest rates.

viii The IMF is an international organization of various member countries established to promote international monetary cooperation, exchange stability and orderly exchange arrangements.

ix Moody's Investors Service is a nationally recognized credit rating agency.

x Fitch Ratings is a nationally recognized credit rating service.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Schedule of Investments (unaudited)
February 28, 2003

Face Amount+	Security(a)	Valu
Sovereign Bonds -- 88.2%		
Argentina -- 2.2%		
	Republic of Argentina:	
50 ARS	10.000% due 9/19/08 (b)	$
5,323,000	Due 4/10/05 (b)	1,3
1,000,000	Series E, zero coupon due 10/15/03 (b)	2
		1,6
Brazil -- 24.9%		
	Federal Republic of Brazil:	
435,000	11.250% due 7/26/07	3
3,300,000	11.500% due 3/12/08	2,8
1,050,000	9.375% due 4/7/08	8
3,600,000	14.500% due 10/15/09	3,3
4,900,000	12.000% due 4/15/10	4,1
327,000	12.250% due 3/6/30	2
4,740,929	C Bond, 8.000% due 4/15/14	3,5
2,525,000	DCB, Series L, 2.625% due 4/15/12 (c)	1,5
1,720,588	NMB, Series L, 2.625% due 4/15/09 (c)	1,2
		18,1
Bulgaria -- 2.3%		
	Republic of Bulgaria:	
880,000	8.250% due 1/15/15	1,0
725,000	Discount Bond, Series A, 2.1875% due 7/28/24 (c)	7
		1,7
Colombia -- 5.2%		
	Republic of Colombia:	
1,800,000	7.625% due 2/15/07	1,7
625,000	9.750% due 4/23/09	6
725,000	10.000% due 1/23/12	7
550,000	10.750% due 1/15/13	5
100,000	8.375% due 2/15/27	

			3,7
Costa Rica -- 1.8%			
		Republic of Costa Rica:	
	200,000	6.914% due 1/31/08 (d)	2
	750,000	8.050% due 1/31/13 (d)	7
	350,000	9.995% due 8/1/20 (d)	3
			1,3

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Schedule of Investments (unaudited) (continued)
February 28, 2003

Face Amount+	Security(a)	Valu
Ecuador -- 4.7%		
	Republic of Ecuador:	
4,825,000	12.000% due 11/15/12	$ 3,2
426,000	6.000% due 8/15/30 (c)	2
		3,4
El Salvador -- 1.8%		
	Republic of El Salvador:	
575,000	7.750% due 1/24/23	5
750,000	8.250% due 4/10/32	7
		1,3
Mexico -- 16.4%		
	United Mexican States:	
1,725,000	6.625% due 3/3/15	1,6
1,075,000	11.375% due 9/15/16	1,4
4,525,000	8.125% due 12/30/19	4,8
3,725,000	8.300% due 8/15/31	3,9
		11,9
Panama -- 4.8%		
	Republic of Panama:	
1,300,000	9.625% due 2/8/11	1,4
1,200,000	9.375% due 1/16/23	1,2
825,000	8.875% due 9/30/27	8
		3,4

Peru -- 2.4%			
		Republic of Peru:	
	925,000	9.875% due 2/6/15	9
	931,000	PDI Bond, 4.500% due 3/7/17 (c)	7
			1,7
Philippines -- 5.0%			
		Republic of the Philippines:	
	500,000	8.375% due 3/12/09	5
	675,000	9.000% due 2/15/13	6
	225,000	9.375% due 1/18/17	2
	2,200,000	10.625% due 3/16/25	2,2
			3,6
Poland -- 1.4%			
	1,039,780	Republic of Poland, PDI Bond, 7.000% due 10/27/14	1,0
Russia -- 10.6%			
	5,250,000	Russian Government, 12.750% due 6/24/28	7,7

See Notes to Financial Statements.

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SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Schedule of Investments (unaudited) (continued)
February 28, 2003

Face Amount+	Security(a)	Valu
Turkey -- 4.3%		
	Republic of Turkey:	
2,750,000	11.500% due 1/23/12	$ 2,8
275,000	11.000% due 1/14/13	2
		3,1
Uruguay -- 0.4%		
	Republic of Uruguay:	
275,000	7.875% due 3/25/09	1
315,791	DCB, Series B, 2.3125% due 2/19/07 (c)	1
		3
	Total Sovereign Bonds (Cost -- $63,084,963)	64,3
Loan Participations (c)(e) -- 4.8%		
3,714,561	Kingdom of Morocco, Tranche A, 2.1875% due 1/2/09 (CS First Boston Corp., J.P. Morgan Chase & Co., UBSAG) (Cost -- $3,422,756)	3,4

Corporate Bonds -- 4.8%			
		PEMEX Project Funding Master Trust:	
	450,000	6.125% due 8/15/08 (d)	4
	1,500,000	9.125% due 10/13/10	1,7
	1,250,000	8.000% due 11/15/11	1,3
		Total Corporate Bonds (Cost -- $3,299,783)	3,5

Warrants			
Warrants (d)(f) -- 0.0%			
	500	Asia Pulp & Paper (Exercise price of $7.8375 per share expiring on 3/15/05. Each warrant exercisable for 12.914 shares of Asia Pulp & Paper) (Cost -- $0)	

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.
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Schedule of Investments (unaudited) (continued)
February 28, 2003

Face Amount	Security(a)	Valu
Repurchase Agreements -- 2.2%		
$1,000,000	Greenwich Capital Markets, Inc., 1.280% due 3/3/03; Proceeds at maturity -- $1,000,107; (Fully collateralized by U.S. Treasury Notes, 3.875% due 2/15/13; Market value -- $1,021,090)	$ 1,0
611,000	UBSPaineWebber Inc., 1.270% due 3/3/03; Proceeds at maturity -- $611,065; (Fully collateralized by U.S. Treasury Bonds, 9.125% due 5/15/18; Market value -- $624,713)	6
	Total Repurchase Agreements (Cost -- $1,611,000)	1,6
	Total Investments -- 100% (Cost -- $71,418,502*)	$72,9

+ Principal denominated in U.S. dollars unless otherwise indicated.

(a) All securities are segregated as collateral pursuant to a revolving credit facility.

(b) Security is currently in default.

(c) Rate shown reflects current rate on instrument with variable rate or step coupon rates.

(d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institu tional buyers.

(e) Participation interests were acquired through the financial institutions indicated parenthetically.

(f) Non-income producing security.

* Aggregate cost for Federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

ARS	-- Argentina Peso.
C Bond	-- Capitalization Bond.
DCB	-- Debt Conversion Bond.
NMB	-- New Money Bond.
PDI	-- Past Due Interest.

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Statement of Assets and Liabilities (unaudited)
February 28, 2003

Assets:	
Investments, at value (Cost -- $71,418,502)	$72,939,
Foreign currency, at value (Cost -- $12,609)	3,
Receivable for securities sold	8,891,
Interest receivable	1,734,
Prepaid expenses	21,
Total Assets	83,590,
Liabilities:	
Loan payable (Note 4)	20,000,
Payable for securities purchased	5,772,
Loan interest payable	81,
Management fee payable	44,
Payable to bank	
Accrued expenses	119,
Total Liabilities	26,018,
Total Net Assets	$57,572,
Net Assets:	
Common stock ($0.001 par value, 100,000,000 shares authorized; 4,087,174 shares outstanding)	$ 4,
Capital paid in excess of par value	56,542,
Undistributed net investment income	420,
Accumulated net realized loss from security transactions and options	(907,
Net unrealized appreciation of investments and foreign currencies	1,512,

Total Net Assets	$57,572,
Net Asset Value, per share ($57,572,469 / 4,087,174 shares outstanding)	$14

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Statement of Operations (unaudited)
For the Six Months Ended February 28, 2003

INCOME:	
Interest (includes amortization of net premium/discount accretion of $510,116)	$ 4,188
EXPENSES:	
Interest expense (Note 4)	266
Management fee (Note 2)	211
Audit and legal	70
Advisory fee (Note 2)	68
Shareholder communications	29
Custody	24
Directors' fees	14
Loan fees	13
Shareholder servicing fees	9
Listing fees	8
Other	7
Total Expenses	724
Net Investment Income	3,463
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCIES (NOTE 3):	
Realized Gain (Loss) From:	
Security transactions (excluding short-term securities)	1,240
Options purchased	700
Foreign currency transactions	(10
Net Realized Gain	1,930
Change in Net Unrealized Appreciation From:	
Security transactions	7,280
Foreign currency transactions	11
Increase in Net Unrealized Appreciation	7,291
Net Gain on Investments, Options and Foreign Currencies	9,222

Increase in Net Assets From Operations	$12,686

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Statements of Changes in Net Assets
For the Six Months Ended February 28, 2003 (unaudited)
and the Year Ended August 31, 2002

	2003	2002
OPERATIONS:		
Net investment income	$ 3,463,762	$ 6,777
Net realized gain (loss)	1,930,646	(1,433
Increase (decrease) in net unrealized appreciation	7,291,645	(3,178
Increase in Net Assets From Operations	12,686,053	2,165
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(3,361,876)	(6,689
Decrease in Net Assets From Distributions to Shareholders	(3,361,876)	(6,689
FUND SHARE TRANSACTIONS:		
Proceeds from shares issued on reinvestment of dividends (16,071 and 28,215 shares issued, respectively)	199,718	362
Increase in Net Assets From Fund Share Transactions	199,718	362
Increase (Decrease) in Net Assets	9,523,895	(4,160
NET ASSETS:		
Beginning of period	48,048,574	52,208
End of period*	$ 57,572,469	$ 48,048
* Includes undistributed net investment income of:	$420,913	$329

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Statement of Cash Flows (unaudited)
For the Six Months Ended February 28, 2003

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:	
Purchases of long-term portfolio investments	$(73,832
Proceeds from disposition of long-term portfolio investments and principal paydowns	74,267
Net purchases of short-term portfolio investments	(289
	145
Net investment income	3,463
Adjustments to reconcile net investment income to net cash provided by operating activites:	
Accretion of net premium/discount on investments	(510
Net change in receivables/payables related to operations	47
Net change in unrealized depreciation of foreign currencies	11
Net Cash Flows Provided by Operating Activities	3,157
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:	
Distributions paid	(3,361
Proceeds from reinvestment of dividends	199
Net Cash Flows Used by Financing Activities	(3,162
Net Decrease in Cash	(4
Cash, Beginning of period	8
Cash, End of period	$ 3

See Notes to Financial Statements.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Notes to Financial Statements (unaudited)

Note 1. Organization and Significant Accounting Policies

Salomon Brothers Emerging Markets Income Fund Inc. ("Fund"), formerly known as The Emerging Markets Income Fund Inc, was incorporated in Maryland on July 30, 1992 and is registered as a non-diversified, closed-end, management investment company under the Investment Company Act of 1940, as amended. The Board of Directors authorized 100 million shares of $0.001 par value common stock. The Fund's primary investment objective is to seek high current income. As a secondary objective, the Fund seeks capital appreciation. In pursuit of these objectives, the Fund under normal conditions invests at least 80% of its net assets plus any borrowings for investment purposes in debt securities of governments and government-related issuers located in emerging market countries (including participations in loans between governments and financial institutions), and of entities organized to restructure outstanding debt of such

issuers, and in debt securities of corporate issuers located in emerging market countries.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

(a) SECURITIES VALUATION. In valuing the Fund's assets, all securities and options for which market quotations are readily available are valued (i) at the last sale price prior to the time of determination if there was a sale on the date of determination, (ii) at the mean between the last current bid and asked price if there was no sales price on such date and bid and asked quotations are available, and (iii) at the bid price if there was no sales price on such date and only bid quotations are available. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last current bid and asked price as of the close of business of that market. However, where the spread between bid and asked price exceeds five percent of the par value of the security, the security is valued at the bid price. Securities may also be valued by independent pricing services which use prices provided by market-makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics. Short-term investments having a maturity of 60 days or less are valued at amortized cost, unless the Board of Directors determines that such valuation does not constitute fair value. Securities for which reliable quotations are not readily available and all other securities and assets are valued at fair value as determined in good faith by, or under procedures established by, the Board of Directors.

(b) SECURITIES TRANSACTIONS AND INVESTMENT INCOME. Securities transactions are recorded on the trade date. Interest income is accrued on a daily basis. Discount and premium on securities purchased is accreted and amortized on an effective yield basis over the life of the security. The Fund uses the specific identification method for determining realized gain or loss on investments sold.

(c) FOREIGN CURRENCY TRANSLATION. The books and records of the Fund are maintained in U.S. dollars. Portfolio securities and other assets and liabilities denominated in foreign currencies are

translated into U.S. dollar amounts at the date of valuation using the 12:00 noon rate of exchange reported by Reuters. Purchases and sales of portfolio securities and income and expense items denominated in foreign currencies are translated into U.S. dollars at rates of exchange prevailing on the respective dates of such transactions. Net realized gains and losses on foreign currency transactions represent net gains and losses from sales and maturities of forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions and the difference between the amount of income accrued and the U.S. dollar equivalent amount actually received. The Fund does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange

rates from that which is due to changes in market prices of the securities. Such fluctuations are included with the net realized and unrealized gain or loss from investments. However, pursuant to U.S. Federal income tax regulations, certain net foreign exchange gains/losses included in realized gain/loss are included in or are a reduction of ordinary income for Federal income tax purposes.

(d) FEDERAL INCOME TAXES. It is the Fund's intention to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income and capital gains, if any, to its shareholders. Therefore, no Federal income tax or excise tax provision is required.

(e) REPURCHASE AGREEMENTS. When entering into repurchase agreements, it is the Fund's policy to take possession, through its custodian, of the underlying collateral and to monitor its value at the time the arrangement is entered into and during the term of the repurchase agreement to ensure that it equals or exceeds the repurchase price. In the event of default of the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

(f) DISTRIBUTION OF INCOME AND GAINS. The Fund declares and pays dividends to shareholders quarterly from net investment income. Net realized gains, if any, in excess of loss carryovers are expected to be distributed annually. Dividends and distributions to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized gains are determined in accordance with Federal income tax regulations, which may differ from GAAP due primarily to differences in the treatment of foreign currency gains/losses and deferral of wash sales and post-October losses incurred by the Fund. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their Federal income tax basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as tax return of capital.

(g) CASH FLOW INFORMATION. The Fund invests in securities and distributes dividends from net investment income and net realized gains from investment transactions which are paid in cash. These activities are reported in the statement of changes in net assets. Additional information on cash receipts and cash payments is presented in the statement of cash flows. For the six months ended February 28, 2003, the Fund paid interest expense of $289,872.

(h) YEAR END TAX RECLASSIFICATIONS. The character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from GAAP. At August 31, 2002, reclassifications were made to the capital accounts of the Fund to reflect permanent book/tax differences and income and gains available for distributions under income tax regulations. Net investment income, net realized loss and net assets were not affected by this change.

(i) CHANGE IN ACCOUNTING POLICY. In November 2000, the American Institute of Certified Public Accountants ("AICPA") issued a revised Audit and Accounting Guide for Investment Companies ("Guide"). This revised version is effective for financial statements issued for fiscal years beginning after December 15, 2000.

The revised Guide requires the Fund to amortize premium and accrete all discounts on all fixed-income securities. The Fund adopted this requirement September 1, 2001 and recorded adjustments to decrease the cost of securities and decrease accumulated undistributed net investment income by $3,040 to reflect the cumulative effect of this change up to the date of the adoption. This change does not affect the Fund's net asset value, but does change the classification of certain amounts in the statement of operations.

Note 2. Management and Advisory Fees and Other Transactions

For the period from September 1, 2002 through December 15, 2002, the Fund was a party to an investment advisory agreement with PIMCO Funds Advisors LLC ("PIMCO"), an indirect wholly-owned subsidiary of Allianz Dresdner Asset Management of America L.P., formerly known as PIMCO Advisors L.P., a wholly-owned subsidiary of Allianz AG, pursuant to which PIMCO, among other things, supervised the Fund's investment program, including advising and consulting with the Fund's investment manager regarding the Fund's overall investment strategy. During that same period, the Fund was also a party to a management and administration agreement with Salomon Brothers Asset Management Inc ("SBAM"), an indirect wholly-owned subsidiary of Citigroup Inc. ("Citigroup"), pursuant to which SBAM, among other things, was responsible for the day-to-day management of the Fund's portfolio, including making investment strategy decisions for the Fund and managing and investing the assets of the Fund in accordance with its stated policies. SBAM also provided administration and stockholder services for the Fund pursuant to the agreement.

Effective December 16, 2002, the Fund entered into a new investment advisory and administration agreement with SBAM. Under the terms of the new investment advisory and administration agreement, which was approved by shareholders at the Annual Meeting of Stockholders held on December 11, 2002, SBAM provides all management, advisory and administration services for the Fund. PIMCO has ceased to act as investment adviser for the Fund. SBAM has delegated certain administrative services to Smith Barney Fund Management LLC ("SBFM"), another indirect wholly-owned subsidiary of Citigroup and an affiliate of SBAM, pursuant to a Sub-Administration Agreement between SBAM and SBFM.

The Fund currently pays SBAM a monthly fee at an annual rate of 1.05% of the Fund's average weekly net assets for its services. Prior to December 16, 2002, the Fund paid PIMCO an advisory fee calculated at an annual rate of 0.50% of the Fund's average weekly net assets and paid SBAM a management fee calculated at an annual rate of 0.70% of the Fund's average weekly net assets.

Certain officers and/or directors of the Fund are officers and/or directors of SBAM.

Note 3. Portfolio Activity

For the six months ended February 28, 2003, the aggregate cost of purchases and proceeds from sales of investments (including maturities, but excluding short-term securities) were as follows:

Purchases	$74,007,663
Sales	$75,351,156

At February 28, 2003, the aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

Gross unrealized appreciation	$ 5,589,609
Gross unrealized depreciation	(4,068,500)
Net unrealized appreciation	$ 1,521,109

Note 4. Loan

At February 28, 2003, the Fund had a $23,000,000 loan available pursuant to a revolving credit and security agreement of which the Fund had $20,000,000 outstanding with CXC LLC, an affiliate of Citigroup, a commercial paper conduit issuer for which Citicorp North America, Inc., an affiliate of SBAM, acts as administrative agent. The loans generally bear interest at a variable rate based on the weighted average interest rates of the underlying commercial paper or LIBOR, plus any applicable margin. Securities held by the Fund are subject to a lien, granted to the lenders, to the extent of the borrowing outstanding and any additional expenses.

Note 5. Loan Participations/Assignments

The Fund invests in fixed and floating rate loans arranged through private negotiations between a foreign sovereign entity and one or more financial institutions ("lenders"). The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. At February 28, 2003, the Fund held loan participations with a total cost of $3,422,756.

In connection with purchasing loan participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation. As a result, the Fund will assume the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower.

When the Fund purchases assignments from lenders, the Fund will acquire direct rights against the borrower on the loan, except that under certain circumstances such rights may be more limited than those held by the assigning lender.

Note 6. "When and If" Issued Bonds

"When and if" issued bonds are recorded as investments in the Fund's portfolio and marked-to-market to reflect the current value of the bonds. When the Fund

sells a "when and if" issued bond, an unrealized gain or loss is recorded equal to the difference between the selling price and purchase cost of the bond. Settlement of trades (i.e., receipt and delivery) of the "when and if" issued bond is contingent upon the successful issuance of such bond. In the event its sponsor is unable to successfully issue the security, all trades in "when and if" issued bonds become null and void, and, accordingly, the Fund will reverse any gain or loss recorded on such transactions.

At February 28, 2003, the Fund did not hold any "when and if" issued bonds.

Note 7. Credit and Market Risk

The yields of emerging market debt obligations reflect, among other things, perceived credit risk. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, overall greater risk of timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investment in non-dollar-denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations. At February 28, 2003, the Fund has a concentration of risk in sovereign debt of emerging market countries.

The net asset value and/or market value per share of the Fund could be negatively affected if the Fund were required to liquidate assets in other than an orderly manner and/or in adverse market conditions to repay any bank loans outstanding.

Note 8. Option Contracts

The Fund may from time to time enter into option contracts. Premiums paid when put or call options are purchased by the Fund, represent investments, which are marked-to-market daily. When a purchased option expires, the Fund will realize a loss in the amount of the premium paid. When the Fund enters into a closing sales transaction, the Fund will realize a gain or loss depending on whether the proceeds from the closing sales transaction are greater or less than the premium paid for the option. When the Fund exercises a put option, it will realize a gain or loss from the sale of the underlying security and the proceeds from such sale will be decreased by the premium originally paid. When the Fund exercises a call option, the cost of the security which the Fund purchases upon exercise will be increased by the premium originally paid.

At February 28, 2003, the Fund did not hold any purchased call or put option contracts.

When the Fund writes a call or put option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily. When a written option expires, the Fund realizes a gain equal to the amount of the premium received.

When the Fund enters into a closing purchase transaction, the Fund realizes a gain or loss depending upon whether the cost of the closing transaction is

greater or less than the premium originally received, without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a written call option is exercised the proceeds of the security sold will be increased by the premium originally received. When a written put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise. When written index options are exercised, settlement is made in cash.

The Fund enters into options for hedging purposes. The risk associated with purchasing options is limited to the premium originally paid. The risk in writing a covered call option is that the Fund gives up the opportunity to participate in any increase in the price of the underlying security beyond the exercise price. The risk in writing a put option is that the Fund is exposed to the risk of loss if the market price of the underlying security declines. The risk in writing a call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases.

For the six months ended February 28, 2003, the Fund did not enter into any written covered call or put option contracts.

Note 9. Forward Foreign Currency Contracts

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The contract is marked-to-market to reflect the change in the currency exchange rate. The change in market value is recorded by the Fund as an unrealized gain or loss. The Fund records a realized gain or loss on delivery of the currency or at the time the forward foreign currency contract is extinguished (compensated) by entering into a closing transaction prior to delivery. This gain or loss, if any, is included in net realized gain (loss) on foreign currency transactions.

The Fund enters into forward foreign currency contracts to facilitate settlement of foreign currency denominated portfolio transactions or to manage foreign currency exposure associated with foreign currency denominated securities. Forward foreign currency contracts involve elements of market risk in excess of the amount reflected in the statement of assets and liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

At February 28, 2003, the Fund did not have any open forward foreign currency contracts.

Note 10. Dividend Subsequent to February 28, 2003

On January 23, 2003, the Board of Directors of the Fund declared a common stock dividend of $0.4125 per share from net investment income. The dividend is payable on March 28, 2003 to shareholders of record on March 18, 2003.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Notes to Financial Statements (unaudited) (continued)

Note 11. Capital Loss Carryforward

At August 31, 2002, the Fund had, for Federal income tax purposes, a capital loss carryforward of approximately $1,220,000, available to offset future

capital gains. To the extent that these carryforward losses are used to offset capital gains, it is probable that any gains so offset will not be distributed. The amount and expiration of the carryforwards are indicated below. Expiration occurs on August 31 of the year indicated:

	2007	2010
Carryforward Amounts	$1,163,000	$57,000

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Financial Highlights

Data for a share of common stock outstanding throughout the year ended August 31, unless otherwise noted:

	2003(1)(2)	2002(2)	2001	2000	1999
Net Asset Value, Beginning of Period	$11.80	$12.91	$14.01	$11.16	$ 7.83
Income (Loss) From Operations:					
Net investment income(3).....	0.86	1.67	1.68	1.72	1.88
Net realized and unrealized gain (loss)(3)	2.26	(1.13)	(1.13)	2.78	3.83
Total Income (Loss) From Operations.....	3.12	0.54	0.55	4.50	5.71
Less Distributions From:					
Net investment income.....	(0.83)	(1.65)	(1.65)	(1.65)	(2.41
Net realized gains.....	--	--	--	--	--
Capital.....	--	--	--	--	(0.02
In excess of net realized capital gains	--	--	--	--	--
Total Distributions.....	(0.83)	(1.65)	(1.65)	(1.65)	(2.43
Increase in Net Asset Value Due to Shares Issued on Reinvestment of Dividends.....	--	--	--	--	0.05
Net Asset Value, End of Period.....	$14.09	$11.80	$12.91	$14.01	$11.16
Market Value, End of Period.....	$14.60	$12.30	$13.15	$13.9375	$12.50
Total Return, Based on Market Price Per Share(4).....	26.72%++	6.10%	7.14%	27.51%	62.97
Ratios to Average Net Assets:					
Total expenses, including interest expense.....	2.89%+	2.96%	4.76%	5.00%	5.03
Total expenses, excluding interest expense (operating expenses).....	1.83%+	1.51%	1.71%	1.73%	1.85
Net investment income(3).....	13.82%+	13.24%	12.87%	13.33%	18.13

Supplemental Data:					
Net assets, end of period (000s).....	$57,572	$48,049	$52,209	$56,313	$44,377
Portfolio turnover rate	111%	168%	195%	136%	87
Loan outstanding, end of period (000s)..	$20,000	$20,000	$20,000	$20,000	$20,000
Weighted average loan (000s).....	$20,000	$20,000	$20,000	$20,000	$20,000
Weighted average interest rate on loans.	2.65%+	3.70%	7.94%	8.26%	6.48
Before applicable reimbursement from SBAM, net investment income per share and expense ratios would have been:					
Net investment income.....	--	$1.63	--	--	--
Expense ratio, including interest expense.....	--	3.26%	--	--	--
Expense ratio, excluding interest expense (operating expenses).....	--	1.81%	--	--	--

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Form of Terms and Conditions of Amended and Restated Dividend Reinvestment and Cash Purchase Plan (unaudited)

Pursuant to certain rules of the Securities and Exchange Commission, the following additional disclosure is provided.

Each shareholder holding shares of common stock ("Shares") of Salomon Brothers Emerging Markets Income Fund Inc. ("Fund"), formerly known as The Emerging Markets Income Fund Inc, will be deemed to have elected to be a participant in the Amended and Restated Dividend Reinvestment and Cash Purchase Plan ("Plan"), unless the shareholder specifically elects in writing (addressed to the Agent at the address below or to any nominee who holds Shares for the shareholder in its name) to receive all income dividends and distributions of capital gains in cash, paid by check, mailed directly to the record holder by or under the direction of American Stock Transfer & Trust Company as the Fund's dividend-paying agent ("Agent"). A shareholder whose Shares are held in the name of a broker or nominee who does not provide an automatic reinvestment service may be required to take such Shares out of "street name" and register such Shares in the shareholder's name in order to participate, otherwise dividends and distributions will be paid in cash to such shareholder by the broker or nominee. Each participant in the Plan is referred to herein as a "Participant." The Agent will act as Agent for each Participant, and will open accounts for each Participant under the Plan in the same name as their Shares are registered.

Unless the Fund declares a dividend or distribution payable only in the form of cash, the Agent will apply all dividends and distributions in the manner set forth below.

If, on the determination date, the market price per Share equals or exceeds the net asset value per Share on that date (such condition, a "market premium"), the Agent will receive the dividend or distribution in newly issued Shares of the Fund on behalf of Participants. If, on the determination date, the net asset value per Share exceeds the market price per Share (such condition, a "market discount"), the Agent will purchase Shares in the open-market. The determination date will be the fourth New York Stock Exchange trading day (a New York Stock Exchange trading day being referred to herein as a "Trading Day") preceding the payment date for the dividend or distribution. For purposes herein, "market

price" will mean the average of the highest and lowest prices at which the Shares sell on the New York Stock Exchange on the particular date, or if there is no sale on that date, the average of the closing bid and asked quotations.

Purchases made by the Agent will be made as soon as practicable commencing on the Trading Day following the determination date and terminating no later than 30 days after the dividend or distribution payment date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities law; provided, however, that such purchases will, in any event, terminate on the earlier of (i) 60 days after the dividend or distribution payment date and (ii) the Trading Day prior to the "ex-dividend" date next succeeding the dividend or distribution payment date.

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SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Form of Terms and Conditions of Amended and Restated Dividend Reinvestment and Cash Purchase Plan (unaudited) (continued)

If (i) the Agent has not invested the full dividend amount in open-market purchases by the date specified in paragraph 4 above as the date on which such purchases must terminate or (ii) a market discount shifts to a market premium during the purchase period, then the Agent will cease making open-market purchases and will receive the uninvested portion of the dividend amount in newly issued Shares (x) in the case of (i) above, at the close of business on the date the Agent is required to terminate making open-market purchases as specified in paragraph 4 above or (y) in the case of (ii) above, at the close of business on the date such shift occurs; but in no event prior to the payment date for the dividend or distribution.

In the event that all or part of a dividend or distribution amount is to be paid in newly issued Shares, such Shares will be issued to Participants in accordance with the following formula: (i) if, on the valuation date, the net asset value per Share is less than or equal to the market price per Share, then the newly issued Shares will be valued at net asset value per Share on the valuation date; provided, however, that if the net asset value is less than 95% of the market price on the valuation date, then such Shares will be issued at 95% of the market price and (ii) if, on the valuation date, the net asset value per Share is greater than the market price per Share, then the newly issued Shares will be issued at the market price on the valuation date. The valuation date will be the dividend or distribution payment date, except that with respect to Shares issued pursuant to paragraph 5 above, the valuation date will be the date such Shares are issued. If a date that would otherwise be a valuation date is not a Trading Day, the valuation date will be the next preceding Trading Day.

Participants have the option of making additional cash payments to the Agent, monthly, in a minimum amount of $250, for investment in Shares. The Agent will use all such funds received from Participants to purchase Shares in the open market on or about the first business day of each month. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Agent, Participants should send in voluntary cash payments to be received by the Agent approximately 10 days before an applicable purchase date specified above. A Participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Agent not less than 48 hours before such payment is to be invested.

Purchases by the Agent pursuant to paragraphs 4 and 7 above may be made on any securities exchange on which the Shares are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Funds held by the Agent uninvested will not bear interest, and it is understood that, in any event, the Agent shall have no liability in connection with any inability to purchase Shares within the time periods herein provided, or with the timing of any purchases effected. The Agent shall have no responsibility as to the value of the Shares acquired for the Participant's account. The Agent may commingle amounts of all Participants to be used for open-market purchases of Shares and the price

per Share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions) of all Shares purchased by the Agent.

The Agent will maintain all Participants' accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by Participants for personal and tax records. The Agent will hold Shares acquired pursuant to the Plan in noncertificated form in the Participant's name or that of its nominee, and each Participant's proxy will include those Shares purchased pursuant to the Plan. The Agent will forward to Participants any proxy solicitation material and will vote any Shares so held for Participants only in accordance with the proxy returned by Participants to the Fund. Upon written request, the Agent will deliver to Participants, without charge, a certificate or certificates for the full Shares.

The Agent will confirm to Participants each acquisition made for their respective accounts as soon as practicable but not later than 60 days after the date thereof. Although Participants may from time to time have an undivided fractional interest (computed to three decimal places) in a Share of the Fund, no certificates for fractional shares will be issued. Dividends and distributions on fractional shares will be credited to each Participant's account. In the event of termination of a Participant's account under the Plan, the Agent will adjust for any such undivided fractional interest in cash at the market value of the Fund's Shares at the time of termination less the pro rata expense of any sale required to make such an adjustment.

Any share dividends or split shares distributed by the Fund on Shares held by the Agent for Participants will be credited to their respective accounts. In the event that the Fund makes available to Participants rights to purchase additional Shares or other securities, the Shares held for Participants under the Plan will be added to other Shares held by the Participants in calculating the number of rights to be issued to Participants.

The Agent's service fee for handling capital gains distributions or income dividends will be paid by the Fund. Participants will be charged a pro rata share of brokerage commissions on all open-market purchases.

Participants may terminate their accounts under the Plan by notifying the Agent in writing. Such termination will be effective immediately if notice is received by the Agent not less than 10 days prior to any dividend or distribution record date; otherwise such termination will be effective on the first Trading Day after the payment date for such dividend or distribution with respect to any subsequent dividend or distribution. The Plan may be amended or terminated by the Fund as applied to any voluntary cash payments made and any income dividend or capital gains distribution paid subsequent to written notice of the change or termination sent to Participants at least 30 days prior to the record date for the income dividend or capital gains distribution. The Plan may be

amended or terminated by the Agent, with the Fund's prior written consent, on at least 30 days' written notice to Participants. Notwithstanding the preceding two sentences, the Agent or the Fund may amend or supplement the Plan at any time or times when necessary or appropriate to comply with applicable law or rules or policies of the Securities and Exchange Commission or any other regulatory authority. Upon any termination, the Agent will cause a certificate or certificates for the full Shares held by each Participant under the Plan and cash adjustment for any fraction to be delivered to each Participant without charge. If the Participant elects by notice to the Agent in writing in advance of such termination to have the Agent sell part or all of a Participant's Shares and remit the proceeds to the Participant, the Agent is authorized to deduct a $2.50 fee plus brokerage commission for this transaction from the proceeds.

Any amendment or supplement shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives written notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent in its place and stead of a successor Agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Agent under these terms and conditions. Upon any such appointment of an Agent for the purpose of receiving dividends and distributions, the Fund will be authorized to pay to such successor Agent, for each Participant's account, all dividends and distributions payable on Shares of the Fund held in each Participant's name or under the Plan for retention or application by such successor Agent as provided in these terms and conditions.

In the case of Participants, such as banks, broker-dealers or other nominees, which hold Shares for others who are beneficial owners ("Nominee Holders"), the Agent will administer the Plan on the basis of the number of Shares certified from time to time by each Nominee Holder as representing the total amount registered in the Nominee Holder's name and held for the account of beneficial owners who are to participate in the Plan.

The Agent shall at all times act in good faith and use its best efforts within reasonable limits to insure the accuracy of all services performed under this Agreement and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by its negligence, bad faith, or willful misconduct or that of its employees.

All correspondence concerning the Plan should be directed to the Agent at 59

Maiden Lane, New York, New York 10038.

The report is transmitted to the shareholders of the Fund for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase at market prices from time to time shares of its common stock in the open market.

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Directors

LESLIE H. GELB

R. JAY GERKEN

RIORDAN ROETT

JESWALD W. SALACUSE

Officers

R. JAY GERKEN
Chairman and
Chief Executive Officer

PETER J. WILBY
President

LEWIS E. DAIDONE
Executive Vice President and
Chief Administrative Officer

JAMES E. CRAIGE
Executive Vice President

THOMAS K. FLANAGAN
Executive Vice President

FRANCES M. GUGGINO
Controller

CHRISTINA T. SYDOR
Secretary

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NEW YORK STOCK EXCHANGE SYMBOL
EMD

Salomon Brothers
Emerging Markets
Income Fund Inc.

Semi-Annual Report
February 28, 2003

Salomon Brothers Asset Management

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

EMDSEMI 2/03
03-4679

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- 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.

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.

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 Senior 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 March 2010. We have obtained a key man insurance policy for Mr. Esfandiari.

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, 2007, we have incurred net losses. As of December 31, 2007, we have an accumulated deficit of $35 million. We incurred net losses of $2.6 million and $5 million in 2007 and 2006, 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

Until recently, our Common Stock was classified as penny stock, and it continues to be extremely illiquid, so investors may not be able to sell as much stock as they want at prevailing market prices.

Until recently, our Common Stock was 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 securities that are classified as penny stocks. 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 penny stock issuers 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.

At the present time, transactions in our Common Stock are not subject to the "penny stock" rules because our average revenue for 2005, 2006 and 2007 exceeded $6 million per year. However, there can be no assurance that transactions in our Common Stock will not be subject to the "penny stock" rules in the future.

The average daily trading volume of our Common Stock on the over-the-counter market was less than 100,000 shares per day over the three months ended April 2, 2008. 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.

Sales of a substantial number of shares of our Common Stock into the public market by the selling stockholders, as well as the exercise of our outstanding warrants on a cash or a cashless basis, 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 that this post-effective amendment to the registration statement is declared effective by the SEC, a significant number of shares of our Common Stock will be eligible to be immediately sold in the market. In addition, pursuant to the December 2007 plan (the "Plan") to simplify our capital structure, certain holders of warrants and options (collectively, the "Non-Employee Warrants") not including options or warrants issued to employees or directors in their capacity as such may exercise their warrants on a cashless basis. Certain Non-Employee Warrant holders are now permitted to exercise 9,323,855 warrants on a cashless basis at an exercise price of $0.45 per share at any time on or before June 30, 2008.

The Plan's cashless exercise provision permits Non-Employee Warrant holders to use any excess of the market price of the Company's Common Stock over the exercise price of a Non-Employee Warrant as part of the exercise price for another warrant by submitting both warrants at the time of exercise. Pursuant to the Plan, certain Non-Employee Warrant holders are permitted on or before June 30, 2008 to use the greater of (i) $0.53 or (ii) the VWAP for the

ten-trading day period that ends on the second trading day before the exercise date as the value of the Common Stock, so that each Non-Employee Warrant used as part of the exercise price payment will represent the difference between the greater of these two values and the applicable exercise price.

As of March 27, 2008, our Common Stock was trading at $0.16 cents per share. If a large number of Non-Employee Warrant holders exercise their warrants on a cashless basis on or before June 30, 2008, our stock price could drop. Even a perception by the market that selling stockholders may sell in large amounts after the post-effective amendment to the registration statement is declared effective could place significant downward pressure on our stock price.

You will experience substantial dilution upon the exercise warrants underlying common stock that we are currently registering.

There are 4,124,940 shares of common stock underlying warrants registered in this registration statement, and 13,098,674 shares of common stock underlying warrants and options registered in another registration statement. These securities were issued by the Company in connection with the Company's previously completed private placements, and as adjusted in connection with the Company's December 2007 plan to simplify its capital structure. As of April 2, 2008, we have approximately 22 million warrants and options outstanding. As a result, the exercise of the outstanding warrants and options will result in substantial dilution to the holders of our Common Stock.

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 April 2, 2008, our named executive officers, directors and 5% stockholders beneficially owned approximately 65% 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.

DETERMINATION OF OFFERING PRICE

We are not selling any common stock in this offering. 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.

DILUTION

We currently file reports with the SEC, and we are not selling any common stock in this offering. The selling security holders are the current stockholders of the Company.

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 and warrants to purchase common stock exercisable at prices ranging from $0.40 per share to $1.00 per share. However, the table below assumes the immediate exercise of all 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 terms of these agreements, and the specific 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 1,952,813 shares of our common stock now owned by them, up to an aggregate of 4,124,940 shares of common stock issuable pursuant to the exercise of warrants, and additional shares of common stock which Selling Stockholders may receive at a later date pursuant to the anti-dilution provisions of certain warrants. 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.

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 April 2, 2008 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 the Company's total outstanding 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 Before Offering (A)	Number of Shares to be Offered (B)	Number of Shares Owned After Offering	Percentage of Shares of Common Stock Owned After Offering
ACM SPV, LLC	63,873	63,873	-	0.00%
Alpha Capital AG 1	1,894,024	548,112	1,345,912	2.20%
BCMF Trustees, LLC	318,060	318,060	-	0.00%
Bio-Business Science & Development LTDA	327,721	327,721	-	0.00%
Bristol Investment Fund, Ltd.	219,740	219,740	-	0.00%
Bushido Capital Master Fund, LP	1,891,144	195,638	1,695,506	2.77%
C.E. Unterberg, Towbin Capital Partners I, L.P. 5	1,020,610	229,375	791,235	1.31%
CFRR Holdings, LLC	4,843	4,843	-	0.00%
Cranshire Capital, LP	616,376	78,125	538,251	0.89%
Crestview Capital Master, LLC 2	24,145,310	2,000,000	22,145,310	35.77%
Ferrari, Braden	4,688	4,688	-	0.00%
Frankenthal, Stuart J.	369,826	46,875	322,951	0.53%
Imas, Ariel	6,250	6,250	-	0.00%
Inverness Medical Innovations, Inc.	5,367,840	625,000	4,742,840	7.83%
Iroquois Master Fund, Ltd.	54,935	54,935	-	0.00%
Kreger, Richard H. 3	1,090,404	188,230	902,174	1.49%
Longview Fund, LP	1,467,128	390,625	1,076,503	1.77%
Marti A. Meyerson EDS Trust	1,991,019	232,031	1,758,988	2.91%
Midtown Partners & Co., LLC 4	261,122	40,522	220,600	0.36%
Morton H. Meyerson	2,031,244	236,719	1,794,525	2.96%
Pierce Diversified Strategy Master Fund, LLC - Series BUS	760,481	195,313	565,168	0.93%
Ralph Rabman	3,524	3,524	-	0.00%
RHK Midtown Partners LLC	20,833	20,833	-	0.00%
Rohan, J. Rory 3	548,994	46,721	502,273	0.83%
TOTALS	44,479,989	6,077,753	38,402,236	

(A) Includes shares of Common Stock 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] Konrad Ackerman has ultimate control over Alpha Capital AG and the shares held by Alpha Capital AG.

[2] 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.

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

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

[5] Assisted the Company in December 2007 equity simplification plan.

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.

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

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

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS

Directors and Executive Officers

Lawrence A. Siebert (51), President, Chief Executive Officer and Director. Mr. Siebert was appointed Chief Executive Officer of Chembio Diagnostics, Inc. and Chairman of our board of directors upon consummation of the merger of the Company and Chembio Diagnostic Systems, Inc. in 2004. Mr. Siebert has been Chairman of Chembio Diagnostic Systems Inc. for approximately 16 years and its President since May 2002. Prior to his involvment with Chembio Diagnostic Systems, Inc., in 1992 Mr. Siebert was involved in private equity and venture capital investing. From 1982 to 1991, Mr. Siebert was associated with Stanwich Partners, Inc, which during that period

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

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

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

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

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

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

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

Robert L. Aromando, Jr. (52), Executive VP of Commercial Operations. Mr. Aromando joined the Company in May 2007. Prior to this position, between 2001 and 2007, Mr. Aromando was Vice President of Marketing for Bracco Diagnostics Inc., a Princeton, New Jersey-based pharmaceutical company and part of the Bracco Group. Most of his

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

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

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

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

James Merselis(54), Director. Mr. Merselis was elected to the Company's Board of Directors in March 2008. From 2002 to 2007, Mr. Merselis served as the President, Chief Executive Officer, and Director of Hemosense, Inc. (AMEX: HEM), a company that develops, manufactures, and sells handheld blood coagulation monitoring systems. From 1998 to 2002, Mr. Merselis served as President, Chief Executive Officer, and Director of Micronics, Inc., a Redmond, WA, based company that develops in vitro diagnostic products for disease diagnosis, prognosis, and treatment monitoring. From 1976 to 1998, Mr. Merselis held multiple positions at Boehringer Mannheim, including serving as Managing Director of the British affiliate of Boehringer Mannheim. Mr. Merselis holds an Advanced Management Program Certificate from the Harvard Business School, and a Bachelor of Science degree in Biology (Pre-Med) from Nebraska Wesleyan University.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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, and by each of our directors, each of our “named executive officers”, and all of our directors and executive officers as a group as of April 2, 2008.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Percent of Class
Siebert, Lawrence [1] 3661 Horseblock Road Medford, NY 11763	7,465,605	11.85%
Esfandiari, Javan [2] 3661 Horseblock Road Medford, NY 11763	714,580	1.17%
Larkin, Richard [3] 3661 Horseblock Road Medford, NY 11763	290,967	0.48%
Ippolito, Tom [4] 3661 Horseblock Road Medford, NY 11763	65,000	0.11%
Bruce, Richard [5] 3661 Horseblock Road Medford, NY 11763	140,000	0.23%
Carus, Al [6] 3661 Horseblock Road Medford, NY 11763	138,000	0.23%
Meller, Gary [7] 3661 Horseblock Road Medford, NY 11763	223,000	0.37%
Davis, Katherine L. [8] 3661 Horseblock Road Medford, NY 11763	36,000	0.06%
James D. Merselis [9] 3661 Horseblock Road Medford, NY 11763	9,000	0.01%
Officers and Directors as a group [10]	**9,082,227**	**14.14%**
Vicis Capital Master Fund 126 East 56th Street, Tower 56, Suite 700 New York, NY 10022	4,608,707	7.61%
Millenium 3 Opportunity Fund, LLC [11] 4 Becker Farm Road Roseland, NJ 07068	4,006,610	6.45%
Inverness Medical Innovations, Inc. 51 Sawyer Road, Suite 200 Waltham, MA 02453	5,367,840	8.87%
Crestview Capital Master, LLC [12] 95 Revere Drive, Suite A Northbrook, IL 60062	24,145,310	36.20%

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

The beneficial ownership percent in the table is calculated with respect to the number of outstanding shares (60,537,534) of the Company's common stock as of April 2, 2008, and each stockholder's ownership is calculated as the number of shares of common stock owned plus the number of shares of common stock into which any preferred stock, warrants, options or other convertible securities owned by that stockholder can be converted within 60 days.

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

(1) Includes 245,000 shares issuable upon exercise of options exercisable within 60 days and 2,205,731 warrants.
(2) Includes 492,500 shares issuable upon exercise of options exercisable within 60 days and 2,007 shares issuable upon exercise of warrants. Does not include 100,000 shares issuable upon exercise of options that are not exercisable within the next 60 days
(3) Includes 212,500 shares issuable upon exercise of options exercisable within 60 days and 27,436 shares issuable upon exercise of warrants.
(4) Includes 65,000 shares issuable upon exercise of options exercisable within 60 days.
(5) Includes 140,000 shares issuable upon exercise of options exercisable within 60 days.
(6) Includes 123,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 144,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
(7) Includes 123,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 144,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
(8) Includes 36,000 shares issuable upon exercise of options exercisable within 60 days. Does not include 144,000 shares issuable upon exercise of options that are not exercisable within the next 60 days.
(9) Includes 9,000 shares issuable upon exercise of options exercisable within 60 days.
(10) Includes footnotes (1)-(9)
(11) Includes 1,557,376 shares issuable upon exercise of warrants.
(12) Includes 6,169,056 shares issuable upon exercise of warrants.

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.

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.

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.

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 225,419 shares of common stock and warrants to purchase 69,930 shares of our common stock.

DISCLOSURE OF COMMISSION POSITION OF 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.

ORGANIZATION WITHIN LAST FIVE YEARS

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

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

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

been paid.

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

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

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

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

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

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

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

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

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

At a board of directors meeting on October 4, 2006, Mr. Siebert expressed his recommendation that the board approve lowering the conversion price to $0.80 in order to be able to obtain the additional funds. The board discussed the $1,300,000 promissory note bridge financing which had been completed in June 2006, the noteholders who expected to convert their notes into Series C Preferred Stock, and the restrictions on future equity sales by the Company in the bridge financing purchase agreement that necessitated finalizing promptly the Series C Preferred Stock offering. After discussion to approve the funding, the motion was approved unanimously, with the exception of Gerald Eppner who abstained. Mr. Eppner stated that he understood the benefits of the economics of the transaction and the Company's

need to proceed so quickly, but that he did not wish to vote in favor.

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

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

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

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

Director Independence

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

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

DESCRIPTION OF BUSINESS

FORWARD-LOOKING STATEMENTS

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

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

For further information about these and other risks, uncertainties and factors, please review the disclosure included in the "Risk Factors" section beginning on page 2.

General

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

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

platform. Our strategy for the development of this platform technology is also dual; we are entering into exclusive collaborations with large marketing partners for whom we will develop and manufacture products on the DPP™ and we are developing our own products that we may choose to market through selected distribution partners either under a Chembio or other brand.

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

Rapid HIV Tests

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

Regulatory Status:

Rapid HIV Tests

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

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

Partners Involved in the Products:

On September 29, 2006 we executed marketing and license agreements with Inverness. These agreements provide for the marketing of our rapid HIV tests in the United States; the agreements also grant us a license to Inverness' single path lateral flow patents that may be applicable to our other products, including those that we had under development

at the time of the grant. As part of these agreements we settled litigation that had been ongoing with another company, StatSure Diagnostics, Inc., relating to the barrel device that is incorporated into our Sure Check® (now Inverness Clearview Complete) HIV 1/2 product.

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

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

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

CHAGAS RAPID TEST

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

Other Products

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

Lateral Flow Technology

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

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

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

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

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

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

Target Market

Rapid HIV Tests

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

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

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

Chagas Rapid Test

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

Other Products

Veterinary Tuberculosis Tests

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

Marketing Strategy

Our marketing strategy is to:

- Support, review and assess the marketing and distribution efforts of our rapid HIV tests by Inverness Medical Innovations, Inc. Inverness, which is a leading marketer of point of care diagnostic products, has significantly expanded its distribution footprint since we signed our agreement with them, and we believe that this will enhance opportunities for them to market our rapid HIV tests. In particular, Inverness has been very active in acquiring point of care product lines serving hospital emergency rooms and physicians' offices.

- Leverage our DPP™ intellectual property and regulated product development and manufacturing experience to create new collaborations where Chembio can be the exclusive development and manufacturing partner with world class marketing partners. Beginning with our Cooperative Research Development Agreement entered into in November 2006 with the United States Centers for Disease Control, we have entered several new collaborations related to DPP™ that are described below (see "Research & Development").

- Develop a small number of Chembio brand DPP™ products that capitalize on the advantages of this newly patented point of care technology and select distribution partners for such products.

Competition

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

Industry competition in general is based on the following:

- Scientific and technological capability;

- Proprietary know-how;

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

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

Our ability to develop and market other products is in large measure dependent on our having additional resources and/or collaborative relationships. Some of our product development efforts have been funded on a project or milestone basis. We believe that our proprietary know-how in lateral flow technology has been instrumental in our obtaining the collaborations we have and that we continue to pursue. The patent protection that we now have with our Dual Path Platform™ should enhance our ability to develop more profitable collaborative relationships and to license out the technology.

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

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

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

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

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

The leading competitors in the international rapid HIV test market are Trinity Biotech (Ireland), Inverness (U.S.) and Standard Diagnostics (Korea). Uni-Gold HIV®, marketed by Trinity Biotech of Ireland and Determine®, formerly a Japanese division of Abbott Diagnostics that is now owned by Inverness, are the market leaders in the developing world , particularly sub-Saharan Africa which is where most of the funding for rapid HIV tests is being allocated from donor funded programs such as PEPFAR. Neither of these products is FDA-approved although Trinity does manufacture in Ireland an FDA-approved rapid HIV test, Uni-Gold Recombigen, for marketing in the United States. Inverness' Orgenics subsidiary in Israel also has a rapid HIV test, Double Check Gold as does its subsidiary in China, ABON; neither of these products is FDA-approved. As such, while Inverness is our exclusive marketing

partner in the United States, it is also the principal competitor to our rapid HIV tests outside the United States. Furthermore, in 2007 Trinity Biotech settled litigation with Inverness, and as part of that settlement it has contracted with ABON, an Inverness subsidiary, to manufacture the Uni-Gold® HIV products for marketing outside the United States. Standard Diagnostics of Korea also has a low-cost product that has been increasingly competitive against each of the other competitors in the developing world. There are a number of additional competitors, including several based in China and India, that produce competitive rapid HIV tests, though they are not FDA approved. Nevertheless, all of these products are eligible for procurement under the current PEPFAR USAID waiver program due to the fact that there were no FDA-approved products when PEPFAR was originally authorized several years ago. In order to realize sales in the markets where the donor funds are allocated, the product must additionally be selected by a country's ministry of health or their designees to be part of a national testing protocol or "algorithm". The algorithms typically use multiple rapid tests in sequence or in parallel to screen and confirm patients at the point of care and are increasingly allowing for multiple tests to be qualified in these algorithms. Chembio's sales in Africa and certain other markets are therefore based on the fact that its test has been one of those selected. The selection process in each of these countries is very challenging based upon a number of factors, including but not limited to product performance and price.

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

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

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

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

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

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

Chembio's HIV Tests

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

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

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

Research and Development

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

waiver for such a product.

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

Technology Transfer and Supply Agreements with Bio-Manguinhos

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

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

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

Cooperative Research & Development Agreement with the CDC for Syphilis Test

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

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

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

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

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

Employees

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

Governmental Regulation

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

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

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

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

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

In addition, the FDA regulates the export of medical devices that have not been approved for marketing in the United States. The Federal Food, Drug and Cosmetic Act contains general requirements for any medical device that may not be sold in the United States and is intended for export. Specifically, a medical device intended for export is not deemed to be adulterated or misbranded if the product: (1) complies with the specifications of the foreign purchaser;

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

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

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

In 2007 Chembio received certification under ISO 13.485:2003. ISO (International Organization for Standardization) is the world's largest developer and publisher of International Standards. It is comprised of a network of the national standards institutes of 155 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO 13485:2003, in particular, specifies requirements for a quality management system where an organization needs to demonstrate its ability to provide medical devices and related services that consistently meet customer requirements and regulatory requirements applicable to medical devices and related services. The primary objective of ISO 13485:2003 is to facilitate harmonized medical device regulatory requirements for quality management systems. ISO 13.485:2003 is the quality system that is most recognized globally, including throughout the European Community for products seeking a CE mark. Chembio has engaged a European Notified Body and Authorized Representative in connection with its plans to obtain a CE mark for its products.

Environmental Laws

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

Intellectual Property

Intellectual Property Strategy

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

Trade Secrets and Know-How

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

Lateral Flow Technology and Reagent Licenses

Prior to the issuance of our United States patent covering our Dual Path Platform (DPP™), we owned no issued patents covering lateral flow technology. Therefore we obtained non-exclusive licenses from Inverness Medical Innovations, Inc. and Abbott Laboratories with respect to their portfolios of single path lateral flow patents. Although we believe our DPP™ is outside of the scope of single path lateral flow patents, we consult with patent counsel, and seek licenses

and/or redesigns of products that we believe to be in the best interests of the Company and our stockholders. Because of the costs and other negative consequences of time-consuming patent litigation, we often attempt to obtain a license on reasonable terms. Nevertheless there is no assurance that Abbott's and/or Inverness' lateral flow patents will not be challenged or that other patents containing claims relevant to the Company's products will be not be granted and that licenses to such patents if any will be available on reasonable terms, if any.

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

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

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

Corporate History

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

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

On March 12, 2004, we implemented a 1-for-17 reverse split of our common stock. All references to shares of our common stock in this Post Effective Amendment No. 5 to the Registration Statement have been adjusted to reflect this reverse split.

Glossary

AIDS	Acquired Immunodeficiency Syndrome. AIDS is caused by the Human Immunodeficiency Virus, HIV.
ALGORITHM	For rapid HIV testing this refers both to method or protocol for using rapid tests from different manufacturers in combination to screen and confirm patients at the point of care, and may also refer to the specific tests that have been selected by an agency or ministry of health to be used in this way.
ANTIBODY	A protein which is a natural part of the human immune system produced by specialized cells to neutralize antigens, including viruses and bacteria that invade the body. Each antibody producing cell manufactures a unique antibody that is directed against, binds to and eliminates one, and only one, specific type of antigen.
ANTIGEN	Any substance which, upon entering the body, stimulates the immune system leading to the formation of antibodies. Among the more common antigens are bacteria, pollens, toxins, and viruses.
ARVs	Anti-Retroviral Treatments for AIDS
CD-4	The CD4+ T-lymphocyte is the primary target for HIV infection because of the affinity of the virus for the CD4 surface marker. Measures of CD4+ T-lymphocytes are used to guide clinical and therapeutic management of HIV-infected persons.
CDC	United States Centers for Disease Control and Prevention
CHAGAS DISEASE	Chagas disease is an infection caused by the parasite *Trypanosoma cruzi*. Worldwide, it is estimated that 16 to 18 million people are infected with Chagas disease; of those infected, 50,000 will die each year.
CHAI	Clinton HIV/AIDS Initiative
CLIA	Clinical Laboratory Improvement Act
DIAGNOSTIC	Pertaining to the determination of the nature or cause of a disease or condition. Also refers to reagents or procedures used in diagnosis to measure proteins in a clinical sample.
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
FDA	United States Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
HIV	Human Immunodeficiency Virus. HIV (also called HIV-1), a retrovirus, causes AIDS. A similar retrovirus, HIV-2, causes a variant disease, sometimes referred to as West African AIDS. HIV infection leads to the destruction of the immune system.
IgG	IgG or Immunoglobulin are proteins found in human blood. This protein is called an “antibody” and is an important part of the body’s defense against disease. When the body is attacked by harmful bacteria or viruses, antibodies help fight these invaders.
MOH	Ministry of Health
MOU	Memoranda of Understanding
NGO	Non-Governmental Organization
OTC	Over-the-Counter
PEPFAR	The President’s Emergency Plan for AIDS Relief
PMA	Pre-Marketing Approval
PROTOCOL	A procedure pursuant to which an immunodiagnostic test is performed on a particular specimen in order to obtain the desired reaction.
REAGENT	A chemical added to a sample under investigation in order to cause a chemical or biological reaction which will enable measurement or identification of a target substance.
RETROVIRUS	A type of virus which contains the enzyme Reverse Transcriptase and is capable of transforming infected cells to produce diseases in the host such as AIDS.

Ryan White CARE Act	The Ryan White Comprehensive AIDS Resources Emergency (CARE) Act is Federal legislation that addresses the unmet health needs of persons living with HIV disease by funding primary health care and support services. The CARE Act was named after Ryan White, an Indiana teenager whose courageous struggle with HIV/AIDS and against AIDS-related discrimination helped educate the nation.
SAB	Staff Accounting Bulletin
SENSITIVITY	Refers to the ability of an assay to detect and measure small quantities of a substance of interest. The greater the sensitivity, the smaller the quantity of the substance of interest the assay can detect. Also refers to the likelihood of detecting the antigen when present.
SFAS	Statement of Financial Accounting Standards
SPECIFICITY	The ability of an assay to distinguish between similar materials. The greater the specificity, the better an assay is at identifying a substance in the presence of substances of similar makeup.
SPUTUM	Expectorated matter; saliva mixed with discharges from the respiratory passages
TB	Tuberculosis (TB) is a disease caused by bacteria called Mycobacterium tuberculosis. The bacteria usually attack the lungs. But, TB bacteria can attack any part of the body such as the kidney, spine, and brain. If not treated properly, TB disease can be fatal. TB is spread through the air from one person to another. The bacteria are put into the air when a person with active TB disease of the lungs or throat coughs or sneezes. People nearby may breathe in these bacteria and become infected.
UNAIDS	Joint United Nations Program on HIV/AIDS
USAID	United States Agency for International Development
USDA	U.S Department of Agriculture
WHO	World Health Organization

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

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

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

Recent Events

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

On February 1, 2008, we entered into a sublicense agreement with Bio-Rad Laboratories, Inc. and Bio-Rad Pasteur (collectively, "Bio-Rad"). Bio-Rad is the exclusive licensee of Institute Pasteur of Paris, France, under the HIV-2 patents. Pursuant to the terms of the Agreement, Bio-Rad sublicensed to the Company patents related to the use of HIV2. The Company will also pay Bio-Rad a royalty on net sales in the United States and Canada of rapid test immunoassay tests sold under the Company's name (a) for simultaneously detecting "HIV type 1 + HIV type 2" antibodies and/or antigens; (b) being operated with the Company's Point of Care Rapid Test Platform; and (c) allowing visual and automated signal reading and interpretation through a single test unit format. The Company will be manufacturing products under the sublicense agreement immediately, but it does not currently have any sales that are subject to the royalty. The Agreement will continue until the expiration of the last-to-expire of the sublicensed patents, unless otherwise terminated at an earlier date by the Company or Bio-Rad.

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

Revenues

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

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

Gross Margin:

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

Gross Margin from Net Product Sales		
Gross Margin %	**38.75%**	**28.73%**

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

Research and Development:

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

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

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

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

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

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

Research & Development - Dual Path Platform (DPP™)

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

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

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

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

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

We are also pursuing under Chembio brands the development of products on the DPP™ platform that we believe will address market opportunities in point-of-care testing. We anticipate that we will select such products during the first

quarter of 2008. We are attempting to identify products that could generate attractive revenues and margins, address significant market opportunities and that would feature the unique advantages of DPP™, such as its improved sensitivity, sample management and/or multiplexing features. There can be no assurance that these efforts will be successful in developing a Chembio-branded product or products, and that if developed such product or products will be successfully commercialized.

Regulatory Activities

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

In August 2007, we received ISO 13.485 certification. ISO 13.485 is a directive of the International Standards Organization (ISO) that is specifically related to manufacturers of in-vitro diagnostic products. This certification is necessary to obtain CE (Community European) Markings for our products which are required in order to sell in most European countries, as well as many other countries in the world. We have made progress in pursuing CE Markings for all of our rapid HIV tests, which we anticipate receiving during 2008. We have also made progress in pursuing CE Marking for our Chagas rapid test, which we anticipate receiving during 2008.

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

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

Selling, General and Administrative Expense:

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

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

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

Other Income and Expense:

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

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

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

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

	December 31, 2007	December 31, 2006
REVENUES:		
Net sales	**$ 2,160,901**	$ 2,610,413
Research grant income	**215,416**	(1,026)
TOTAL REVENUES	**2,376,317**	2,609,387
Cost of sales	**1,150,742**	1,780,163
GROSS PROFIT		