As filed with the Securities and Exchange Commission on September 30, 2010

Registration No. 333-[__]

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

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ATOSSA GENETICS INC.
(Exact name of registrant as specified in its charter)

Delaware	**3841**	**26-4753208**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

4105 East Madison Street, Suite 320
Seattle, Washington 98112
(206) 325-6086
(Address, including zip code, and telephone number, including area code of registrant's principal executive offices)

Steven C. Quay, M.D., Ph.D.
Chairman and Chief Executive Officer
4105 East Madison Street, Suite 320
Seattle, Washington 98112
(206) 325-6086
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Ryan Murr
Maggie Wong
Goodwin Procter LLP
3 Embarcadero Center, 24th Floor
San Francisco, California 94111
Phone: (415) 733-6000

Kyle Guse
K. Amar Murugan
McDermott Will & Emery LLP
275 Middlefield Road
Menlo Park, California 94025
Phone: (650) 815-7400

Approximate Date of Commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Securities (1)	**Proposed Maximum**	**Registration Fee**

	Aggregate Offering Price (2)	
Units, each consisting of one share of common stock, par value $0.001, two Class A Warrants and one Class B Warrant	$ 17,250,000	$ 1,230
Shares of common stock underlying Units	—	—
Class A Warrants underlying Units	—	—
Class B Warrants underlying Units	—	—
Common Stock underlying Class A Warrants	$ 345,000	$ 25
Total	$ 17,595,000	$ 1,255

(1) This registration statement and the prospectus therein covers the registration of (A) Units with each Unit consisting of (i) one share of the Company's common stock (ii) two Class A Warrants exercisable one year after issuance for one share of the Company's common stock and (iii) one Class B Warrant exercisable for one share of the Company's common stock, and (B) Common Stock underlying the Class A Warrants.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission and these securities may not be sold until that registration statement becomes effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION
DATED SEPTEMBER 30, 2010

3,000,000 Units

Comprised of Common Stock, Class A Warrants and Class B Warrants

This is the initial public offering of our Units. We are offering 3,000,000 Units, with each Unit consisting of: (i) one share of common stock, (ii) two Class A Warrants and (iii) one Class B Warrant.

Each Class A Warrant will be exercisable, for a period of 10 days beginning on the sixth trading day after the separation of the securities underlying the Units as described below, to acquire one share of common stock on a cashless, net exercise basis at a price of $0.05 per share. Each Class B Warrant will be exercisable after one year and for a period of five years after the Class B Warrants are separated from the Units, to acquire one share of common stock at a price equal to 55% of the Unit offering price. We will have the right to redeem the Class B Warrants at $0.25 per share of common stock underlying the Class B Warrants in the event (i) the average of the closing price of our common stock exceeds 200% of the exercise price for 10 consecutive trading days while the warrants are exercisable and (ii) there is then an effective registration statement with a current prospectus on file with the Securities and Exchange Commission, or the SEC.

We expect the initial public offering price will be between $5.00 and $7.00 per Unit. Currently, no public market exists for our securities. We intend to apply for listing of the Units on the NYSE Amex under the symbol "ATOSU." The securities underlying the Units will separate from the Units on the 90th day after the date of this prospectus, unless Dawson James Securities, Inc., the representative of the underwriters, determines that an earlier separation date is acceptable based on its assessment of the relative strengths of the securities markets and small capitalization companies in general, and the trading pattern of, and demand for, our securities in particular. We intend to issue a press release announcing when such separation will occur. Once the securities comprising the Units separate, the Units will automatically cease trading and be cancelled, and the common stock and Class B Warrants underlying the Units are expected to be listed on the NYSE Amex under the symbols "ATOS" and "ATOSW," respectively. The Class A Warrants will not be listed for trading.

	Per Unit	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Company	$	$

Investing in these securities involves a high degree of risk.
See "Risk Factors" contained in this prospectus beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriter an option for a period of 45 days to purchase from us, on the same terms and conditions set forth above, up to an additional 450,000 Units to cover overallotments.

The date of this prospectus is _____, 2010.

DAWSON JAMES SECURITIES, INC.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the Units and underlying securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Unless the context requires otherwise, in this prospectus the terms "we," "us" and "our" as well as the "Company" refer to Atossa Genetics Inc.

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus. It may not contain all the information important to making an investment decision. You should read the following summary together with the more detailed information regarding our company and the securities being sold in this offering, including "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes, included elsewhere in this prospectus.

The Company

We are a development-stage healthcare company focused on the commercialization of cellular and molecular diagnostic risk assessment products and related services for the detection of pre-cancerous conditions that could lead to breast cancer, and on the development of second-generation products and services. Although current mammography procedures can detect cancer already present in the breast, our products have the ability to identify pre-cancerous changes in the breast up to eight years in advance of mammography detection. This information allows for the implementation of preventive measures such as lifestyle changes and pharmaceutical interventions that may prevent breast cancer from developing or treat breast cancer earlier, if it develops. Our primary focus is the commercialization of the Mammary Aspirate Specimen Cytology Test, which we call the MASCT System, our patented and U.S. Food and Drug Administration, or FDA, cleared product and related testing and analysis services for breast conditions, including cancer.

The MASCT System is a device and method for the collection, shipment and clinical laboratory analysis of nipple aspirate fluid, or NAF. The clinical analysis of NAF, which contains cells and molecular diagnostic biomarkers, is useful in detecting breast cancer and cellular changes that may be precursors to breast cancer. The product component of the MASCT System consists of a reusable hand-held pump for the collection of NAF, a patient kit that includes two NAF sample vials, and a shipment kit for the transportation of NAF samples to our specialized cytology and molecular diagnostics laboratory to be established in Seattle, Washington. Through our laboratory, if successfully established, we intend to provide the MASCT System services, which would consist of receiving and accessioning the two NAF samples from each patient, preparing routine and immunohistochemistry, or IHC, slides from the NAF samples, and generating a report of the findings.

We have entered into a lease for laboratory space in Seattle, Washington and expect our laboratory to be operational in the fourth quarter of 2010. We have also engaged a contract manufacturer to produce 20 MASCT System pumps and 10,000 testing kits, which we intend to field test for purposes of confirming the proper operation of the device and its ability to collect adequate NAF samples in the fourth quarter of 2010. We intend to commence commercial manufacturing of the MASCT System components following the completion of this offering and expect our commercial launch of the MASCT System to occur in the first quarter of 2011. We intend to price our NAF sample collection device at approximately $200 per device, our patient kits at approximately $50 per kit, and the cytology and molecular diagnostics testing and analysis at between $106 and $1,202 per patient, depending on the complexity of the analysis performed and without taking into account any patient reimbursement from third-party insurers.

We anticipate that the MASCT System will be used initially in conjunction with standard mammography or cervical Pap smear exams and has the potential to become a critical assessment tool for identifying women at high risk for breast cancer. Our MASCT System test is simple, quick (approximately five minutes), convenient, painless and safe (no radiation).

Our founder and chief executive officer, Steven C. Quay, M.D., Ph.D., invented the MASCT System. Dr. Quay is a board-certified anatomic pathologist with training from Massachusetts General Hospital and Harvard Medical School, and is a former faculty member of the pathology department of Stanford University School of Medicine. We acquired all of the ownership rights for the patents, as well as foreign counterparts covering the manufacture, use and sale of the MASCT System, pending patent applications for improvements, as well as the FDA marketing authorization for the MASCT System from Ensisheim Partners LLC, or Ensisheim, a limited liability company solely owned by Dr. Quay and his wife, Dr. Shu-Chih Chen, who is our chief scientific officer and a member of our board of directors.

We were incorporated in Delaware in April 2009. Our operations to date have consisted primarily of securing laboratory and office space, hiring laboratory personnel, ordering equipment and supplies, engaging a third-party vendor for the manufacture of the MASCT System in limited quantities for field testing, securing patent rights and assignments, filing new patent applications, acquiring FDA market clearances and securing development bids to complete preparation for manufacturing the MASCT System. We have no other operations. Assuming the completion of this offering and successful field testing of the MASCT System, we expect to select one or more large volume contract medical device manufacturers to begin manufacturing the MASCT System for commercialization in the fourth quarter of 2010.

We have experienced operating losses since inception. We have not yet received any revenue and will not be in a position to expect revenue until we are able to produce and sell the MASCT System. We anticipate that we will incur additional losses while establishing the manufacturing of the MASCT Systems and while we build our laboratory and hire and train personnel for our laboratory and our sales force. In addition, Medicare and certain private insurance carriers currently do not reimburse for the NAF collection procedure that will be used with the MASCT System, which could delay or prevent commercial adoption of our products and services as the absence of Medicare or insurance coverage will require patients to fully bear the costs of the sample acquisition. We intend to seek reimbursement for the MASCT System from third-party payors and plan to apply for a Current Procedural Terminology, or CPT, code from the American Medical Association, or AMA, for our device, to enable reimbursement of the collection procedure.

The MASCT System

The MASCT System is intended to supplement, and not replace, mammography and is primarily a risk assessment tool for identifying women at risk for developing breast cancer. Using the MASCT System's NAF collection device, a nurse or physician's assistant can collect a sample of NAF, which may contain cells and molecular diagnostic biomarkers that are useful in detecting cancers and pre-cancerous cellular changes. These changes include atypical ductal hyperplasia, or ADH, a condition in which the cells lining the milk ducts of the breast experience abnormal, premalignant growth, which confers a higher risk of developing breast cancer. Analysis of the collected fluid can enable physicians to determine and/or differentiate among normal versus premalignant versus malignant cells. Pre-cancerous cytology changes in NAF have been shown to occur up to eight years before cancerous changes can be detected by mammography.

In a study of women with normal mammograms who were undergoing breast reduction surgery, which was conducted at the Virginia Mason Medical Center in Seattle, Washington and published in *Plastic and Reconstructive Surgery* in October 2009, the incidence of ADH was found to be 4.4%. With approximately 94 million women age 30 and above in the United States, this suggests that more than four million women in the United States have undiagnosed ADH. ADH can be definitively diagnosed only by NAF analysis or a breast tissue biopsy. In a study of approximately 2.5 million screening mammograms done between 1996 and 2005 and collected from mammography registries participating in the Breast Cancer Surveillance Consortium Associations, the incidence of biopsy-proven ADH was 0.4%, suggesting that mammography fails to detect ADH in over 90% of patients.

A number of medical devices have been designed over the years that apply negative pressure to the nipple to induce the expression of NAF, which is then collected by carefully touching a capillary tube to any apparent drops of NAF. We believe that in general, these devices are successful in obtaining NAF from about 20% to 65% of all patients, and that this sample collection variability has prevented the routine adoption of NAF cytology for breast cancer screening. The MASCT System was designed to overcome this shortcoming by placing a hydrophilic, or water seeking, membrane in contact with the nipple during the cycles of negative pressure to "wick" fluid from the orifice of the ducts by capillary action, thereby increasing the frequency of obtaining NAF in women. The results of a clinical trial sponsored by Nastech Pharmaceutical Company, Inc. of 31 women conducted in 2003 demonstrated that the MASCT System was able to collect measurable NAF in 97% (30) of the women tested. The NAF samples collected in this study ranged from one to 37 microliters, with an average of seven microliters, and all samples collected were deemed to be clinically useful. No adverse events were reported in the study.

The MASCT System also requires no use of radiation. A study that analyzed the results of six peer-reviewed medical research publications reported in December 2009 that low dose radiation from mammograms can increase cancer incidence by 1.5 to 2.5 fold in high-risk women, increasing the complexity of managing high-risk patients. Unlike a biopsy, the MASCT System is a non-invasive and painless procedure. We believe these aspects of the MASCT System may help to generate acceptance of its use for NAF collection and testing.

Commercialization Strategy

We believe that commercialization of the MASCT System will provide us with two main revenue sources: (i) sales-based revenue from the sale of the MASCT System device and patient kits to physicians, breast health clinics, and mammography clinics and (ii) service, or use-based, revenue from the preparation and interpretation of the NAF samples sent to our laboratory for analysis.

We intend to market the MASCT System to physicians, as well as breast health and mammography clinics, for use in conjunction with other health screening examinations, including annual physical examinations and regularly scheduled cervical Pap smears and mammograms. We plan to hire a direct sales force of approximately eight people initially to commercialize our products and services in the Northwestern United States, where there are approximately 290 mammography clinics registered with the FDA. We believe the total addressable market for our products and services in this region is over $100 million. Assuming a successful regional launch, we plan to expand nationally during the first half of 2012 and intend to grow our sales force to approximately 100 people in the United States.

We have leased a facility for our clinical laboratory in Seattle, Washington. We intend to establish and qualify the operations and procedures of this laboratory in the fourth quarter of 2010, including submitting applications for accreditation by the College of American Pathologists and for licensure by state and federal agencies in order to allow the preparation, screening and interpretation of cytology and for the molecular diagnostics testing of NAF patient samples at our facility. We believe that by maintaining our own clinical laboratory, we will be able to generate additional service revenues through cytology and molecular diagnostic testing, in addition to the sale of our MASCT Systems.

Trading Market

Currently, there is no trading market for our securities. We intend to apply for listing of the Units, our common stock and the Class B Warrants on the NYSE Amex under the symbols “ATOSU,” “ATOS” and “ATOSW,” respectively. The Class A Warrants will not be listed for trading.

Risk Factors

Our business is subject to numerous risks as discussed more fully in the section entitled “Risk Factors” beginning on page 7. Principal risks of our business include, but are not limited to, the following:

- we will need significant additional capital to execute our business strategy as currently contemplated;
- we have a history of operating losses and expect to incur losses for the foreseeable future;
- we have not yet engaged any manufacturers for the production of the MASCT System in commercial quantities and may encounter difficulties in finding manufacturers for such production at acceptable quantities or costs;
- we may not be successful in commercializing the MASCT System because physicians and clinicians may be slow to adopt our product;
- our ability to commercialize the MASCT System may be limited because Medicare and certain insurance carriers are not expected to provide reimbursement for use of our product;
- we may encounter difficulties in establishing, obtaining certification under the FDA’s Clinical Laboratory Amendments, or CLIA, regulations for or maintaining our cytology and molecular diagnostics laboratory for the testing and analysis of NAF samples; and
- we may not be able to hire, train or maintain the sales force necessary to market and sell our products and services as planned.

Company Information

We were incorporated in Delaware in April 2009. Our principal executive offices are located at 4105 E Madison Street, Suite 320, Seattle, Washington 98112, and our telephone number is (206) 325-6086. Our website is located at *www.atossagenetics.com*. Information contained on, or that can be accessed through, our website is not a part of this prospectus.

MASCT, Oxy-MASCT and our name and logo are our trademarks. This prospectus also includes additional trademarks, trade names and services marks, which are the property of their respective owners.

Our company name comes from Queen Atossa, daughter of Cyrius the Great and wife of Darius I, the King of the Achaemenid Empire. In about 470 BC, she became the first woman in recorded history to be diagnosed with breast cancer, of which she died. The Company is dedicated to her and the millions of women who have been, and continue to be, affected by breast cancer.

THE OFFERING

Securities offered by us:	3,000,000 units, or the Units. Each Unit consists of: · one share of our common stock; · two Class A Warrants, each exercisable for one share of our common stock on a cashless, net exercise basis for a period of 10 days beginning on the sixth trading day after the separation of the securities underlying the Units at an exercise price of $0.05 per share; and · one Class B Warrant exercisable for one share of common stock commencing on the first anniversary of the date of this prospectus, and remaining exercisable until the fifth anniversary of the separation of the Class B Warrants from the Units at an exercise price equal to 55% of the Unit offering price. We will have the right to redeem the Class B Warrants at $0.25 per share of common stock underlying the Class B Warrants in the event (i) the average of the closing price of our common stock exceeds 200% of the exercise price for 10 consecutive trading days while the warrants are exercisable and (ii) there is then an effective registration statement with a current prospectus on file with the SEC.
Use of proceeds:	We intend to use the net proceeds from this offering to engage one or more contract manufacturers to produce the MASCT System in commercial quantities, to establish a cytology and molecular diagnostics laboratory focused on breast cancer and to launch the MASCT System in the Northwestern United States, including hiring and training sales personnel. We also intend to use a portion of the proceeds from this offering to develop a second generation of the MASCT System, to develop additional laboratory biomarker tests and to launch a national roll-out of the MASCT System.
NYSE Amex Market trading Symbols:	We intend to apply for listing of our common stock, the Units and the Class B Warrants on the NYSE Amex under the symbols, “ATOS,” “ATOSU” and “ATOSW,” respectively. The Class A Warrants will not be listed for trading.
Capitalization:	6,000,063 shares of common stock outstanding before the offering (1). 15,000,063 shares of common stock outstanding after the offering and assuming full exercise of the Class A Warrants (1).

(1) The number of shares of our common stock to be outstanding before the offering is based on 6,000,063 shares (or 13,580,000 shares, prior to the reverse stock split effected in September 2010) of common stock outstanding as of June 30, 2010, and excludes 1,000,000 shares of common stock reserved for future issuance under our 2010 Stock Option and Incentive Plan.

Unless otherwise indicated, all information in this prospectus:

- assumes that the underwriters do not exercise their right to purchase up to 450,000 additional Units to cover overallotments, if any; and
- gives effect to a one-for-2.26332 reverse split of our common stock effected in September 2010.

SUMMARY FINANCIAL DATA

The following summary financial data should be read together with our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The summary financial data in this section is not intended to replace our financial statements and the related notes. Our historical results are not necessarily indicative of the results to be expected for any future period.

We were incorporated on April 30, 2009. The following statement of operations data, including share data, for the year ended December 31, 2009 have been derived from our audited financial statements and related notes included elsewhere in this prospectus. The statement of operations data, including share data, for the six months ended June 30, 2010 and the period from April 30, 2009 (inception) through June 30, 2009, and the balance sheet data as of June 30, 2010 have been derived from our unaudited financial statements included elsewhere in this prospectus. The unaudited interim financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments necessary to fairly state our financial position as of June 30, 2010 and results of operations for the six months ended June 30, 2010 and the period from April 30, 2009 (inception) through June 30, 2009. The operating results for any period are not necessarily indicative of financial results that may be expected for any future period.

	April 30, 2009 (Inception) through December 31, 2009	Six Months Ended June 30, 2010	April 30, 2009 (Inception) through June 30, 2009
		(Unaudited)	
Statement of Operations Data:			
Operating expenses:			
Research and development	$21,250	$—	$—
General and administrative	$101,607	274,747	524
Other operating income:		12,500	—
Interest income	—	453	—
Income taxes	—	(125)	—
Net loss	$(122,857)	$(261,795)	$(524)
Net loss per share—basic and diluted	$(0.03)	$(0.04)	$(0.00)
Weighted-average number of shares used in share calculation—basic and diluted	4,037,847	5,870,334	3,976,459

	As of June 30, 2010	
	Actual	As-adjusted
	(Unaudited)	
Balance Sheet Data:		
Total assets	$41,198	$16,541,198
Total liabilities	98,436	98,436
Stockholders' (deficit) equity:		
Common Stock, $0.001 par value, 50,000,000 shares authorized and 6,000,063 and 15,000,063 shares outstanding, actual and as-adjusted, respectively	6,000	15,000
Additional paid-in capital	321,540	16,812,540
Accumulated deficit	(384,778)	(384,778)
Total stockholder's (deficit) equity	(57,238)	16,442,762
Total liabilities & stockholder's equity	$41,198	$16,541,198

The June 30, 2010 actual and as-adjusted balance sheet data do not reflect an increase in our authorized shares of common stock to 75,000,000 shares effected in September 2010. The June 30, 2010 as-adjusted balance sheet data reflects the sale of 3,000,000 Units in this offering at an assumed initial public offering price of $6.00 per Unit, which is the mid-point of the price range listed on the cover page of this prospectus, after deducting 10% estimated underwriting discounts and commissions and estimated offering expenses payable by us, and assuming the full exercise of the Class A Warrants at an exercise price of $0.05 per share.

RISK FACTORS

A purchase of the Units is an investment in the Company's securities and involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this prospectus, before purchasing our securities. If any of the following risks actually occur, the business, financial condition or results of operations of the Company would likely suffer. In that case, the value of our securities, including the market price of the common stock, Units or Class B Warrants could decline, and you may lose part or all of your investment in our company.

Risks Relating to the Company

The Company has limited operating history and as such an investor cannot assess its profitability or performance based on past results.

The Company is a development stage company founded in April 2009 and as such has limited operating history. The Company's operations to date have consisted primarily of securing laboratory and office space, hiring laboratory personnel, ordering equipment and supplies, engaging a third-party vendor for the manufacture of the MASCT System in quantities sufficient for initial field testing, securing patent rights and assignments, filing new patent applications, acquiring FDA market clearances, and securing development bids to complete preparation for manufacturing the MASCT System. The Company requires significant additional capital to achieve its business objectives, and the inability to obtain such financing on acceptable terms or at all could lead to closure of the business.

The Company's revenue and income potential is uncertain. Any evaluation of the Company's business and prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in the development stage. Some of these risks and uncertainties include the Company's ability to:

- execute its business plan and commercialization strategy;
- engage one or more contract manufacturers to produce the MASCT System in commercial quantities;
- create brand recognition;
- respond effectively to competition;
- manage growth in its operations;
- respond to changes in applicable government regulations and legislation;
- access additional capital when required; and
- attract and retain key personnel.

The Company's independent auditors have issued a report questioning the Company's ability to continue as a going concern.

The report of the Company's independent auditors contained in the Company's financial statements explains that the Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

Failure to raise additional capital as needed could adversely affect the Company and its ability to grow.

The Company will need considerable amounts of capital to develop its business. It may raise funds through public or private equity offerings or debt financings. If the Company cannot raise funds on acceptable terms when needed, it may not be able to grow or maintain the business. Furthermore, such lack of funds may inhibit the Company's ability to respond to competitive pressures or unanticipated capital needs, or may force the Company to reduce operating expenses, which could significantly harm the business and development of operations. Because the Company's independent auditors have expressed doubt as to the Company's ability to continue as a "going concern," as reported in the financial statements of the Company, its ability to raise capital may be severely hampered. Similarly, the Company's ability to borrow any such capital may be more expensive and difficult to obtain until this "going concern" issue is eliminated.

The Company has a history of operating losses and expects to continue to incur losses in the future.

The Company has a limited operating history and has incurred net operating losses of $384,778 since its inception from April 30, 2009 through June 30, 2010. The Company has not yet received any revenues and will not be in a position to generate revenues until it is able to produce and sell the MASCT System. The Company will incur additional losses in connection with engaging one or more contract manufacturers to produce the MASCT System for commercial sale, building a sales force for the product and establishing its laboratory facilities for the testing and analysis of NAF samples, and may never achieve profitability.

Raising funds by issuing equity, or debt securities, could dilute the value of the common stock and impose restrictions on the Company's working capital.

If the Company were to raise additional capital by issuing equity securities, the book value of the then outstanding common stock would be reduced unless the additional equity securities were issued at a price equal to or greater than the then value of the common stock at the time of issuance of the new securities. If the additional equity securities were issued at a per share price less than the per share value of the outstanding shares, then all of the outstanding shares would suffer a dilution in value with the issuance of such additional shares. Further, the issuance of debt securities in order to raise additional funds may impose restrictions on the Company's operations and may impair the Company's working capital as it services any such debt obligations.

Currently Medicare and certain insurance carriers will not reimburse for the NAF collection procedure, which could slow or limit adoption of the MASCT System or prevent the Company from pricing the MASCT System at desired levels.

The HALO System, an NAF collection device similar to the MASCT System, is being sold by Neomatrix, Inc., or Neomatrix, of Irvine, California. Previously, Cytyc, Inc., or Cytyc, of Marlboro, Massachusetts, marketed FirstCyte, a device to collect NAF by ductal lavage. Certain insurance carriers do not currently reimburse for the HALO System or FirstCyte procedures. For example, effective March 1, 2009, United Healthcare determined it would not cover the costs of these procedures because it believes there is insufficient clinical evidence to support efficacy for the evaluation of patients at risk for breast cancer. Similarly, Medicare does not reimburse for the NAF collection procedure. Lack of Medicare or insurance coverage will require patients to bear the full costs of the NAF sample acquisition process used with the MASCT System. As a result, and particularly in light of healthcare reform and cost-containment initiatives being undertaken widely across the United States, physicians and other healthcare professionals may be slow to adopt the MASCT System and may not recommend its use in patients. The Company may be forced to reduce the price of the MASCT System components in response to low demand, or may not be able to sell the product and services components of the MASCT System at acceptable margins, which would severely limit the Company's ability to generate revenues.

The MASCT System and second-generation risk assessment tools, diagnostic tests and other predictive and personalized medicine products that the Company may develop may never achieve significant commercial market acceptance.

The Company may not succeed in achieving commercial market acceptance of any of its products and services. In order to market the MASCT System and to gain market acceptance for its products and services, the Company will need to demonstrate to physicians and other healthcare professionals the benefits of the MASCT System and its practical and economic application for their particular practice. Despite FDA clearance for the MASCT System, many physicians and healthcare professionals are hesitant to introduce new services, or techniques, into their practice for many reasons, including the learning curve associated with the adoption of such new services or techniques into already established procedures and the uncertainty of the applicability or reliability of the results of a new product. In addition, the availability of full or even partial payment for the Company's products and tests, whether by third-party payors (e.g. insurance companies), or the patients themselves, will likely heavily influence physicians' decisions to recommend or use the Company's products.

The Company may not be able to establish its cytology and molecular diagnostics laboratory for the performance of its planned testing and analytical services or may encounter difficulties in operating or maintaining this laboratory facility, which could cause delays and unexpected problems.

The Company has only begun to establish its laboratory and will rely on a single physical facility for the testing of NAF samples in Seattle, Washington. The Company will submit applications to obtain certification for its laboratory under CLIA and Washington state regulations, which will require that the facility become accredited by the College of American Pathologists and meet various standards imposed by both federal and state regulatory authorities. There is no guarantee that the Company's facility will be adequate or that the Company will obtain Washington state or federal CLIA certification for this facility as planned. The Company's management team does not have significant prior experience with establishing this type of laboratory facility. In addition, if established, this facility and certain pieces of laboratory equipment required for the performance of the Company's testing and analytical services would be expected to be difficult and costly to replace and may require significant replacement lead-time. In the event that the Company is unable to establish its intended laboratory facility or, if after completion, such laboratory or equipment is adversely affected by periodic malfunctions or man-made, or natural disasters, the Company may be unable to conduct its business and meet potential customer demands for a significant period of time.

The loss of the services of the Company's chief executive officer could adversely affect its business.

The Company's success is dependent in large part upon its ability to execute its business plan, manufacture the MASCT System, establish its clinical and diagnostic laboratory, and to attract and retain highly skilled professional, sales and marketing personnel. In particular, due to the relatively early stage of the Company's business, its future success is highly dependent on the services of Dr. Quay, its chief executive officer and founder, to provide the necessary experience to execute the Company's business plan. The Company does not currently maintain "key man" insurance with respect to Dr. Quay. The loss of his services for any reason could impede the Company's ability to achieve its objectives, such as the commercialization of the MASCT System and the development of a core of healthcare professionals who use the MASCT System, particularly initially, as the Company seeks to build a reputation among physicians and clinicians.

The Company may experience difficulty in locating, attracting, and retaining experienced and qualified personnel, which could adversely affect its business.

The Company will need to attract, retain, and motivate experienced anatomic pathologists, cytologists, histotechnologists, skilled laboratory and information technology staff, experienced sales representatives, and other personnel, particulary in the Greater Seattle area as it commences its initial launch of the MASCT System. These employees may not be available in this geographic region. In addition, competition for these employees is intense and recruiting and retaining skilled employees is difficult, particularly for a development-stage organization such as the Company. If the Company is not able to attract and retain qualified personnel, revenues and earnings may be adversely affected.

The Company has no prior experience with commercializing any products or services, and it will need to establish a sophisticated sales and marketing organization in order to successfully commercialize the MASCT System.

The Company intends to build a direct sales force to be comprised initially of eight sales professionals to target physicians and mammography clinics in the Northwestern United States and plans eventually to expand its sales team to include sales professionals nationwide. Marketing the MASCT System to physicians and healthcare professionals will require the Company to educate them on the comparative advantages of the MASCT System over other methods currently used for the detection and diagnosis of breast cancer. Experienced sales representatives may be difficult to locate and all sales representatives will need to undergo training. The Company will need to incur significant costs to build its internal sales force. Based on its current operating plan, the Company expects to incur costs of approximately $3.5 million in connection with initial hiring and building its national sales force. The Company cannot be certain that it will be able to recruit sufficiently skilled sales representatives, or that any new sales representatives will ultimately become productive. If the Company is unable to recruit, train and retain qualified and productive sales personnel, its ability to commercialize the MASCT System and any second generation products and to generate revenues will be impaired.

The Company will need to engage third-party suppliers for the production of the MASCT System in commercial quantities, and the inability to find such suppliers, or to maintain relationships with them, could adversely affect the Company's business.

The Company does not currently have any long-term contracts or arrangements with any laboratory equipment and disposable reagent suppliers, or any device or kit manufacturers for the production of the MASCT System and its components in commercial quantities. While the Company has entered into a short-term contract with a third party medical device manufacturer to produce limited quantities of the MASCT System to permit the Company to perform field testing prior to commercial launch, there can be no assurance that commercial quantities of the MASCT System can be manufactured by this supplier. The Company anticipates that it will need to rely on third-party suppliers for the continued manufacture and supply of the MASCT System, NAF collection device and patient collection kits and for the laboratory instruments, equipment, consumable supplies, and other materials necessary to perform the specialized diagnostic tests. If the Company is unable to identify third-party suppliers to produce the MASCT System in quantities sufficient for the Company's planned product launch on acceptable terms, or at all, the Company will not be able to commercialize the MASCT System and generate revenues from its sales as planned. In addition, if at any time after commercialization of the MASCT System, the Company is unable to secure essential equipment or supplies in a timely, reliable and cost-effective manner, it could experience disruptions in its services that could adversely affect anticipated results.

The Company's intended business to sell predictive medical products exposes the Company to possible litigation and product liability claims.

The Company's business exposes it to potential product liability risks from the MASCT System inherent in the testing, marketing and processing of predictive, or personalized medical products. Product liability risks may arise from, but are not limited to:

- the inability of the MASCT System to extract a sufficient NAF sample from the breast, which may lead to an NAF sample size that is inadequate for proper processing at the Company's laboratory and insufficient for screening, which could lead to an inaccurate assessment of the health of the patient;
- failure by healthcare professionals to properly safeguard NAF samples collected using the MASCT System;
- the potential loss, mislabeling or misplacement of NAF sample shipments and test kits;
- the MASCT System is a manually operated device, and, as a result, human error due to fatigue or distraction by the healthcare professional may result in improper collection of NAF or application of the MASCT System;
- inadequate cleaning of the collection pump between patients resulting in mixing of NAF samples from two patients or NAF samples attributed to the wrong patient;
- improper fitting of the MASCT System device to the breast; and
- inadequate cleaning of the breast prior to applying the MASCT System.

A successful product liability claim, or the costs and time commitment involved in defending against a product liability claim, could have a material adverse effect on the Company's business. Any successful product liability claim may prevent the Company from obtaining adequate product liability insurance, in the future, on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost, or otherwise, to protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

The Company's intention to provide a laboratory to analyze and read the NAF tests expose it to possible litigation based on malpractice, data aggregation errors, or misdiagnoses.

The Company will need to establish and operate a CLIA-certified laboratory to analyze and read NAF samples collected using the MASCT System, and intends to report the results to referring healthcare professionals, researchers and potential collaborators worldwide. The Company may be subject to claims by an affected patient, healthcare provider, researcher or collaborator if laboratory personnel make any of the following mistakes, by way of example:

- errors in the analysis of the NAF tests;
- incorrect aggregation, categorization or labeling of NAF data;
- improper, incorrect or inaccurate development of a computer database which categorizes, analyzes, or compares NAF test data; or
- misinterpretation of the results of the test or collected data.

We intend to maintain insurance to protect the Company against such suits, but we cannot be certain that the insurance will be sufficient to cover potential damages, or that it will be cost-effective for us to maintain such a policy. Any outcome against the Company could involve significant monetary judgments and could severely impact the Company's financial resources and would be expected to impair the ability of the Company in the future to obtain malpractice, or other insurance, for its laboratory services.

If the Company's patent positions do not adequately protect its products, others could compete with the Company more directly, which would adversely affect its business.

The Company's commercial success will depend in part on its ability to obtain new patents and enforce its existing patents, as well as its ability to maintain adequate protection of other intellectual property for its technologies and products in the United States and abroad. If the Company does not adequately protect its intellectual property, competitors may be able to use its technologies and erode or negate any competitive advantage it may have, which could adversely affect its business, negatively affect its position in the marketplace and limit its ability to commercialize its products. The laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States, and the Company may encounter significant problems in protecting its proprietary rights in these countries.

The patent positions of diagnostic and medical device companies, including ours, involve complex legal and factual questions, and, therefore, validity and enforceability cannot be predicted with certainty, nor can we be certain that we are not infringing the patents of others. Our patents may be challenged, deemed unenforceable, invalidated or circumvented. The Company will be able to protect its proprietary rights from unauthorized use by third parties only to the extent that its proprietary technologies, existing products and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets, and the Company is willing and has the resources to take enforcement action against such unauthorized use by third parties.

The degree of future protection for the Company's proprietary rights is uncertain, and the Company cannot ensure that:

- it was the first to make the inventions covered by each of its patents and pending patent applications;
- it was the first to file patent applications for these inventions;
- others will not independently develop similar, or alternative technologies, or duplicate any of the Company's technologies;
- any of the Company's pending patent applications will result in issued patents;

- any of the Company's issued patents will be valid or enforceable;
- any patents issued to the Company will provide a basis for commercially viable products, will provide the Company with any competitive advantages or will not be challenged by third parties;
- the Company will develop additional proprietary technologies or products that are patentable; or
- the patents of others will not have an adverse effect on the Company's business.

The Company may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

The Company relies on trade secrets to protect its proprietary know-how and technological advances, particularly where it does not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. The Company relies in part on confidentiality agreements with its employees, consultants, outside scientific collaborators and other advisors to protect its trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover the Company's trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of the Company's proprietary rights. Failure to obtain, or maintain, trade secret protection could enable competitors to use the Company's proprietary information to develop products that compete with the Company's products or cause additional, material adverse effects upon the Company's competitive business position.

The Company's current patent portfolio may not include all patent rights needed for the full development and commercialization of the Company's products. The Company cannot be sure that patent rights it may need in the future will be available for license on commercially reasonable terms, or at all.

Although the Company's patents may prevent others from making, using or selling similar products, they do not ensure that the Company will not infringe the patent rights of third parties. The Company may not be aware of all patents or patent applications that may impact its ability to make, use or sell the MASCT System or its other proposed product or service offerings. Furthermore, the Company may not be aware of published or granted conflicting patent rights. Any conflicts resulting from patent applications and patents of others could significantly reduce the coverage of its patents and limit its ability to obtain meaningful patent protection. If others obtain patents with conflicting claims, the Company may need to obtain licenses to these patents or to develop or obtain alternative technology.

The Company may not be able to obtain any licenses or other rights to patents, technology or know-how from third parties necessary to conduct its business as described in this prospectus and such licenses, if available at all, may not be available on commercially reasonable terms. Any failure to obtain such licenses could delay or prevent the Company from developing or commercializing its proposed products and services, which would harm its business. Litigation or patent interference proceedings need to be brought against third parties, as discussed below, to enforce any of the Company's patents or other proprietary rights, or to determine the scope and validity or enforceability of the proprietary rights of such third parties.

Litigation regarding patents, patent applications and other proprietary rights may be expensive and time consuming. If the Company is involved in such litigation, it could cause delays in bringing product or service candidates to market and harm its ability to operate.

The Company's commercial success will depend in part on its ability to manufacture, use and sell products and services without infringing patents or other proprietary rights of third parties. Third parties may challenge or infringe upon our, or our licensors' existing, or future patents. Although the Company is not currently aware of any pending or actual litigation, or other proceedings, or third-party claims of intellectual property infringement related to the MASCT System or its product candidates, the medical device and diagnostic industry is characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may obtain patents in the future and allege that the use of the Company's technologies infringes these patent claims or that it is employing their proprietary technology without authorization.

Legal proceedings involving the Company's patents or patent applications, or those of others, could result in adverse decisions regarding the patentability of its inventions relating to its products or the enforceability, validity or scope of protection offered by its patents.

Even if the Company is successful in proceedings involving its intellectual property rights or those of others, it may incur substantial costs and divert management time and attention in pursuing these proceedings. If the Company is unable to avoid infringing the patent rights of others, it may be required to seek a license, defend an infringement action, or challenge the validity of the patents in court. Patent litigation is costly and time-consuming and the Company may not have sufficient resources to bring enforcement actions to a successful conclusion. In addition, if the Company does not obtain a license, develop or obtain non-infringing technology, fail to defend an infringement action successfully or have infringed patents declared invalid, the Company may incur substantial monetary damages; encounter significant delays in bringing its product candidates to market; or be precluded from participating in the manufacture, use or sale of its product candidates or methods of treatment requiring licenses.

Risks Related to the Company's Industry

The inadvertent or unintentional failure to comply with the complex government regulations concerning privacy of medical records could impact the Company with fines and adversely affect its reputation.

The federal privacy regulations, among other things, restrict the Company's ability to use or disclose protected health information in the form of patient-identifiable laboratory data, without written patient authorization, for purposes other than payment, treatment, or healthcare operations (as defined under the Health Insurance Portability and Accountability Act, or HIPAA) except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. The privacy regulations provide for significant fines and other penalties for wrongful use or disclosure of protected health information, including potential civil and criminal fines and penalties. Although the HIPAA statute and regulations do not expressly provide for a private right of damages, the Company could incur damages under state laws to private parties for the wrongful use or disclosure of confidential health information or other private personal information.

The Company intends to implement policies and practices that it believes will make it substantially compliant with the privacy regulations. However, the documentation and process requirements of the privacy regulations are complex and subject to interpretation. Failure to comply with the privacy regulations could subject the Company to sanctions or penalties, loss of business, and negative publicity.

The HIPAA privacy regulations establish a "floor" of minimum protection for patients as to their medical information and do not supersede state laws that are more stringent. Therefore, the Company is required to comply with both HIPAA privacy regulations and various state privacy laws. The failure to do so could subject it to regulatory actions, including significant fines or penalties, and to private actions by patients, as well as to adverse publicity and possible loss of business. In addition, federal and state laws and judicial decisions provide individuals with various rights for violation of the privacy of their medical information by healthcare providers such as the Company.

Changes in regulations, policies, or payor mix may adversely affect reimbursement for laboratory services and could have a material adverse impact on the Company's revenues and profitability.

Most of the Company's services will be billed to a party other than the physician who ordered the test. Reimbursement levels for healthcare services are subject to continuous and often unexpected changes in policies. Changes in governmental and third-party reimbursement may result from statutory and regulatory changes, retroactive rate adjustments, administrative rulings, competitive bidding initiatives, and other policy changes. Uncertainty also exists as to the coverage and reimbursement status of new services. Government payors and insurance companies have increased their efforts to control the cost, utilization, and delivery of healthcare services. For example, at least yearly, Congress has considered and enacted changes in the Medicare fee schedule in conjunction with budgetary legislation. Further reductions of reimbursement for Medicare services or changes in policy regarding coverage of tests may be implemented from time to time. The payment amounts under the Medicare fee schedules are often used as a reference for the payment amounts set by other third-party payors. As a result, a reduction in Medicare reimbursement rates could result in a corresponding reduction in the reimbursements the Company will receive from such third-party payors. Changes in test coverage policies of other third-party payors may also occur. Such reimbursement and coverage changes in the past have resulted in reduced prices, added costs and reduced accession volume, and have imposed more complex regulatory and administrative burdens. Further changes in federal, state, and local third-party payor laws, regulations, or policies may have a material adverse impact on the Company's business.

Failure to participate as a provider with payors, or operating as a non-contracting provider, could have a material adverse effect on revenues.

The healthcare industry has experienced a trend of consolidation among healthcare insurers, resulting in fewer but larger insurers with significant bargaining power in negotiating fee arrangements with healthcare providers, including laboratories. Managed care providers often restrict their contracts to a small number of laboratories that may be used for tests ordered by physicians in the managed care provider's network. If the Company does not have a contract with a managed care provider, it may be unable to gain those physicians as clients. In cases in which it will contract with a specified insurance company as a participating provider, it will be considered "in-network," and the reimbursement of third-party payments is governed by contractual relationships. The Company's in-network services will be primarily negotiated on a fee-for-service basis at a discount from the Company's patient fee schedule, which could result in price erosion that would adversely affect revenues. The Company's failure to obtain managed care contracts, or participate in new managed care networks, could adversely affect revenues and profitability. In cases in which the Company does not have a contractual relationship with an insurance company, or is not an approved provider for a government program, it will have no contractual right to collect for services and such payors may refuse to reimburse it for services, which could lead to a decrease in accession volume and a corresponding decrease in revenues. As an out-of-network provider, reductions in reimbursement rates for non-participating providers could also adversely affect the Company. Third-party payors, with whom the Company does not participate as a contracted provider, may also require that it enter into contracts, which may have pricing and other terms that are materially less favorable to the Company than the terms under which it intends to operate. While accession volume may increase as a result of these contracts, revenues per accession may decrease.

Use of the Company's laboratory services as a non-participating provider is also expected to result in greater copayments for the patient unless the Company elects to treat them as if it were a participating provider in accordance with applicable law. Treating such patients as if the Company were a participating provider may adversely impact results of operations because it may be unable to collect patient copayments and deductibles. In some states, applicable law prohibits the Company from treating these patients as if it were a participating provider. As a result, referring physicians may avoid use of the Company's services which could result in a decrease in accession volume and adversely affect revenues.

Changes in FDA policies regarding the "home brew" exception from FDA review for laboratory-developed tests and reagents could adversely affect the Company's business and results of operations.

Laboratory diagnostic tests developed and validated by a laboratory for its own use, also known as laboratory developed tests, which are referred to as LDTs or "home brew" tests, are regulated by the FDA under the federal Food, Drug and Cosmetic Act, or FDCA. To date, the FDA has decided, as a matter of enforcement, not to exercise its authority with respect to most "home brew" tests performed by high complexity laboratories certified under CLIA, which is the type of laboratory that the Company intends to establish. The Company does not believe that the cytology or IHC testing of NAF samples in the MASCT System are LDTs; however, the Company's second generation biomarker tests will be LDTs for which it does not currently intend to apply for FDA premarket notification or approval. In addition, manufacturers and suppliers of analyte specific reagents, or ASRs, which the Company may utilize for use in its LDTs, are required to register with the FDA, conform manufacturing operations to the FDA's Quality System Regulation, or QSR, and comply with certain reporting and other record keeping requirements. The FDA regularly considers the application of additional regulatory controls over the development and use of LDTs by laboratories. It is possible that the FDA will require premarket notification or approval for LDT diagnostic tests that the Company may develop and perform in the future. The FDA held public hearings in the third quarter of 2010 to discuss how it will oversee LDTs. No definitive recommendations or findings have yet come from these hearings, but it is likely that the FDA will impose additional or new regulations affecting LDTs, including requiring premarket notification or approval for these tests. Any premarket notification or approval requirements could restrict or delay the Company's ability to provide specialized diagnostic services and may adversely affect its business. FDA regulation of LDTs, or increased regulation of the various medical devices used in laboratory-developed testing, could increase the regulatory burden and generate additional costs and delays in introducing new tests.

The failure to comply with complex federal and state laws and regulations related to submission of claims for services could result in significant monetary damages and penalties and exclusion from the Medicare and Medicaid programs.

If the Company is successful in obtaining reimbursement from government healthcare program, the Company will be subject to extensive federal and state laws and regulations relating to the submission of claims for payment for services, including those that relate to coverage of services under Medicare, Medicaid, and other governmental healthcare programs, the amounts that may be billed for services, and to whom claims for services may be submitted, such as billing Medicare as the secondary, rather than the primary, payor. The failure to comply with applicable laws and regulations could result in the Company's inability to receive payment for its services or attempts by third-party payors, such as Medicare and Medicaid, to recover payments from the Company that have already been made. Submission of claims in violation of certain statutory or regulatory requirements can result in penalties, including civil money penalties of up to $10,000 for each item or service billed to Medicare in violation of the legal requirement, and exclusion from participation in Medicare and Medicaid. Government authorities may also assert that violations of laws and regulations related to submission of claims violate the federal False Claims Act or other laws related to fraud and abuse, including submission of claims for services that were not medically necessary. The Company will be generally dependent on independent physicians to determine when its services are medically necessary for a particular patient. Nevertheless, the Company could be adversely affected if it was determined that the services it provided were not medically necessary and not reimbursable, particularly if it were asserted that the Company contributed to the physician's referrals to it of unnecessary services. It is also possible that the government could attempt to hold the Company liable under fraud and abuse laws for improper claims submitted by an entity for services that it performed, if it were found to have knowingly participated in the arrangement that resulted in submission of the improper claims.

The Company's business is subject to rapid technological innovation, and the development by third parties of new or improved diagnostic testing technologies or information technology systems could have a material adverse effect on the Company's business.

The anatomic pathology industry is characterized by rapid changes in technology, frequent introductions of new diagnostic tests, and evolving industry standards and client demands for new diagnostic technologies. Advances in technology may result in the development of more point-of-care testing equipment that can be operated by physicians or other healthcare providers in their offices, or by patients themselves, without the services of freestanding laboratories and pathologists, thereby reducing demand for the Company's services. In addition, advances in technology may result in the creation of enhanced diagnostic tools that enable other laboratories, hospitals, physicians, patients, or third parties to provide specialized laboratory services superior to the Company's or that are more patient-friendly, efficient, or cost-effective. The Company's success depends upon its ability to acquire or license on favorable terms or develop new and improved technologies for early diagnosis before its competitors and to obtain appropriate reimbursement for diagnostic tests using these technologies. Introduction of prophylactic treatments or cures for breast cancer could substantially reduce or eliminate demand for its services.

Risks Related to This Offering, the Securities Markets and Investment in the Company's Securities

There has been no prior public market for the Company's securities and the lack of such a market may make resale of the securities difficult.

No prior public market has existed for the Company's securities and the Company cannot assure any investor that a market will develop subsequent to this offering. The Company intends to apply for listing of its common stock, the Units and the Class B Warrants on the NYSE Amex. However, it does not know whether a market for the Company's securities will ever develop or continue. If the Company's securities are not listed on the NYSE Amex, or a public trading market does not otherwise develop, you may have difficulty selling your Units, common stock or Class B Warrants. If the Company is not successful in listing on the NYSE Amex, it may then apply for listing of its securities on the NASDAQ Capital Market, or have its securities quoted on the OTC Bulletin Board, or the Pink OTC Market, Inc., an Internet-based quotation service for over-the-counter securities. The OTC Bulletin Board and Pink OTC Markets generally have lower trading volume and liquidity, which could result in lower trading prices and a decreased ability to sell securities.

The Class A Warrants to be issued in this offering will not be listed on a securities exchange and are exercisable for a period of only 10 days beginning on the sixth trading day after separation of the securities underlying the Units.

Although the Company intends to apply for the listing of its common stock, Units and Class B Warrants on the NYSE Amex, it does not plan to list the Class A Warrants on any securities exchange. There may be little or no secondary market for the Class A Warrants. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the warrants easily. Accordingly, you will need to exercise the Class A Warrants for common stock in order to convert them into securities listed for trading on an exchange. In addition, the Class A Warrants must be exercised within 10 days beginning on the sixth trading day after the date on which the securities underlying the Units separate, and will expire if not exercised during that ten-day period. The Company intends to issue a press release announcing the date on which separate trading of the common stock and Class B Warrants underlying the Units will begin and the date by which the Class A Warrants must be exercised. If you do not exercise your Class A Warrants on or before the expiration date, you will lose all value of the Class A Warrants.

Purchasers of Units will be entitled to exercise the Class A Warrants and the Class B Warrants only if they hold the Units through the dates on which the Class A Warrants and the Class B Warrants become exercisable.

The Company intends to apply for the listing of the Units on the NYSE Amex so that the Units will be tradable upon the completion of this offering. The securities underlying the Units will separate from the Units on the 90th day after the date of this prospectus, unless Dawson James Securities, Inc. determines that an earlier separation date is acceptable based on its assessment of the relative strengths of the securities markets and small capitalization companies in general, and the trading pattern of, and demand for, the Company's securities in particular. Each Class A Warrant will be exercisable for a period of 10 days beginning on the sixth trading day after the separation of the securities underlying the Units, and each Class B Warrant will be exercisable for a period of five years after the separation of the securities underlying the Units. Because the Class A Warrants and the Class B Warrants will not be exercisable until the separation of the Units as described above, purchasers of Units will be required to hold the Units through the respective dates on which the Class A Warrants and the Class B Warrants become exercisable in order to have the ability to exercise these warrants.

Holders of the Company's common stock will incur substantial dilution as a result of the exercise of the Class A Warrants and other issuances of securities by the Company.

The Company anticipates that upon the completion of this offering, it will issue 3,000,000 shares of common stock underlying the Units. An additional 6,000,000 shares of common stock are expected to be issued within 10 days after the sixth trading day following separation of the Units as investors exercise their Class A Warrants, which are exercisable on a cashless, net exercise basis at a price of $0.05 per share. The issuance of additional securities by the Company upon the exercise of these warrants, as well as stock options that the Company has issued or may issue to employees, officers, directors and consultants, would result in substantial dilution to the Company's stockholders and could adversely affect the trading price for the Company's common stock.

The Company expects to receive only nominal proceeds from the exercise of the Class A Warrants and may not receive any proceeds from the exercise of the Class B Warrants to be issued in this offering.

Because the exercise price of the Class A Warrants is $0.05 per share and because these warrants are exercisable on a cashless, net exercise basis, the Company expects to receive no, or nominal proceeds, from any exercises of these warrants. The Class B Warrants have an exercise price equal to 55% of the Unit price in this offering, and will be exercisable commencing on the first anniversary of the date of this prospectus and remaining exercisable until the fifth anniversary of the seperation of the Class B Warrants from the Units. The Company's stock price may trade below the Class B Warrant exercise price, in which case the holders would not exercise the warrants. Even if the Company's stock price trades above the warrant exercise price, the warrant holders may choose not to exercise these warrants for a period of several years, or at all, or they may elect the exercise the Class B Warrants pursuant to the cashless, or net exercise provisions in the warrants, in which case the Company would not receive any cash proceeds from the exercise. In addition, the Company has the right to redeem the Class B Warrants at $0.25 per share of common stock underlying the Class B Warrants in the event (i) the average of the closing price of the Company's common stock exceeds 200% of the exercise price for 10 consecutive trading days while the warrants are exercisable and (ii) there is then an effective registration statement with a current prospectus on file with the SEC. As a result, the Company may not receive any proceeds from the exercise of the Class B Warrants for several years, if at all.

The ownership of the Company's common stock is concentrated among a small number of stockholders, and if its principal stockholders, directors and officers choose to act together, they may be able to control the Company's management and operations, which may prevent the Company from taking actions that may be favorable to you.

The Company's ownership is concentrated among a small number of stockholders, including our founders, directors, officers and entities related to these persons. Upon the completion of this offering, and after giving effect to the expected full exercise of the Class A Warrants, the Company's directors, officers and entities affiliated with them will beneficially own approximately 36.2% of the outstanding voting securities of the Company. Accordingly, these stockholders, acting together, will have the ability to exert substantial influence over all matters requiring approval by the Company's stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of its assets. In addition, they could dictate the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control of the Company or impeding a merger or consolidation, takeover or other business combination that could be favorable to you.

Anti-takeover provisions in the Company's charter documents and Delaware law could delay or prevent a change in control which could limit the market price of the Company's common stock and could prevent or frustrate attempts by the Company's stockholders to replace or remove current management and the current board of directors.

The Company's amended and restated certificate of incorporation and amended and restated bylaws, which are to become effective upon the completion of this offering, contain provisions that could delay or prevent a change in control of the Company or changes in the board of directors of the Company that our stockholders might consider favorable. For more information about these anti-takeover provisions as well as anti-takeover provisions under the Delaware General Corporation Law, please see "Description of Securities—Anti-Takeover Devices." These and other provisions in the Company's corporate documents and Delaware law might discourage, delay or prevent a change in control or changes in the board of directors of the Company. These provisions could also discourage proxy contests and make it more difficult for an investor and other stockholders to elect directors and cause the Company to take other corporate actions. Furthermore, the existence of these provisions, together with Delaware law, might hinder or delay an attempted takeover other than through negotiations with the board of directors.

The Company does not expect to pay dividends in the future, which means that investors may not be able to realize the value of their shares except through sale.

The Company has never and does not anticipate that it will declare or pay a cash dividend. The Company expects to retain earnings, if any, for its business and does not anticipate paying dividends on common stock at any time in the foreseeable future. Because it does not anticipate paying dividends in the future, the only opportunity to realize the value of the common stock will likely be through a sale of those shares.

FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information, certain information, assumptions and discussions that may constitute forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially than those projected, or anticipated. Actual results could differ materially from those projected in the forward-looking statements. Although we believe our assumptions underlying the forward-looking statements are reasonable, we cannot assure you that the forward-looking statements set out in this prospectus will prove to be accurate. We typically identify these forward-looking statements by the use of forward-looking words such as “expect,” “potential,” “continue,” “may,” “will,” “should,” “could,” “would,” “seek,” “intend,” “plan,” “estimate,” “anticipate” or the negative version of those words or other comparable words. Forward looking statements contained in this prospectus include, but are not limited to, statements about:

- our expectations relating to the use of proceeds from this offering;
- the progress, timing of, and amount of expenses associated with our development and commercialization of our products and services;
- our ability to engage third-party suppliers to manufacture the MASCT System and its components at quantities and costs acceptable to us;
- our ability to satisfy ongoing FDA requirements for the MASCT System and to obtain regulatory approvals for our other products and services in development;
- the benefits and clinical accuracy of our products and services, and whether any product or service that we commercialize is safer or more effective than competing products and services;
- our ability to establish and maintain intellectual property rights covering our products and services;
- the willingness of insurance companies and other third-party payors to approve our products and services for coverage and reimbursement;
- our ability to establish and maintain a sales force to market the MASCT System and other products and services that we may develop;
- our ability to sell our products and services at prices acceptable to us;
- our expectations regarding federal, state and foreign regulatory requirements;
- the accuracy of our estimates of the size and characteristics of the markets that our products and services may address;
- our expectations as to future financial performance, expense levels and liquidity sources;
- our ability to attract and retain key personnel; and
- other factors discussed elsewhere in this prospectus.

This prospectus also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other industry data. These and other forward-looking statements made in this prospectus are presented as of the date on which the statements are made. We have included important factors in the cautionary statements included in this prospectus, particularly in the section entitled “Risk Factors,” that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any new information, future events or circumstances that may affect our business. Except as required by law, we do not intend to update any forward-looking statements after the date on which the statement is made, whether as a result of new information, future events or circumstances or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds of the sale of the Units that we are offering will be approximately $16.0 million, or approximately $18.3 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of $6.00 per Unit, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we must pay.

A $1.00 increase (decrease) in the assumed initial public offering price of $6.00 per Unit would increase (decrease) the net proceeds to us from this offering by approximately $2.7 million, assuming the number of Units offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The principal purposes of this offering are to obtain additional working capital to fund anticipated operating expenses, establish a public market for our common stock and facilitate future access to the public markets. We estimate that we will use the net proceeds from this offering primarily for the following purposes:

- up to approximately $750,000 of these net proceeds to establish a cytology and molecular diagnostics laboratory focused exclusively on breast cancer;

- up to approximately $1.5 million of these net proceeds to manufacture MASCT System units needed to launch the MASCT System in Northwestern United States as the initial market for the distribution of the product;

- up to approximately $3.5 million of these net proceeds to hire and train sales and marketing personnel for initial regional marketing and subsequent national distribution; and

- up to approximately $3.2 million of these net proceeds to develop and commence manufacturing and commercialization of second-generation products and services.

We anticipate using the balance of the net proceeds to develop second generation biomarker tests for tumor-related indications and complementary molecular diagnostic assays and for general corporate purposes, such as general and administrative expenses, capital expenditures, working capital, prosecution and maintenance of our intellectual property, as well as the potential investment in technologies or products that complement our business.

The expected use of net proceeds from this offering represents our current intentions based upon our present plans and business conditions; however, there may be circumstances where a reallocation of funds is necessary. The amount and timing of our actual expenditures depend on numerous factors, including the costs of seeking regulatory approval in the United States and abroad, the costs of establishing our planned laboratory, launching and marketing the MASCT System and developing and testing additional applications of the MASCT System.

A portion of the net proceeds may be used to acquire or invest in complementary businesses, technologies, services or products in the event that we identify opportunities for such acquisitions, or investments that we believe are in the best interests of our stockholders. We have no current plans, agreements or commitments with respect to any such acquisition or investment, and we are not currently engaged in any negotiations with respect to any such transaction.

Management will retain broad discretion in the allocation of the net proceeds of this offering. An investor will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

DIVIDEND POLICY

The Company does not anticipate that it will declare dividends in the foreseeable future but rather intends to retain any future earnings for the development of the business. Payment of future cash dividends, if any, will be at the discretion of the board of directors of the Company after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any.

CAPITALIZATION

The following table sets forth the Company's capitalization as of June 30, 2010 on:

- an actual basis; and
- an as-adjusted basis to reflect the receipt of the net proceeds from the sale of Units in this offering at an assumed initial public offering price of $6.00 per Unit, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses, and assuming the full exercise of the Class A Warrants.

A potential investor should read this capitalization table together with the financial statements and the related notes appearing elsewhere in this prospectus, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included in this prospectus.

	As of June 30, 2010	
	Actual	As Adjusted
	(unaudited)	
Cash and cash equivalents	$ 40,098	$ 16,540,098
Common Stock, $0.001 par value, 50,000,000 shares authorized and 6,000,063 and 15,000,063 shares outstanding, actual and as-adjusted, respectively (1)	6,000	15,000
Additional paid-in capital	321,540	16,812,540
Deficit accumulated during development stage	(384,778)	(384,778)
Total stockholders' (deficit) equity	(57,238)	21,833,012

(1) The authorized number of shares of the Company's common stock does not reflect an increase in the authorized shares of the Company's common stock effected in September 2010. The number of shares of the Company's common stock to be outstanding before the offering is based on 6,000,063 shares (or 13,580,000 shares prior to the reverse stock split effected in September 2010) of common stock outstanding as of June 30, 2010, and excludes 1,000,000 shares of common stock reserved for future issuance under our 2010 Stock Option and Incentive Plan.

DILUTION

Our net tangible book value as of June 30, 2010 was $(57,238), or $(0.01) per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of common stock outstanding as of June 30, 2010. After giving effect to the sale by us of 3,000,000 shares of common stock underlying the Units being sold in this offering at an assumed initial public offering price of $6.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, and issuance of 6,000,000 shares of common stock underlying the Class A Warrants at an assumed exercise price of $0.05 per share, and after deducting the 10% estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of June 30, 2010 would have been approximately $16.4 million, or approximately $1.10 per share. This amount represents an immediate increase in net tangible book value of $1.11 per share to our existing stockholders and an immediate dilution in net tangible book value of approximately $4.90 per share to new investors.

The following table illustrates this hypothetical per-share dilution:

Assumed initial public offering price		$ 6.00
Net tangible book value per share as of June 30, 2010 (after giving effect to reverse stock split effected in September 2010)	$ (0.01)	
Increase per share attributable to new investors	1.11	
As-adjusted net tangible book value per share after this offering		1.10
Dilution per share to new investors		$ (4.90)

A $1.00 increase (decrease) in the assumed initial public offering price of $6.00 per Unit would increase (decrease) our adjusted net tangible book value per share after this offering by approximately $0.18 and would increase (decrease) dilution per share to new investors by approximately $0.82, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. In addition, to the extent any outstanding options or warrants are exercised, you will experience further dilution.

The following table summarizes, as of June 30, 2010, the number of shares purchased from us, the total consideration paid or to be paid to us, and the average price per share paid or to be paid to us by existing stockholders and new investors purchasing a total of 9,000,000 shares of our common stock, which represents 3,000,000 shares underlying the Units at an assumed offering price of $6.00 per share, which is the midpoint of the price range listed on the cover page of this prospectus, and 6,000,000 shares issuable upon exercise of the Class A Warrants,at an exercise price of $0.05 per share, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders (after giving effect to reverse stock split)	6,000,063	40%	$ 327,540	2%	$ 0.05
New investors	9,000,000	60%	18,300,000	98%	2.03
Total	15,000,063	100%	$ 18,627,540	100%	$ 1.24

A $1.00 increase (decrease) in the assumed initial public offering price of $6.00 per Unit would increase (decrease) the total consideration paid by new investors by $3.0 million and increase (decrease) the percent of total consideration paid by new investors by 0.25% assuming that the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Assuming the underwriters' over-allotment option is exercised in full, sales by us in this offering will reduce the percentage of shares held by existing stockholders to approximately 39% and will increase the number of shares held by our new investors to approximately 9,450,000, or 61%.

The number of shares of our common stock to be outstanding after this offering is based on 6,000,063 shares (or 13,580,000 shares prior to the reverse stock split effected in September 2010) of our common stock outstanding as of June 30, 2010 and excludes:

- 3,000,000 shares of common stock issuable upon exercise of the Class B Warrants, having an exercise price equal to 55% of the Unit offering price; and

- 1,000,000 shares of common stock reserved for future issuance under our 2010 Stock Option and Incentive Plan, which will become effective upon the completion of this offering.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations should be read in conjunction with the "Summary Financial Information" and the financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements, which are based on assumptions about the future of the Company's business. The actual results will likely differ materially from those contained in the forward-looking statements. Please read "Forward-Looking Statements" included elsewhere in this prospectus for additional information regarding forward-looking statements used in this prospectus.

Overview

We are a development-stage healthcare company focused on the commercialization of cellular and molecular diagnostic risk assessment products and related services for the detection of pre-cancerous conditions that could lead to breast cancer, and on the development of second-generation products and services. Although current mammography procedures can detect cancer already present in the breast, our products have the ability to identify pre-cancerous changes in the breast up to eight years in advance of mammography detection. This information allows for the implementation of preventive measures such as lifestyle changes and pharmaceutical interventions that may prevent breast cancer from developing or treat breast cancer earlier, if it develops. Our primary focus is the commercialization of our patented and FDA-cleared product and related testing and analysis services for breast cancer, the MASCT System.

Current Operations

We were incorporated in Delaware in April 2009 and have experienced operating losses since inception. Our operations to date have consisted primarily of securing laboratory and office space, hiring laboratory personnel, ordering equipment and supplies, engaging a third-party vendor for the manufacture of the MASCT System in limited quantities for field testing, securing patent rights, filing new patent applications, acquiring FDA market clearances and securing development bids to complete preparation for manufacturing the MASCT System in commercial quantities. We have no other operations and have not received any revenues, nor will we be in a position to expect revenues until we are able to produce and sell the MASCT System. We expect to select a large volume contract medical device manufacturer to begin manufacturing the MASCT System for commercialization in the fourth quarter of 2010 at an estimated cost of approximately $1.5 million.

We occupy approximately 330 square feet of office space for our corporate headquarters rent free. In September 2010, we entered into a month-to-month lease for approximately 1,300 square feet of laboratory space at a monthly rent of $3,657. We intend to use this space for the initial development of a laboratory for the testing and analysis of NAF samples collected using the MASCT System and believe that this facility will be sufficient for our planned operations over the next 12 months. We expect that we will need to establish additional office and laboratory space in the Greater Seattle in the second half of 2011.

We believe that commercialization of the MASCT System will provide us with two main revenue sources: (i) sales-based revenue from the sale of the product component of the MASCT System to physicians, breast health clinics, and mammography clinics and (ii) service, or use-based, revenue from the preparation and interpretation of the NAF samples sent to our laboratory for analysis.

We plan to develop a specialty trained sales force to market the MASCT System on a localized territorial basis, thereby developing personal relationships with the healthcare professionals to whom our sales personnel can provide service and support. We intend to develop a specialized laboratory for the processing and analysis of the MASCT System tests submitted by client healthcare professionals. We anticipate that we will need to develop a staff of anatomic pathologists to read the test results. In addition to Dr. Quay, we intend to hire other board-certified pathologists to assist in the interpretation of the NAF samples.

In order to execute on our long-range plans, we will use a portion of the proceeds raised in this offering to produce and market the MASCT System. We are developing a laboratory that will initially have only a minimal staff until such time, if ever, that the sales of the MASCT System and demand for laboratory interpretations can justify additional laboratory staff and sales personnel. If funds from this offering are not sufficient to produce the MASCT System or to develop the laboratory, we anticipate that we will have to cease operations if we cannot obtain funds from other sources.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While our significant accounting policies are more fully described in Note 3 to our financial statements included at the end of this prospectus, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

Revenue Recognition

Although we have yet to generate any revenues, we expect that we will recognize product and service revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the service has been performed, (iii) our price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured. We will recognize revenue for product sales upon transfer of title to the customer. We will recognize revenue for services upon performance of the service. Customer purchase orders and/or contracts will generally be used to determine the existence of an arrangement. Shipping documents and the completion of any customer acceptance requirements, when applicable, will be used to verify product delivery or that services have been rendered. We will assess whether a price is fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We will record reductions to revenue for estimated product returns and pricing adjustments in the same period that the related revenue is recorded. These estimates will based on industry-based historical data, historical sales returns, if any, analysis of credit memo data, and other factors known at the time.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid instruments with original maturities of three months or less.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Research and Development Expenses

Research and development costs are generally expensed as incurred. Our research and development expenses consist of costs incurred for internal and external research and development.

Share Based Payments

In December, 2004, the Financial Accounting Standards Board, or the FASB, issued the Statement of Financial Accounting Standards, or SFAS, No. 123(R), "Share-Based Payment", which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) is now included in the FASB's ASC Topic 718, "Compensation — Stock Compensation." Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees or independent contractors are required to provide services. Share-based compensation arrangements include stock options and warrants, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or SAB 107, which expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS No. 123(R). Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS No. 123.

We have fully adopted the provisions of FASB ASC 718 and related interpretations as provided by SAB 107. As such, compensation cost is measured on the date of grant as the fair value of the share-based payments. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

Results of Operations

Discussion of Fiscal Year Ended December 31, 2009

For the year ended December 31, 2009, we had no revenues and total expenses of $122,857, consisting of $21,250 in expenses for research and development, or R&D, and $101,607 in expenses for general and administrative, or G&A, costs. These expenses included $16,250 in R&D expenses paid to Ensisheim pursuant to an exclusive license agreement for the patents and patent applications covering the MASCT System, and $1,348 in G&A expenses paid to a related party for rent for our office space. Our license agreement with Ensisheim was terminated in June 2010.

We have yet to generate any revenues since our inception on April 30, 2009. The R&D expenses from April 30, 2009 (inception) through December 31, 2009 totaled approximately $21,250 and related to design and development work for the MASCT System.

The G&A expenses from April 30, 2009 (inception) through December 31, 2009 included $88,522 for legal and professional fees related to company incorporation, initial set-up, patent prosecution and maintenance fees and financial accounting and auditing fees.

Comparison of the Six Months Ended June 30, 2010 and the Period from April 30, 2009 (inception) through June 30, 2009

For the six months ended June 30, 2010, we had no revenues and total expenses of $274,747, consisting entirely of G&A costs. This compares to no R&D expenses and G&A expenses of $524 over the period from April 30, 2009 (inception) through June 30, 2009.

As discussed below, we expect that our R&D and G&A expenses will continue to increase in the foreseeable future, and that if we successfully complete this offering and launch the MASCT System and our related laboratory service offerings, we would also begin to incur sales and marketing expenses as we build a regional and ultimately national sales force. We may limit our fixed sales and marketing costs initially by employing temporary workers or those who are compensated on a commission basis. However, we expect our expenditures to increase significantly in future periods.

Research and Development Expenses. We had no R&D expenses for the six months ended June 30, 2010 or for the period from April 30, 2009 through June 30, 2009. We expect that R&D expenses will increase as we finalize the product design for the first-generation MASCT System and develop a second-generation system and related technologies.

General and Administrative Expenses. G&A expenses for the six months ended June 30, 2010 were $274,747, related principally to legal and professional services in connection with our preparation for this offering. G&A expenses for the period from April 30, 2009 through June 30, 2009 were $524, related principally to travel expenses. The increase in expenses was attributed to the longer period in 2010 and an increase in business activity as we prepared for this offering and engaged in pre-commercial activity for the MASCT System. We expect that our G&A expenses will continue to increase if we successfully complete this offering as we add full-time accounting and finance personnel and incur additional costs as a publicly traded company. Additionally, G&A costs will rise as we increase headcount to help with the manufacturing and launch of the MASCT System.

Liquidity and Capital Resources

To date, we have funded our operations primarily through private placements of common stock and loans from officers. As of June 30, 2010, we had received net proceeds of approximately $256,540 from the sale of equity securities and, as of that date, we had approximately $32,098 of cash and cash equivalents. We issued a promissory note for $100,000 in principal to our Chairman and Chief Executive Officer on June 30, 2010, under which the principal amount of the loan was funded to us on July 12, 2010. The report of our independent auditors contained in our financial statements explains that we have not yet established an ongoing source of revenues sufficient to cover operating costs and allow us to continue as a going concern. Our ability to continue as a going concern is dependent on our obtaining adequate capital to fund operating losses until we become profitable. If we are unable to obtain adequate capital, we could be forced to cease operations.

Cash Flows

For the six months ended June 30, 2010, we incurred a net loss of $261,920. Net cash used in operating activities was approximately $154,266. Net cash provided by financing activities was approximately $102,000 and consisted of private placements of our common stock, through which we received net proceeds of $102,000. For the year ended December 31, 2009, we incurred a net loss of $122,857, and net cash used in operating activities was approximately $75,176. During the year ended December 31, 2009, net cash provided by financing activities was approximately $159,540, of which $154,540 was raised through private placements of our common stock.

Funding Requirements

We expect to incur substantial expenses and generate ongoing operating losses for the foreseeable future as we prepare for the manufacturing and launch of the MASCT System and build and operate our planned diagnostics laboratory. To fund our operations for at least the next 12 months under our current business plan, we estimate that we would need between $10 million and $12 million of additional capital. If we are unable to raise this amount of capital, we could be forced to curtail or cease operations. Our future capital uses and requirements depend on numerous forward-looking factors. These factors include the following, among others:

- the amount of capital raised in this offering and whether investors exercise the Class B Warrants for cash, thereby providing additional capital;
- the time and expense needed to complete the design and manufacturing of the MASCT System and the design and build-out of our planned laboratory;
- the expense associated with engaging one or more third-party contractors to manufacture the MASCT System in commercial quantities;
- the expense associated with building a sales force to market the MASCT System; and
- the degree of patient and physician acceptance of the MASCT System and the degree to which third-party payors approve the MASCT System and laboratory analysis for reimbursement.

To date, we have not generated any revenues. We do not expect to generate revenue unless or until we are able to manufacture and launch the MASCT System and build and operate our planned laboratory. We expect our continuing operating losses to result in increases in cash used in operations over at least the next year. We expect the proceeds of this offering, together with our existing resources as of the date of this prospectus, to be sufficient to fund our planned operations for at least the next 12 months. However, we may require additional funds earlier than we currently expect to successfully manufacture and commercialize the MASCT System or build and operate our laboratory. Because of the numerous risks and uncertainties associated with the development and commercialization of our products and services, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated research and development activities.

Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. For example, if we raise additional funds by issuing equity securities or by selling debt securities, if convertible, further dilution to our existing stockholders may result. To the extent our capital resources are insufficient to meet our future capital requirements, we will need to finance our future cash needs through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements.

If adequate funds are not available, we may be required to terminate, significantly modify or delay our development programs, reduce our planned commercialization efforts, or obtain funds through collaborators that may require us to relinquish rights to our technologies or product candidates that we might otherwise seek to develop or commercialize independently. We may elect to raise additional funds even before we need them if the conditions for raising capital are favorable.

Off-Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

Recent Accounting Pronouncements

The Company has adopted all recently issued accounting pronouncements that management believes to be applicable to the Company. The adoption of these accounting pronouncements, including those not yet effective, is not anticipated to have a material effect on the financial position or results of operations of the Company.

BUSINESS

Overview

The Company is a development-stage healthcare company focused on the commercialization of cellular and molecular diagnostic risk assessment products and related services for the detection of pre-cancerous conditions that could lead to breast cancer, and on the development of second-generation products and services. The Company's primary focus is the commercialization of the MASCT System, a patented, FDA-cleared cellular and molecular diagnostic risk assessment product and related testing and analysis services for the detection of breast cancer. The Company owns all proprietary rights for the development, manufacture, use and commercialization of the MASCT System, as well as all related product rights, including the FDA marketing authorization.

The MASCT System is a device and method for the collection, shipment and clinical analysis of NAF. The clinical analysis of NAF, which contains cells and molecular diagnostic biomarkers, is useful in detecting breast cancer and cellular changes that may be precursors to breast cancer. The product component of the MASCT System consists of a reusable hand-held pump for the collection of NAF, a patient kit that includes two NAF sample vials, and a shipment kit for the transportation of NAF samples to a specialized cytology and molecular diagnostics laboratory that the Company intends to establish. Through this laboratory, if successfully established, the Company intends to provide the MASCT System services, which would consist of receiving and accessioning the two NAF samples from each patient, preparing routine and IHC slides from the NAF samples, and generating a report of the findings. The Company plans to establish its laboratory in the fourth quarter of 2010 and commence its commercial launch of the MASCT System in the first quarter of 2011.

Although current mammography procedures can detect cancer already present in the breast, the MASCT System has the ability to identify pre-cancerous changes in the breast up to eight years in advance of mammography detection. This information allows for the implementation of preventive measures such as lifestyle changes and pharmaceutical interventions that may prevent breast cancer from developing or treat breast cancer earlier, if it develops. The Company anticipates that the MASCT System will initially be used in conjunction with standard mammography exams and has the potential to become a critical assessment tool for identifying women at risk for breast cancer. The MASCT System test is simple, quick (approximately five minutes), convenient, painless and safe (no radiation). The Company expects to price its NAF sample collection device at approximately $200 per device, its patient kits at approximately $50 per kit, and the cytology and molecular diagnostics testing and analysis at between $106 and $1,202 per patient, depending on the complexity of the analysis performed and without taking into account any patient reimbursement from third-party payors.

Effective testing and analysis of the NAF samples collected using the MASCT System requires both highly skilled pathologists and other medical personnel with specialized expertise and laboratory facilities with the necessary testing procedures and equipment. The Company intends to establish a so-called "complex laboratory" certified under U.S. federal CLIA regulations, specializing in the processing and analysis of NAF samples. Because NAF samples are among the smallest medical samples handled by clinical laboratories, specialized procedures, protocols and equipment will be required to maximize the diagnostic value of each sample. The Company anticipates that it will use both conventional cytology and advanced molecular diagnostic technologies in its laboratory and engage a staff of professional medical personnel to deliver accurate and comprehensive diagnostic reports. The Company intends to focus on sample-handling efficiency and swift report turnaround times, providing physicians with enhanced opportunities to maximize the quality of patient care.

The MASCT System requires no use of radiation. A study that analyzed the results of six peer-reviewed medical research publications reported in December 2009 that low dose radiation from mammograms can increase cancer incidence by 1.5 to 2.5 fold in high-risk women, increasing the complexity of managing high-risk patients. Unlike a biopsy, the MASCT System is a non-invasive and painless procedure. The Company believes these aspects of the MASCT System may help to generate acceptance of its use for NAF collection and testing.

The Company estimates that there are over 8,600 mammography clinics, as well as dedicated breast health clinics, and obstetrics/gynecology medical practices in the United States that can utilize the MASCT System. The Company intends to build an internal sales force to market the MASCT System to physicians and clinics specializing in women's health. The Company plans to hire a direct sales force of approximately eight people initially to commercialize the MASCT System in the Northwestern United States, where there are approximately 290 mammography clinics registered with the FDA. Following this regional launch, the Company anticipates expanding nationally during the first half of 2012 and intends to grow its sales force to approximately 100 people in the United States.

MASCT System Development and Ownership History

Atossa Healthcare, Inc. was incorporated in 1998 by Dr. Quay to conduct research on breast cancer diagnostic tests, from which the MASCT System was invented. Nastech Pharmaceutical Company, Inc., or Nastech, a company developing nasal drug delivery products, acquired Atossa Healthcare, Inc. in August 2000, and Dr. Quay became chairman, chief executive officer and president of Nastech. In 2003, Nastech conducted clinical trials of the MASCT System for the collection of NAF for cytological testing, and the product received FDA clearance in May 2003.

After receiving FDA clearance, Nastech, which changed its name to MDRNA, Inc., and recently to Marina Biotech, Inc., did not engage in any further development of the MASCT System. In January 2009, Ensisheim acquired from Nastech five issued U.S. patents covering the MASCT System, as well as all related product rights, including the FDA marketing authorization, for cash and the assumption of debt related to unpaid patent expenses, in an amount of approximately $50,000.

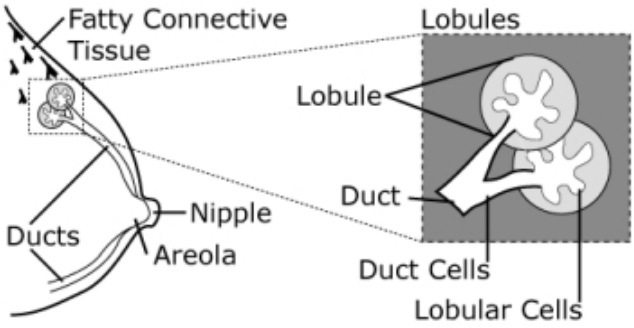
The Company was incorporated in April 2009 as a Delaware corporation and subsequently acquired from Ensisheim all ownership and commercialization rights relating to the MASCT System, including the five issued U.S. patents, together with foreign counterparts, covering the manufacture, use and sale of the MASCT System, pending patent applications for improvements, and the FDA marketing authorization for the MASCT System. The Company has no royalty or other ongoing obligations to Ensisheim relating to the acquired assets.

Design of the MASCT System

The MASCT System is a specially engineered, hand-held, manual breast pump with unique features that include the ability to wick fluids out of the breast in a very short period of time (approximately five minutes), as well as a proprietary collection system that sanitarily captures NAF produced from the breast ducts. The MASCT System is constructed from injection molded plastic components with standard material gaskets and parts. The membrane filter material that makes contact with the nipple is available from multiple domestic suppliers. In July 2010, the Company entered into an agreement with a leading medical device design company to produce 20 MASCT System pumps and 10,000 patient kits for field testing by the Company during the fourth quarter of 2010.

Breast Anatomy and Nipple Aspirate Fluid Collection

The female breast has two main components: glandular tissue (lobes and ducts) and connective/fatty tissue. The breast is divided into 15 to 20 lobes that radiate outward from the nipple and contain clusters of milk-producing glands. The lobes are further divided into smaller compartments called lobules. Each cluster drains into a duct, which connects the lobules and the nipple. In the ducts, cells closest to the outer portions of the lobules are called luminal cells and those deeper in the duct wall are called basal cells. The molecular biology-based sub-typing of pre-cancerous changes and cancers includes a molecular determination of whether the cells are luminal or basal in origin. The breast is held together by fatty connective tissue, which provides support and contains nerves as well as blood and lymphatic vessels.



Since the early studies conducted in the 1950s by Dr. George Papanicolaou, the inventor of the “Pap smear” for cervical cancer, it has been understood that adult non-pregnant, non-lactating women continuously secrete fluid into the milk ducts of the breast. This fluid does not normally escape because the nipple orifices are occluded by smooth muscle contraction, dried secretions, and keratinized epithelium. This fluid contains several cell types, including exfoliated breast epithelial cells, which may be normal, hyperplastic, atypical, or even malignant. The fluid also contains molecular diagnostic biomarkers, including associated proteins, complex lipids, RNA and DNA.

A number of medical devices have been designed over the years that apply negative pressure to the nipple to induce the expression of NAF, which is then collected by carefully touching a capillary tube to any apparent drops of NAF. The Company believes that in general, these devices are successful in obtaining NAF from 20% to 65% of all patients, and that this sample collection variability has prevented the routine adoption of NAF cytology for breast cancer screening.

The MASCT System was designed to overcome this shortcoming by placing a hydrophilic, or water seeking, membrane in contact with the nipple during the cycles of negative pressure to “wick” fluid from the orifice of the ducts by capillary action, thereby increasing the frequency of obtaining NAF in women.

Breast Cancer and Atypical Ductal Hyperplasia

Adenocarcinoma is a general term that refers to a cancer that starts in glandular tissues anywhere in the body. Over 85% of breast cancers start in glandular tissue and therefore are classified as adenocarcinomas. Those that originate in lobules are known as lobular carcinoma and those that begin in ducts are ductal carcinomas. The term “noninvasive breast cancer” refers to adenocarcinomas that are confined to lobules or ducts. Another term used to describe these cancers is *in situ*. Invasive breast cancer refers to a carcinoma that has spread from lobules or ducts to fatty connective tissue or beyond the breast, or is metastatic.

ADH is a condition in which the cells lining the breast duct grow excessively and abnormally. Without other risk factors, it produces a five-fold increased risk of breast cancer. With a family history of breast cancer, a diagnosis of ADH increases the risk of breast cancer 11 to 22-fold, and in one study, one-third of the women with a biopsy of ADH had an occult cancer growing nearby. Another study examined changes in chromosome markers in ADH that are typical for invasive ductal cancer to determine if ADH was monoclonal for these changes, as expected of cancer, or polyclonal, as expected of hyperplasia, or excessive cell proliferation. The results of this study showed that 50% of ADH was monoclonal and had the hallmarks of a cancerous growth.

The analysis of NAF for these chromosomal changes and the changes in expression of related proteins may help determine the malignant or non-malignant properties of ADH in a particular patient and thus provide information allowing a personalized medicine therapeutic approach.

Clinical Development of the MASCT System

Under the direction of Dr. Quay, a clinical trial of the MASCT System was conducted at the State University of New York, Stony Brook, New York in 2003 to test the efficiency of NAF collection in normal women. Thirty-one healthy, non-pregnant, pre-menopausal female volunteer subjects were tested with the MASCT System device for the ability to collect NAF samples for cytological examination, using the NAF cytology classification system of the College of American Pathologists, or CAP, as described in the table below.

Category	Interpretation	Cytology Characteristics
Category 0	Scant ductal epithelial cells and negative for atypical or malignant cells	No or <10 ductal cells. Foam cells, or acellular preparations in a background of proteinaceous debris.
Category I	Normal ductal cytology	Normal ductal epithelial cells, with or without foam cells. Some ductal cells will display apocrine metaplasia
Category II	Usual ductal hyperplasia	Cell distribution predominately in cohesive groups with >10-50 cells. Minimal nuclear changes. Fine chromatin.
Category III	Atypical ductal hyperplasia	Distinct nuclear enlargement, increasing N/C ratio, irregular nuclear borders and nuclear variation. Coarse chromatin. Prominent chromocenters.
Category IV	Suspicious for malignancy	Single cells and groups of cells with nuclear features suspicious for cancer.

Of the 31 subjects, 30, or 97%, had measurable NAF; 24 bilaterally and six unilaterally. NAF samples ranged from one to 37 microliters, with an average of seven microliters, and all samples collected were deemed to be clinically useful. 58 of 60 NAF samples were reported as cytology Category I, and two of 60 were reported as cytology Category II under the CAP's classification system for NAF cytology. No adverse events were reported in the study. Based on the results of the study, a premarket notification for the intended use of the MASCT System for the collection of NAF for cytological testing was submitted to the FDA, indicating that the NAF collected using the MASCT System can be used in the determination and/or differentiation of normal versus premalignant versus malignant cells.

The Role of Immunohistochemistry (IHC) in the Molecular Classification of Breast Cancer and Pre-Cancerous Lesions

Standard pathology and cytology criteria to classify breast cancer and pre-cancerous changes have limitations in predicting tumor behavior, sensitivity to molecular targeted treatments, such as Herceptin (trastuzumab), or the development of drug resistance. A method of predicting tumor behavior and treatment response that involves identifying molecular biomarkers in breast tissue is immunohistochemistry, or IHC. IHC is the process of localizing antigens (e.g. proteins) in cells of a tissue section exploiting the principle of antibodies binding specifically to antigens in cells. Specific molecular markers are characteristic of particular cellular events such as proliferation or cell death. Visualizing an antibody-antigen interaction can be accomplished in a number of ways. In the most common instance, an antibody is conjugated to an enzyme, such as peroxidase, that can catalyze a color-producing reaction. The use of IHC has become standard of care in many clinical settings, for example, the measurement of estrogen or progesterone receptors or HER2 antigens in breast cancer.

In May 2010, an international study from 21 academic institutions involving 42 investigators was published, describing the IHC-based molecular sub-typing of breast cancers from 10,159 women and the correlation with survival over 15 years. Five IHC biomarkers were used to identify six molecular sub-types. The five IHC markers were: the estrogen receptor and the progesterone receptors (two hormone receptors expressed by luminal cells), the human epidermal growth factors receptor-2 (HER2, a protein marker used to select specific adjuvant therapies), and cytokeratin 5/6 (CK5/6) and EGFR (proteins expressed by basal cells). The sub-types had IHC staining patterns, incidences, and treatment options, as shown in the following table:

Molecular Subtype	ER/PR	HER2	EGFR or CK 5/6	Incidence	Treatment Options
Luminal 1, Basal Negative	Either Positive	Negative	Negative	65%	Tamoxifen, Raloxifene
Luminal 1, Basal Positive	Either Positive	Negative	Positive	6%	Tamoxifen, Raloxifene, EGFR inhibitors
Luminal 2, Basal Negative	Either Positive	Positive	Negative	6%	Tamoxifen, Raloxifene, Trastuzumab
Non-Luminal HER2+	Both Negative	Positive	Positive/Negative	6%	Trastuzumab
Core Basal Subgroup	Both Negative	Negative	Positive	9%	EGFR inhibitors
Five Negative Phenotype	Both Negative	Negative	Negative	7%	Non-receptor targeted chemotherapy

The six IHC molecular subtypes had very different five and 15 year survival rates.

These and other findings indicate that the six subtypes of breast cancer defined by the expression of five immunohistochemical markers have distinct biological characteristics that are associated with important differences in short-term and long-term outcomes. The application of these markers in the clinical setting could improve the targeting of adjuvant therapies to those women most likely to benefit.

These same markers have been studied in pre-cancerous changes and have been found useful in distinguishing future biological behavior of otherwise cytologically indistinct samples. For example, CK5/6 expression in usual ductal hyperplasia is associated with an increased risk of later development of cancer. Similarly, estrogen or progesterone receptor, HER2, and EGFR expression in a setting of hyperplasia are found in lesions that more frequently progress to breast cancer. In fact, ADH and usual ductal hyperplasia can be distinguished by IHC staining in cases where the cytology is indistinguishable. Thus, IHC testing on NAF samples with pre-cancerous changes can provide information about the possibility of future progression to breast cancer.

The Company's issued patents cover the detection of estrogen and progesterone receptors, CK 5/6, HER2, and EGFR in NAF. In addition to the MASCT System, the Company intends to offer a panel of IHC markers for testing of all cases in which ductal hyperplasia is seen. It is estimated that at least 20% of all patient samples will be studied by IHC using this panel. Following establishment of the Company's cytology and molecular diagnostics laboratory, the Company plans to validate these five IHC tests for routine clinical use by standard methods and intends to begin offering the tests as a panel in the first quarter of 2011.

The Role of NAF Cytology in the Diagnosis and Treatment of Atypical Ductal Hyperplasia

In a study of women with normal mammograms who were undergoing breast reduction surgery, which was conducted at the Virginia Mason Medical Center in Seattle, Washington and published in *Plastic and Reconstructive Sugery* in October 2009, the incidence of ADH was found to be 4.4%. With approximately 94 million women ages 30 and above in the United States, this suggests that more than four million women in the United States may have ADH that remains undiagnosed by mammography alone. ADH can be definitively diagnosed only by NAF analysis or a breast tissue biopsy. In a study of approximately 2.5, screening mammograms done between 1996 and 2005 and collected from mammography registries participating in the Breast Cancer Suveillance Consortium Associations the incidence of biopsy-proven ADH was 0.4%, suggesting that the use of biopsies in conjunction with screening mammography fails to detect ADH in over 90% of patients.

A comprehensive study of the predictive value of NAF cytology for identifying women at risk for breast cancer was conducted at the University of California at San Francisco over a 19 year period. This study, conducted by Margaret Wrensch and others at the University of California San Francisco, showed in two studies, the first with a sample size of 4,040 women and the second with a sample size of 3,627, that women with abnormal cytology in breast fluid obtained by nipple aspiration had an increased relative risk of breast cancer compared with women from whom fluid was not obtained and with women whose fluid had normal cytology. The nipple aspirate fluids were collected from women in the San Francisco Bay Area during the period from 1972 through 1991, classified the women according to the most severe epithelial cytology observed in fluid specimens, and determined breast cancer incidence through March 1999. The groups were stratified into women with acellular, normal, hyperplasia, or atypical NAF cytology and the incidence of breast cancer determined in the two groups over an average of 21 and nine years follow-up, respectively. The incidence of hyperplasia by NAF cytology was 13.6% and the incidence of ADH was 1.6%. Breast cancer occurred in 3.7% of the women with acellular cytology and in 8.2% and 11.0% of the women with hyperplasia and atypia, respectively.

Drug therapy clinical trials for preventing breast cancer in high risk women are called chemoprevention trials. In a five year chemoprevention study of over 19,700 women with ADH or other factors that placed them at a high risk for invasive breast cancer, the use of either tamoxifen or raloxifene, drugs that block or interfere with the actions of estrogen receptors, reduced the incidence of breast cancer by approximately 50%. Side effects were higher with tamoxifen compared to raloxifene. A separate study of raloxifene vs. placebo showed a 72% reduction in cancer incidence at four years and a 66% reduction at eight years.

In a study of NAF specimens in 33 women at the start and six months after taking either tamoxifen or raloxifene, NAF cytology was unchanged in 85%, worsened in 4%, and improved in 11% while the biomarker PSA, which has been shown to be controlled by sex hormones and inversely associated with breast cancer, increased from abnormally low (37 ng/L) to within the normal range (112 ng/L) during treatment. United States patent 7,128,877, owned by the Company, covers the testing of NAF for the biomarker PSA. Other classes of drugs, including inhibitors of aromatase, an enzyme involved in making estrogen, are being tested or considered for testing in breast cancer chemoprevention trials. The Company believes that increased use of pharmaceutical treatments with chemopreventive agents in high risk women will lead to more NAF cytology studies to both diagnose ADH and follow the effects of treatment.

Finally, changes in diet and/or the use of dietary supplements are considered to have a possible impact on breast cancer occurrence and can potentially change the cytology or the presence of biomarkers in NAF. A study of the effect of dietary intervention in 71 women over a one year period was conducted. The probability of obtaining a cellular NAF cytology increased with dietary fat intake, reaching over seven-fold increase for the highest to lowest quartile of fat intake. Furthermore, cellular NAF decreased with increasing plasma levels of dietary supplement antioxidants, lutein and alpha-carotene. The National Cancer Institute, or NCI, is currently sponsoring seven studies of the use of NAF sample collection and analysis of cytology and molecular biomarkers as study endpoints to monitor the efficacy of chemoprevention clinical trials using pharmaceuticals or dietary supplements. The Company believes the successful outcome of one or more of these studies could increase the use of NAF analysis.

The Role of NAF Cytology and Molecular Diagnostic Biomarkers in Screening for Breast Cancer

The sensitivity of a test for detecting an abnormality is an important measure in screening populations for the presence of occult disease. With mammography as the well accepted standard for the detection of breast cancer, a comparison of the sensitivity of NAF cytology and molecular diagnostic biomarkers for detecting cancer against the sensitivity of mammography suggests that the MASCT System could also serve as a screening tool for breast cancer, in addition to ADH and other pre-cancerous conditions.

The following table shows the relative sensitivity of mammography and NAF cytology and biomarkers for detecting cancers, confirmed by needle biopsy.

Test	Sensitivity
Mammography: 40-64 years of age (1)	**77-78%**
NAF biomarkers: DNA Methylation PCR (2)	82%
Mammography: dense breasts (1)	**68%**
NAF biomarker: SELDI-TOF Proteomics (3)	75-84%
Mammography: under 40 years of age (1)	**54%**
NAF cytology (4)	36%

(1) Reflects sensitivity of mammography for the detection of breast cancer in a review of 183,134 screening mammograms in Albuquerque, New Mexico.
(2) Reflects sensitivity of DNA methylation-specific PCR for the detection of breast cancer in NAF, in a study of specimens of tumor, normal tissue and NAF collected from 22 breast cancer patients with ductal carcinoma*in situ* or stage I cancer.
(3) Reflects sensitivity of proteomic analysis for the detection of breast cancer in NAF, in a study of 20 subjects with breast cancer.
(4) Reflects sensitivity of NAF cytology alone for the detection of residual breast cancer, as reflected in the results of a study of 70 subjects with ductal carcinoma*in situ* or stage I cancer published in the British Journal of Cancer in 2001.

While NAF cytology seems well suited to identifying ADH, the sensitivity of NAF cytology alone for detecting cancer is not ideal. However, when its use is combined with other scientific collection and biomarker methods, which include DNA methylation and SELDI-TOF proteomics, sensitivity levels are comparable to those found in mammography. This suggests that NAF cytology, in combination with other biomarker tests, could serve as an alternative testing and screening methodology which may be less painful and less invasive to women than mammography and biopsy and require no exposure to radiation. The Company intends to explore the development of such biomarker tests beginning in 2011 (See "—Research and Development").

The Market

United States Laboratory Testing Market

Anatomic Pathology. Anatomic pathology involves the diagnosis of cancer and other medical conditions through the examination of tissues (biopsies) and the analysis of cells (cytology) taken from patients. Generally, the anatomic pathology process involves the preparation of slides by trained histo-technologists or cytologists and the review of those slides by anatomic pathologists. Although anatomic pathologists do not treat patients, they establish a definitive diagnosis and may also consult with the referring physician. As a result of the greater degree of complexity and sophistication in anatomic pathology services, 2010 Medicare reimbursement rates for the anatomic pathology services of the type that the Company expects to perform are between $106 and $1,202 per patient. The patient fee schedule for these tests can range from two to more than three times the Medicare reimbursement rate.

Molecular Diagnostics. Molecular diagnostics typically involve unique and complex genetic and molecular tests performed by skilled personnel using sophisticated instruments. As a result, molecular diagnostics are typically offered by a limited number of commercial laboratories. According to PriceWaterhouseCoopers, molecular diagnostics represents one of the fastest growing segments of the $37 billion market for *in vitro* diagnostics, which includes test tube diagnostics such as glucose monitoring for diabetes care but excludes diagnostics for research use. The Medicare reimbursement rate in 2010 for microarray-based molecular diagnostics tests is $1,250 while the reimbursement rate for fluorescent cellular probe-based tests is $479 per probe. This market segment is expected to grow 14% annually between 2007 and 2012, from $2.6 billion to $5.0 billion.

Clinical Pathology. The clinical pathology market generally involves chemical testing and analysis of body fluids using standardized laboratory tests. These tests typically do not require the interpretive expertise of a pathologist and are frequently routine, automated, and performed by large national or regional clinical laboratory companies and hospital laboratories. The Company currently does not intend to offer routine, automated, standardized laboratory tests.

The Company intends to develop and provide a range of molecular diagnostics to aid in the management of breast health, premalignant conditions and cancer.

United States Market for MASCT System Procedures and Laboratory Tests

Testing in Women at High Risk for Breast Cancer

The Company expects that the MASCT System will initially be adopted by physicians and other healthcare professionals for use in women at high risk for breast cancer. The Company believes, based on the assumptions described below, that up to approximately 52.6 million MASCT System studies could be conducted annually in women at high risk for breast cancer in conjunction with mammography under current American Cancer Society, or ACS, recommendations for screening mammography.

Women Undergoing Diagnostic Mammograms. Breast cancer screening by mammography involves performing a screening mammogram and typically reviewing the mammogram while the patient is still present in the clinic. If the screening mammogram shows suspicious changes, a more extensive diagnostic mammogram is performed, usually on the same day. In an audit of 46,857 consecutive mammograms performed in the radiology department at the University of California, San Francisco between 1997 and 2000, 10,007, or 21%, were diagnostic mammograms. The audit also documented an increased incidence of future cancer in those women who underwent a diagnostic mammogram, regardless of the diagnosis at the time. Applying this frequency to the estimated 38.8 million total mammograms performed each year in the United States yields approximately 8.1 million diagnostic mammograms. The Company believes all women undergoing a diagnostic mammogram, who may be at higher risk of developing breast cancer in the future, would be candidates for MASCT System testing.

Breast Cancer Survivors. Women who have had breast cancer are at a higher risk for the recurrence of cancer or for a new malignancy. The ACS has estimated that in 2010, there were more than 2.5 million breast cancer survivors in the United States. The Company believes these women would be candidates for regular MASCT System screening.

Post Menopausal Breast Cancer. There is substantial evidence that post menopausal breast cancer is linked to high levels of estrogen, which induces cancer related biomarkers such as Cathepsin D. In December 2002, the National Institute of Environmental Health Sciences added estrogen to its list of known cancer-causing agents. The Cathepsin D gene, coding for a ubiquitous Iysosomal aspartyl protease, is overexpressed in aggressive human breast cancers, and its transcription is induced by estrogens in hormone-responsive breast cancer cells. Since the serum levels of estrogen drop significantly when the ovaries stop producing it at menopause, the source of the hormone in breast cancer was not understood. In 2006, investigators at Northwestern University demonstrated that NAF contains estrogen and related sex hormones, that there is no correlation between serum and the concentrations of these hormones in NAF, preventing serum tests from identifying these high risk patients, and that the likely source is synthesis within the breast itself. The authors concluded that measuring female sex hormone biomarkers like Cathepsin D in NAF may be useful in identifying post menopausal women at high risk for breast cancer and in monitoring chemoprevention trials, since the mechanism of action in these current therapies is interference with female sex hormone activity. The Company has an issued U.S. patent covering the testing of NAF for the biomarker Cathepsin D. There are approximately 52 million women age 50 and over, and therefore peri- or post-menopausal, in the United States, and the Company believes NAF sex hormone screening could help identify women who have high levels of these hormones in the breast and are thus at high risk.

High Risk Women. The Breast Cancer Risk Assessment Tool (based on the Gail model) has been established by the NCI and the National Surgical Adjuvant Breast and Bowel Project, or NSABP, to identify women with an increased risk of breast cancer. The risk factors included in the test are: personal history of breast abnormalities, age, age at first menarche, age at first live birth, breast cancer among first-degree relatives (sisters, mother, or daughters), breast biopsies, obesity and race. Approximately 10 million women in the United States are in the high risk group. A study of 6,904 women for an average follow up of 14.6 years demonstrated that NAF cytology may be most useful for women at highest absolute risk by the Risk Assessment Tool because modest differences in relative risk are amplified. In this group, the incidence of breast cancer by NAF cytology ranged from 5.3 to 10.3 per 1,000 women (non-yielder to hyperplasia/atypia).

Testing in Normal Risk Women

The Company believes that if it is able to develop, produce and successfully market the MASCT System for use as an additional test in conjunction with all mammography and all cervical cancer screenings (Pap smear), the potential annual U.S. market size would be between 31.6 million and 55 million women. This conclusion is based on the following assumptions and scenarios:

MASCT System in conjunction with cervical cancer screening (Pap smear), all ages. As indicated by the National Cancer Institute in 2009, approximately 55 million Pap smear examinations are performed annually, of which about 3.5 million, or 6%, are abnormal.

MASCT System in conjunction with mammography, all ages. According to the MQSA National Statistics, 38.8 million mammograms have been performed in the United States in 2010.

MASCT System in conjunction with mammography in women age 60-69. According to the U.S. Census Bureau, as of July 1, 2009 there were approximately 14.5 million women age 60-69. The ACS's current screening guidelines recommend annual mammograms for women in this age group. According to the Centers for Disease Control, 63.8% of women in this age group follow the guidelines. If the MASCT System were used in conjunction with mammograms in this age group, there would be approximately 9.3 million studies per year.

MASCT System in conjunction with mammography in women age 50-59. According to the U.S. Census Bureau, as of July 1, 2009 there were approximately 20.9 million women age 50-59. The ACS's current screening guidelines recommend annual mammograms for women in this age group. According to the Centers for Disease Control, 71.8% of women in this age group follow the guidelines. If the MASCT System were used in conjunction with mammograms in this age group, there would be approximately 15 million studies per year.

MASCT System in conjunction with mammography in women age 40-49. According to the U.S. Census Bureau, as of July 1, 2009 there were approximately 22 million women age 40-49. The ACS's current screening guidelines recommend annual mammograms for women in this age group. According to the Centers for Disease Control, 63.5% of women in this age group follow the guidelines. If the MASCT System were used in conjunction with mammograms in this age group, there would be approximately 14 million studies per year.

MASCT System in conjunction with mammography in women age 30-39. On November 19, 2009, the U.S. Preventive Services Task Force Recommendation, or USTFR, announced that, for normal risk women, screening mammography should begin at age 50 and be biennial until age 75. The ACS and other national groups strongly and publicly objected to the lack of recommendations for women under the age of 50 and the biennial interval for women over 50. If the USTRF guidelines were adopted uniformly and the MASCT System were used in conjunction with mammography, the Company believes that 21.5 million studies could be performed annually and 10.1 million could be performed in 30-39 year old women in conjunction with cervical Pap smears, or 31.6 million studies total. It is also possible that adoption of the USTRF mammography screening criteria could increase the utilization of the MASCT System as an alternative to mammography, but the Company has not performed studies to try to estimate this potential.

MASCT System in conjunction with cervical screening in women age 30-39. According to the U.S. Census Bureau, as of July 1, 2009 there were approximately 20 million women age 30-39. The ACS's current screening guidelines recommend annual mammograms for women in this age group. One survey indicated that among women with no prior history of abnormal Pap smears, 55% had Pap smears annually. If this percentage is representative of the frequency with which women ages 30-39 have Pap smears, and the MASCT System were used in conjunction with Pap smear testing in this age group, the Company believes that there could be over 10 million studies per year in women ages 30-39.

International Market for MASCT System Procedures and Laboratory Tests

An article published in Breast Cancer: Basic and Clinical Research indicated that in 2005, a total of 125.5 million mammograms were performed worldwide, with approximately 50 million in North America, 50 million in Western Europe, 15 million in Japan, and 10 million in the rest of the world. In addition, the Company believes that mammography is underutilized in some international markets, including China and Greater Asia and that there is a substantial market for its products and services outside the United States, but has not further quantified the opportunity.

The Company anticipates that if it is able to develop the MASCT System and laboratory procedures in the United States, it will then proceed to develop and market the MASCT System and the laboratory procedures to other markets outside the United States.

Commercialization Strategy

The Company's commercialization strategy is based on creating two main revenue sources: (i) product sales-based revenue from the sale of the MASCT System to physicians, breast health clinics, and mammography clinics and (ii) service-based revenue for the preparation and interpretation of the NAF samples sent to the Company's laboratory. This is intended to result in revenues from both the sale and the use of the MASCT System.

In order to achieve its two-pronged revenue base, the Company will need to manufacture, through medical device suppliers, the MASCT System components, i.e., the collection device and patient NAF specimen kits and will need to establish a direct sales force to call on physicians and breast health and mammography clinics to market and sell the MASCT System. The collection device is reusable when sanitized between patients. The kit contains the patient contact materials, preservative fluid for the collected samples, and bar-coded patient identification labeling. The kit components are designed to work properly with the collection device and the Company is not aware of any commercially available parts or components which could be substituted for the Company's kits.

The Company intends to use funds raised from this offering to select and engage an established medical device contract manufacturer to produce commercial quantities of the MASCT System during the fourth quarter of 2010 and to commence such commercial manufacture and production of the MASCT System during the first quarter of 2011. The Company also plans to begin certification of its laboratory facility for the analysis of NAF samples during the fourth quarter of 2010 and to begin developing an internal sales and marketing force by the first quarter of 2011.

The Company's product- and service-based income plan is intended to provide revenues from multiple, different sources with different timing in the procedure cycle. The Company expects to generate product revenues from the sale of kits in bulk to clinics and physicians for the testing of their patients, and laboratory services revenues after its laboratory analyzes the results of these tests and renders a diagnosis.

Manufacture of MASCT System

In July 2010, the Company entered into an agreement with a contract manufacturer to produce 20 MASCT System pumps and 10,000 patient kits for field testing by the Company to confirm the proper operation of the MASCT System device and its ability to collect adequate NAF samples during the fourth quarter of 2010. The Company has also received a proposal for completion of the Computer Aided Design, or CAD, files that will permit high volume, low cost manufacturing of the MASCT System. The Company plans to select one or more established medical device contract manufacturers and commence manufacturing of its MASCT System devices in commercial quantities during the fourth quarter of 2010 following the completion of field testing.

Specialty Sales Team

To market the MASCT System and its related laboratory diagnostic services, the Company will need to hire sales representatives with technical knowledge in, for example, molecular diagnostics, mammography, obstetrics/gynecology office practices, and women's health clinics. As a result, the Company will expect its sales representatives to develop long-lasting, consultative relationships with the referring physicians they serve. Similarly, the Company anticipates that each of its client service associates will provide dedicated support services to its physician clients. The Company intends to hire representatives who will provide physician clients and their office staff with a knowledgeable and consistent point of contact, thereby strengthening the Company's client relationships.

Once a member of the Company's sales team has developed a relationship with a referring physician, retaining that salesperson will be significant to the Company's ability to capitalize on the client relationship. The Company intends to offer its sales force the opportunity to earn higher compensation, primarily through commissions on revenues earned over the duration of a physician client's account. The Company hopes that this structure will provide the sales force with incentives to not only establish new clients but to maintain and enhance relationships with existing clients.

The specialization and focus of the sales team, including client service associates, on breast health, disease prevention, and the diagnosis and treatment of cancer allows them to develop significant expertise and hopefully will lead to strong consultative relationships with referring physicians and their office staff.

The Company will focus its marketing and sales efforts on encouraging physicians and breast health and mammography clinics to use the MASCT System in conjunction with other health screening examinations, including annual physical examinations and regularly scheduled cervical Pap smears and mammograms. The sales representatives will concentrate on a geographic area based on the number of physician clients and prospects, which will be identified using several national physician databases that provide address information, patient demographic information, and other data. The Company will also use the FDA website containing contact information on the approximately 8,600 Mammography Quality Standards Act (MQSA)-certified clinics to identify potential clients.

Company Laboratory

The Company has entered into a lease for a laboratory facility and intends to establish a clinical laboratory at this facility in the fourth quarter of 2010 for the cytology and molecular diagnostics testing and reading of results of collected NAF samples. The Company believes that by maintaining its own clinical laboratory, it will be able to generate substantial additional service revenues through cytology and molecular diagnostic testing, in addition to the sale of the MASCT System pumps and patient kits. The Company has begun limited operations of the laboratory and anticipates that it will be licensed under the Washington state Medical Tests Site (MTS) and federal CLIA certification programs, as well as required state laboratory permits and licenses.

The Company intends to establish a comprehensive quality assurance program for its laboratory, designed to drive accurate and timely test results and to ensure the consistent high quality of its testing services. In addition to the compulsory proficiency programs and external inspections required by CMS and other regulatory agencies, the Company intends to develop a variety of internal systems and procedures to emphasize, monitor, and continuously improve the quality of its operations.

The Company intends to participate in externally-administered quality surveillance programs, and seek accreditation of its laboratory by the College of Anatomic Pathology, or CAP. The CAP accreditation program involves both unannounced on-site inspections of laboratories and participation in CAP's ongoing proficiency testing program. CAP is an independent, non-governmental organization of board-certified pathologists that accredits laboratories nationwide on a voluntary basis and that has been accredited by CMS to inspect laboratories to determine adherence to the CLIA standards. A laboratory's receipt of accreditation by CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source, one of Medicare's primary requirements for reimbursement eligibility.

MASCT System NAF Sample Collection and Testing Process

By focusing on NAF samples and the cytology and molecular diagnostic technologies utilizing NAF, the entire process from specimen collection to delivery of the comprehensive patient diagnoses using the MASCT System will be tailored to the specific needs of the Company's referring physicians. When a nurse or physician's assistant uses the MASCT System to take a NAF specimen from a patient for diagnostic testing, he or she will complete a requisition form (either by hand or electronically, via electronic medical records, or EMR, technology or via an EMR web interface), attach a bar-coded label to each NAF specimen from the requisition, and package the specimen for shipment to the Company.

The Company will supply physicians with pre-addressed packaging for added convenience. The Company intends to schedule daily specimen collections from its referring physicians, which creates reliability and convenience and relieves referring physicians of the administrative burden and cost of handling logistical details. Once the specimen arrives in the Company's laboratory, the Company will scan the bar coded label on the requisition and enter all pertinent information about the specimen, including patient billing information, into a work-flow software system. A cytotechnologist will then prepare the specimen for interpretation. It is preferable to prepare NAF slides with liquid-based cytology technique, using cellular concentration and monolayer slide method. This approach aids interpretation, because it optimizes cellularity. The prepared specimen will be delivered to one of the Company's pathologists for analysis. After diagnosis, the pathologist will use a software system to prepare a comprehensive report, which might include any relevant images from the NAF. The diagnostic report will then be delivered to the physician via secure Internet software, remote printer, fax or mail. Should the physician have questions, the Company's pathologists will be available for consultations.

The practice of anatomic pathology requires a pathologist to make a specific diagnosis, which referring physicians rely on to determine appropriate treatment plans and monitor the effectiveness of treatment. In addition to Dr. Quay, the Company intends to hire other board-certified pathologists and cytotechnologists to assist in the interpretation of the NAF samples.

International Commercialization Strategy

Because the Company holds foreign patents for the MASCT System and the laboratory testing in Europe, Japan, Canada and Australia, it believes that it can find local partners for marketing the MASCT System and for performing the clinical laboratory testing in those countries. It also believes that it may be able to license the MASCT System and laboratory technology to local physicians, healthcare professionals and sales representatives in those countries and will be able to enter into licensing agreements for sales- and service-based royalties. The Company has pending patent applications in emerging markets such as China and India and believes these will also represent a growth opportunity.

Growth Strategy

The Company intends to launch the MASCT System in the first quarter of 2011 near its headquarters in Seattle and initially to focus its sales and marketing efforts in Washington, Oregon, and Idaho. This will allow the Company to test different market approaches and to better understand the marketing and sales process before committing the significant financial and human resources to a national launch. These three states have approximately 290 mammography clinics registered with the FDA that perform approximately 1.2 million mammograms per year. The Company believes that this would represent a total addressable market of over $100 million annually.

The Company plans to market the MASCT System nationally after its regional marketing and selling effort, if successful, and after it has established the operation of its clinical and diagnostic laboratory. This will provide it with experience and knowledge of the issues and problems that may arise as it markets the MASCT System and the facilities to provide the testing and reading of the samples. Assuming a successful regional launch, the Company intends to commence its national launch of the MASCT System during the first quarter of 2012.

Research and Development

Second Generation Oxy-MASCT Product Development

Dr. Quay also discovered that administration of a synthetic version of a natural hormone, oxytocin, increases the production of NAF. The Company anticipates that it will develop a second generation product, Oxy-MASCTÔ, based on this research. The Oxy-MASCT technology is covered by three U.S. and nine foreign patents owned by the Company. If the Company is successful in developing and obtaining marketing approval for a product based on the Oxy-MASCT technology, it may market the Oxy-MASCT product to the core of healthcare professionals who use the MASCT System. The Company plans to initiate clinical trials of the Oxy-MASCT System for the collection of NAF during the fourth quarter of 2011, and, if the results of these trials are favorable, to file with the FDA for market clearance of the Oxy-MASCT System as a Class III medical device in 2013.

Second Generation Biomarker Test Development

The Company intends to engage in research activities relating to the study and analysis of NAF samples to develop molecular diagnostic biomarkers for breast health and disease. The Company believes that some of these tests may be developed to serve the growing worldwide personalized medicine market, which is estimated to reach $50 billion in 2012.

The Company's patents and patent applications provide the basis for its research efforts. Specifically, its NAF biomarker patents are directed to the general classes of biomarkers, that is, proteins, peptides, glycoproteins, lipids, glycolipids, DNA polynucleotides, or RNA polynucleotides. The patents are also directed to the following specific biomarkers in NAF:

Alpha-Lactalbumin	EMS1	PAl-1
Actin	Epithelial Membrane Antigen	PAl-2
bcl-2	Gal-GalNAC	PGE2
Beta-glucuronidase	GCDFP-15	Prolactin
blood group antigens including ABH and MN	Heat Shock Proteins	Proliferating Cell Nuclear Antigen
BRCA1	HIVIFG	pS2
BRCA2	IL-10	PSA
CA 19-9	Insulin Growth Factor Receptors	Ras
CA-125	Integrins	Rb
CA15-3	IR-14	S-100 protein
Cathepsin D	KA 1	Tissue Plasminogen Activator
CCND1	KA 14	Tn Antigen
CD31	Ki67 Growth Factor	Transforming Growth Factor alpha
CD44 splice variants	Laminin Receptor	uPA
CEA	Laminins	uPA Receptor

Cyclin D1	LASA	uPA related antigens and complexes
c-myb	Le(y)-Related Carbohydrate Antigen	Vasopressin
c-myc	MCA	Vimentin
Collagenase Type IV	Neuron-Specific Enolase	p53
Cyclin B1	nm23	blood group antigens including Lewis

The Company believes that each of the stages of breast cancer, from normal growth, to hyperplasia, to ADH, to carcinoma in situ, and finally to invasive cancer is associated with specific biomarker patterns. As a result, the Company intends to develop second generation biomarker tests involving DNA methylation patterns, mass spectrometry proteomics, and other microarray-based biomarker panels using the following multi-phased clinical development platform, which it intends to fund through additional equity and/or debt financings, as well as revenue-based earnings from sales of the MASCT System:

Clinical Research Phase. In this phase, the Company would establish a product definition and research plan. The Company would initiate clinical research with literature reviews of related biomarker expression patterns from NAF studies, core and fine needle biopsy material, and cancer excisions, which usually contain normal, hyperplastic, and carcinoma-in-situ changes in adjacent anatomical locations. The Company would secure access to archival tumor or pre-cancerous biopsy samples for feasibility studies as well as archival tumor or pre-cancerous biopsy samples correlated with clinical data for biomarker identification studies. The goal of these studies would be to identify patterns of DNA sequences, DNA methylation changes, RNA microarrays, or protein expression changes that occur in pre-cancerous hyperplasia compared to normal tissue and that correlate with the later development of cancer.

Development Phase. The Company would conduct additional clinical studies to refine the biomarker set in the specific patient population of interest. The Company would select the final biomarker panel through statistical modeling of the biomarker correlation data to develop the best quantitative correlation to the target clinical outcome. With a biomarker panel and quantitative methodology established, the Company would then finalize all of the remaining assay parameters. For example, the Company may test and verify protocols for DNA, RNA, or protein extraction and amplification from archival tissue as well as NAF samples, as appropriate, automated chemistry and reagent quality control and handling to establish a reproducible, scalable process. Once the biomarker panel, assay chemistry, automation and analysis specifications are finalized, tested and verified, the Company would begin clinical validation.

Validation Phase. In this phase, the Company would conduct one or more validation studies with prospectively designed endpoints to test its candidate biomarker panel and the corresponding quantitative expression score. These studies would be conducted with a different set of archival patient specimens to verify that the test correlates with the predicted clinical outcome in an independent patient population. Because the Company would control the quality and reproducibility of its assays using formalin-fixed, paraffin embedded tissues, the Company would be able to conduct large validation studies (approximately 700 patients) with archived samples with years of clinical outcomes. This allows validation studies to be performed more rapidly than would be the case with techniques that require fresh tissue, which must be newly collected and need many years of follow up before study results can be obtained.

Commercialization and Product Expansion Phase. Once a test is commercialized, the Company may perform additional studies designed to support the test's clinical utility and potentially to broaden its use in additional patient populations or for additional indications. Such studies may include prospective studies to verify that the Company's test is changing physician behavior as well as testing a commercial product in new populations. Multiple clinical studies are also useful for driving adoption and reimbursement by physicians and payors.

Billing and Reimbursement

Billing for the MASCT System Medical Device and Patient Kits and the NAF Collection Procedure

Currently Medicare and certain insurance carriers do not cover the cost of collecting the NAF sample. The Company intends to work with physicians and other interest groups to obtain coverage for the procedures but this process can be lengthy, costly, and might not be successful. Failure to receive reimbursement could limit the adoption and utilization of the MASCT System. Because the process can be done by a nurse or physician's assistant, takes less than five minutes, and the MASCT System supplies will contain everything to obtain, label, and ship the NAF samples, the charge for collecting NAF samples should be below the average cost of a mammogram.

Billing for Diagnostic Services

Billing for diagnostic services is generally complex. As a result, the Company intends to rely on a third-party billing company to perform most of its billing and collection services. Laboratories must bill various payors, such as private insurance companies, managed care companies, governmental payors such as Medicare and Medicaid, physicians, hospitals, and employer groups, each of whom may have different billing requirements. The Company expects to be obligated to bill in the specific manner prescribed by the various payors. Additionally, the audit requirements that must be met to ensure compliance with applicable laws and regulations, as well as internal compliance policies and procedures, add further complexity to the billing process. Other factors that complicate billing include:

- additional billing procedures required by government payor programs;
- variability in coverage and information requirements among various payors;
- missing, incomplete or inaccurate billing information provided by referring physicians;
- billings to payors with whom the Company does not have contracts;
- disputes with payors as to who is responsible for payment;
- disputes with payors as to the appropriate level of reimbursement;
- training and education of employees and clients;
- compliance and legal costs; and
- cost related to, among other factors, medical necessity denials and the absence of advance beneficiaries' notices.

In general, the Company expects to perform the requested tests and report test results even if the billing information is incorrect or missing. The Company will subsequently attempt to obtain any missing information and correct incomplete or erroneous billing information received from the healthcare provider. Missing or incorrect information on requisitions adds complexity to and slows the billing process, creates backlogs of unbilled requisitions, and generally increases the aging of accounts receivable. When all issues relating to the missing or incorrect information are not resolved in a timely manner, the related receivables will be written off to the allowance for doubtful accounts.

Reimbursement

Depending on the billing arrangement and applicable law, the party that reimburses the Company for its services will be (i) a third party who provides coverage to the patient, such as an insurance company, managed care organization, or a governmental payor program; (ii) the physician or other authorized party (such as another laboratory) who ordered the test or otherwise referred the test to us; or (iii) the patient. A large percentage of revenues are likely to be derived from Medicare, so Medicare coverage and reimbursement rules will be significant to the Company's operations.

Reimbursement for services under the Medicare program is based principally on two sets of fee schedules. Generally, anatomic pathology services, including most of the services the Company provides, are paid based on the Medicare physician fee schedule. The physician fee schedule is designed to set compensation rates for those medical services provided to Medicare beneficiaries that require a degree of physician supervision. Clinical laboratory tests that are not physician pathology services, such as most blood and urine tests, are paid by Medicare based on the clinical laboratory fee schedule. Outpatient diagnostic laboratory tests are typically paid according to the laboratory fee schedule.

For the anatomic pathology services that the Company will provide, it will be reimbursed under the Medicare physician fee schedule, and beneficiaries are responsible for applicable coinsurance and deductible amounts. The physician fee schedule is based on assigned relative value units for each procedure or service, and an annually determined conversion factor is applied to the relative value units to calculate the reimbursement. The formula used to calculate the fee schedule conversion factor has resulted in significant decreases in payment levels in recent years, and for 2008, CMS generally provided for a 10.1% decrease in physician fee schedule payments.

Future decreases in the Medicare physician fee schedule are expected unless Congress acts to change the fee schedule methodology or mandates freezes or increases each year. Because the vast majority of the Company's laboratory services will be reimbursed based on the physician fee schedule, changes to the physician fee schedule could result in a greater impact on the Company's revenues than changes to the Medicare laboratory fee schedule.

The Company expects to bill the Medicare program directly. Generally, it will be permitted to directly bill the Medicare beneficiary for clinical laboratory tests only when the service is considered not medically necessary and the patient has signed an Advanced Beneficiary Notice, or ABN, reflecting acknowledgment that Medicare is likely to deny payment for the service. In most situations, the Company is required to rely on physicians to obtain an ABN from the patient. When the Company is not provided an ABN, it is generally unable to recover payment for a service for which Medicare has denied payment for lack of medical necessity.

In billing Medicare, the Company is required to accept the lowest of: its actual charge, the fee schedule amount for the state or local geographical area, or a national limitation amount, as payment in full for covered tests performed on behalf of Medicare beneficiaries. Payment under the laboratory fee schedule has been limited by Congressional action such as freezes on the otherwise applicable annual Consumer Price Index, or CPI, update to the fee schedule amount. The CPI update of the laboratory fee schedule for 2004 through 2008 was frozen by the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

The Medicare statute permits CMS to adjust statutorily prescribed fees for some medical services, including clinical laboratory services, if the fees are "grossly excessive." Medicare regulations provide that if CMS or a carrier determines that an overall payment adjustment of less than 15% is needed to produce a realistic and equitable payment amount, then the payment amount is not considered "grossly excessive or deficient." However, if a determination is made that a payment adjustment of 15% or more is justified, CMS could provide an adjustment of 15% or less, but not more than 15%, in any given year. The Company cannot provide any assurance that fees payable by Medicare for clinical laboratory services could not be reduced as a result of the application of this rule or that the government might not assert claims for recoupment of previously paid amounts by retroactively applying these principles.

The payment amounts under the Medicare fee schedules are important not only for reimbursement under Medicare, but also because the schedule is often used as a reference for the payment amounts set by other third-party payors. For example, state Medicaid programs are prohibited from paying more than the Medicare fee schedule limit for laboratory services furnished to Medicaid recipients, and insurance companies and managed care organizations typically reimburse at a percentage of the Medicare fee schedule.

The Company's reimbursement rates will also vary depending on whether it is considered an "in-network," or participating, provider. If it enters into a contract with an insurance company, the Company's reimbursement will be governed by its contractual relationship, and it will typically be reimbursed on a fee-for-service basis at a discount from the patient fee schedule. If the Company does not have a contract with an insurance company, it will be classified as "out-of-network," or as a non-participating provider. In such instances, it would have no contractual right to reimbursement for services. If it were to receive reimbursement, it would generally be at a rate higher than reimbursement rates for participating providers.

Reimbursement Strategy

Significance of CPT Codes

Reimbursement for medical procedures and laboratory services is based on obtaining a Current Procedural Terminology, or CPT, code from the AMA. CPT is a listing of descriptive terms and identifying codes for reporting medical services and procedures. The purpose of CPT is to provide a uniform and accurate description of medical, surgical and diagnostic services, thereby serving as a means for reliable nationwide communication among physicians and other healthcare providers, patients and third parties.

CPT descriptive terms and identifying codes currently serve a wide variety of important functions. This system of terminology is the most widely accepted medical nomenclature used to report medical procedures and services under public and private health insurance programs. CPT is also used for administrative management purposes such as claims processing and developing guidelines for medical care review.

Category I CPT Codes

Category I CPT codes describe a procedure or service identified with a five-digit CPT code and descriptor nomenclature. The inclusion of a descriptor and its associated specific five-digit identifying code number in this category of CPT codes is generally based upon the procedure being consistent with contemporary medical practice and being performed by many physicians in clinical practice in multiple locations.

In developing new and revised regular CPT codes the Advisory Committees and the Editorial Panel require:

- that the service/procedure has received approval from the FDA for the specific use of devices or drugs;
- that the suggested procedure/service is a distinct service performed by many physicians/practitioners across the United States;
- that the clinical efficacy of the service/procedure is well established and documented in U.S. peer review literature;
- that the suggested service/procedure is neither a fragmentation of an existing procedure/service nor currently reportable by one or more existing codes; and
- that the suggested service/procedure is not requested as a means to report extraordinary circumstances related to the performance of a procedure/service already having a specific CPT code.

Category III CPT Codes – Emerging Technology

Category III CPT codes are a temporary set of tracking codes for new and emerging technologies. These codes are intended to facilitate data collection on and assessment of new services and procedures. The Category III codes are intended for data collection purposes in the FDA approval process or to substantiate widespread usage. As such, the Category III codes may not conform to the usual CPT code requirements for Category I. The Panel has established the following criteria for evaluating Category III code requests, any one of which is sufficient for consideration by the Editorial Panel:

- a protocol for a study of procedures being performed;
- support from the specialties who would use the procedure;
- availability of U.S. peer-reviewed literature; and
- descriptions of current United States trials outlining the efficacy of the procedure.

In general, these codes will be assigned a numeric-alpha identifier (eg, 1234T). These codes will be located in a separate section of CPT, following the "Category II" section. Introductory language in this code section explains the purpose of the Category III codes.

Since Category III CPT codes are intended to be used for data collection purposes to substantiate widespread usage or in the FDA approval process, they are not intended for services/procedures that are not accepted by the Editorial Panel because the proposal was incomplete, more information is needed, or the Advisory Committee did not support the proposal.

Category III CPT codes are not referred to the AMA / Specialty RVS Update Committee, or RUC, for valuation because no relative value units, or RVUs, will be assigned. Payment for these services/procedures is based on the policies of payors and local Medicare carriers.

CPT Code for MASCT System NAF Collection Procedure

The NAF collection procedure of the MASCT System does not currently have a procedure-specific Category I CPT code, which is important for reimbursement by Medicare for eligible patients, and which is part of the basis by which insurance companies make reimbursement decisions. A non-specific Category I CPT code, 19499 (unlisted procedure, breast), can be used initially by physicians and insurance carriers will often pay for such procedures with proper documentation. Medicare does not currently reimburse for CPT 19499 procedures.

Beginning in the first quarter of 2011, the Company expects to begin the process of obtaining a Category III CPT code with which to collect clinical data to support a Category I CPT code application for the use of NAF collection as an adjunct to mammography. It is expected it may take 12 months to obtain the Category III CPT code and up to two years to collect data to make an application to the AMA for a Category I CPT code. The Company expects physicians will be able to use either the non-specific Category I CPT code 19499 with documentation or the MASCT System specific Category III code to obtain reimbursement.

CPT Code for Cytology and IHC Biomarker Testing

Category I laboratory procedure codes for cytology, IHC biomarker tests, microarray-based analysis of molecular probes, and in situ hybridization of DNA and RNA probes currently exist and it is expected that reimbursement for these codes by Medicare will be at the established rates shown in the following table:

2010 CPT Code	Description	2010 Medicare National Reimbursement Rate (Per Patient)
88161	Cytopathology, smears; preparation, screening and interpretation	$106.20
88162	Cytopathology, smears; extended study involving over 5 slides and/or multiple stains	$151.18
88360	Morphometric analysis, tumor immunohistochemistry (eg, Her-2/neu, estrogen receptor/progesterone receptor), quantitative or semiquantitative, each antibody; manual	$240.42
88360 (5)	Morphometric analysis, tumor immunohistochemistry (eg, Her-2/neu, estrogen receptor/progesterone receptor), quantitative or semiquantitative, five antibody panel; manual	$1,202.10
88342	Immunohistochemistry (including tissue immunoperoxidase), each antibody	$200.58
88342 (5)	Immunohistochemistry (including tissue immunoperoxidase), five antibody panel	$1,002.50
88385	Array-based evaluation of multiple molecular probes; 51 through 250 probes	$1,250.00
88367	Morphometric analysis, in situ hybridization (quantitative or semi-quantitative) each probe; using computer-assisted technology	$479.34

Laboratories typically set patient fee schedules at two to four times the Medicare reimbursement rate for the same procedure.

Intellectual Property

The Company owns five issued U.S. patents and nine corresponding issued patents in Australia, Canada, Europe, Hong Kong, and Japan as well as pending patent applications in the U.S., Europe, and Japan. The patents encompass the first and second generation product line for the company. The first generation product and collection system encompasses the invention of a proprietary, patented process for obtaining fluid and cells from within the breast, in a reproducible and non-invasive method, through a device that allows pressure to be applied to the nipple, thereby increasing the amount of fluid that is extracted from the ducts and lobules of the breast. A second generation diagnostic product and testing service is derived from additional patented technologies in which samples of breast fluid, containing cancer markers, abnormal cells and malignant cells, are obtained from the breast nipple following administration of oxytocin, a brain pituitary hormone. Studies done by others in Europe have shown that oxytocin administration increases NAF by as much as 10-fold. The Company has also patented its test kit collection system, which will allow the company to have the fluids processed exclusively by its own laboratory.

As of June 30, 2010, the Company owned 13 issued patents (five U.S. and eight foreign) and six pending applications (one U.S. and five foreign), including one expired patent issued in the EU, now entering national phase. The Company owns patents and patent applications covering the development, manufacture, use and sale of the MASCT System and the Oxy-MASCT System, as well as breast cancer biomarkers.

	United States			Foreign		
Description	**Issued**	**Expiration**	**Pending**	**Issued**	**Expiration**	**Pending**
MASCT System	5	2016-2020	4	8	2016-2020	5
Oxy-MASCT System	3	2016-2020	3	8	2016-2020	5
Breast cancer biomarkers	3	2016-2020	2	8	2016-2020	5
Total (1)	5	2016-2020	4	8	2016-2020	5

(1) Certain of the Company's patents and pending patent applications contain claims covering one or more of the MASCT System, the Oxy-MASCT System and breast cancer biomarkers. Some pending applications, if issued, would expire in 2029.

The Company has applied with the United States Patent and Trademark Office for registration of the use of the marks Atossa (and design), MASCT, and Oxy-MASCT.

The technologies and products covered by the Company's patents can be summarized as:

- MASCT System collection device for NAF;
- The method of making a diagnosis from NAF, using "whole cells, cell fragments, cell membranes, a protein, a peptide, a glycoprotein, a lipid, a glycolipid, a DNA polynucleotide, an RNA polynucleotide, or a combination thereof;" and
- The use of the drug oxytocin or oxytocin analogues to increase the amount of NAF produced.

The Company believes that its patents also provide protection against other uses for the MASCT System and technology. Specifically, the MASCT System collection kits to be provided by the Company are protected under an issued U.S. patent owned by the Company and will be sold under a limited "collection only" patent license, which will permit physicians to collect NAF samples but will not allow for other uses of the vial. In addition, an issued U.S. patent owned by the Company protects the processes of transferring and processing samples to detect or quantify breast disease markers and the detection of these biomarkers. The foreign patent counterparts contain similar claims.

Competition

The Company believes that the MASCT System for NAF collection will compete in the medical device product industry with Neomatrix and with academic scientists and physicians who use "homemade" NAF fluid collection systems for research purposes. The Neomatrix device is automated and provides warmth and nipple aspiration simultaneously.

The Company believes it will compete in the anatomic pathology laboratory industry based on the patent portfolio for the MASCT System, the technical expertise provided by the Company's focus on diagnoses utilizing NAF, service-focused relationships with referring physicians, and its advanced technology. The Company does not believe that its competitors can transport or process NAF samples collected with the MASCT System without infringing the Company's patent estate.

Laboratories that could process NAF samples not collected with the MASCT System include thousands of local and regional pathology groups, national laboratories, hospital pathologists, and academic laboratories. The largest such competitors include Laboratory Corporation of America and Quest Diagnostics Incorporated.

Characteristics of each source of competition include:

Local and Regional Pathology Groups. Local and regional pathology groups focus on servicing hospitals, often maintaining a staff of pathologists on site that can provide support in the interpretation of certain results. The business models of these laboratories tend to be focused on the efficient delivery of individual tests for a multitude of diseases rather than the comprehensive assessment of only NAF samples, and their target groups tend to be hospital pathologists as opposed to community physicians.

National Laboratories. National laboratories typically offer a full suite of tests for a variety of medical professionals, including general practitioners, hospitals, and pathologists. Their emphasis on providing a broad product portfolio of commoditized tests at the lowest possible price often limits such laboratories' ability to handle difficult or complex specimens requiring special attention, such as NAF samples. In addition, national laboratories typically do not provide ready access to a specialized pathologist for interpretation of test results.

Hospital Pathologists. Pathologists working in a hospital traditionally provide most of the diagnostic services required for hospital patients and sometimes also serve non-hospital patients. Hospital pathologists typically have close interaction with treating physicians, including face-to-face contact. However, hospital pathologists often do not have the depth of experience, specialization, and expertise necessary to perform the specialized services needed for NAF samples.

Academic Laboratories. Academic laboratories generally offer advanced technology and know-how. In fact, the vast majority of NAF sample processing over the last years has been in academic laboratories primarily for research purposes. These laboratories typically pursue multiple activities and goals, such as research and education, or are generally committed to their own hospitals. Turn-around time for specimen results reporting from academic laboratories is often slow. This limits the attractiveness of academic laboratories to outside physicians who tend to have focused specialized needs and require results to be reported in a timely manner.

The Company also anticipates that the MASCT System will face competition from other diagnostic tools for breast cancer, including mammograms, ultrasound examinations, magnetic resonance imaging, fine needle aspiration and core biopsies, among others. These methods are currently more widely used and accepted by physicians, and may offer a competitive advantage over the Company's proposed products and services because they are currently reimbursed by third-party payors.

Information Systems

The Company will need to acquire, develop and implement laboratory information management systems, or LIMS, that support the Company's operations and physician services. There are a number of commercial vendors of LIMS for anatomic pathology laboratories, and the Company intends initially to use such third-party supplied products for its laboratory operations. Its information systems, to the extent such systems hold or transmit patient medical information, must be capable of being operated in compliance with state and federal laws and regulations relating to the privacy and security of patient medical information, including a comprehensive federal law and regulations referred to as HIPAA. While the Company intends to establish its information systems to be compliant with such laws, including HIPAA, such laws are complex and subject to interpretation.

Government Regulation

United States Medical Device Regulation

The Federal Food, Drug, and Cosmetic Act, or FDCA, and the FDA's implementing regulations, govern registration and listing, manufacturing, labeling, storage, advertising and promotion, sales and distribution, and post-market surveillance. Medical devices and their manufacturers are also subject to inspection by the FDA. The FDCA, supplemented by other federal and state laws, also provides civil and criminal penalties for violations of its provisions. We intend to manufacture and market a medical device that is regulated by the FDA, comparable state agencies and regulatory bodies in other countries. We also intend to operate a clinical and diagnostic laboratory which will use reagents and test kits some of which are regulated medical devices.

The FDA classifies medical devices into one of three classes (Class I, II or III) based on the degree of risk the FDA determines to be associated with a device and the extent of control deemed necessary to ensure the device's safety and effectiveness. Devices requiring fewer controls because they are deemed to pose lower risk are placed in Class I or II. Class I devices are deemed to pose the least risk and are subject only to general controls applicable to all devices, such as requirements for device labeling, premarket notification, and adherence to the FDA's current good manufacturing practice requirements, as reflected in its QSR. Most pathology staining kits, reagents, and routine antibody-based Immunohistochemistry protocols which the Company intends to use initially are Class I devices. Class II devices are intermediate risk devices that are subject to general controls and may also be subject to special controls such as performance standards, product-specific guidance documents, special labeling requirements, patient registries or postmarket surveillance. The MASCT System device and certain advanced laboratory testing, such as microarray multiplexed assays, where an algorithm is used to calculate a score related to, for example, tumor aggression or sensitivity to chemotherapy from dozens on individual expression data points, are Class II devices. Class III devices are those for which insufficient information exists to assure safety and effectiveness solely through general or special controls, and include life-sustaining, life-supporting, or implantable devices, and devices not "substantially equivalent" to a device that is already legally marketed.

Most Class I devices, including the laboratory staining kits and reagents the Company intends to use, and some Class II devices are exempted by regulation from the 510(k) clearance requirement and can be marketed without prior authorization from FDA. Class I and Class II devices that have not been so exempted are eligible for marketing through the 510(k) clearance pathway. By contrast, devices placed in Class III generally require premarket approval, or PMA, approval prior to commercial marketing. To obtain 510(k) clearance for a medical device, an applicant must submit a premarket notification to the FDA demonstrating that the device is "substantially equivalent" to a predicate device legally marketed in the United States. A device is substantially equivalent if, with respect to the predicate device, it has the same intended use and (i) the same technological characteristics, or (ii) has different technological characteristics and the information submitted demonstrates that the device is as safe and effective as a legally marketed device and does not raise different questions of safety or effectiveness. A showing of substantial equivalence sometimes, but not always, requires clinical data. In the case of the MASCT System, a clinical trial was conducted. Generally, the 510(k) clearance process can exceed 90 days and may extend to a year or more. After a device has received 510(k) clearance for a specific intended use, any modification that could significantly affect its safety or effectiveness, such as a significant change in the design, materials, method of manufacture or intended use, will require a new 510(k) clearance or (if the device as modified is not substantially equivalent to a legally marketed predicate device) PMA approval. While the determination as to whether new authorization is needed is initially left to the manufacturer, the FDA may review this determination and evaluate the regulatory status of the modified product at any time and may require the manufacturer to cease marketing and recall the modified device until 510(k) clearance or PMA approval is obtained. The manufacturer may also be subject to significant regulatory fines or penalties.

All clinical trials must be conducted in accordance with regulations and requirements collectively known as Good Clinical Practice, or GCP. GCPs include the FDA's Investigational Device Exemption, or IDE, regulations, which describe the conduct of clinical trials with medical devices, including the recordkeeping, reporting and monitoring responsibilities of sponsors and investigators, and labeling of investigation devices. They also prohibit promotion, test marketing, or commercialization of an investigational device, and any representation that such a device is safe or effective for the purposes being investigated. GCPs also include FDA's regulations for institutional review board approval and for protection of human subjects (informed consent), as well as disclosure of financial interests by clinical investigators.

Required records and reports are subject to inspection by the FDA. The results of clinical testing may be unfavorable or, even if the intended safety and effectiveness success criteria are achieved, may not be considered sufficient for the FDA to grant approval or clearance of a product. The commencement or completion of clinical trials, if any, that the Company may sponsor, may be delayed or halted, or be inadequate to support approval of a PMA application or clearance of a premarket notification for numerous reasons, including, but not limited to, the following:

- the FDA or other regulatory authorities do not approve a clinical trial protocol or a clinical trial (or a change to a previously approved protocol or trial that requires approval), or place a clinical trial on hold;

- patients do not enroll in clinical trials or follow up at the rate expected;

- institutional review boards and third-party clinical investigators may delay or reject the Company's trial protocol or changes to its trial protocol;

- third-party clinical investigators decline to participate in a trial or do not perform a trial on the Company's anticipated schedule or consistent with the clinical trial protocol, investigator agreements, good clinical practices or other FDA requirements;

- third-party organizations do not perform data collection and analysis in a timely or accurate manner;

- regulatory inspections of clinical trials or manufacturing facilities, which may, among other things, require the Company to undertake corrective action or suspend or terminate its clinical trials;

- changes in governmental regulations or administrative actions;

- the interim or final results of the clinical trial are inconclusive or unfavorable as to safety or effectiveness; and

- the FDA concludes that the Company's trial design is inadequate to demonstrate safety and effectiveness.

After a device is approved and placed in commercial distribution, numerous regulatory requirements apply. These include:

- establishment registration and device listing;

- the QSR, which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures;

- labeling regulations, which prohibit the promotion of products for unapproved or "off-label" uses and impose other restrictions on labeling;

- medical device reporting regulations, which require that manufacturers report to the FDA if a device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if malfunctions were to recur; and

- corrections and removal reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA caused by the device that may present a risk to health.

The FDA enforces regulatory requirements by conducting periodic, announced and unannounced inspections and market surveillance. Inspections may include the manufacturing facilities of our subcontractors. Failure to comply with applicable regulatory requirements, including those applicable to the conduct of our clinical trials, can result in enforcement action by the FDA, which may lead to any of the following sanctions:

- warning letters or untitled letters;
- fines and civil penalties;

- unanticipated expenditures;
- delays in clearing or approving or refusal to clear or approve products;
- withdrawal or suspension of FDA clearance;
- product recall or seizure;
- orders for physician notification or device repair, replacement, or refund;
- production interruptions;
- operating restrictions;
- injunctions; and
- criminal prosecution.

The Company and its contract manufacturers, specification developers and suppliers are also required to manufacture the MASCT System in compliance with current Good Manufacturing Practice requirements set forth in the QSR. The QSR requires a quality system for the design, manufacture, packaging, labeling, storage, installation and servicing of marketed devices, and includes extensive requirements with respect to quality management and organization, device design, buildings, equipment, purchase and handling of components, production and process controls, packaging and labeling controls, device evaluation, distribution, installation, complaint handling, servicing and record keeping. The FDA enforces the QSR through periodic announced and unannounced inspections that may include the manufacturing facilities of our subcontractors. If the FDA believes the Company or any of its contract manufacturers or regulated suppliers is not in compliance with these requirements, it can shut down the Company's manufacturing operations, require recall of the MASCT System, refuse to clear or approve new marketing applications, institute legal proceedings to detain or seize products, enjoin future violations, or assess civil and criminal penalties against the Company or its officers or other employees. Any such action by the FDA would have a material adverse effect on the Company's business.

European Medical Device Regulation

The European Union has adopted directives and numerous standards that govern and harmonize the national laws and standards regulating the design, manufacture, clinical trials, labeling, adverse event reporting and post-market surveillance activities for medical devices that are marketed in member states.

Compliance with voluntary harmonized standards including ISO 13845 issued by the International Organization for Standards establishes the presumption of conformity with the essential requirements for a CE Mark. The International Organization for Standardization, or ISO, is a worldwide federation of national standards bodies from some 130 countries, established in 1947. The mission of the ISO is to promote the development of standardization and related activities in the world with a view to facilitating the international exchange of goods and services. ISO certification is commonly a prerequisite to use of the CE Mark and indicates that a quality system complies with standards applicable to activities ranging from initial product design and development through production and distribution.

Devices that comply with the requirements of a relevant directive will be entitled to bear the CE Mark and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or have adopted these directives. The method of assessing conformity varies depending on the type and class of the product, but typically involves a combination of self-assessment by the manufacturer and a third-party assessment by a "Notified Body," an independent and neutral institution appointed to conduct conformity assessment. This third-party assessment consists of an audit of the manufacturer's quality system and technical review of the manufacturer's product. An assessment by a Notified Body residing within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. The manufacturer's assessment will include a clinical evaluation of the conformity of the device with applicable regulatory requirements, which for the MASCT System will include clinical study results. The clinical data presented by us must provide evidence that the products meet the performance specifications claimed by the Company, provide sufficient evidence of adequate assessment of unwanted side effects and demonstrate that the benefits to the patient outweigh the risks associated with the device. The Company is subject to continued surveillance by the Notified Body and is required to report any serious adverse incidents to the appropriate authorities of the European Union member states.

The Medical Devices Directive, or MDD, covers the regulatory requirements of the European Union for medical devices. Compliance with the requirements of the MDD is declared by placing the CE Mark on the product and supplying the device with a declaration of conformity, in which the manufacturer certifies that its product complies with the MDD. Products intended for sale must bear the CE mark to show compliance with the MDD. If a Notified Body is involved in the approval, the number of the Notified Body must also appear adjacent to the CE Mark. The routes to compliance under the MDD depend on the classification of the product:

Class I devices are low risk, such as pathology staining kits, stethoscopes, hospital beds and wheelchairs. The manufacturer must produce a technical file, including product test results compared to relevant standards. In addition, manufacturers of sterile products and devices with a measuring function must apply to a Notified Body for certification of the aspects of manufacture relating to sterility or measurement.

Class IIa devices are low to medium risk, such as hearing aids, electrocardiographs and ultrasonic diagnostic equipment. The MASCT System is a Class IIa device. As with Class I devices, the manufacturer produces a technical file, but a conformity assessment must be carried out by a Notified Body, according to one of the following routes, at the manufacturer's option:

- examination and testing of each product or homogenous batch of products;
- audit of the full quality assurance system;
- audit of the production quality assurance system; or
- audit of final inspection and testing.

Class IIb devices are medium-high risk devices, such as surgical lasers, infusion pumps, ventilators, intensive care monitoring equipment and many implantable devices. Routes to compliance are the same as for Class IIa devices, with the addition of required examination and testing of the product by the Notified Body; however, the full quality assurance route does not require type examination and testing.

Class III devices are high risk, such as balloon catheters and prosthetic heart valves. Routes to compliance are:

- audit of the full quality assurance system and examination of a design dossier by the Notified Body. A design dossier is a submission similar to a PMA application with the FDA; or

- examination and testing of the product, together with audit of the production quality assurance system.

The Company intends to seek approval to apply the CE Mark to the MASCT System as a Class IIa device in order to market in the European Union and other countries that accept the CE Mark.

CLIA and State Regulation

As a future provider of cytology and molecular diagnostic services, the Company is required to hold certain federal, state and local licenses, certifications, and permits. Under CLIA, it is required to hold a certificate applicable to the type of work it performs and to comply with certain CLIA-imposed standards. CLIA regulates all laboratories by requiring they be certified by the federal government and comply with various operational, personnel, facilities administration, quality, and proficiency requirements intended to ensure that laboratory testing services are accurate, reliable, and timely. CLIA does not preempt state laws that are more stringent than federal law.

To obtain and renew its CLIA certificates, which it is required to renew every two years, the Company will be regularly subject to survey and inspection to assess compliance with program standards and may be subject to additional random inspections. Standards for testing under CLIA are based on the level of complexity of the tests performed by the laboratory. Laboratories performing high complexity testing are required to meet more stringent requirements than laboratories performing less complex tests where a CLIA certificate is required. Both NAF cytology and molecular diagnostic testing are high complexity tests. CLIA certification is a prerequisite to be eligible for reimbursement under Medicare and Medicaid.

The Clinical Laboratory Improvement Amendments of 1988, or CLIA ’88, was passed to improve quality control at cytology laboratories performing gynecological diagnoses (Pap smears for cervical cancer). Under CLIA ‘88, the number of slides a cytotechnologist may screen each day is regulated (no more than 100 slides in any 24 hour period, and must have at least 8 hours to complete the examination of 100 slides, which results in an average of 12.5 slides per hour) and quality control procedures require rescreening of a minimum of 10% randomly selected within-normal-limits, or WNL, slides per day. In addition, specialized proficiency testing requirements apply not just to the laboratory, but to the individuals performing the test, specialized personnel standards, and quality control procedures. The Company will not be seeking certification to perform cervical Pap smears and therefore does not believe these provisions of CLIA ‘88 apply to it.

In addition to CLIA requirements, the Company will be subject to various state laws. CLIA provides that a state may adopt laboratory regulations that are more stringent than those under federal law, and a number of states, including Washington, where the Company is located, have done so. The Washington state Medical Test Site, or MTS, Licensure law (Chapter 70.42 RCW) was passed in May 1989 to allow the state to regulate clinical laboratory testing. In October 1993, Washington became the first state to have its clinical laboratory licensure program judged by the Federal Health and Human Services Centers for Medicare and Medicaid Services, or CMS, as equivalent to CLIA and was granted an exemption. In addition, New York, Maryland, Pennsylvania, Rhode Island, and California, have implemented their own laboratory regulatory schemes. State laws may require that laboratory personnel meet certain qualifications, specify certain quality controls, or prescribe record maintenance requirements.

Privacy and Security of Health Information and Personal Information; Standard Transactions

The Company will be subject to state and federal laws and implementing regulations relating to the privacy and security of the medical information of the patients it treats. The principal federal legislation is part of HIPAA. Pursuant to HIPAA, the Secretary of the Department of Health and Human Services, or HHS, has issued final regulations designed to improve the efficiency and effectiveness of the healthcare system by facilitating the electronic exchange of information in certain financial and administrative transactions, while protecting the privacy and security of the patient information exchanged. These regulations also confer certain rights on patients regarding their access to and control of their medical records in the hands of healthcare providers such as the Company.

Four principal regulations have been issued in final form: privacy regulations, security regulations, standards for electronic transactions, and the National Provider Identifier regulations. The HIPAA privacy regulations, which fully came into effect in April, 2003, establish comprehensive federal standards with respect to the uses and disclosures of an individual’s personal health information, referred to in the privacy regulations as “protected health information,” by health plans, healthcare providers, and healthcare clearinghouses. The Company is a healthcare provider within the meaning of HIPAA. The regulations establish a complex regulatory framework on a variety of subjects, including:

- the circumstances under which uses and disclosures of protected health information are permitted or required without a specific authorization by the patient, including but not limited to treatment purposes, activities to obtain payment for services, and healthcare operations activities;
- a patient’s rights to access, amend, and receive an accounting of certain disclosures of protected health information;
- the content of notices of privacy practices for protected health information; and
- administrative, technical and physical safeguards required of entities that use or receive protected health information.

The federal privacy regulations, among other things, restrict the Company’s ability to use or disclose protected health information in the form of patient-identifiable laboratory data, without written patient authorization, for purposes other than payment, treatment, or healthcare operations (as defined by HIPAA) except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. The privacy regulations provide for significant fines and other penalties for wrongful use or disclosure of protected health information, including potential civil and criminal fines and penalties. Although the HIPAA statute and regulations do not expressly provide for a private right of damages, the Company could incur damages under state laws to private parties for the wrongful use or disclosure of confidential health information or other private personal information.

The Company will implement policies and practices that it believes brings it into compliance with the privacy regulations. However, the documentation and process requirements of the privacy regulations are complex and subject to interpretation. Failure to comply with the privacy regulations could subject the Company to sanctions or penalties, loss of business, and negative publicity.

The HIPAA privacy regulations establish a “floor” of minimum protection for patients as to their medical information and do not supersede state laws that are more stringent. Therefore, the Company is required to comply with both HIPAA privacy regulations and various state privacy laws. The failure to do so could subject it to regulatory actions, including significant fines or penalties, and to private actions by patients, as well as to adverse publicity and possible loss of business. In addition, federal and state laws and judicial decisions provide individuals with various rights for violation of the privacy of their medical information by healthcare providers such as the Company.

The final HIPAA security regulations, which establish detailed requirements for physical, administrative, and technical measures for safeguarding protected health information in electronic form, became effective on April 21, 2003. The Company intends to employ what it considers to be a reasonable and appropriate level of physical, administrative and technical safeguards for patient information. Failure to comply with the security regulations could subject the Company to sanctions or penalties and negative publicity.

The final HIPAA regulations for electronic transactions, referred to as the transaction standards, establish uniform standards for certain specific electronic transactions and code sets and mandatory requirements as to data form and data content to be used in connection with common electronic transactions, such as billing claims, remittance advices, enrollment, and eligibility. The Company intends to outsource to a third-party vendor the handling of its billing and collection transactions, to which the transaction standards apply. Failure of the vendor to properly conform to the requirements of the transaction standards could, in addition to possible sanctions and penalties, result in payors not processing transactions submitted on our behalf, including claims for payment.

The HIPAA regulations on adoption of national provider identifiers, or NPI, required healthcare providers to adopt new, unique identifiers for reporting on claims transactions submitted after May 23, 2007. The Company intends to obtain NPIs for its laboratory facilities and pathologists so that it can report NPIs to Medicare, Medicaid, and other health plans.

The healthcare information of the Company’s future patients will includes social security numbers and other personal information that are not of an exclusively medical nature. The consumer protection laws of a majority of states now require organizations that maintain such personal information to notify each individual if their personal information is accessed by unauthorized persons or organizations, so that the individuals can, among other things, take steps to protect themselves from identity theft. The costs of notification and the adverse publicity can both be significant. Failure to comply with these state consumer protection laws can subject a company to penalties that vary from state to state, but may include significant civil monetary penalties, as well as to private litigation and adverse publicity. California recently enacted legislation that expanded its version of a notification law to cover improper access to medical information generally, and other states may follow suit.

Federal and State Fraud and Abuse Laws

The federal healthcare Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce referrals or in return for purchasing, leasing, ordering, or arranging for the purchase, lease, or order of any healthcare item or service reimbursable under a governmental payor program. The definition of “remuneration” has been broadly interpreted to include anything of value, including gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests, opportunity to earn income, and providing anything at less than its fair market value. The Anti-Kickback Statute is broad, and it prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements within the healthcare industry, HHS has issued a series of regulatory “safe harbors.” These safe harbor regulations set forth certain provisions that, if met, will assure healthcare providers and other parties that they will not be prosecuted under the federal Anti-Kickback Statute. Although full compliance with these provisions ensures against prosecution under the federal Anti-Kickback Statute, the failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the federal Anti-Kickback Statute will be pursued.

From time to time, the Office of Inspector General, or OIG, issues alerts and other guidance on certain practices in the healthcare industry. In October 1994, the OIG issued a Special Fraud Alert on arrangements for the provision of clinical laboratory services. The Fraud Alert set forth a number of practices allegedly engaged in by some clinical laboratories and healthcare providers that raise issues under the "fraud and abuse" laws, including the Anti-Kickback Statute. These practices include: (i) laboratories providing employees to furnish valuable services for physicians (other than collecting patient specimens for testing for the laboratory) that are typically the responsibility of the physicians' staff; (ii) providing free testing to a physician's managed care patients in situations where the referring physicians benefit from such reduced laboratory utilization; (iii) providing free pick-up and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; (iv) providing general-use facsimile machines or computers to physicians that are not exclusively used in connection with the laboratory services; and (v) providing free testing for healthcare providers, their families, and their employees (professional courtesy testing).

The OIG emphasized in the Special Fraud Alert that when one purpose of an arrangement is to induce referrals of program-reimbursed laboratory testing, both the clinical laboratory and the healthcare provider, or physician, may be liable under the Anti-Kickback Statute, and may be subject to criminal prosecution and exclusion from participation in the Medicare and Medicaid programs.

Another issue about which the OIG has expressed concern involves the provision of discounts on laboratory services billed to customers in return for the referral of more lucrative federal healthcare program business. In a 1999 Advisory Opinion, the OIG concluded that a proposed arrangement whereby a laboratory would offer physicians significant discounts on non-federal healthcare program laboratory tests might violate the Anti-Kickback Statute. The OIG reasoned that the laboratory could be viewed as providing such discounts to the physician in exchange for referrals by the physician of business to be billed by the laboratory to Medicare at non-discounted rates. The OIG indicated that the arrangement would not qualify for protection under the discount safe harbor because Medicare and Medicaid would not get the benefit of the discount. Subsequently, in a year 2000 correspondence, the OIG stated that the Anti-Kickback Statute may be violated if there were linkage between the discount offered to the physician and the physician's referrals of tests covered under a federal healthcare program that would be billed by the laboratory directly. Where there was evidence of such linkage, the arrangement would be considered "suspect" if the charge to the physician was below the laboratory's "average fully loaded costs" of the test.

Generally, arrangements that would be considered suspect, and possible violations under the Anti-Kickback Statute, include arrangements between a clinical laboratory and a physician (or related organizations or individuals) in which the laboratory would (1) provide items or services to the physician or other referral source without charge, or for amounts that are less than their fair market value; (2) pay the physician or other referral source amounts that are in excess of the fair market value of items or services that were provided; or (3) enter into an arrangement with a physician or other entity because it is a current or potential referral source. HIPAA also applies to fraud and false statements. HIPAA created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment, or exclusion from governmental payor programs such as the Medicare and Medicaid programs. The false statements statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious, or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or services. A violation of this statute is a felony and may result in fines or imprisonment or exclusion from governmental payor programs.

Physician Referral Prohibitions

Under a federal law directed at "self-referral," commonly known as the Stark Law, prohibitions exist, with certain exceptions, on Medicare and Medicaid payments for laboratory tests referred by physicians who personally, or through a family member, have an investment interest in, or a compensation arrangement with, the laboratory performing the tests. A person who engages in a scheme to circumvent the Stark Law's referral prohibition may be fined up to $100,000 for each such arrangement or scheme. In addition, any person who presents or causes to be presented a claim to the Medicare or Medicaid programs in violation of the Stark Law is subject to civil monetary penalties of up to $15,000 per bill submission, an assessment of up to three times the amount claimed, and possible exclusion from participation in federal governmental payor programs. Bills submitted in violation of the Stark Law may not be paid by Medicare or Medicaid, and any person collecting any amounts with respect to any such prohibited bill is obligated to refund such amounts.

Any arrangement between a laboratory and a physician or physicians' practice that involves remuneration will prohibit the laboratory from obtaining payment for services resulting from the physicians' referrals, unless the arrangement is protected by an exception to the self-referral prohibition or a provision stating that the particular arrangement would not result in remuneration. Among other things, a laboratory's provision of any item, device, or supply to a physician would result in a Stark Law violation unless it was used only to collect, transport, process, or store specimens for the laboratory, or was used only to order tests or procedures or communicate related results. This may preclude a laboratory's provision of fax machines and computers that may be used for unrelated purposes. Most arrangements involving physicians that would violate the Anti-Kickback Statute would also violate the Stark Law. Many states also have "self-referral" and other laws that are not limited to Medicare and Medicaid referrals. These laws may prohibit arrangements which are not prohibited by the Stark Law, such as a laboratory's placement of a phlebotomist in a physician's office to collect specimens for the laboratory.

Discriminatory Billing Prohibition

In response to competitive pressures, the Company will be increasingly required to offer discounted pricing arrangements to managed care payers and physicians and other referral services. Discounts to referral sources raise issues under the Anti-Kickback Statute. Any discounted charge below the amount that Medicare or Medicaid would pay for a service also raises issues under Medicare's discriminatory billing prohibition. The Medicare statute permits the government to exclude a laboratory from participation in federal healthcare programs if it charges Medicare or Medicaid "substantially in excess" of its usual charges in the absence of "good cause." In 2000, the OIG stated in informal correspondence that the prohibition was violated only if the laboratory's charge to Medicare was substantially more than the "median non-Medicare/–Medicaid charge." On September 15, 2003, the OIG issued a notice of proposed rulemaking addressing the statutory prohibition. Under the proposed rule, a provider's charge to Medicare or Medicaid would be considered "substantially in excess of [its] usual charges" if it was more than 120% of the provider's mean or median charge for the service. The proposed rule was withdrawn in June 2007. At that time, the OIG stated that it would continue to evaluate billing patterns of individuals and entities on a case-by-case basis.

Competitive Bidding

The Medicare Modernization Act of 2003 required CMS to conduct a demonstration program on using competitive bidding for clinical lab tests that are furnished without a face-to-face encounter between the individual and the entity performing the test, to determine whether competitive bidding could be used to provide lab services at reduced cost to Medicare, while continuing to maintain quality and access to care. The Medicare Improvements for Patients and Providers Act of 2008 repealed the Medicare Competitive Bidding Demonstration Project for Clinical Laboratory Services. Reintroduction by statute and widespread use of competitive bidding, if implemented for clinical lab services, could have a significant effect on the clinical laboratory industry and on us. The Company could be precluded from furnishing certain clinical laboratory services to Medicare beneficiaries if it is not the successful bidder or, as part of the competitive bidding process, it could be required to offer reduced payment amounts in order to participate in the arrangement. In addition, states could initiate efforts to establish competitive bidding processes for the provision of clinical laboratory services under the state Medicaid program.

Corporate Practice of Medicine

The Company's contractual relationships with the licensed healthcare providers are subject to regulatory oversight, mainly by state licensing authorities. In certain states, for example, limitations may apply to the relationship with the pathologists that the Company intends to employ or engage, particularly in terms of the degree of control that the Company exercises or has the power to exercise over the practice of medicine by those pathologists. A number of states, including New York, Texas, and California, have enacted laws prohibiting business corporations, such as the Company, from practicing medicine and employing or engaging physicians to practice medicine. These requirements are generally imposed by state law in the states in which the Company operates, vary from state to state, and are not always consistent among states. In addition, these requirements are subject to broad powers of interpretation and enforcement by state regulators. Some of these requirements may apply to the Company even if it does not have a physical presence in the state, based solely on the employment of a healthcare provider licensed in the state or the provision of services to a resident of the state. The Company believes that it operates in material compliance with these requirements. However, failure to comply can lead to action against the Company and the licensed healthcare professionals that it employs, fines or penalties, receipt of cease and desist orders from state regulators, loss of healthcare professionals' licenses or permits, the need to make changes to the terms of engagement of those professionals that interfere with the Company's business, and other material adverse consequences.

State Laboratory Licensure

The Company intends that its laboratory will be certified by CLIA and be licensed in the state of Washington. However, many state licensure laws require a laboratory that solicits or tests specimens from individuals within that state to hold a license from that state, even if the testing occurs in another state. The Company intends to accept testing from California, New York, Pennsylvania, Maryland, New Jersey, and Rhode Island, which require out-of-state laboratories to hold state licenses. The Company intends to apply for licenses in these states. Similarly, many of the states from which it will solicit specimens require that a physician interpreting specimens from that state be licensed by that particular state, irrespective of where the services are to be provided. In the absence of such a state license, the physician may be considered to be engaged in the unlicensed practice of medicine.

The Company may become aware from time to time of other states that require out of state laboratories or physicians to obtain licensure in order to accept specimens from the state, and it is possible that other states do have such requirements or will have such requirements in the future. The Company intends to follow instructions from the state regulators as how to comply with such requirements.

Referrals after Becoming a Public Company

Once the Company's stock is publicly traded, it will not be able to accept referrals from physicians who own, directly or indirectly, shares of its stock unless it complies with the Stark Law exception for publicly traded securities. This requires, among other things, $75 million in stockholders' equity (total assets minus total liabilities). The parallel safe harbor requires, among other things, $50 million in undepreciated net tangible assets, in order for any distributions to such stockholders to be protected under the Anti-Kickback Statute.

Other Regulatory Requirements

The Company's laboratory will be subject to federal, state, and local regulations relating to the handling and disposal of regulated medical waste, hazardous waste, and biohazardous waste, including chemical, biological agents and compounds, and human tissue. The Company intends to use outside vendors who are contractually obligated to comply with applicable laws and regulations to dispose of such waste. These vendors will be licensed or otherwise qualified to handle and dispose of such waste.

The Occupational Safety and Health Administration, or OSHA, has established extensive requirements relating to workplace safety for healthcare employers, including requirements mandating work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations, and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. Pursuant to its authority under the FDCA, the FDA has regulatory responsibility over instruments, test kits, reagents, and other devices used to perform diagnostic testing by laboratories such as ours. Specifically, the manufacturers and suppliers of analyte specific reagents, or ASRs, which we will obtain for use in diagnostic tests, are subject to regulation by the FDA and are required to register their establishments with the FDA, to conform manufacturing operations to the FDA's Quality System Regulation and to comply with certain reporting and other record keeping requirements. The FDA also regulates the sale or distribution, in interstate commerce, of products classified as medical devices under the FDCA, including *in vitro* diagnostic test kits. Such devices must undergo premarket review by the FDA prior to commercialization unless the device is of a type exempted from such review by statute or pursuant to the FDA's exercise of enforcement discretion.

The FDA maintains that it has authority to regulate the development and use of LDTs or "home brews" as medical devices, but to date has not exercised its authority with respect to "home brew" tests as a matter of enforcement discretion. The FDA regularly considers the application of additional regulatory controls over the sale of ASRs and the development and use of "home brews" by laboratories such as the Company's.

The FDA has announced public hearings to discuss oversight of LDTs. While the outcome of those hearings is unknown, it is probable that some form of pre-market notification or approval process will become a requirement for certain LDTs. Pre-market notification or approval of the Company's future LDTs would be costly and delay the ability of the Company to commercialize such tests.

Compliance Program

Compliance with government rules and regulations is a significant concern throughout the industry, in part due to evolving interpretations of these rules and regulations. The Company will seek to conduct its business in compliance with all statutes and regulations applicable to its operations. To this end, it has determined that it will establish an informal compliance program that reviews for regulatory compliance procedures, policies, and facilities throughout its business. To better focus compliance efforts, the Company intends to hire an experienced compliance officer when appropriate and develop a formal compliance program. The Company will endeavor to make all suitable adjustments or modifications as become known or necessary in order to comply with these complex set of laws and regulations.

Legal Proceedings

The Company is not a party to any material legal proceedings.

Employees

As of September 1, 2010, the Company had three executive officers, one of whom serves in such capacity as a consultant to the Company, and one other employee. The Company expects that it will hire more employees as it expands.

Property

The Company's corporate headquarters are located at 4105 East Madison Street, Suite 320, Seattle, Washington 98112 where the Company occupies approximately 330 square feet of office space. The original term of the lease shall terminate on December 31, 2010, with annual rent of $13,200 plus applicable sales tax. From April 30, 2009 (inception) through June 30, 2010, the Company incurred $6,848 of rent expense for the lease. As of June 30, 2010, security deposit for the lease amounted to $1,100. On July 15, 2010, the Company and Ensisheim terminated the lease, effective July 1, 2010 and the Company began receiving free rent from Ensisheim. The Company leases approximately 1,300 square feet of office and laboratory space in the Seattle Life Sciences Center in Seattle, Washington, under a six-month lease which will convert into a month-to-month lease starting in March, 2011. The Company believes that its current facilities will be adequate to meet its needs for the next 12 months. The Company intends to lease additional or alternative office and laboratory space in the Greater Seattle area in the second half of 2011, if needed.

Insurance

The Company currently maintains commercial general and office premises liability insurance. At the time the Company establishes its laboratory and launches the MASCT System, it expects to obtain liability insurance for its products and services. As a general matter, providers of diagnostic services may be subject to lawsuits alleging medical malpractice or other similar legal claims. Some of these suits involve claims for substantial damages. The Company believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, but cannot assure that it will be able to do so.

MANAGEMENT

The following table sets forth information regarding the members of the board of directors of the Company and its executive officers as of September 15, 2010:

Executive Officers, Directors and Prospective Directors

Name	Age	Position(s)
Steven C. Quay, M.D., Ph.D.	59	Chairman of the Board of Directors, Chief Executive Officer and President
Christopher Benjamin	36	Chief Financial Officer
Shu-Chih Chen, Ph.D.	48	Director, Chief Scientific Officer
John Barnhart	53	Director
Mary Tagliaferri, M.D.	44	Director Nominee
Stephen Galli, M.D.	60	Director Nominee
Alexander Cross, Ph.D.	78	Director Nominee

Mary Tagliaferri, M.D., Stephen Galli, M.D., and Alexander Cross, Ph.D., have agreed to serve on the board of directors of the Company concurrent with the closing of this offering.

The Company's bylaws provide that the number of directors authorized to serve on the board of directors of the Company may be established, from time to time, by action of the board of directors of the Company. Vacancies in the existing board of directors of the Company are filled by a majority vote of the remaining directors on the board of directors of the Company. Directors serve for a one-year term until each subsequent annual meeting of stockholders and until their respective successors have been elected and qualified or until death, resignation or removal. The Company's executive officers are appointed by and serve at the discretion of the board of directors of the Company.

Dr. Quay is the Chief Executive Officer and Chairman of the board of directors of the Company. Dr. Shu-Chih Chen is the Chief Scientific Officer and a director. Drs. Quay and Chen are husband and wife. They currently beneficially own a majority of the outstanding voting securities of the Company. Following the completion of this offering and exercise of the Class A Warrants, they will remain substantial minority stockholders.

Steven C. Quay, M.D., Ph.D. Dr. Quay has served as Chief Executive Officer and Chairman of the board of directors of the Company since the Company was incorporated in April 2009. Prior to his work at the Company, Dr. Quay served as Chairman of the Board, President and Chief Executive Officer of MDRNA, Inc. from August 2000 to May 2008, and as its Chief Scientific Officer until November 31, 2008. Dr. Quay is certified in Anatomic Pathology with the American Board of Pathology, with training at Massachusetts General Hospital and Harvard Medical School, is a former faculty member of the Department of Pathology, Stanford University School of Medicine, and is a named inventor on 14 U.S. and foreign patents covering the MASCT System. He oversaw the clinical testing and regulatory filing of the MASCT device with the FDA that led to its ultimate marketing clearance. Including the patents for the MASCT System, Dr. Quay has a total of 69 U.S. patents, 92 pending patent applications and is a named inventor on patents covering five pharmaceutical products that have been approved by the FDA. Dr. Quay received an M.D. in 1977 and a Ph.D. in 1975 from the University of Michigan Medical School. He also received his B.A. degree in biology, chemistry and mathematics from Western Michigan University in 1971. Dr. Quay is a member of the American Society of Investigative Pathology, the Association of Molecular Pathology and the Association of Pathology Informatics. He was selected to serve on the Company's board of directors because of his role as the founder of the Company and the inventor of the MASCT System, as well as his qualifications as a physician and the principal researcher overseeing the clinical and regulatory development of the MASCT System.

Christopher Benjamin. Mr. Benjamin has served as Chief Financial Officer of the Company since July 2010. His experience includes both public and private company financial reporting expertise. Based in Seattle, Mr. Benjamin has served as President of Rogue CFO Consulting since November 2007, as well as serving as the Chief Financial Officer for NexTec and Redfin Corporations and acting as the Accounting Manager and Assistant Controller for the Bsquare Corporation. His responsibilities at these companies included monthly financial reporting and analysis, audit and cash management, forecasting, oversight of the General Ledger, as well as ensuring compliance with GAAP, FASB and SEC reporting standards. From February 2003 to November 2005, Mr. Benjamin worked at Cascade Natural Gas Corporation, where his responsibilities included serving as Manager of Financial Reporting and Fixed Assets, along with Sarbanes Oxley process documentation, process flow creation and SEC reporting support. He received his M.B.A. from the University of Washington in Seattle in 2007 and a B.A. in accounting from the University of Fraser Valley in Abbotsford, British Columbia, Canada in 1997.

Shu Chih Chen, Ph.D. Dr. Chen has served as Chief Scientific Officer and director of the Company since the Company was incorporated in April 2009. Prior to joining the Company, Dr. Chen served as President of Ensisheim beginning in 2008, was founder and President of SC2Q Consulting Company from 2006 to 2008, and served as Head, Cell Biology, Nastech Pharmaceuticals Company, Inc. from 2002 to 2006. During 1995 and 1996, she was an Associate Professor at National Yang Ming University, Taipei, Taiwan, and served as the principal investigator of an NIH RO1 grant studying tumor suppression by gap junction protein connexin 43 at the Department of Molecular Medicine at Northwest Hospital before working in the research department at Nastech Pharmaceutical Company. She is named as an inventor on four patent applications related to cancer therapeutics. Dr. Chen received her Ph.D. degree in microbiology and public health from Michigan State University in 1992 and has published extensively on Molecular Oncology. She received her B.S. degree in medical technology from National Yang Ming University, Taipei, Taiwan in 1984. Dr. Chen was selected to serve on the Company's board of directors because of her qualifications as a professor and researcher in the field of cancer therapeutics.

John Barnhart. Mr. Barnhart has served as a director of the Company since July 2009. He is the founder and has been the Managing Director of the Visconti Group, a management consulting group in Seattle, Washington, since November 2003. He held prior executive positions at The Walt Disney Company, Sony Pictures Entertainment, and Walt Disney Imagineering. He received a B.S. degree in engineering from California State University, Long Beach in 1974. Mr. Barnhart was selected to serve on the Company's board of directors because of his understanding and experience with development and marketing of consumer products and services.

Mary Tagliaferri, M.D. Dr. Tagliaferri will become a member of the Company's board of directors upon the completion of this offering. Dr. Tagliaferri is a co-founder of Bionovo Pharmaceuticals and has served in various capacities there since February 2002. Most recently, in May 2007, she was appointed as its President. She was appointed as a director of Bionovo in May 2005 and as its Chief Medical Officer, Secretary and Treasurer in April 2005, and continues to serve in these capacities. Bionovo is a drug discovery and development company focused on developing safe and effective drugs for the treatment of unmet medical needs in women's health and cancer, including a clinical-stage novel formulation for breast cancer. Dr. Tagliaferri conducted translational research at the University of California, San Francisco from 1996 to 2002 and has participated in the development of ductal lavage, a method of obtaining NAF through cannulating the ducts. Dr. Tagliaferri received her M.D. degree from University of California, San Francisco and her B.S. from Cornell University. She also hold an M.S. degree in traditional Chinese medicine from the American College of Traditional Chinese Medicine. Dr. Tagliaferri has been selected as a director nominee because of her experience as a founder, officer and director of a biopharmaceutical company developing treatments for breast cancer, as well as her qualifications as a physician and researcher in the area of breast health, including NAF collection.

Stephen Galli, M.D. Dr. Galli will become a member of the Company's board of directors upon the completion of this offering. Dr. Galli is Chair of the Department of Pathology, Professor of Pathology and of Microbiology & Immunology and the Mary Hewitt Loveless, M.D., Professor, Stanford University School of Medicine, Stanford, California, and has served in these capacities since February 1999. Before joining Stanford, he was on the faculty of Harvard Medical School. He holds 13 U.S. patents and has over 340 publications. He is past president of the American Society for Investigative Pathology and current president of the Collegium Internationale Allergologicum. In addition to receiving awards for his research, he was recently recognized with the 2010 Stanford University President's Award for Excellence Through Diversity for his recruitment and support of women and underrepresented minorities at Stanford University. He received his B.A. degree in biology, magna cum laude, from Harvard College in 1968 and his M.D. degree from Harvard Medical School in 1973 and completed a residency in anatomic pathology at the Massachusetts General Hospital in 1977. Dr. Galli has been selected as a director nominee because of his qualifications as a professor and physician, and his specialized expertise as a pathologist.

Alexander D. Cross, Ph.D. Dr. Cross will become a member of the Company's board of directors upon completion of this offering. Dr. Cross has served on the board and as a member of the Audit, Compensation, and Nominating and Governance Committees of a number of public companies, including MDRNA, Inc. and Ligand Pharmaceuticals Inc. Dr. Cross also served as Chairman of the Board and CEO of Cytopharm, Inc. until August 2006. Dr. Cross has been a consultant in the fields of pharmaceuticals and biotechnology since January 1986 and has served as a principal of NDA Partners, LLC since 2003. Previously, Dr. Cross served as President and CEO of Zoecon Corporation, a biotechnology company, from April 1983 to December 1985, and Executive Vice President and Chief Operating Officer from 1979 to 1983. Dr. Cross also previously held several corporate management positions at Syntex Corporation from 1961 through 1979. Dr. Cross holds 109 issued United States patents and is the author of 90 peer-reviewed publications. Dr. Cross received his B.Sc., Ph.D. and D.Sc. degrees from the University of Nottingham, England, and is a Fellow of the Royal Society of Chemistry. Dr. Cross has been selected as a director nominee because of his qualifications as a scientist, business executive and audit committee financial expert, and his prior experience as a director and committee member of public companies.

Scientific Advisory Board

The Company has established a Scientific Advisory Board to provide strategic resources to the Company's management and its board of directors. It is intended that the Company's scientific advisory board will have knowledge in breast cancer, NAF, and breast cancer biomarkers. The Company expects to expand the board members in the future. The initial Scientific Advisory Board currently consists of:

Dr. Edward Sauter, M.D., Ph.D. Dr. Sauter is the Associate Dean for Research and Professor of Surgery at the University of North Dakota School of Medicine & Health Sciences. He received his M.D. from the Louisiana State School of Medicine and his Ph.D. from the University of Pennsylvania. He completed his general surgery residency at the Ochsner Clinic, in New Orleans, Louisiana. Dr. Sauter also completed a Surgical Oncology Fellowship at Fox Chase Cancer Center in Philadelphia, Pennsylvania. Dr. Sauter was Vice-Chair for Research in the Department of Surgery and Professor at the University of Missouri-Columbia. He also completed his MHA while at the University of Missouri. Dr. Sauter is widely recognized for his research and clinical experience in breast cancer. Among his many accomplishments, Dr. Sauter and a team of researchers pioneered noninvasive and minimally invasive techniques to predict breast cancer risk using NAF. Dr. Sauter is the co-author of over 100 peer-reviewed publications on breast cancer, the majority of which pertain to cytology and molecular diagnostic biomarkers in NAF.

Dr. Sauter and the Company entered into a consulting agreement on February 18, 2010 which provides a $5,000 signing fee and $1,000 per month for up to four hours per month of Dr. Sauter's time. The agreement also provides reasonable travel expenses in connection with his work for the Company. The agreement terminates on December 31, 2010 but can be renewed by agreement of the parties.

Director Compensation

Upon completion of this offering, Mr. Barnhart and Drs. Tagliaferri, Galli and Cross, as non-employee directors of the Company, will receive the following:

- an initial director compensation fee of $50,000, paid in shares of the Company's common stock and that vests ratably over one year from the date of grant;
- an annual director retainer of $50,000, paid in shares of the Company's common stock and that vests ratably over one year from the date of grant; and
- an in-person meeting fee of $1,500 and a telephone meeting fee of $1,000.

Compensation for service on the Audit Committee will be $12,000 for the Chair and $8,000 for each member, paid in fully vested shares of the Company's common stock or options, payable quarterly in arrears.

Compensation for service on the Compensation Committee and Nominating/Governance Committee will be $10,000 for the Chair and $6,000 for each member, paid in fully vested shares of the Company's common stock or options, payable quarterly in arrears.

All committee members will also receive a cash payment of $2,000 per in-person meeting for the Chair and $1,500 per in-person meeting for each member and $1,500 per telephonic meeting for the Chair and $1,000 per telephonic meeting for each member.

The employee directors will receive no compensation for their board service. All directors will receive reimbursement for reasonable travel expenses.

Director Independence

The board of directors of the Company has reviewed the materiality of any relationship that each of our directors and prospective directors has with the Company, either directly or indirectly. Based on this review, the board of directors of the Company has determined that John Barnhart, a current director, and the following director nominees will be "independent directors" as defined by Section 803(A)(2)(b) of the NYSE Amex LLC Company Guide at the time they become directors (upon the completion of this offering): Mary Tagliaferri, M.D., Stephen Galli, M.D. and Alexander Cross, Ph.D.

Committees of the Board of Directors of the Company

The board of directors of the Company has provided for the establishment of an audit committee, a compensation committee and a nominating/governance committee effective upon the completion of this offering. The composition and function of each of these committees is described below.

Audit Committee

Upon completion of this offering, the audit committee will be comprised of Dr. Cross (chair), Mr. Barnhart and Dr. Galli. The board of directors of the Company has determined that Dr. Cross is an audit committee financial expert, as defined by the rules of the SEC. The audit committee will be authorized to:

- approve and retain the independent registered public accounting firm to conduct the annual audit of the Company's financial statements;
- review the proposed scope and results of the audit;
- review and pre-approve audit and non-audit fees and services;
- review accounting and financial controls with the independent auditors and the Company's financial and accounting staff;
- review and approve transactions between the Company and its directors, officers and affiliates;
- recognize and prevent prohibited non-audit services; and
- establish procedures for complaints received by the Company regarding accounting matters; oversee internal audit functions, if any.

The Company believes that the composition of its audit committee will meet the independence requirements of the applicable rules of the SEC and NYSE Amex upon completion of this offering.

Compensation Committee

Upon the completion of this offering, the compensation committee will be comprised of Dr. Tagliaferri (chair), Mr. Barnhart and Dr. Cross. All members of the compensation committee will qualify as independent directors under the current definition promulgated by NYSE Amex. The compensation committee will be authorized to:

- review and recommend the compensation arrangements for management;
- establish and review general compensation policies with the objective to attract and retain superior talent, to reward individual performance and to achieve our financial goals;
- administer stock incentive and purchase plans; and
- oversee the evaluation of the board of directors of the Company and management.

Nominating and Governance Committee

Upon the completion of this offering, the nominating and governance committee will be comprised of Mr. Barnhart (chair), Dr. Galli and Dr. Tagliaferri. All members of the nominating and governance committee will qualify as independent directors under the current definition promulgated by NYSE Amex. The nominating and governance committee will be authorized to:

- identify and nominate candidates for election to the board of directors of the Company; and
- develop and recommend to the board of directors of the Company a set of corporate governance principles applicable to our company.

Compensation Committee Interlocks and Insider Participation

No prospective member of our compensation committee has at any time been an employee of ours. None of our executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Code of Business Conduct and Ethics

The Company intends to adopt a code of business conduct and ethics that applies to all its employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics will be available on the Company's website. The Company expects that any amendments to the code, or any waivers of its requirements, will be disclosed on its website.

Limitation of Directors' and Officers' Liability and Indemnification

The Delaware General Corporation Law authorizes corporations to limit or eliminate, subject to specified conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties. The Company's certificate of incorporation and amended and restated bylaws limit the liability of its directors to the fullest extent permitted by Delaware law.

The Company has obtained director and officer liability insurance to cover liabilities the Company's directors and officers may incur in connection with their services to the Company. The Company's certificate of incorporation and amended and restated bylaws also provide that it will indemnify and advance expenses to any of its directors and officers who, by reason of the fact that he or she is an officer or director, is involved in a legal proceeding of any nature. The Company will repay certain expenses incurred by a director or officer in connection with any civil, criminal, administrative or investigative action or proceeding, including actions by the Company or in its name. Such indemnifiable expenses include, to the maximum extent permitted by law, attorney's fees, judgments, fines, settlement amounts and other expenses reasonably incurred in connection with legal proceedings. A director or officer will not receive indemnification if he or she is found not to have acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the Company's best interest.

Such limitation of liability and indemnification does not affect the availability of equitable remedies. In addition, the Company has been advised that in the opinion of the SEC, indemnification for liabilities arising under the Securities Act of 1933, as amended, is against public policy as expressed in the Securities Act and is therefore unenforceable.

There is no pending litigation or proceeding involving any of the Company's directors, officers, employees or agents in which indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

EXECUTIVE COMPENSATION

Remuneration of Officers

The Company did not accrue or pay any remuneration or compensation to any officer, director or employee in 2009. In 2010, the Company has accrued salary payments to Dr. Steven C. Quay and Dr. Shu-Chih Chen as of June 30, 2010 in the amounts and on the terms as defined below. The monthly accruals are approximately $20,833, and $16,667, respectively.

Upon the completion of this offering, the Company's compensation committee will be responsible for reviewing and evaluating key executive employee base salaries, setting goals and objectives for executive bonuses and administering benefit plans. The compensation committee will provide advice and recommendations to the board of directors of the Company on such matters. See "Committees of the Board of Directors—Compensation Committee" for further details on the role of the compensation committee.

Employment Agreements

Employment Agreement with Steven Quay, M.D. Ph.D.

The Company has entered into an employment agreement with Dr. Quay to act as the Company's chief executive officer. The agreement will provide for an initial base salary of $250,000 per year and an annual target bonus of up to 40% of Dr. Quay's then-current base salary, payable upon the achievement of performance goals to be established annually by the compensation committee.

Under the employment agreement, Dr. Quay received an option to purchase 250,000 shares of common stock at an exercise price of $5.00 per share, the fair market value of the common stock on the date of grant, as determined by the Board of Directors. 25% of the shares of common stock underlying the option, or 62,500 shares, will vest on December 31, 2010, and the remaining 75%, or 187,500 shares, will vest in equal quarterly installments over the next three years, so long as Dr. Quay remains employed with the Company.

During the employment term, the Company will make available to Dr. Quay employee benefits provided to other key employees and officers of the Company. To the extent these benefits are based on length of service with the Company, Dr. Quay will receive full credit for prior service with the Company. Participation in health, hospitalization, disability, dental and other insurance plans that the Company may have in effect for other executives, all of which shall be paid for by the Company with contribution by Dr. Quay as set for the other executives, as and if appropriate.

Dr. Quay will be entitled to six weeks of paid vacation per year for each full year of employment, pro rated for each partial year. Vacation time not taken during a calendar year will not be accrued to the next calendar year.

Dr. Quay has also agreed that, for the period commencing on the date of his employment agreement with the Company and during the term of his employment and for a period of 12 months following voluntary termination of his employment with the Company that he will not compete with the Company in the United States. The employment agreement also contains provisions relating to confidential information and assignment of inventions, which require Dr. Quay to refrain from disclosing any proprietary information and to assign to the Company any inventions which directly concern the MASCT System, Oxy-MASCT System, or future products, research, or development, or which result from work they perform for the Company or using its facilities.

Consulting Agreement with Christopher Benjamin

The Company has entered into an agreement with Christopher Benjamin to act as the Company's interim chief financial officer. The agreement provides a monthly retainer fee of $2,250 for up to 25 hours of work per month and $100 per hour beyond that level. The agreement may be terminated by the Company upon 30 days written notice.

Employment Agreement with Shu-Chih Chen

The Company has entered into an amended and restated employment agreement with Dr. Chen to act as the Company's chief scientific officer. The agreement will provide for an initial base salary of $200,000 per year and an annual target bonus of up to 30% of Dr. Chen's then-current base salary, payable upon the achievement of performance goals to be established annually by the compensation committee.

Under the employment agreement, Dr. Chen received an option to purchase 100,000 shares of common stock at an exercise price of $5.00 per share, the fair market value of the common stock on the date of grant, as determined by the Board of Directors. 25% of the shares of common stock underlying the option, or 25,000 shares, will vest on December 31, 2010, and the remaining 75%, or 75,000 shares, will vest in equal quarterly installments over the next three years, so long as Dr. Chen remains employed with the Company.

During the employment term, the Company will make available to Dr. Chen employee benefits provided to other key employees and officers of the Company. To the extent these benefits are based on length of service with the Company, Dr. Chen will receive full credit for prior service with the Company. Participation in health, hospitalization, disability, dental and other insurance plans that the Company may have in effect for other executives, all of which shall be paid for by the Company with contribution by Dr. Chen as set for the other executives, as and if appropriate.

Dr. Chen will be entitled to six weeks of paid vacation per year for each full year of employment, pro rated for each partial year. Vacation time not taken during a calendar year will not be accrued to the next calendar year.

Dr. Chen has also agreed that, for the period commencing on the date of her employment agreement with the Company and during the term of her employment and for a period of 12 months following voluntary termination of her employment with the Company that she will not compete with the Company in the United States. The employment agreement also contains provisions relating to confidential information and assignment of inventions, which require Dr. Chen to refrain from disclosing any proprietary information and to assign to the Company any inventions which directly concern the MASCT System, Oxy-MASCT System, or future products, research, or development, or which result from work she performs for the Company or using its facilities.

Severance Benefits and Change in Control Arrangements

The Company has agreed to provide the severance benefits and change in control arrangements described below to its named executive officers.

Dr. Steven Quay

Pursuant to his employment agreement, if (i) the Company terminates the employment of Dr. Quay without cause, or (ii) Dr. Quay terminates his employment for good reason, then Dr. Quay will be entitled to receive all accrued but unpaid compensation, plus a severance payment equal to twelve months of base salary. In addition, upon such event, the vesting of all shares of common stock underlying options then held by Dr. Quay will accelerate, and the options will remain exercisable for the remainder of their terms. The cash severance payment is required to be paid in substantially equal installments over a period of six months beginning on the Company's first payroll date that occurs following the 30th day after the effective date of termination of Dr. Quay's employment, subject to certain conditions. The Company will not be required, however, to pay any severance pay for any period following the termination date if Dr. Quay materially violates certain provisions of his employment agreement and the violation is not cured within 30 days following receipt of written notice from the Company containing a description of the violation and a demand for immediate cure.

In addition, under the terms of his employment agreement, in the event of a "change in control" of the Company (as defined in the employment agreement) during Dr. Quay's employment term, Dr. Quay will be entitled to receive a one-time payment equal to 2.9 times his base salary, and the vesting of all outstanding equity awards then held by Dr. Quay will accelerate such that they are fully vested as of the date of the change in control.

Dr. Shu-Chih Chen

Pursuant to her employment agreement, if (i) the Company terminates the employment of Dr. Chen without cause, or (ii) Dr. Chen terminates her employment for good reason, then Dr. Chen will be entitled to receive all accrued but unpaid compensation, plus a severance payment equal to twelve months of base salary. In addition, upon such event, the vesting of all shares of common stock underlying options then held by Dr. Chen will accelerate, and the options will remain exercisable for the remainder of their terms. The cash severance payment is required to be paid in substantially equal installments over a period of six months beginning on the Company's first payroll date that occurs following the 30th day after the effective date of termination of Dr. Chen's employment, subject to certain conditions. The Company will not be required, however, to pay any severance pay for any period following the termination date if Dr. Chen materially violates certain provisions of her employment agreement and the violation is not cured within 30 days following receipt of written notice from the Company containing a description of the violation and a demand for immediate cure.

In addition, under the terms of her employment agreement, in the event of a "change in control" of the Company (as defined in the employment agreement) during Dr. Chen's employment term, Dr. Chen will be entitled to receive a one-time payment equal to 2.9 times her base salary, and the vesting of all outstanding equity awards then held by Dr. Chen will accelerate such that they are fully vested as of the date of the change in control.

2010 Stock Option and Incentive Plan

The Company's 2010 Stock Option and Incentive Plan, or the 2010 Plan, provides for the grant of equity-based awards to employees, officers, non-employee directors and other key persons providing services to the Company. Awards of incentive options may be granted under the 2010 Plan until September 2020. No other awards may be granted under the 2010 Plan after the date that is 10 years from the date of stockholder approval.

Plan Administration. The 2010 Plan may be administered by the full board or the compensation committee. It is the current intention of the Company that the 2010 Plan be administered by the compensation committee. The compensation committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2010 Plan. The compensation committee may delegate to our chief executive officer the authority to grant stock options to employees who are not subject to the reporting and other provisions of Section 16 of the Exchange Act and not subject to Section 162(m) of the Code, subject to certain limitations and guidelines.

Eligibility. Persons eligible to participate in the 2010 Plan will be those full or part-time officers, employees, non-employee directors and other key persons (including consultants and prospective officers) of the Company and its subsidiaries as selected from time to time by the compensation committee in its discretion.

Plan Limits. Initially, the total number of shares of common stock available for issuance under the 2010 Plan is 1,000,000 shares. On January 1, 2012 and each January 1 thereafter, the number of shares of common stock reserved and available for issuance under the 2010 Plan will be cumulatively increased by 4% of the number of shares of common stock issued and outstanding on the immediately preceding December 31. Subject to these overall limitations, the maximum aggregate number of shares of Stock that may be issued in the form of incentive stock options or stock appreciation rights to any one individual will not exceed the initial 2010 Plan limit of 1,000,000, cumulatively increased on January 1, 2012 and each January 1 thereafter by the lesser of (i) the 4% annual increase applicable to the 2010 Plan for such year or (ii) 500,000 shares.

Stock Options. The 2010 Plan permits the granting of (i) options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Code and (ii) options that do not so qualify. Options granted under the 2010 Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Incentive stock options may only be granted to employees of the Company and its subsidiaries. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee directors and key persons. The option exercise price of each option will be determined by the compensation committee but may not be less than 100% of the fair market value of the common stock on the date of grant. Fair market value for this purpose will be the last reported sale price of the shares of common stock on the NYSE Amex on the date of grant; provided, that if the date of grant is the first day on which trading prices for our common stock are reported on the NYSE Amex, the fair market value will be the price to the public of shares of our common stock in this offering. The exercise price of an option may not be reduced after the date of the option grant, other than to appropriately reflect changes in our capital structure.

The term of each option will be fixed by the compensation committee and may not exceed 10 years from the date of grant. The compensation committee will determine at what time or times each option may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the compensation committee. In general, unless otherwise permitted by the compensation committee, no option granted under the 2010 Plan is transferable by the optionee other than by will or by the laws of descent and distribution, and options may be exercised during the optionee's lifetime only by the optionee, or by the optionee's legal representative or guardian in the case of the optionee's incapacity.

Upon exercise of options, the option exercise price must be paid in full either in cash, by certified or bank check or other instrument acceptable to the compensation committee or by delivery (or attestation to the ownership) of shares of common stock that are beneficially owned by the optionee for at least six months or were purchased in the open market. Subject to applicable law, the exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee. In addition, the compensation committee may permit non-qualified options to be exercised using a net exercise feature which reduces the number of shares issued to the optionee by the number of shares with a fair market value equal to the exercise price.

To qualify as incentive options, options must meet additional federal tax requirements, including a $100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year.

Stock Appreciation Rights. The compensation committee may award stock appreciation rights subject to such conditions and restrictions as the compensation committee may determine. Stock appreciation rights entitle the recipient to shares of common stock equal to the value of the appreciation in the stock price over the exercise price. The exercise price is the fair market value of the common stock on the date of grant. The term of a stock appreciation right will be fixed by the compensation committee and may not exceed 10 years.

Restricted Stock. The compensation committee may award shares of common stock to participants subject to such conditions and restrictions as the compensation committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with us through a specified restricted period.

Restricted Stock Units. The compensation committee may award restricted stock units to any participants. Restricted stock units are generally payable in the form of shares of common stock, although restricted stock units granted to the chief executive officer may be settled in cash. These units may be subject to such conditions and restrictions as the compensation committee may determine. These conditions and restrictions may include the achievement of certain performance goals (as summarized above) and/or continued employment with the Company through a specified vesting period. In the compensation committee's sole discretion, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a restricted stock unit award, subject to the participant's compliance with the procedures established by the compensation committee and requirements of Section 409A of the Code. During the deferral period, the deferred stock awards may be credited with dividend equivalent rights.

Adjustments for Stock Dividends, Stock Splits, Etc. The 2010 Plan requires the compensation committee to make appropriate adjustments to the number of shares of common stock that are subject to the 2010 Plan, to certain limits in the 2010 Plan, and to any outstanding awards to reflect stock dividends, stock splits, extraordinary cash dividends and similar events.

Tax Withholding. Participants in the 2010 Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon the exercise of options or stock appreciation rights or vesting of other awards. Subject to approval by the compensation committee, participants may elect to have the minimum tax withholding obligations satisfied by authorizing the Company to withhold shares of common stock to be issued pursuant to the exercise or vesting.

Amendments and Termination. The board of directors of the Company may at any time amend or discontinue the 2010 Plan and the compensation committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder's consent. To the extent required under the NYSE Amex rules, any amendments that materially change the terms of the 2010 Plan will be subject to approval by our stockholders. Without approval by our stockholders, the compensation committee may not reduce the exercise price of options or stock appreciation rights or effect repricing through cancellation or re-grants, including any cancellation in exchange for cash. Amendments shall also be subject to approval by our stockholders if and to the extent determined by the compensation committee to be required by the Code to preserve the qualified status of incentive options or to ensure that compensation earned under the 2010 Plan qualifies as performance-based compensation under Section 162(m) of the Code.

Retirement Plan and Other Benefits

The Company offers health, dental, disability, and life insurance to its full-time employees.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Dr. Quay is the president, chief executive officer and chairman of the board of directors of the Company. Dr. Chen is the chief scientific officer and a director of the Company. Drs. Quay and Chen are husband and wife. Prior to the completion of this offering, Drs. Quay and Chen were the Company's majority stockholders. After the completion of this offering and exercise of the Class A Warrants, Drs. Quay and Chen will no longer be majority stockholders but will remain substantial minority stockholders. Ensisheim Partners, LLC, which holds 66.3% of the outstanding common stock of the Company prior to this offering, is wholly owned by Drs. Quay and Chen, and they are the beneficial owners of the shares of the Company's stock owned by that entity.

Ensisheim was the original owner of the patents covering the MASCT System, which were acquired by the Company in June 2010. Ensisheim has no further interest or right to the U.S. patents and foreign counterparts that cover the manufacture, use, and selling of the MASCT System, the pending patent applications for improvements, or the FDA marketing authorization for the MASCT System that was transferred to the Company. Ensisheim did not receive any monetary compensation in connection with the transfer and assignment to the Company of these patents and other assets.

On December 24, 2009, the Company entered into a commercial lease agreement with Ensisheim for office space located in Seattle, Washington, at an annual rent of $13,200 plus applicable sales tax. The original term of the lease was to expire on December 31, 2010. From April 30, 2009 (inception) through June 30, 2010, the Company incurred $6,848 of rent expense for the lease. As of June 30, 2010, security deposit for the lease amounted to $1,100. On July 15, 2010, the Company and Ensisheim terminated the lease, effective July 1, 2010 and the Company began occupying the facility on a rent-free basis.

The Company has borrowed an aggregate of $105,000 from Dr. Quay pursuant to promissory notes that are due and payable in full on or before December 31, 2010. The notes bear an annual interest rate of 10% accruing from June 30, 2010 and carry a pass-through loan origination fee of $4,000.

In July 2010, in connection with the departure of Robert L. Kelly, a former officer, the Company entered into a consulting agreement with a limited liability company controlled by Mr. Kelly. Under the agreement, the Company was to receive consulting services relating to capital raising and investor relations. The agreement was terminated by the Company in September 2010, through which time a total of $30,000 had been paid.

Indemnification Agreements

Prior to the completion of this offering, the Company intends to enter into indemnification agreements with each of its directors and certain of its executive officers. These agreements will require the Company to indemnify these individuals to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to the Company, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified.

Related Party Transaction Policies

Related party transactions to be entered into after the completion of this offering and that the Company is required to disclose publicly under the federal securities laws will require prior approval of the Company's independent directors without the participation of any director who may have a direct or indirect interest in the transaction in question. Related parties include directors, nominees for director, principal stockholders, executive officers and members of their immediate families. For these purposes, a "transaction" will include all financial transactions, arrangements or relationships, ranging from extending credit to the provision of goods and services for value and will include any transaction with a company in which a director, executive officer immediate family member of a director or executive officer, or principal stockholder (that is, any person who beneficially owns five percent or more of any class of the Company's voting securities) has an interest by virtue of a 10% or greater equity interest. The Company's policies and procedures regarding related party transactions are not expected to be a part of a formal written policy, but rather, will represent a course of practice determined to be appropriate by the board of directors of the Company.

PRINCIPAL STOCKHOLDERS

The following table sets forth information as of September 30, 2010 regarding the beneficial ownership of the Company's common stock by each of its executive officers and directors, individually and as a group and by each person who beneficially owns in excess of five percent of the common stock after giving effect to any exercise of warrants or options held by that person within 60 days after September 30, 2010. Unless indicated otherwise, the address for the beneficial holders is c/o Atossa Genetics Inc., 4105 E. Madison St., Suite 320, Seattle, Washington 98112.

Name of Beneficial Owner	Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned	
		Before Offering (1)	After Offering (2)
Directors and Officers			
Steven C. Quay, M.D., Ph.D. (3)	4,293,252	71.6%	35.8%
Shu-Chih Chen (4)	3,976,460	66.3%	33.1%
John Barnhart	48,602	*	*
Christopher Benjamin	0	—	—
All Current Officers and Directors as a Group (4 persons)	4,341,854	72.4%	36.2%
Director Nominees			
Mary Tagliaferri, M.D.	0	—	—
Stephen Galli, M.D.	17,674	*	*
Alexander D. Cross (5)	88,366	1.5%	*

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* Less than 1%

(1) Based on 6,000,063 shares of common stock issued and outstanding as of September 30, 2010 after giving effect to a one-for-2.26332 reverse split of our common stock effected in September 2010.

(2) Assumes the sale of 9,000,000 shares of common stock, representing 3,000,000 shares underlying the Units and an additional 6,000,000 shares issuable upon exercise of the Class A Warrants.

(3) Includes (i) 316,792 shares of common stock directly owned by Dr. Quay and (ii) 3,976,460 shares of common stock owned by Ensisheim. Ensisheim is solely owned and controlled by Drs. Quay and Chen, and, as a result, Drs. Quay and Chen are deemed to be beneficial owners of the shares held by this entity.

(4) Consists of 3,976,460 shares of common stock owned by Ensisheim. Ensisheim is solely owned and controlled by Drs. Quay and Chen, and, as a result, Drs. Quay and Chen are deemed to be beneficial owners of the shares held by this entity.

(5) Represents 88,366 shares of common stock held by the Alexander D. Cross Family Trust.

DESCRIPTION OF SECURITIES

Capitalization

The following description of the Company's capital stock gives effect to an increase in the authorized number of shares of common stock of the Company and a one-for-2.26332 reverse stock split of the outstanding common stock of the Company effected in September 2010.

The Company is authorized to issue 75,000,000 shares of common stock, par value $0.001 per share, of which 6,000,063 shares were outstanding as of the date of this prospectus, and 10,000,000 shares of undesignated preferred stock, par value $0.001 per share, none of which have been designated or issued.

As of September 30, 2010, there were 56 record holders of the Company's common stock.

Units

Unit Composition. The Company is offering for sale 3,000,000 Units, with each Unit consisting of (i) one share of common stock, (ii) two Class A Warrants, and (iii) one Class B Warrant. A description of the common stock, Class A Warrants and Class B Warrants is set forth below. The securities underlying the Units will automatically separate from the Units on the 90th day after the date of this prospectus, unless Dawson James Securities, Inc., the representative of the underwriters, determines that an earlier separation date is acceptable based on its assessment of the relative strengths of the securities markets and small capitalization companies in general, and the trading pattern of, and demand for, the Company's securities in particular. The Company will issue a press release announcing when such separation will occur.

Rights as Stockholder. Unit holders do not have any voting or other rights as a stockholder of the Company. Upon the separation of the Units, a Unit holder will be deemed to have become the holder of record of the underlying common stock as of the date of separation. If the date of separation is a date upon which the stock transfer books of the Company are closed, the Unit holder will be deemed to have become the record holder of the underlying common stock the next day on which the stock transfer books of the Company are open.

Listing of Units. The Units are expected to be listed for trading on the NYSE Amex under the symbol "ATOSU." Once the securities comprising the Units separate, the Units will cease trading and be cancelled and terminated.

Common Stock

Voting Rights. Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the stockholders. Holders of common stock do not have cumulative voting rights.

Dividend and Distribution Rights. Holders of common stock are entitled to share ratably in dividends, if any, as may be declared from time to time by the board of directors of the Company in its discretion from funds legally available therefore. In the event of a liquidation, dissolution or winding up, the holders of common stock are entitled to share pro rata all assets remaining after payment in full of all liabilities and all amounts due to holders of preferred stock that may have a liquidation preference that is senior to the common stock.

No Preemptive Rights. Holders of common stock have no preemptive rights to purchase additional shares of the Company's common stock.

Other Rights. There are no conversion or redemption rights or sinking fund provisions with respect to the common stock.

Listing of Common Stock. The common stock is expected to be listed for trading on the NYSE Amex under the symbol "ATOS." Trading of the common stock will not commence until the Units are separated.

Class A Warrants

Below is a summary of the material terms of the Class A Warrants, including relevant provisions of the Warrant Agent Agreement between the Company and Onyx Stock Transfer, LLC, the Warrant Agent for the Class A Warrants and the Class B Warrants, or Onyx Stock Transfer. This summary is qualified with reference to the Warrant Agent Agreement and the Class A Warrant Certificate, copies of which have been filed as exhibits to the Company's registration statement, of which this prospectus is a part. Investors are urged to review the Warrant Agent Agreement and the form of Class A Warrant Certificate for additional information regarding the Class A Warrants.

Purchase Rights. Each Class A Warrant will entitle the holder to acquire one share of common stock during the exercise period and subject to the conditions set forth below.

Warrant Agent; Book Entry and Certificated Warrants. Onyx Stock Transfer will serve as the warrant agent for the Class A Warrants. Onyx Stock Transfer also serves as the transfer agent and registrar for the Units, common stock, Class A Warrants and Class B Warrants. Certificates representing Class A Warrants are expected to be issued in "book entry" form, deposited with the Depository Trust Company and registered in the name of Cede & Co., a nominee of Depository Trust Company. If warrant certificates cannot be issued in book entry form, or if a warrant holder requests in writing that a warrant certificate be issued in physical form, then the warrant agent will issue a Class A Warrant Certificate.

Listing of Class A Warrants. The Class A Warrants will not be listed for trading on any securities exchange.

Exercise Period. The Class A Warrants will be exercisable at the option of the holder for a period of 10 days, beginning the sixth trading day after separation of the Units. The Company intends to issue a press release announcing the separation of the securities and the commencement of the 10-day exercise period. If any Class A Warrants are not exercised prior to the expiration of this 10-day period, those warrants will expire.

Exercise Price. Each Class A Warrant will have an exercise price of $0.05 per share of common stock, which may only be paid on a cashless "net exercise" basis. When exercising a Class A Warrant on a net exercise basis, the holder will be entitled to receive a number of shares of common stock for each Class A Warrant, rounded up to the nearest whole number, calculated using the following formula:

$$X = \frac{(A - \$0.05)}{A}$$

Where:

X = the number of shares of common stock to be issued to the holder per Class A Warrant

A = the five trading-day average closing price of the Company's common stock immediately following separation of the Units

Because the number of shares of common stock to be issued upon exercise of the Class A Warrant will be rounded up to the nearest whole share, each Class A Warrant will represent the right to acquire one share of common stock irrespective of the common stock value, unless the five-day average price of the common stock is equal to or less than $0.05 per share, in which case the Class A Warrant would have no value. The exercise price and the number of shares of common stock purchasable upon the exercise of each warrant are subject to adjustment upon the happening of certain events, such as stock dividends, distributions, stock splits and recapitalizations, although the Company does not expect any such events to occur prior to the expiration of the Class A Warrants.

Rights as Stockholder. Warrant holders do not have any voting or other rights as a stockholder of the Company. Upon the exercise of the Class A Warrants, a holder will be deemed to have become the holder of record of the underlying common stock as of the date upon which the Class A Warrant Certificate (if issued) was surrendered and the exercise notice was submitted. If the date of such surrender (if applicable) and submission is a date upon which the stock transfer books of the Company are closed, the holder will be deemed to have become the record holder of the common stock the next day on which the stock transfer books of the Company are open.

Limits on Exercise. The Class A Warrants provide that no exercise will be effected, and the holder of a warrant will not have the right to exercise a warrant, if after giving effect to the exercise the holder, together with any affiliates, would beneficially own in excess of 4.99% of the number of shares of common stock of the Company outstanding immediately after giving effect to the issuance of shares upon exercise. The holder may, upon 61 days prior written notice, waive this 4.99% limit and thereby elect to increase the exercise limit to 9.99% of the total shares outstanding. The holder may not waive the 9.99% limit. To the extent that a warrant holder cannot exercise a Class A Warrant due to this limitation, the unexercised portion of the Class A Warrant will expire at the end of the 10-day exercise period.

Amendment. With the consent of holders of Class A Warrants representing a majority of the shares issuable upon exercise of all outstanding Class A Warrants, the Company and Onyx Stock Transfer, as the Warrant Agent, may modify the Warrant Agent Agreement or modify the rights of the holders of the Class A Warrants; provided, however, that no modifications made be made to the terms upon which the Class A Warrants are exercisable without the consent of the holder of each outstanding Class A Warrant that would be affected by the proposed amendment.

Fundamental Transaction. The Class A Warrants will be exercisable for securities, property or rights other than Company common stock if any of the following transactions (each referred to below in this subsection as a Fundamental Transaction) occur while Class A Warrants are issued and outstanding:

- the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another person;

- the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions;

- any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Company common stock are permitted to sell, tender or exchange their shares for other securities, cash or property and such offer has been accepted by the holders of 50% or more of the outstanding Company common stock;

- the Company, directly or indirectly, in one or more related transactions, effects any reclassification, reorganization or recapitalization of the common stock or any compulsory share exchange pursuant to which the common stock is effectively converted into or exchanged for securities other than the Company's securities, cash or property; or

- the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person whereby such other person acquires more than 50% of the outstanding shares of common stock (not including any shares of common stock held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination).

Following the occurrence of a Fundamental Transaction, upon any exercise of a Class A Warrant, the holder will have the right to receive, for each share of common stock that would have been issuable prior to the occurrence of the Fundamental Transaction, securities of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (e.g., cash) payable in connection with the Fundamental Transaction on each share of common stock that was outstanding immediately prior to the Fundamental Transaction. For example, if the Company is acquired in a merger where each share of Company common stock will receive upon closing one share of the acquiring company, plus $1.00 per share, then the holders of Class A Warrants would be entitled upon exercise to receive the same combination of cash and stock. If holders of common stock are given any choice as to the type of consideration they will receive in a Fundamental Transaction, then the warrant holders will, upon exercise of the warrants, be given the same choice.

Redemption Rights. The Company will have no rights to call the Class A Warrants for redemption.

Ranking. The Class A Warrants are equal in seniority to the Class B warrants.

Class B Warrants

Below is a summary of the material terms of the Class B Warrants, including relevant provisions of the Warrant Agent Agreement. This summary is qualified with reference to the Warrant Agent Agreement and the Class B Warrant Certificate, copies of which have been filed as exhibits to the Company's registration statement, of which this prospectus is a part. Investors are urged to review the Warrant Agent Agreement and the form of Class B Warrant Certificate for additional information regarding the Class B Warrants.

Purchase Rights. Each Class B Warrant will entitle the holder to acquire one share of common stock during the exercise period and subject to the conditions set forth below.

Warrant Agent; Book Entry and Certificated Warrants. Onyx Stock Transfer will serve as the warrant agent for the Class B Warrants. Onyx Stock Transfer also serves as the transfer agent and registrar for the Units, common stock, Class A Warrants and Class B Warrants. Certificates representing Class B Warrants are expected to be issued in "book entry" form, deposited with the Depository Trust Company and registered in the name of Cede & Co., a nominee of Depository Trust Company. If warrant certificates cannot be issued in book entry form, or if a warrant holder requests in writing that a warrant certificate be issued in physical form, then the warrant agent will issue a Class B Warrant Certificate.

Listing of Class B Warrants. The Class B Warrants are expected to be listed for trading on the NYSE Amex under the symbol "ATOSW." Trading will not commence until the Class B Warrants are separated from the Units.

Exercise Period. Subject to the redemption right described below, the Class B Warrants will be exercisable at the option of the holder commencing on the first anniversary of the date of this prospectus and continuing until the fifth anniversary of the date of separation of the Units. The Company intends to issue a press release announcing the separation of the securities and the commencement of the exercise period. If any Class B Warrants are not exercised prior to the expiration of this five-year exercise period, those warrants will expire.

Exercise Price. Each Class B Warrant will have an exercise price equal to 55% of the Unit offering price. With an assumed Unit offering price of $6.00 per Unit, which is the midpoint of the estimated price range on the cover of this prospectus, the Class B Warrant exercise price would initially be $3.30 per share. The Class B Warrants may be exercised only for full shares of common stock.

The Class B Warrants must be exercised for cash, unless the Company does not then have an effective registration statement under the Securities Act of 1933 covering the issuance of the shares underlying the Class B Warrants, in which case they may only be exercised on a cashless, net exercise basis. When exercising a Class B Warrant on a net exercise basis, the holder will be entitled to receive a number of shares of common stock upon exercise calculated using the following formula:

$$X = \frac{Y\,(A - B)}{A}$$

Where:

X = the number of shares of common stock to be issued to the holder under Class B Warrants being exercised

Y = the number of Class B Warrants being exercised

A = the ten trading-day average closing price of the Company's common stock prior to exercise

B = the exercise price of the Class B Warrants (initially $3.30, based on an assumed offering price of $6.00 per Unit), subject to any applicable adjustments

The exercise price and the number of shares of common stock purchasable upon the exercise of each warrant are subject to adjustment upon the happening of certain events, such as stock dividends, distributions, stock splits and recapitalizations.

Rights as Stockholder. Warrant holders do not have any voting or other rights as a stockholder of the Company. Upon the exercise of the Class B Warrants, a holder will be deemed to have become the holder of record of the underlying common stock as of the date upon which the Class B Warrant Certificate (if issued) was surrendered and the exercise notice was submitted. If the date of such surrender (if applicable) and submission is a date upon which the stock transfer books of the Company are closed, the holder will be deemed to have become the record holder of the common stock the next day on which the stock transfer books of the Company are open.

Limits on Exercise. The Class B Warrants provide that no exercise will be effected, and the holder of a warrant will not have the right to exercise a warrant, if after giving effect to the exercise the holder, together with any affiliates, would beneficially own in excess of 4.99% of the number of shares of common stock of the Company outstanding immediately after giving effect to the issuance of shares upon exercise. The holder may, upon 61 days prior written notice, waive this 4.99% limit and thereby elect to increase the exercise limit to 9.99% of the total shares outstanding. The holder may not waive the 9.99% limit. To the extent that a warrant holder cannot exercise a Class B Warrant due to this limitation, the unexercised portion of the Class B Warrant will expire at the end of the exercise period.

Amendment. With the consent of holders of Class B Warrants representing a majority of the shares issuable upon exercise of all outstanding Class B Warrants, the Company and Onyx Stock Transfer, as the Warrant Agent, may modify the Warrant Agent Agreement or modify the rights of the holders of the Class B Warrants; provided, however, that no modifications made be made to the terms upon which the Class B Warrants are exercisable without the consent of the holder of each outstanding Class B Warrant that would be affected by the proposed amendment.

Fundamental Transaction. The Class B Warrants will be exercisable for securities, property or rights other than Company common stock if any of the following transactions (each referred to below in this subsection as a Fundamental Transaction) occur while Class B Warrants are issued and outstanding:

- the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another person;

- the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions

- any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Company common stock are permitted to sell, tender or exchange their shares for other securities, cash or property and such offer has been accepted by the holders of 50% or more of the outstanding Company common stock;

- the Company, directly or indirectly, in one or more related transactions, effects any reclassification, reorganization or recapitalization of the common stock or any compulsory share exchange pursuant to which the common stock is effectively converted into or exchanged for securities other than the Company’s securities, cash or property; or

- the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person whereby such other person acquires more than 50% of the outstanding shares of common stock (not including any shares of common stock held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination).

Following the occurrence of a Fundamental Transaction, upon any exercise of a Class B Warrant, the holder will have the right to receive, for each share of common stock that would have been issuable prior to the occurrence of the Fundamental Transaction, securities of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (e.g., cash) payable in connection with the Fundamental Transaction on each share of common stock that was outstanding immediately prior to the Fundamental Transaction. For example, if the Company is acquired in a merger where each share of Company common stock will receive one share of the acquiring company's common stock, plus $1.00 per share, then the holders of Class B Warrants would be entitled upon exercise to receive the same combination of stock and cash. If holders of Company common stock are given any choice as to the type of consideration they will receive in a Fundamental Transaction, then the warrant holders will, upon exercise of the warrants, be given the same choice.

Redemption Rights. The Company will have the right to redeem the Class B Warrants at $0.25 per share of common stock underlying the Class B Warrants in the event (i) the average of the closing price of the common stock exceeds 200% of the exercise price for 10 consecutive trading days while the warrants are exercisable and (ii) there is then an effective registration statement with a current prospectus on file with the SEC covering the exercise of the Class B Warrants for cash. In the event that the Company wishes to call the Class B Warrants for redemption, it will provide warrant holders with 30 days prior notice of the redemption, during which time the holders of Class B Warrants may continue to exercise the warrant. At the end of the 30-day period, and assuming the Company has complied with applicable redemption requirements, the warrant holders will thereafter be entitled only to receive the redemption value, subject to the surrender of warrant certificates, if applicable.

Ranking. The Class B Warrants are equal in seniority to the Class A warrants.

Preferred Stock

The board of directors of the Company is authorized to provide for the issuance of any or all of the shares of preferred stock in series and, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the board of directors of the Company with respect to each series of preferred stock includes determination of the following characteristics:

- The number of shares constituting that series and the distinctive designation of that series;
- The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;
- Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the board of directors of the Company shall determine;
- Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;
- The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the relative rights of priority, if any, of payment of shares of that series; and
- Any other relative rights, preferences and limitations of that series.

Anti-Takeover Devices

The Company's certificate of incorporation authorizes "blank-check" preferred stock, which means that the board of directors of the Company has the authority to designate one or more series of preferred stock without stockholder approval. These series of preferred stock may have superior rights, preferences and privileges over our common stock, including dividend rights, voting rights and liquidation preferences. The ability of the board of directors of the Company to issue shares of the Company's preferred stock without stockholder approval could deter takeover offers and make it more difficult or costly for a third party to acquire the Company without the consent of the board of directors of the Company.

In addition, the Company's certificate of incorporation does not opt out of Section 203 of the Delaware General Corporation Law, which protects a corporation against an unapproved takeover by basically prohibiting a company from engaging in any business combination with any interested stockholder (defined as a stockholder owning more than 15% of the outstanding shares) for a period of three years from the time such stockholder became a 15% holder unless approved by the board of directors of the Company. These antitakeover devices will inhibit any attempt by stockholders to, for whatever reason, attempt a takeover of the Company.

No Trading Market

There is currently no established public trading market for the Company's securities. A trading market in the securities may never develop. The Company intends to apply for listing of the Units, its common stock and the Class B Warrants on the NYSE Amex under the trading symbols "ATOSU," "ATOS" and "ATOSW," respectively. If for any reason the Units, the Company's common stock or the Class B Warrants are not so listed or a public trading market does not develop, purchasers of the Units may have difficulty selling their securities. The Class A Warrants will not be listed for trading on any exchange.

NYSE Amex Listing Requirements

The NYSE Amex has established quantitative standards for initial listing of companies as well as continuation of listing standards. The NYSE Amex has four differing listing standards applicable for initial listing. The initial listing standard that most effectively applies to the Company consists of a market capitalization of at least $50 million, a market value of the public float of $15 million, a minimum per share price of $2.00, stockholders equity of at least $4 million, and at least 400 public stockholders with at least 1.0 million shares. In addition, the NYSE Amex has qualitative standards concerning corporate governance, director independence, and conflicts of interest that must be met. The Company believes that following this offering it will meet the requirements for initial listing.

Dividends

The Company does not anticipate declaring dividends but anticipates that it will use any funds for further development and growth of the Company.

Transfer Agent

Onyx Stock Transfer, LLC, 2672 Bayshore Parkway, Suite 1055, Mountain View, California 94043 (telephone: (650) 215-4880; facsimile: (650) 215-4884) will serve as transfer agent for the Units, Class A Warrants, Class B Warrants and common stock of the Company.

SHARES ELIGIBLE FOR FUTURE SALE

As of the date of this prospectus, there are 6,000,063 shares of common stock outstanding. Of such shares, approximately 4,340,000 are owned directly and beneficially by affiliates of the Company, are not being registered in this prospectus, are subject to the limitations of Rule 144 under the Securities Act and may not be sold publicly unless they are registered under the Securities Act or are sold pursuant to Rule 144. These shares are subject to a lock-up agreement restricting the sale of such shares for one year from the date of effectiveness of the registration statement of which this prospectus forms a part. In the event shares not currently salable become salable by means of registration or eligibility for sale under Rule 144 and the holders of such shares elect to sell such shares in the public market, there is likely to be a negative effect on the market price of the Company's securities.

Lock-Up Agreements

As of the effective date of this prospectus, the holders of all the Company's outstanding shares of common stock have entered into lock-up agreements with the underwriters restricting the sale of such shares, including all the shares owned directly and beneficially by affiliates of the Company.

The lock-up agreements restrict the sale of such shares from the effective date of the registration statement of which this prospectus is a part for a period of 12 months, after which time the provisions of the lock-up agreement expire. However, such shares cannot be sold publicly unless registered under the Securities Act or sold pursuant to provisions of Rule 144 promulgated pursuant to the Securities Act.

CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion sets forth certain material U.S. federal income tax considerations in connection with the purchase of the Units and of the ownership and disposition of the common stock, Class A Warrants and Class B Warrants underlying the Units and the exercise or expiration of the warrants, in each case to U.S. Holders and Non-U.S. Holders (each as defined below). This discussion is based upon the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations promulgated thereunder, judicial decisions, and the U.S. Internal Revenue Service's, or IRS's, current administrative rules, practices and interpretations of law, all as in effect on the date of this document, and all of which are subject to change, possibly with retroactive effect, and to differing interpretations, which could result in U.S. federal income tax consequences different from those described below. This discussion applies only to holders that hold common stock and warrants as capital assets, and does not address all aspects of U.S. federal income taxation that may be important to particular holders in light of their individual circumstances or to holders who may be subject to special tax rules, including, without limitation, partnerships (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes), dealers in securities or foreign currency, traders in securities that use a mark-to-market method of accounting for securities holdings, U.S. expatriates, U.S. persons whose functional currency is not the U.S. dollar, "controlled foreign corporations", "passive foreign investment companies", insurance companies, tax-exempt organizations, banks, financial institutions, broker-dealers, holders who hold common stock as part of a hedge, straddle, conversion, constructive sale or other integrated security transaction, or who acquired common stock pursuant to the exercise of compensatory stock options or otherwise as compensation, all of whom may be subject to tax rules that differ significantly from those summarized below.

In addition, newly enacted legislation imposes withholding taxes on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless additional certification, information reporting and other specified requirements are satisfied. Failure to comply with the new reporting requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to foreign intermediaries and certain non-U.S. Holders. Prospective investors should consult their own tax advisers regarding this new legislation.

We have not sought, and will not seek, a ruling from the IRS regarding the U.S. federal income tax consequences of this offering. The following discussion does not address the tax consequences of this offering under foreign, state, or local tax laws, or the alternative minimum tax provisions of the Code. Accordingly, you are urged to consult your tax advisor with respect to the particular tax consequences of this offering.

For purposes of this description, a "U.S. Holder" is a beneficial owner of common stock or a warrant that is:

- An individual citizen or resident of the United States;
- a corporation or other entity taxable as a corporation that is created or organized in or under the laws of the U.S., any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation, regardless of its source; or
- a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust (or the trust was in existence on August 20, 1996, and validly elected to continue to be treated as a U.S. person).

For purposes of this discussion, a Non-U.S. Holder is a beneficial owner of common stock or a warrant that is not a U.S. Holder and is not a partnership for U.S. federal income tax purposes. If an entity classified as a partnership for U.S. federal income tax purposes holds common stock or a warrant, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Any holder of common stock or a warrant that is a partnership, or any partner in such a partnership, should consult its tax advisors.

THIS SUMMARY IS ONLY A GENERAL DISCUSSION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, LEGAL, OR TAX ADVICE. THE U.S. FEDERAL INCOME TAX TREATMENT OF THE UNITS IS COMPLEX . EACH HOLDER WHO ACQUIRES UNITS IS STRONGLY URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISER WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN INCOME, ESTATE AND OTHER TAX CONSEQUENCES OF THE ACQUISITION OF THE UNITS, WITH SPECIFIC REFERENCE TO SUCH PERSON'S PARTICULAR FACTS AND CIRCUMSTANCES.

U.S. Holders

The following is a summary of certain U.S. federal income tax considerations applicable to a U.S. Holder:

Common Stock

Distributions. Distributions with respect to common stock, if any, will be includible in the gross income of a U.S. Holder as ordinary dividend income to the extent paid out of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Any portion of a distribution in excess of current or accumulated earnings and profits would be treated as a return of the holder's tax basis in its common stock and then as gain from the sale or exchange of the common stock. Under current law, if certain requirements are met, a maximum 15% U.S. federal income tax rate will apply to any dividends paid to a holder of common stock who is a U.S. individual and that is included in the U.S. Holder's income prior to January 1, 2011.

Distributions to U.S. Holders that are corporate shareholders, constituting dividends for U.S. federal income tax purposes, may qualify for the 70% dividends received deduction, or DRD, which is generally available to corporate shareholders that own less than 20% of the voting power or value of the outstanding stock of the distributing corporation. A U.S. holder that is a corporate shareholder holding 20% or more of the distributing corporation may be eligible for an 80% DRD. No assurance can be given that we will have sufficient earnings and profits (as determined for U.S. federal income tax purposes) to cause any distributions to be eligible for a DRD. In addition, a DRD is available only if certain holding periods and other taxable income requirements are satisfied. The length of time that a U.S. Holder has held stock is reduced by any period during which the U.S. Holder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales, or other similar transactions. Also, to the extent that a corporation incurs indebtedness that is directly attributable to an investment in the stock on which the dividend is paid, all or a portion of the DRD may be disallowed. In addition, any dividend received by a corporation may also be subject to the extraordinary distribution provisions of the Tax Code.

Dispositions. If you sell or otherwise dispose of any shares of common stock, you will generally recognize capital gain or loss equal to the difference between your amount realized and your adjusted tax basis of such shares of common stock. The respective tax bases of the common stock, the Class A Warrants and the Class B Warrants underlying the Units acquired in this offering will be determined by first allocating the purchase price for each Unit among the common stock, the Class A Warrants and the Class B Warrants in proportion to their respective fair market values on the date the Unit is purchased. (See "Warrants – Cashless Exercise" and "Warrants – Exercise for Cash" below for a discussion of tax basis with respect to common stock received upon exercise of a Class A Warrant or a Class B Warrant). Such capital gain or loss will be long-term capital gain or loss if your holding period for such shares of common stock is more than one year. Long-term capital gain of a non-corporate U.S. Holder, including an individual, that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15%. Your holding period for the common stock underlying a Unit will begin on the date the Unit is purchased. (See "Warrants – Cashless Exercise" and "Warrants - - Exercise for Cash" below for a discussion of holding period with respect to common stock received upon exercise of a Class A Warrant or a Class B Warrant). The deductibility of capital losses is subject to limitations.

Warrants

Dispositions. If you sell or otherwise dispose of a warrant, you will generally recognize capital gain or loss equal to the difference between the amount realized and your adjusted tax basis of such warrant. The respective tax bases of the common stock, the Class A Warrants and the Class B Warrants underlying the Units acquired in this offering will be determined by first allocating the purchase price for each Unit among the common stock, the Class A Warrants and the Class B Warrants in proportion to their respective fair market values on the date of the Unit is purchased. Such capital gain or loss will be long-term capital gain or loss if your holding period for a warrant is more than one year. Your holding period for the warrants underlying a Unit will begin on the date the Unit is purchased. Long-term capital gain of a non-corporate U.S. holder, including individuals, that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15%. In the event a warrant lapses unexercised, you will recognize a capital loss in an amount equal to the adjusted tax basis of the warrant. Such capital loss will be long-term if your holding period of such warrant was more than one year at the time of lapse. The deductibility of capital losses is subject to limitations.

Cashless Exercise. The Class A Warrants maybe exercised only by way of cashless exercise, while the Class B Warrants can be exercised in a cashless manner only in certain limited circumstances. The tax consequences of a cashless exercise of a warrant are not clear under current tax law. It is possible that a cashless exercise may be treated as a recapitalization for U.S. federal income tax purposes, in which case no gain or loss would be recognized in connection with such exercise, other than with respect to cash received in lieu of a fractional share. In this case, a U.S. Holder's tax basis in the common stock received would equal the holder's basis in the warrant (plus any gain recognized from the receipt of cash in lieu of a fractional share minus the amount of cash received). If a cashless exercise is treated as a recapitalization, the holding period of the common stock will include the holding period of the warrant. The Company intends to treat the Class A Warrants as equity for U.S. federal income tax purposes and the cashless exercise of the Class A Warrants and the cashless exercise of the Class B Warrants, if applicable, as a recapitalization.

However, it is also possible that a cashless exercise could be treated as a taxable exchange in which gain or loss would be recognized. In such event, a U.S. Holder could be deemed to have surrendered warrants equal to the number of common shares having a value equal to the exercise price for the total number of warrants to be exercised. The U.S. Holder would recognize capital gain or loss in an amount equal to the difference between the fair market value of the warrants deemed surrendered to pay the exercise price and the holder's tax basis in such warrants deemed surrendered. In this case, a U.S. Holder's tax basis in the common stock received would equal the sum of the fair market value of the warrants deemed surrendered to pay the exercise price and the holder's tax basis in the warrants exercised. A U.S. Holder's holding period for the common stock would commence on the date following the date of exercise of the warrant.

In addition, upon a cashless exercise of a warrant, cash received in lieu of a fractional share of common stock will be treated as a payment in a taxable exchange for such fractional share of common stock, and gain or loss will be recognized on the receipt of cash in an amount equal to the difference between the amount of cash received and the amount of adjusted tax basis allocable to the fractional share of common stock.

DUE TO THE ABSENCE OF AUTHORITY ON THE U.S. FEDERAL INCOME TAX TREATMENT OF A CASHLESS EXERCISE, THERE CAN BE NO ASSURANCE WHICH, IF ANY, OF THE ALTERNATIVE TAX CONSEQUENCES AND HOLDING PERIODS DESCRIBED ABOVE WOULD BE ADOPTED BY THE IRS OR A COURT OF LAW. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF A CASHLESS EXERCISE.

Exercise for Cash. Your tax basis in shares of common stock received upon exercise of a Class B Warrant for cash generally will equal the tax basis of the Class B Warrant, increased by the amount paid upon exercise of the warrant. Your holding period of shares of common stock received upon exercise of a warrant will begin on the day following the date on which the warrant is exercised.

Constructive Distributions. Upon the occurrence of certain events, you may be deemed to receive a constructive distribution pursuant to Section 305 of the Code. Such a constructive distribution could occur upon the occurrence of certain adjustments, or failure to make certain adjustments, to the number of shares of common stock to be issued upon exercise of a warrant or to the warrant's exercise price. Any deemed distributions will be taxable as a dividend, return of capital, or capital gain in accordance with the earnings and profits rules under the Code. In addition, in certain situations, we may be obligated to adjust the conversion rate of the warrants or, in lieu of such adjustment, to provide for the conversion of warrants into warrants or shares of an acquirer. Depending on the circumstances, such modification could result in a deemed exchange of your warrant for a new warrant, potentially resulting in the recognition of taxable gain or loss.

Information Reporting and Backup Withholding

Information reporting requirements generally will apply to payments of dividends on shares of common stock or deemed dividends on a warrant and to the proceeds of a sale of a warrant or shares of common stock paid to you unless you are an exempt recipient such as a corporation or, in some circumstance, a tax-exempt organization.

Backup withholding will apply to those payments if you fail to provide your correct taxpayer identification number, certify your exempt status, or report in full interest and dividend income. Certain U.S. Holders, including, among others, corporations, financial institutions and certain tax exempt organizations, generally are not subject to backup withholding. Backup withholding tax is not an additional tax, and you may use amounts withheld as credit against your U.S. federal income tax liability or may claim a refund as long as you timely provide certain information to the IRS. U.S. Holders should consult their own tax advisors regarding the applicability of backup withholding.

Non-U.S. Holders

The following is a summary of certain U.S. federal tax considerations applicable to a Non-U.S. Holder:

Common Stock

Distributions. Dividends paid to a Non-U.S. Holder, if any, with respect to shares of common stock will be subject to withholding tax at a 30% rate (or lower applicable income tax treaty rate) unless the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If a Non-U.S. Holder is engaged in a trade or business in the United States and dividends with respect to the common stock are effectively connected with the conduct of that trade or business and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment, then the Non-U.S. Holder will be subject to U.S. federal income tax on those dividends on a net income basis (although the dividends will be exempt from the 30% U.S. federal withholding tax, provided the certification requirements are satisfied) in the same manner as if received by a U.S. person as defined under the Code. Any such effectively connected income received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or lower applicable income tax treaty rate).

Subject to the discussion below under "— New Legislation Relating to Foreign Accounts," in order to obtain a reduced rate of withholding, you will be required to timely provide a properly executed IRS Form W-8BEN (or other applicable IRS form) certifying your entitlement to benefits under a treaty. If a Non-U.S. Holder is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, it may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Dispositions. A Non-U.S. Holder may recognize gain upon the sale, exchange, redemption or other taxable disposition of common stock. Subject to the discussion below concerning backup withholding and the newly-enacted legislation relating to foreign accounts, such gain generally will not be subject to U.S. federal income tax unless: (i) that gain is effectively connected with conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment) by a Non-U.S. Holder; (ii) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or (iii) the Company is or has been a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If a Non-U.S. Holder is an individual described in clause (i) of the last sentence of the preceding paragraph, the Non-U.S. Holder will generally be subject to tax on the net gain at regular graduated U.S. federal income tax rates. If the Non-U.S. holder is an individual described in clause (ii) of the preceding paragraph, the Non-U.S. holder will generally be subject to a flat 30% tax on the gain, which may be offset by U.S. source capital losses even though the non-U.S. holder is not considered a resident of the United States. If a Non-U.S. Holder is a foreign corporation that is described in clause (i) of the last sentence of the preceding paragraph, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code and, in addition, the Non-U.S. Holder may be subject to the branch profits tax at a rate equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

The Company believes that it is not and does not anticipate becoming a "U.S. real property holding corporation" for U.S. federal income tax purposes. However, because the determination depends on the fair market value of our U.S. real property interests and the fair market value of our other assets, no assurance can be provided that we currently are not, or in the future will not become, a U.S. real property holding corporation. The tax relating to stock in a "U.S. real property holding corporation" generally will not apply to a Non-U.S. Holder whose holdings (taking into account actual ownership and certain constructive ownership rules) at all times during the applicable period, constituted 5% or less of our common stock, provided that our common stock is regularly traded on an established securities market. If we are a U.S. real property holding corporation and our common stock is treated as a U.S. real property interest, you will be subject to U.S. federal income tax on a net income basis on any gain realized on a sale or other disposition of the common stock and a purchaser may be required to withhold a portion of the proceeds payable to you from the disposition.

Warrants

Dispositions. A Non-U.S. Holder may recognize gain upon the sale, exchange, redemption, exercise or other taxable disposition of a warrant. Subject to the discussion below concerning backup withholding and the newly-enacted legislation relating to foreign accounts, such gain generally will not be subject to U.S. federal income tax unless: (i) that gain is effectively connected with conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment) by a Non-U.S. Holder; (ii) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or (iii) the Company is or has been a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If a Non-U.S. Holder is an individual described in clause (i) of the last sentence of the preceding paragraph, the Non-U.S. Holder will generally be subject to tax on the net gain at regular graduated U.S. federal income tax rates. If the Non-U.S. holder is an individual described in clause (ii) of the preceding paragraph, the Non-U.S. holder will generally be subject to a flat 30% tax on the gain, which may be offset by U.S. source capital losses even though the non-U.S. holder is not considered a resident of the United States. If a Non-U.S. Holder is a foreign corporation that is described in clause (i) of the last sentence of the preceding paragraph, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code and, in addition, the Non-U.S. Holder may be subject to the branch profits tax at a rate equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

The Company believes that it is not and does not anticipate becoming a "U.S. real property holding corporation" for U.S. federal income tax purposes. However, because the determination depends on the fair market value of our U.S. real property interests and the fair market value of our other assets, no assurance can be provided that we currently are not, or in the future will not become, a U.S. real property holding corporation. If we are a U.S. real property holding corporation and our warrants are treated as a U.S. real property interest, you will be subject to U.S. federal income tax on a net income basis on any gain realized on a sale or other disposition of the common stock and a purchaser may be required to withhold a portion of the proceeds payable to you from the disposition.

Constructive Distributions. Upon the occurrence of certain events, you may be deemed to receive a constructive distribution pursuant to Section 305 of the Code. Such a constructive distribution could occur upon the occurrence of certain adjustments, or failure to make certain adjustments, to the number of shares of common stock to be issued upon exercise of a warrant or to the warrant's exercise price. Any deemed dividends that are not effectively connected with the conduct of a trade or business in the United States generally will be subject to withholding tax at a 30% rate (or lower applicable income tax treaty rate). Subject to the discussion below under "— New Legislation Relating to Foreign Accounts," in order to obtain a reduced rate of withholding, you will be required to timely provide a properly executed IRS Form W-8BEN (or other applicable IRS form) certifying your entitlement to benefits under a treaty. Because any constructive dividend would not give rise to any cash from which any applicable withholding tax could be satisfied, it is possible that this tax would be withheld from any amount owed to you, including, but not limited to, cash or shares of common stock otherwise due on exercise, dividends or sales proceeds subsequently paid or credited to you.

Constructive dividends that are effectively connected with the conduct of a trade or business within the United States and, where a tax treaty applies, are attributable to a U.S. permanent establishment, are not subject to withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated U.S. federal income tax rates in the same manner as if you were a resident of the United States. In such cases, we generally will not be required to withhold U.S. federal income tax if you comply with applicable certification and disclosure requirements, generally on a properly executed IRS Form W-8ECI (or other applicable IRS Form). Any such effectively connected income received by a Non-U.S. Holder that is classified as corporation for U.S. tax purposes may also be subject to an additional branch profits tax at a 30% rate (or lower applicable income tax treaty rate).

A Non-U.S. Holder of shares that wishes to claim the benefit of an applicable treaty rate is required to satisfy applicable certification and other requirements. If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

In certain situations, we may be obligated to adjust the conversion rate of the warrants or, in lieu of such adjustment, to provide for the conversion of warrants into warrants or shares of an acquirer. Depending on the circumstances, such modification could result in a deemed exchange of your warrant for a new warrant, potentially resulting in the recognition of taxable gain (See "Warrants – Dispositions" above).

New Legislation Relating to Foreign Accounts

Newly enacted legislation may impose withholding taxes on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities. The legislation imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, common stock or paid to a foreign financial institution or to a foreign non-financial entity, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations or (ii) the foreign non-financial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. If the payee is a foreign financial institution, it must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. The legislation would apply to payments made after December 31, 2012. Prospective investors should consult their tax advisors regarding this legislation.

Information Reporting and Backup Withholding

Generally, we must report to the IRS and to you the amount of dividends paid (or deem paid) to you and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty.

In general, you will not be subject to backup withholding with respect to payments of dividends (or deemed dividends) that we make to you provided that we do not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, and we have a properly executed IRS Form W-8BEN (or other applicable IRS form) and certify, under penalties of perjury, that you are not a U.S. person or (b) you hold your common stock or warrants through certain foreign intermediaries and satisfy the certification requirements of applicable U.S. Treasury regulations. Special rules apply to non-U.S. holders that are pass-through entities rather than corporations or individuals.

In addition, no information reporting or backup withholding will be required regarding the proceeds of the sale of common stock or a warrant made within the U.S. or conducted through certain U.S.-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the IRS.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representative, Dawson James Securities, Inc., who is acting as the sole book-running manager and sole representative of the underwriters of this offering, each underwriter named below has severally agreed to purchase from us on a firm commitment basis the following respective number of Units at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

Underwriter	Number of Shares
Dawson James Securities, Inc.	
Total	

The underwriting agreement provides that the obligation of the underwriters to purchase all of the 3,000,000 Units being offered to the public (assuming a $6.00 per Unit public offering price) is subject to specific conditions, including the absence of any material adverse change in our business or in the financial markets and the receipt of certain legal opinions, certificates and letters from us, our counsel and the independent auditors. Subject to the terms of the underwriting agreement, the underwriters will purchase all of the 3,000,000 Units being offered to the public, other than those covered by the over-allotment option described below, if any of these Units are purchased.

Over-Allotment Option

We have granted to the underwriters an option, exercisable not later than 45 days after the effective date of the registration statement, to purchase up to 450,000 additional Units at the public offering price less the underwriting discounts and commissions set forth on the cover of this prospectus. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the Units offered by this prospectus. The over-allotment option will only be used to cover the net syndicate short position resulting from the initial distribution. To the extent that the underwriters exercise this option, each of the underwriters will become obligated, subject to conditions, to purchase approximately the same percentage of these additional Units as the number of Units to be purchased by it in the above table bears to the total number of Units offered by this prospectus. We will be obligated, pursuant to the option, to sell these additional Units to the underwriters to the extent the option is exercised. If any additional Units are purchased, the underwriters will offer the additional Units on the same terms as those on which the other Units are being offered hereunder.

Commissions and Discounts

The underwriting discounts and commissions are 7% of the initial public offering price. We have agreed to pay the underwriters the discounts and commissions set forth below, assuming either no exercise or full exercise by the underwriters of the underwriters' over-allotment option. In addition, we have agreed to pay to the underwriters a non-accountable expense allowance of up to 3% of the gross proceeds of this offering.

Additionally, the underwriters will receive a warrant exercisable for the purchase of up to 15% of the aggregate number of Units sold in the public offering, exercisable commencing one year from the effective date of the registration statement of which this prospectus forms a part and expiring four years from such effective date, at an exercise price of 110% of the public Unit offering price. The underwriter warrant will contain a cashless, net exercise feature. The Class A Warrants issuable upon exercise of the underwriter warrant will be exercisable only on a cashless basis and will be exercisable for a period of 10 days from the date the underwriter Unit warrant is exercised; the Class B Warrants issuable upon exercise of the underwriter warrant will be exercisable for a period of five years following the exercise of the underwriter Unit warrant. In compliance with the lock-up restrictions set forth in FINRA Rule 5110(g)(1), neither the underwriter's warrants nor the underlying securities may be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of at least 180 days immediately following the date of effectiveness or commencement of sales of the offering, except to any member participating in the offering and the officers or partners thereof, and only if all securities so transferred remain subject to the one-year lock-up restriction for the remainder of the lock-up period.

The representative has advised us that the underwriters propose to offer the Units directly to the public at the public offering price set forth on the cover of this prospectus. In addition, the representative may offer some of the Units to other securities dealers at such price less a concession of $___ per Unit. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $___ per Unit to other dealers. After the common stock is released for sale to the public, the representative may change the offering price and other selling terms at various times.

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. The underwriting discounts and commissions are equal to the public offering price per share less the amount per share the underwriters pay us for the shares.

	Per Unit	Total without Over-Allotment	Total with Over-Allotment
Public offering price			
Underwriting discount (1)			
Proceeds, before expenses, to us			

(1) Does not include the non-accountable expense reimbursement fee in the amount of up to 3% of the gross proceeds of this offering.

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately $_____, all of which are payable by us.

Lock-Up Agreements

We and each of our officers, directors, and existing stockholders are bound by agreements providing that, subject to certain exceptions, these stockholders may not offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any shares of our common stock or other securities convertible into or exercisable or exchangeable for shares of our common stock for a period of 12 months from the effective date of the registration statement of which this prospectus is a part without the prior written consent of Dawson James.

Dawson James may in its sole discretion and at any time without notice release some or all of the shares subject to lock-up agreements prior to the expiration of the lock-up period. When determining whether or not to release shares from the lock-up agreements, the representative will consider, among other factors, the securityholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time.

Pricing of this Offering

Prior to this offering there has been no public market for any of our securities. The public offering price of the Units and the terms of the warrants, including the exercise prices of the warrants, were negotiated between us and Dawson James. Factors considered in determining the prices and terms of the Units, including the common stock and warrants underlying the Units, include:

- the history and prospects of companies in our industry;
- prior offerings of those companies;
- our prospects for developing and commercializing our products; our capital structure;
- an assessment of our management and their experience; general conditions of the securities markets at the time of the offering; and
- other factors as were deemed relevant.

However, although these factors were considered, the determination of our offering price is more arbitrary than the pricing of securities for an operating company in a particular industry since the underwriters are unable to compare our financial results and prospects with those of public companies operating in the same industry.

Price Stabilization, Short Positions and Penalty Bids

The underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids or purchasers for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Exchange Act:

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Other Terms

For a period of 24 months from the consummation of this offering, we have granted Dawson James, on any transaction where we elect to employ a banker, the right of first refusal to act as a co-lead manager and book runner, for any and all future public and private equity offerings by us or any of our successors or subsidiaries. We have engaged Dawson James, on a non-exclusive basis, as our agent for the solicitation of the exercise of the Class B Warrants. To the extent not inconsistent with the guidelines of the Financial Industry Regulatory Authority, or FINRA, and the rules and regulations of the SEC, we have agreed to pay the underwriter for bona fide services rendered a commission equal to 5% of the exercise price for each warrant exercised more than one year after the date of this prospectus if the exercise was solicited by Dawson James. No compensation will be paid to the underwriter upon the exercise of the warrants if:

- the market price of the underlying shares of common stock is lower than the exercise price;
- the holder of the warrants has not confirmed in writing that the underwriter solicited his, her or its exercise;
- the warrants are held in a discretionary account, unless prior specific written approval for the exercise is received from the holder;
- the warrants are exercised in an unsolicited transaction; or
- the arrangement to pay the commission is not disclosed in the prospectus provided to warrant holders at the time of exercise.

In addition, we have agreed to reimburse the underwriters for up to $150,000 of the legal fees incurred by the underwriters in connection with the offering, plus up to an additional $25,000 in legal fees for blue sky matters and up to $15,000 for legal fees related to filings with FINRA.

Indemnification

We have agreed to indemnify the underwriters against liabilities relating to the offering arising under the Securities Act, liabilities arising from breaches of some or all of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Distribution

A prospectus in electronic format may be made available on a website maintained by the representatives of the underwriters and may also be made available on a website maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives of the underwriters to underwriters that may make Internet distributions on the same basis as other allocations. In connection with the offering, the underwriters or syndicate members may distribute prospectuses electronically. No forms of electronic prospectus other than prospectuses that are printable as Adobe® PDF will be used in connection with this offering.

The underwriters have informed us that they do not expect to confirm sales of Units offered by this prospectus to accounts over which they exercise discretionary authority.

Other than the prospectus in electronic format, the information on any underwriter’s website and any information contained in any other website maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

Relationships

Certain of the underwriters or their affiliates have provided from time to time and may in the future provide investment banking, lending, financial advisory and other related services to us and our affiliates for which they have received and may continue to receive customary fees and commissions.

Foreign Regulatory Restrictions on Purchase of Units

We have not taken any action to permit a public offering of the Units outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to this offering of Units and the distribution of the prospectus outside the United States.

LEGAL MATTERS

The validity of the securities offered by this prospectus will be passed upon for us by Goodwin Procter LLP, San Francisco, California. Certain legal matters relating to this offering will be passed upon for the underwriter by McDermott Will & Emery LLP, Menlo Park, California.

EXPERTS

KCCW Accountancy Corp., an independent PCAOB registered public accounting firm, has audited the Company's balance sheets as of December 31, 2009 and the related statements of operations, stockholders' equity, and cash flows, which are included in this prospectus. The financial statements are included in reliance on the report of KCCW Accountancy Corp., given their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933 with respect to the Units offered by this prospectus. This prospectus does not contain all of the information included in the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. For further information pertaining to us and the Units to be sold in this offering, you should refer to the registration statement and its exhibits.

In this prospectus, whenever reference is made to contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document filed as an exhibit to the registration statement or such other document, each such statement being qualified in all respects by such reference.

Upon the completion of this offering, we will be subject to the informational requirements of the Securities Exchange Act of 1934 and will be required to file annual, quarterly and current reports, proxy statements and other information with the SEC. We anticipate making these documents publicly available, free of charge, on its website as soon as reasonably practicable after filing such documents with the SEC. The information contained in, or that can be accessed through, our website is not part of this prospectus.

You can read the registration statement and future filings, as they are filed with the SEC, over the Internet at the SEC's website at *www.sec.gov*. Copies of filings may be requested, at no cost, from us. You may also read and copy any document filed with the SEC at its public reference facility at 100 F Street, N.E., Washington, D.C. 20549 and copies may be requested at prescribed rates at such address or at 1-800-SEC-0330.

ATOSSA GENETICS, INC.
(A Development Stage Company)
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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 32,098	$ 84,364
Prepaid expenses	8,000	-
Total Current Assets	40,098	84,364
Other Assets		
Security deposit - related parties	1,100	1,100
Total Other Assets	1,100	1,100
Total Assets	$ 41,198	$ 85,464
Liabilities and Stockholders' (Deficit) Equity		
Current Liabilities		
Accrued payroll	$ 53,571	$ -
Accrued expenses	39,864	36,281
Note payable - related party	5,000	5,000
Accrued royalty payable - related party	-	12,500
Total Current Liabilities	98,436	53,781
Stockholders' (Deficit) Equity		
Preferred stock - $.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock - $.001 par value; 50,000,000 shares authorized, 6,000,063 and 4,899,882 shares issued and outstanding, respectively	6,000	4,900
Additional paid-in capital	321,540	149,640
Accumulated deficit	(384,778)	(122,857)
Total Stockholders' (Deficit) Equity	(57,238)	31,683
Total Liabilities and Stockholders' (Deficit) Equity	$ 41,198	$ 85,464

The accompanying notes are an integral part of these financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS
(UNAUDITED)

	For The Three Months Ended June 30, 2010	From April 30, 2009 (Inception) Through June 30, 2009	For The Six Months Ended June 30, 2010	From April 30, 2009 (Inception) Through June 30, 2010
Net Revenue	$ -	$ -	$ -	$ -
Operating Expenses				
Executive compensation	53,571	-	53,571	53,571
Website and internet expenses	52,508	-	52,538	55,538
Consulting expenses	39,165	-	44,165	44,165
Legal and professional expenses	26,125	-	90,709	179,231
Advertising and promotion expenses	-	-	12,204	12,204
Research and development expenses	-	-	-	21,250
Other operating expenses	25,859	524	21,561	31,646
Total operating expenses	197,228	524	274,747	397,605
Other Operating Income	-	-	12,500	12,500
Operating Loss	(197,228)	(524)	(262,247)	(385,105)
Interest Income	128	-	453	453
Net Loss before Income Taxes	(197,101)	(524)	(261,795)	(384,653)
Income Taxes	-	-	125	125
Net Loss	$ (197,101)	$ (524)	$ (261,920)	$ (384,778)
Loss per common share - basic and diluted	$ (0.03)	$ (0.00)	$ (0.04)	$ (0.08)
Weighted average shares outstanding, basic and diluted	5,996,206	3,976,459	5,870,334	4,814,161

The accompanying notes are an integral part of these financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For The Six Months Ended June 30, 2010	From April 30, 2009 (Inception) Through June 30, 2009	From April 30, 2009 (Inception) Through June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (261,920)	$ (524)	$ (384,778)
Common shares issued for services	71,000	-	71,000
Adjustments to reconcile net loss to net cash provided by operating activities:			
Increase in prepaid expenses	(8,000)	-	(8,000)
Increase in security deposits	-	-	(1,100)
Increase in accrued payroll	53,571	-	53,571
(Decrease) Increase in accrued expenses	(8,917)	-	39,864
Net cash used in operating activities	(154,266)	(524)	(229,442)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stocks	102,000	-	256,540
Proceeds from loans from related parties	-	5,000	5,000
Net cash provided by financing activities	102,000	5,000	261,540
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	(52,266)	4,476	32,098
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	84,364	-	-
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 32,098	$ 4,476	$ 32,098
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$ -	$ -	$ -
Income taxes paid	$ 125	$ -	$ 125

The accompanying notes are an integral part of these financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS

Atossa Genetics, Inc., (the "Company") was incorporated on April 30, 2009 in the State of Delaware. The Company was formed to develop and market the Mammary Aspirate Specimen Cytology Test, or the MASCT System, a cellular and molecular diagnostic risk assessment product for the detection of pre-cancerous changes that could lead to breast cancer. The Company's fiscal year ends on December 31st.

Development Stage Risk

To date, the Company has not earned any revenues from operations. Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Accounting Standards Codification ("ASC") 915 "Development Stage Entities", which was previously Statement of Financial Accounting Standards No. 7 ("SFAS 7"). Among the disclosures required by ASC 915 are that the Company's financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity and cash flows disclose activity since the date of the Company's inception.

Since its inception, the Company has been dependent upon the receipt of capital investment to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's business plan will be successfully executed. The Company's ability to execute its business plan will depend on its ability to obtain additional financing and achieve a profitable level of operations. There can be no assurance that sufficient financing will be obtained. Further, the Company cannot give any assurance that it will generate substantial revenues or that its business operations will prove to be profitable.

NOTE 2: GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management's Plan to Continue as a Going Concern

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plans to obtain such resources for the Company include (1) obtaining capital from the sale of its securities, (2) sales of the MASCT System and (3) short-term borrowings from stockholders or other related party(ies) when needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually to secure other sources of financing and attain profitable operations.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

Revenue Recognition:
Although the Company has yet to generate any revenues, it expects that it will recognize product and service revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the service has been performed, (iii) the Company's price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured. The Company will recognize revenue for product sales upon transfer of title to the customer. The Company will recognize revenue for services upon performance of the service. Customer purchase orders and/or contracts will generally be used to determine the existence of an arrangement. Shipping documents and the completion of any customer acceptance requirements, when applicable, will be used to verify product delivery or that services have been rendered. The Company will assess whether a price is fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. The Company will record reductions to revenue for estimated product returns and pricing adjustments in the same period that the related revenue is recorded. These estimates will be based on industry-based historical data, historical sales returns, if any, analysis of credit memo data, and other factors known at the time.

Interim Financial Statements:
The unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual audited financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the financial position and the results of operations of the Company. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. These interim financial statements should be read in conjunction with the Company's audited financial statements as of December 31, 2009 and related notes included therein.

Cash and Cash Equivalents:
Cash and cash equivalents include cash and all highly liquid instruments with original maturities of three months or less.

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

Research and Development Expenses:
Research and development costs are generally expensed as incurred. The Company's research and development expenses consist of costs incurred for internal and external research and development.

Share Based Payments:
In December 2004, the Financial Accounting Standard Board, or the FASB, issued the Statement of Financial Accounting Standards, or SFAS, No. 123(R), "Share-Based Payment", which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) is now included in the FASB's ASC Topic 718, "Compensation – Stock Compensation." Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees or independent contractors are required to provide services. Share-based compensation arrangements include stock options and warrants, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or SAB 107, which expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS No. 123(R). Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS No. 123.

The Company has fully adopted the provisions of FASB ASC 718 and related interpretations as provided by SAB 107. As such, compensation cost is measured on the date of grant as the fair value of the share-based payments. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

Recently Issued Accounting Pronouncements:
The Company has adopted all recently issued accounting pronouncements that management believes to be applicable to the Company. The adoption of these accounting pronouncements, including those not yet effective, is not anticipated to have a material effect on the financial position or results of operations of the Company.

NOTE 4: STOCKHOLDERS' EQUITY

The Company is authorized to issue a total of 85,000,000 shares of stock consisting of 75,000,000 shares of Common Stock, par value $.001 per share, and 10,000,000 shares of Preferred Stock, par value $.001 per share.

Prior Issuances of Common Stock

On April 30, 2009 (inception), the Company issued 1,767,315 shares (or 4,000,000 shares before giving effect to the September 2010 reverse stock split) to Ensisheim Partners LLC, a party related to the Company through common ownership by two of the Company's officers, for cash in the amount of $24,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split); 1,325,487 shares (3,000,000 shares before giving effect to the September 2010 reverse stock split) to Manistee Ventures LLC, a party related to the Company through common ownership by two of the Company's officers, for cash in the amount of $18,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split); and 883,658 shares (or 2,000,000 shares before giving effect to the September 2010 reverse stock split) to the Chairman, Chief Executive Officer and President of the Company at that time for cash in the amount of $12,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split).

On July 28, 2009, the Company issued 39,765 shares (or 90,000 shares before giving effect to the September 2010 reverse stock split) to a director of the Company for cash in the amount of $540, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split).

On December 28, 2009, the Company issued 883,658 shares (or 2,000,000 shares before giving effect to the September 2010 reverse stock split) to Ensisheim Partners LLC for cash in the amount of $100,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

On January 21, 2010, the Company issued 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) to forty-four (44) investors for cash in the amount of $98,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

On January 21, 2010, the Company issued 132,549 shares (or 300,000 shares before giving effect to the September 2010 reverse stock split) to a service provider for effecting transactions intended to cause the Company to become a public company and to have its securities traded on a national exchange in the United States. The shares were issued at a value of $15,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split), the same price as the 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) issued for cash on the same date.

On January 21, 2010, the Company issued an additional 53,019 shares (or 120,000 shares before giving effect to the September 2010 reverse stock split) to a shareholder who acquired 13,255 shares (or 30,000 shares before giving effect to the September 2010 reverse stock split) for cash on the same date as one of the forty-four (44) investors. Those shares were issued to the shareholder for services to be performed, including investor relations, media relations, and corporate communications. Those shares were issued at a value of $6,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split), the same price as the issuance of the 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) for cash on the same date.

On January 23, 2010, the Company issued 35,346 shares (or 80,000 shares before giving effect to the September 2010 reverse stock split) to an investor for cash in the amount of $4,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

On April 27, 2010, the Company issued 13,255 shares (or 30,000 shares before giving effect to the September 2010 reverse stock split) to a service provider for website development services pursuant to an original agreement between the Company and the website developer executed on December 14, 2009, where it was agreed at that time the shares of common stock would be issued to the developer in exchange for his services invoiced for $50,000, which would have valued the shares on December 14, 2009 at $3.77 per share (or $1.67 per share before giving effect to the September 2010 reverse stock split).

Letter of Intent for Proposed Initial Public Offering

On May 25, 2010, the Company executed a Letter of Intent with Dawson James Securities, Inc. relating to a proposed public initial public offering of the Company's securities (the "Letter Agreement"). Pursuant to the Letter Agreement, the Company paid a $25,000 deposit upon signing for out-of-pocket expenses and will reimburse Dawson James for up to $150,000 in expenses incurred in connection with the offering. If the offering is successful, Dawson James will receive compensation in an amount equal to 7% of the gross proceeds received by the Company in the offering, plus an expense allowance of 3% of the gross proceeds. Dawson James will also receive a warrant to purchase Units equal to 15% of the total Units sold in the offering, exercisable at 110% of the public offering price of the Units.

NOTE 5: INCOME TAXES

The Company accounts for income taxes as outlined in ASC 740, "Income Taxes", which was previously Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under the asset and liability method of SFAS 109, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The provision for income taxes differs from the amounts which would be provided by applying the statutory federal income tax rate of 34% to the net loss before provision for income taxes for the following reasons:

	Six Month Period Ended June 30, 2010	From April 30, 2009 (Inception) Through June 30, 2009	From April 30, 2009 (Inception) Through June 30, 2010
Income tax benefit at statutory rate (34%)	$ (89,002)	$ (178)	$ (130,662)
Valuation allowance	89,002	178	130,662
Delaware state tax	125	-	125
Income taxes	$ 125	$ -	$ 125

The tax effect of temporary difference that gave rise to the Company's deferred tax asset as of June 30, 2010 and December 31, 2009 is as follows:

	June 30, 2010	December 31, 2009
NOL carryover	$ 130,662	$ 46,871
Valuation allowance	(130,662)	(46,871)
Net deferred tax asset	$ -	$ -

NOTE 6: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2010 and December 31, 2009, the Company had no amounts in excess of the FDIC insured limit.

NOTE 7: RELATED PARTY TRANSACTIONS

Loans from Officer

The Company had borrowed $5,000 as of June 30, 2010 and December 31, 2009 from its Chairman of the Board and Chief Executive Officer. This amount was borrowed on May 26, 2009 as a short-term, unsecured loan via verbal agreement and did not bear any interest. Commencing June 30, 2010, the loan was converted into a written Promissory Note bearing an annual interest rate of 10%, with a maturity date of December 31, 2010.

On June 30, 2010, the Company borrowed an additional $100,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The note bears a 10% interest rate per annum and carries a $4,000 loan origination fee. The note is payable in full on or before December 31, 2010. The loan under the note was funded to the Company on July 12, 2010.

Exclusive License Agreement

On July 27, 2009, the Company entered into an exclusive license agreement with Ensisheim Partners LLC ("Ensisheim"), an entity solely owned by the Chairman and Chief Executive Officer of the Company and the Chief Scientific Officer of the Company, who is also the Company's Chairman and CEO's wife. Pursuant to that agreement, Ensisheim granted the Company an exclusive, worldwide, perpetual, irrevocable, royalty-bearing, license to the MASCT System, with the right to grant and authorize sublicenses. The license agreement provided that the Company would pay Ensisheim a royalty equal to 2% of net sales revenues, with a minimum royalty of $12,500 per fiscal quarter during the term of the agreement, which would have increased to a minimum royalty of $25,000 per fiscal quarter beginning in the quarter in which the first commercial sale of a licensed product would have taken place. As of December 31, 2009, a total of $12,500 was payable to Ensisheim under the minimum royalty provisions. From inception through June 30, 2010, the Company had incurred $16,250 in patent-related expenses under the license agreement with Ensisheim, which was recorded as accrued expense, whereas $4,000 was paid during the period from inception through December 31, 2009.

On June 17, 2010, the Company and Ensisheim entered into an Assignment Agreement, whereby Ensisheim assigned to the Company all rights to the patents and patent applications underlying the MASCT System. Pursuant to the assignment, the Company will have all responsibility for prosecution, maintenance, and enforcement and will indemnify Ensisheim from any and all claims against the patent estate. Ensisheim retained no residual rights with respect to the patents and patent applications. In conjunction with the assignment, the Company terminated the exclusive license agreement between the Company and Ensisheim dated July 27, 2009. As a result of the termination, the Company has no further obligations with respect to royalty payments to Ensisheim due under the old licensing agreement. As a result, the $12,500 of patent royalty payable to Ensisheim recorded as accrued royalty payable at December 31, 2009 has been removed and recorded as other operating income during the second quarter of 2010.

Commercial Lease Agreement

On December 24, 2009, the Company entered into a commercial lease agreement with Ensisheim for office space located in Seattle, Washington. The lease provided for annual rent of $13,200, plus applicable sales tax. From inception through December 31, 2009, the Company incurred $248 of rent expense for the lease. As of December 31, 2009, security deposit for the lease amounted to $1,100. For the period of January 1, 2010 through June 30, 2010, the Company incurred $6,600 of rent expense for the lease. On July 15, 2010 the Company and Ensisheim terminated the lease, effective July 1, 2010 and the Company commenced use of the facility rent free.

Executive Compensation

On May 19, 2010, the Company entered into employment agreements with three executives, including its Chief Executive Officer, its former President, and its Chief Scientific Officer. The annual base salaries under each agreement were calculated based on combined consideration of the success of capital raise and the operating results of the Company, and capped at $360,000, $350,000, and $250,000, respectively for the three executives.

In July 2010, the employment agreement with the former President was terminated with no salary paid or payable.

NOTE 8: SUBSEQUENT EVENTS

On July 22, 2010, the Company restated and amended the employment agreements with its Chief Executive Officer and Chief Scientific Officer. The agreements modified the base annual salary amounts to $250,000 and $200,000, respectively, effective retroactively to May 19, 2010. These salaries were accrued and amounted to $53,571 as of June 30, 2010. No stock options or warrants were issued or effective as of June 30, 2010 under the revised agreements.

On July 22, 2010, in connection with the resignation and departure of Robert L. Kelly, the President and a director, the Company entered into a consulting agreement with a limited liability company controlled by Mr. Kelly. Under the agreement, the Company was to receive consulting services relating to capital raising and investor relations. The agreement was terminated by the Company in September 2010, through which time a total of $30,000 had been paid.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Atossa Genetics, Inc.:

We have audited the accompanying balance sheet of Atossa Genetics, Inc. (a development stage company) (the "Company") as of December 31, 2009, and the related statement of operations, changes in stockholders' equity, and cash flows for the period from April 30, 2009 (inception) through December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atossa Genetics, Inc. (a development stage company) as of December 31, 2009 and the results of their operations and their cash flows for the period from April 30, 2009 (inception) through December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 of the financial statements, the Company has been in the development stage since its inception (April 30, 2009) and continues to incur expenses. The Company's viability is dependent upon its ability to obtain future financing and the success of its future operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KCCW Accountancy Corp.

Diamond Bar, California
February 20, 2010

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
December 31, 2009

Assets	
Current Assets	
Cash and cash equivalents	$ 84,364
Total Current Assets	84,364
Other Assets	
Security deposit - related parties	1,100
Total Other Assets	1,100
Total Assets	$ 85,464
Liabilities and Stockholders' Equity	
Current Liabilities	
Accrued expenses	$ 36,281
Accrued expenses - related parties	12,500
Loan from officer	5,000
Total Current Liabilities	53,781
Stockholders' Equity	
Preferred stock - $.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	-
Common stock - $.001 par value; 50,000,000 shares authorized, 4,899,882 shares issued and outstanding	4,900
Additional paid-in capital	149,640
Accumulated deficit	(122,857)
Total Stockholders' Equity	31,683
Total Liabilities and Stockholders' Equity	$ 85,464

The accompanying notes are an integral part of financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF OPERATIONS
From April 30, 2009 (Inception) through December 31, 2009

Net Revenue	$ -
General and Administrative Expenses	
Legal and professional expenses	88,522
Other general and administrative expenses	13,085
Total general, selling and administrative expenses	101,607
Research and Development Expenses	21,250
Net Loss before Income Taxes	(122,857)
Income Tax Expense	-
Net Loss	$ (122,857)
Loss per common share - basic and diluted	$ (0.03)
Weighted average shares outstanding, basic and diluted	4,037,847

The accompanying notes are an integral part of financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at April 30, 2009, Founders' shares	3,976,459	$ 3,976	$ 50,024	$ -	$ 54,000
Issuance of shares for cash, July 28, 2009	39,765	40	500	-	540
Issuance of shares for cash, December 28, 2009	883,658	884	99,116	-	100,000
Net loss for the period ended December 31, 2009	-	-	-	(122,857)	(122,857)
Balance at December 31, 2009	4,899,882	$ 4,900	$ 149,640	$ (122,857)	$ 31,683

The accompanying notes are an integral part of financial statements.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS
From April 30, 2009 (Inception) through December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (122,857)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Increase in security deposits	(1,100)
Increase in accrued expenses	48,781
Net cash used in operating activities	(75,176)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of common stocks	154,540
Proceeds from loans from related parties	5,000
Net cash provided by financing activities	159,540
NET DECREASE IN CASH & CASH EQUIVALENTS	84,364
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	-
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 84,364
SUPPLEMENTAL DISCLOSURES:	
Interest paid	$ -
Income taxes paid	$ -

The accompanying notes are an integral part of financial statements.

NOTE 1: NATURE OF OPERATIONS

Atossa Genetics, Inc., (the "Company") was incorporated on April 30, 2009 in the State of Delaware. The Company specializes in the molecular diagnostic industry to develop and market a patented, FDA-approved cellular and molecular diagnostic risk assessment product for breast cancer, the Mammary Aspirate Cytology Specimen Test (MASCT) system. The Company's fiscal year ends on December 31st.

Development Stage Risk

The Company has not earned revenues from operations. Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Accounting Standards Codification ("ASC") 915 "Development Stage Entities", which was previously Statement of Financial Accounting Standards No. 7 ("SFAS 7"). Among the disclosures required by ASC 915 are that the Company's financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity and cash flows disclose activity since the date of the Company's inception.

Since its inception, the Company has been dependent upon the receipt of capital investment to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's business plan will be successfully executed. Our ability to execute our business plan will depend on our ability to obtain additional financing and achieve a profitable level of operations. There can be no assurance that sufficient financing will be obtained. Further, we cannot give any assurance that we will generate substantial revenues or that our business operations will prove to be profitable.

NOTE 2: GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management's Plan to Continue as a Going Concern

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plans to obtain such resources for the Company include (1) obtaining capital from the sale of its securities, (2) the sale of the MASCT Systems, and (3) short-term borrowings from shareholders or related party when needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations.

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation:
The accompanying financial statements have been prepared by the Company. The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

Cash and Cash Equivalents:
Cash and cash equivalents include cash and all highly liquid instruments with original maturities of three months or less.

Use of Estimates:
The preparation of financial statements in conformity with generally accepted accounting principles in the Unites States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Research and Development Expenses:
Research and Development costs are generally expensed as incurred. The Company's Research and Development expenses consist of costs incurred for internal and external research and development.

Share Based Payments:
In December, 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) is now included in ASC 718 "Compensation – Stock Compensation". Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees or independent contractors are required to provide services. Share-based compensation arrangements include stock options and warrants, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In March, 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") which expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS No. 123(R). Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS No. 123.

The Company has fully adopted the provisions of SFAS No. 123(R) and related interpretations as provided by SAB 107. As such, compensation cost is measured on the date of grant as the fair value of the share-based payments. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

Recently Issued Accounting Pronouncements:
The Company has adopted all recently issued accounting pronouncements. The adoption of the accounting pronouncements, including those not yet effective, is not anticipated to have a material effect on the financial position or results of operations of the Company.

NOTE 4: STOCKHOLDERS' EQUITY

As of June 30, 2010, the Company was authorized to issue a total of 60,000,000 shares of stock consisting of 50,000,000 shares of Common Stock with par value of $.001 per share and 10,000,000 shares of Preferred Stock, par value of $.001.

On April 30, 2009 (inception), the Company issued 1,767,315 shares (or 4,000,000 before giving effect to the September 2010 reverse stock split) to Ensisheim Partners LLC, a related party to the Company through common ownership, for cash in the amount of $24,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split); 1,325,487 shares (or 3,000,000 shares before giving effect to the September 2010 reverse stock split) to Manistee Ventures LLC, a related party to the Company through common ownership, for cash in the amount of $18,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split); and 883,658 shares (or 2,000,000 shares before giving effect to the September 2010 reverse stock split) to the Chairman, CEO and President of the Company at that time for cash in the amount of $12,000, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split).

On July 28, 2009, the Company issued 39,765 shares (or 90,000 shares before giving effect to the September 2010 reverse stock split) to a director of the Company for cash in the amount of $540, or $.014 per share (or $.006 per share before giving effect to the September 2010 reverse stock split).

On December 28, 2009, the Company issued 883,658 shares (or 2,000,000 shares before giving effect to the September 2010 reverse stock split) to Ensisheim Partners LLC for cash in the amount of $100,000, or $.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

NOTE 5: INCOME TAXES

The Company accounts for income taxes as outlined in ASC 740, "Income Taxes", which was previously Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under the asset and liability method of SFAS 109, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The provision for income taxes differs from the amounts which would be provided by applying the statutory federal income tax rate of 34% to the net loss before provision for income taxes for the following reasons:

	December 31, 2009
Income tax benefit at statutory rate (34%)	$ (46,871)
Valuation allowance	46,871
Net income tax benefit	$ -

The tax effect of temporary difference that gave rise to the Company's deferred tax asset as of December 31, 2009 is as follows:

	December 31, 2009
NOL carryover	$ 46,871
Valuation allowance	(46,871)
Net deferred tax asset	$ -

NOTE 6: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2009, the Company had no amounts in excess of FDIC insured limit.

NOTE 7: RELATED PARTY TRANSACTIONS

The parties primarily refer to the shareholders and officers of the Company and corporate entities related to the Company through common ownership.

Loan from Officer

Loan from officer amounted to $5,000 as of December 31, 2009. The loan was borrowed from the CEO and President of the Company on May 26, 2009 for short-term with verbal agreement, unsecured, and bearing no interest.

Exclusive License Agreement

On July 27, 2009, the Company entered into an exclusive license agreement with Ensisheim Partners LLC ("Ensisheim"), solely owned by the CEO and President of the Company and the COO of the Company, the Company's CEO's wife. Pursuant to the agreement, Ensisheim grants to the Company an exclusive, worldwide, perpetual, irrevocable, royalty-bearing, license, with the right to grant and authorize sublicenses. The Company will pay Ensisheim a royalty equal to two percent (2%) of net sales revenues derived from such licensing, with a minimum royalty of $12,500 per fiscal quarter during the term of this agreement, which will increase to a minimum royalty of $25,000 per fiscal quarter beginning in the quarter in which the first commercial sale of a licensed product takes place. This agreement will continue in effect, on a country-by-country basis, until the date on which no further licensing royalty would be due in such country, unless terminated earlier in accordance with the terms of this agreement. From inception through December 31, 2009, the Company incurred $16,250 of patent royalty with Ensisheim which was recorded as research and development expense. As of December 31, 2009, $12,500 of patent royalty payable to Ensisheim was recorded as accrued expense whereas $4,000 was paid during the period from inception through December 31, 2009.

Commercial Lease Agreement

On December 24, 2009, the Company entered into a commercial lease agreement with Ensisheim for an office space located in Seattle, Washington. The term of the lease shall terminate on December 31, 2010, with annual rent of $13,200 plus applicable sales tax. From inception through December 31, 2009, the Company incurred $248 of rent expense for the lease. As of December 31, 2009, security deposit for the lease amounted to $1,100.

NOTE 8: SUBSEQUENT EVENTS

On January 21, 2010, the Company issued 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) to forty-four (44) investors for cash in the amount of $98,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

On January 21, 2010, the Company issued 132,549 shares (or 300,000 shares before giving effect to the September 2010 reverse stock split) to a service provider for effecting transactions intended to cause the Company to become a public company and to have its securities traded on a national exchange in the United States. The shares were issued at a value of $15,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split), the same price as the 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) issued for cash on the same date.

On January 21, 2010, the Company issued an additional 53,019 shares (or 120,000 shares before giving effect to the September 2010 reverse stock split) to a shareholder who acquired 13,255 shares (or 30,000 shares before giving effect to the September 2010 reverse stock split) for cash on the same date as one of the forty-four (44) investors. Those shares were issued to the shareholder for services to be performed, including investor relations, media relations, and corporate communications. Those shares were issued at a value of $6,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split), the same price as the issuance of the 865,984 shares (or 1,960,000 shares before giving effect to the September 2010 reverse stock split) for cash on the same date.

On January 23, 2010, the Company issued 35,346 shares (or 80,000 shares before giving effect to the September 2010 reverse stock split) to an investor for cash in the amount of $4,000, or $0.11 per share (or $.05 per share before giving effect to the September 2010 reverse stock split).

3,000,000 Units

PROSPECTUS

DAWSON JAMES SECURITIES, INC.

_____, 2010

Until _____, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

Item 13. Other Expenses of Issuance and Distribution

The expenses (other than underwriting discounts and commissions) payable by us in connection with this offering are as follows:

	Amount
SEC registration fee	$ 1,255
Financial Industry Regulatory Authority, Inc. fee	3,000
NYSE Amex listing fee	*
Accountants' fees and expenses	*
Legal fees and expenses	*
Transfer Agent's fees and expenses	*
Printing and engraving expenses	*
Miscellaneous	*
Total Expenses	$ *

* to be completed by amendment

All expenses are estimated except for the SEC registration fee and the Financial Industry Regulatory Authority, Inc. fee.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law, or the DGCL, authorizes a corporation to indemnify its directors and officers against liabilities arising out of actions, suits and proceedings to which they are made or threatened to be made a party by reason of the fact that they have served or are currently serving as a director or officer to a corporation. The indemnity may cover expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by the director or officer in connection with any such action, suit or proceeding. Section 145 permits corporations to pay expenses (including attorneys' fees) incurred by directors and officers in advance of the final disposition of such action, suit or proceeding. In addition, Section 145 provides that a corporation has the power to purchase and maintain insurance on behalf of its directors and officers against any liability asserted against them and incurred by them in their capacity as a director or officer, or arising out of their status as such, whether or not the corporation would have the power to indemnify the director or officer against such liability under Section 145.

We have adopted provisions in our certificate of incorporation and bylaws to be in effect at the completion of this offering that limit or eliminate the personal liability of our directors to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock purchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our bylaws to be in effect at the completion of this offering will provide that:

- we will indemnify our directors, officers and, in the discretion of our board of directors, certain employees to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended; and

- we will advance reasonable expenses, including attorneys' fees, to our directors and, in the discretion of our board of directors, to our officers and certain employees, in connection with legal proceedings relating to their service for or on behalf of us, subject to limited exceptions.

We will enter into indemnification agreements with each of our directors and certain of our executive officers. These agreements provide that we will indemnify each of these directors and executive officers to the fullest extent permitted by Delaware law. We will advance expenses, including attorneys' fees, judgments, fines and settlement amounts, to each indemnified director, executive officer or affiliate in connection with any proceeding in which indemnification is available and we will indemnify our directors and officers for any action or proceeding arising out of that person's services as an officer or director brought on behalf of the Company or in furtherance of our rights.

We also expect to maintain general liability insurance that covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification of us and our directors and officers by the underwriters against certain liabilities under the Securities Act and the Exchange Act.

Item 15. Recent Sales of Unregistered Securities

The Company has sold the following securities within the past three years which were not registered under the Securities Act of 1933:

Pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving any public offering as founder shares in connection with the formation of the Company, the Company issued 4,899,884 shares of its common stock as follows:

	Shares	Date	Consideration
Steven Quay	883,658	April 30, 2009	$ 12,000
Ensisheim Partners LLC	1,767,316	April 30, 2009	$ 24,000
Ensisheim Partners LLC	883,658	December 28, 2009	$ 100,000
Manistee Ventures, Inc.	1,325,487	April 30, 2009	$ 18,000
John Barnhart	39,765	July 28, 2009	$ 540

In January 2010, pursuant to an exemption from registration under Rule 504 pursuant to the Securities Act of 1933 (the "Securities Act"), the Company issued an aggregate of 901,354 shares of its common stock to 45 investors for aggregate cash proceeds of $102,000. Of these 45 investors, 13 are accredited investors and 4 are citizens and residents of Taiwan, Republic of China.

In January 2010, the Company issued 185,569 shares in consideration for services performed by two consultants, with an aggregate value of $21,000. This offering was exempt from registration under Rule 504 under the Securities Act.

On April 23, 2010, the Company issued 13,256 shares of common stock for services performed by a consultant with an aggregate value of $50,000. This offering was exempt from registration under Section 4(2) of the Securities Act, as a transaction by an issuer not involving any public offering.

Item 16. Exhibits and Financial Statement Schedules.

EXHIBITS

1.1*	Form of Underwriting Agreement
3.1	Certificate of Incorporation, as currently in effect
3.2*	Certificate of Incorporation (to be effective immediately prior to completion of this offering)
3.3	By-laws, as currently in effect
3.4*	By-laws (to be effective immediately prior to completion of this offering)
4.1*	Specimen common stock certificate
4.2*	Form of Warrant Agent Agreement
4.3*	Form of Class A Warrant Certificate
4.4*	Form of Class B Warrant Certificate
4.5*	Form of Unit Certificate
5.1*	Opinion of Goodwin Procter LLP
10.1	License Agreement with Ensisheim Partners, LLC
10.2	Termination of Exclusive Patent License Agreement, dated June 17, 2010
10.3#	Amended and Restated Employment Agreement with Steven Quay
10.4#	Amended and Restated Employment Agreement with Shu-Chih Chen
10.5*	Form of Indemnification Agreement
10.6#	2010 Stock Option and Incentive Plan
10.7*#	Form of Stock Option Agreement
10.8*#	Form of Stock Award Agreement
10.9*	Form of Lock-Up Agreement
10.10	Form of Subscription Agreement
10.11	Promissory Note issued by the Company to Steven Quay on January 2, 2010.
10.12	Promissory Note issued by the Company to Steven Quay on June 30, 2010.
10.13	Sublease Agreement with CompleGen, Inc, dated September 29, 2010
10.14*	Patent Assignment Agreement by and between Atossa Genetics, Inc. and Ensisheim Partners, LLC
23.1	Consent of KCCW Accountancy Corp.
23.2*	Consent of Goodwin Procter LLP (filed as part of Exhibit 5.1)
24.1	Power of Attorney (contained on signature page)
99.1	Consent of Prospective Director Mary Tagliaferri, M.D.
99.2	Consent of Prospective Director Stephen Galli, M.D.
99.3	Consent of Prospective Director Alexander Cross, Ph.D.

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* To be filed by amendment.

\# Indicates management contract or compensatory plan, contract or agreement.

Item 17. Undertakings

Undertaking Pursuant to Rule 415 Under the Securities Act of 1933

The undersigned registrant hereby undertakes:

(1). To file, during any period in which it offers or sales securities, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement; and

(iii) To include any additional material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2). That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time to be the initial bona fide offering thereof.

(3). To remove from registration by means of a post-effective amendment any of the securities that remain unsold at the termination of the offering.

(4). That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser in the initial distribution of securities:

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to this offering, other than registration statements relying on Rule 403B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5). That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser in the initial distribution of securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser.:

i Any preliminary prospectus or prospectus of the undersigned registrant relating to this offering required to be filed pursuant to Rule 424;
ii. Any free writing prospectus relating to this offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

Undertaking Request for acceleration of effective date or filing of registration statement becoming effective upon filing.

The undersigned registrant hereby undertakes:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant 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, the registrant will, unless in the opinion of its 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 Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seattle, State of Washington, on September 30, 2010.

ATOSSA GENETICS INC.

By: /s/ Steven C. Quay
Name: Steven C. Quay, M.D., Ph.D.
Title: President and Chief Executive Officer

SIGNATURES AND POWER OF ATTORNEY

We, the undersigned officers and directors of Atossa Genetics Inc., hereby severally constitute and appoint Steven C. Quay, M.D., Ph.D. our true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, and in any and all capacities, to sign for us and in our names in the capacities indicated below any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Steven C. Quay Steven C. Quay, M.D., Ph.D.	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	September 30, 2010
/s/ Christopher Benjamin Christopher Benjamin	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 30, 2010
/s/ Shu-Chih Chen Shu-Chih Chen	Director	September 30, 2010
/s/ John Barnhart John Barnhart	Director	September 30, 2010

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION OF

ATOSSA GENETICS INC.

Atossa Genetics Inc., a corporation organized and existing under the laws of the State of Delaware (the "**Company**"), certifies that:

A. The name of the Company is Atossa Genetics Inc. The Company's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on April 30, 2009.

B. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, and has been duly approved by the written consent of the stockholders of the Company in accordance with Section 228 of the General Corporation Law of the State of Delaware.

C. The text of the Certificate of Incorporation is amended and restated to read as set forth in EXHIBIT A attached hereto.

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Certificate of Incorporation to be signed by Steven C. Quay, a duly authorized officer of the Company, on September 28, 2010.

/s/ Steven C. Quay
Steven C. Quay
Chief Executive Officer

EXHIBIT A

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF

ATOSSA GENETICS INC.

ARTICLE I

The name of the corporation is Atossa Genetics Inc. (the "Company").

ARTICLE II

The address of the Company's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle. The name of the registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law, as the same exists or as may hereafter be amended from time to time.

ARTICLE IV

A. Upon the filing and effectiveness of this Amended and Restated Certificate of Incorporation of the Company pursuant to the General Corporation Law of the State of Delaware (the "Effective Time"), one share of Common Stock, par value $0.001 per share (the "New Common Stock"), will be issued in exchange for each 2.26332 shares of Common Stock, par value $0.001 per share, of the Company (the "Old Common Stock"), outstanding and held by each record holder of Old Common Stock immediately prior to the Effective Time. Any fractional share that would otherwise be issued as a result of the exchange will be rounded up to the nearest whole share of Common Stock. Each stock certificate that, immediately prior to the Effective Time, represented shares of the Old Common Stock will, from and after the Effective time, automatically and without the necessity of presenting the same for exchange, represent the number of shares of the New Common Stock as equals the number obtained by dividing the number of shares of Old Common Stock represented by such certificate immediately prior to the Effective Time by 2.26332, with any remaining fractional share interest rounded up to the nearest whole share of New Common Stock. The New Common Stock issued in this exchange shall have the same rights, preferences and privileges as the Common Stock (as defined below).

B. This Company is authorized to issue a total of 85,000,000 shares of stock, consisting of 75,000,000 shares of Common Stock, par value of $0.001 per share (the "Common Stock"), and 10,000,000 shares of preferred stock, par value of $0.001 (the "Preferred Stock").

ARTICLE V

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Company is expressly authorized to make, alter, amend or repeal the bylaws of the Company.

ARTICLE VI

Elections of directors need not be by written ballot unless otherwise provided in the bylaws of the Company.

ARTICLE VII

To the fullest extent permitted by the Delaware General Corporation Law, as the same exists or as may hereafter be amended from time to time, a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director. If the Delaware General Corporation Law is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

The Company shall indemnify, to the fullest extent permitted by applicable law, any director or officer of the Company who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding") by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. The Company shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board.

The Company shall have the power to indemnify, to the extent permitted by the Delaware General Corporation Law, as it presently exists or may hereafter be amended from time to time, any employee or agent of the Company who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding.

Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim accruing or arising or that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE VIII

Except as provided in ARTICLE VII above, the Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

AMENDED AND RESTATED
BYLAWS OF

ATOSSA GENETICS INC.

Adopted June 10, 2009

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BYLAWS

ARTICLE I — MEETINGS OF STOCKHOLDERS

1.1 ***Place of Meetings***. Meetings of stockholders of Atossa Genetics Inc. (the "**Company**") shall be held at any place, within or outside the State of Delaware, determined by the Company's board of directors (the "**Board**"). The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the "**DGCL**"). In the absence of any such designation or determination, stockholders' meetings shall be held at the Company's principal executive office.

1.2 ***Annual Meeting***. An annual meeting of stockholders shall be held for the election of directors at such date and time as may be designated by resolution of the Board from time to time. Any other proper business may be transacted at the annual meeting. The Company shall not be required to hold an annual meeting of stockholders, *provided* that (i) the stockholders are permitted to act by written consent under the Company's certificate of incorporation and these bylaws, (ii) the stockholders take action by written consent to elect directors and (iii) the stockholders unanimously consent to such action or, if such consent is less than unanimous, all of the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action.

1.3 ***Special Meeting***. A special meeting of the stockholders may be called at any time by the Board, Chairperson of the Board, Chief Executive Officer or President (in the absence of a Chief Executive Officer) or by one or more stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at that meeting.

If any person(s) other than the Board calls a special meeting, the request shall:

(i) be in writing;

(ii) specify the time of such meeting and the general nature of the business proposed to be transacted; and

(iii) be delivered personally or sent by registered mail or by facsimile transmission to the Chairperson of the Board, the Chief Executive Officer, the President (in the absence of a Chief Executive Officer) or the Secretary of the Company.

The officer(s) receiving the request shall cause notice to be promptly given to the stockholders entitled to vote at such meeting, in accordance with these bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting. No business may be transacted at such special meeting other than the business specified in such notice to stockholders. Nothing contained in this paragraph of this **section 1.3** shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board may be held.

1.4 ***Notice of Stockholders' Meetings***. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the certificate of incorporation or these bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

1.5 ***Quorum***. Except as otherwise provided by law, the certificate of incorporation or these bylaws, at each meeting of stockholders the presence in person or by proxy of the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. Where a separate vote by a class or series or classes or series is required, a majority of the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise provided by law, the certificate of incorporation or these bylaws.

If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, in the manner provided in **section 1.6**, until a quorum is present or represented.

1.6 ***Adjourned Meeting; Notice***. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Company may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

1.7 ***Conduct of Business***. Meetings of stockholders shall be presided over by the Chairperson of the Board, if any, or in his or her absence by the Vice Chairperson of the Board, if any, or in the absence of the foregoing persons by the Chief Executive Officer, or in the absence of the foregoing persons by the President, or in the absence of the foregoing persons by a Vice President, or in the absence of the foregoing persons by a chairperson designated by the Board, or in the absence of such designation by a chairperson chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairperson of the meeting may appoint any person to act as secretary of the meeting. The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

1.8 ***Voting***. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of **section 1.10** of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of capital stock held by such stockholder which has voting power upon the matter in question. Voting at meetings of stockholders need not be by written ballot and, unless otherwise required by law, need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. If authorized by the Board, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission (as defined in **section 7.2** of these bylaws), *provided* that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder.

Except as otherwise required by law, the certificate of incorporation or these bylaws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the certificate of incorporation or these bylaws, directors shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the certificate of incorporation or these bylaws.

1.9 ***Stockholder Action by Written Consent Without a Meeting***. Unless otherwise provided in the certificate of incorporation, any action required by the DGCL to be taken at any annual or special meeting of stockholders of a corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

An electronic transmission (as defined in **section 7.2**) consenting to an action to be taken and transmitted by a stockholder or proxy holder, or by a person or persons authorized to act for a stockholder or proxy holder, shall be deemed to be written, signed and dated for purposes of this section, *provided* that any such electronic transmission sets forth or is delivered with information from which the Company can determine (i) that the electronic transmission was transmitted by the stockholder or proxy holder or by a person or persons authorized to act for the stockholder or proxy holder and (ii) the date on which such stockholder or proxy holder or authorized person or persons transmitted such electronic transmission.

In the event that the Board shall have instructed the officers of the Company to solicit the vote or written consent of the stockholders of the Company, an electronic transmission of a stockholder written consent given pursuant to such solicitation may be delivered to the Secretary or the President of the Company or to a person designated by the Secretary or the President. The Secretary or the President of the Company or a designee of the Secretary or the President shall cause any such written consent by electronic transmission to be reproduced in paper form and inserted into the corporate records.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Company as provided in Section 228 of the DGCL. In the event that the action which is consented to is such as would have required the filing of a certificate under any provision of the DGCL, if such action had been voted on by stockholders at a meeting thereof, the certificate filed under such provision shall state, in lieu of any statement required by such provision concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

1.10 ***Record Date for Stockholder Notice; Voting; Giving Consents***. In order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board and which record date:

(i) in the case of determination of stockholders entitled to notice of or to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty nor less than ten days before the date of such meeting;

(ii) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board; and

(iii) in the case of determination of stockholders for any other action, shall not be more than 60 days prior to such other action.

If no record date is fixed by the Board:

(i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

(ii) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting when no prior action of the Board is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Company in accordance with applicable law, or, if prior action by the Board is required by law, shall be at the close of business on the day on which the Board adopts the resolution taking such prior action; and

(iii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, *provided* that the Board may fix a new record date for the adjourned meeting.

1.11 ***Proxies***. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

1.12 ***List of Stockholders Entitled to Vote***. The officer who has charge of the stock ledger of the Company shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The Company shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, *provided* that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the Company's principal place of business. In the event that the Company determines to make the list available on an electronic network, the Company may take reasonable steps to ensure that such information is available only to stockholders of the Company. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

ARTICLE II — DIRECTORS

2.1 ***Powers***. The business and affairs of the Company shall be managed by or under the direction of the Board, except as may be otherwise provided in the DGCL or the certificate of incorporation.

2.2 ***Number of Directors***. The Board shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time by resolution of the Board. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

2.3 ***Election, Qualification and Term of Office of Directors***. Except as provided in **section 2.4** of these bylaws, and subject to **sections 1.2** and **1.9** of these bylaws, directors shall be elected at each annual meeting of stockholders. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors. Each director shall hold office until such director's successor is elected and qualified or until such director's earlier death, resignation or removal.

2.4 ***Resignation and Vacancies***. Any director may resign at any time upon notice given in writing or by electronic transmission to the Company. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the certificate of incorporation or these bylaws, when one or more directors resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the Company should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole Board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

A director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and until such director's successor is elected and qualified, or until such director's earlier death, resignation or removal.

2.5 ***Place of Meetings; Meetings by Telephone***. The Board may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

2.6 ***Conduct of Business***. Meetings of the Board shall be presided over by the Chairperson of the Board, if any, or in his or her absence by the Vice Chairperson of the Board, if any, or in the absence of the foregoing persons by a chairperson designated by the Board, or in the absence of such designation by a chairperson chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairperson of the meeting may appoint any person to act as secretary of the meeting.

2.7 ***Regular Meetings***. Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

2.8 ***Special Meetings; Notice***. Special meetings of the Board for any purpose or purposes may be called at any time by the Chairperson of the Board, the Chief Executive Officer, the President, the Secretary or any two directors.

Notice of the time and place of special meetings shall be:

(i) delivered personally by hand, by courier or by telephone;

(ii) sent by United States first-class mail, postage prepaid;

(iii) sent by facsimile; or

(iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the Company's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the Company's principal executive office) nor the purpose of the meeting.

2.9 ***Quorum; Voting***. At all meetings of the Board, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the Board, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws.

If the certificate of incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of directors shall refer to a majority or other proportion of the votes of the directors.

2.10 ***Board Action by Written Consent Without a Meeting***. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.11 ***Fees and Compensation of Directors***. Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board shall have the authority to fix the compensation of directors.

2.12 ***Removal of Directors***. Unless otherwise restricted by statute, the certificate of incorporation or these bylaws, any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE III — COMMITTEES

3.1 ***Committees of Directors***. The Board may designate one or more committees, each committee to consist of one or more of the directors of the Company. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board or in these bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the Company.

3.2 ***Committee Minutes***. Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

3.3 ***Meetings and Actions of Committees***. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

(i) **section 2.5** (Place of Meetings; Meetings by Telephone);

(ii) **section 2.7** (Regular Meetings);

(iii) **section 2.8** (Special Meetings; Notice);

(iv) **section 2.9** (Quorum; Voting);

(v) **section 2.10** (Board Action by Written Consent Without a Meeting); and

(vi) **section 7.5** (Waiver of Notice)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members. *However*:

(i) the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee;

(ii) special meetings of committees may also be called by resolution of the Board; and

(iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

Any provision in the certificate of incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the certificate of incorporation or these bylaws.

3.4 ***Subcommittees***. Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the Board designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE IV — OFFICERS

4.1 ***Officers***. The officers of the Company shall be a President and a Secretary. The Company may also have, at the discretion of the Board, a Chairperson of the Board, a Vice Chairperson of the Board, a Chief Executive Officer, one or more Vice Presidents, a Chief Financial Officer, a Treasurer, one or more Assistant Treasurers, one or more Assistant Secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

4.2 ***Appointment of Officers***. The Board shall appoint the officers of the Company, except such officers as may be appointed in accordance with the provisions of **section 4.3** of these bylaws.

4.3 ***Subordinate Officers***. The Board may appoint, or empower the Chief Executive Officer or, in the absence of a Chief Executive Officer, the President, to appoint, such other officers and agents as the business of the Company may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

4.4 ***Removal and Resignation of Officers***. Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the Company. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Company under any contract to which the officer is a party.

4.5 ***Vacancies in Offices***. Any vacancy occurring in any office of the Company shall be filled by the Board or as provided in **section 4.3**.

4.6 ***Representation of Shares of Other Corporations***. Unless otherwise directed by the Board, the President or any other person authorized by the Board or the President is authorized to vote, represent and exercise on behalf of the Company all rights incident to any and all shares of any other corporation or corporations standing in the name of the Company. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

4.7 ***Authority and Duties of Officers***. Except as otherwise provided in these bylaws, the officers of the Company shall have such powers and duties in the management of the Company as may be designated from time to time by the Board and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the Board.

ARTICLE V — INDEMNIFICATION

5.1 ***Indemnification of Directors and Officers in Third Party Proceedings***. Subject to the other provisions of this **Article V**, the Company shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") (other than an action by or in the right of the Company) by reason of the fact that such person is or was a director or officer of the Company, or is or was a director or officer of the Company serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

5.2 ***Indemnification of Directors and Officers in Actions by or in the Right of the Company***. Subject to the other provisions of this **Article V**, the Company shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Company, or is or was a director or officer of the Company serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

5.3 ***Successful Defense***. To the extent that a present or former director or officer of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding described in **section 5.1** or **section 5.2**, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

5.4 ***Indemnification of Others***. Subject to the other provisions of this **Article V**, the Company shall have power to indemnify its employees and agents to the extent not prohibited by the DGCL or other applicable law. The Board shall have the power to delegate to such person or persons the determination of whether employees or agents shall be indemnified.

5.5 ***Advanced Payment of Expenses***. Expenses (including attorneys' fees) incurred by an officer or director of the Company in defending any Proceeding shall be paid by the Company in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this **Article V** or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Company deems appropriate. The right to advancement of expenses shall not apply to any Proceeding for which indemnity is excluded pursuant to these bylaws.

5.6 ***Limitation on Indemnification***. Subject to the requirements in **section 5.3** and the DGCL, the Company shall not be obligated to indemnify any person pursuant to this **Article V** in connection with any Proceeding (or any part of any Proceeding):

(i) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(ii) for an accounting or disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);

(iii) for any reimbursement of the Company by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the Company, as required in each case under the Securities Exchange Act of 1934, as amended (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the Company of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

(iv) initiated by such person, including any Proceeding (or any part of any Proceeding) initiated by such person against the Company or its directors, officers, employees, agents or other indemnitees, unless (a) the Board authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law, (c) otherwise required to be made under **section 5.7** or (d) otherwise required by applicable law; or

(v) if prohibited by applicable law.

5.7 ***Determination; Claim***. If a claim for indemnification or advancement of expenses under this **Article V** is not paid by the Company or on its behalf within 90 days after receipt by the Company of a written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. To the extent not prohibited by law, the Company shall indemnify such person against all expenses actually and reasonably incurred by such person in connection with any action for indemnification or advancement of expenses from the Company under this **Article V**, to the extent such person is successful in such action. In any such suit, the Company shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

5.8 ***Non-Exclusivity of Rights***. The indemnification and advancement of expenses provided by, or granted pursuant to, this **Article V** shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. The Company is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

5.9 ***Insurance***. The Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Company would have the power to indemnify such person against such liability under the provisions of the DGCL.

5.10 ***Survival***. The rights to indemnification and advancement of expenses conferred by this **Article V** shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

5.11 ***Effect of Repeal or Modification***. Any amendment, alteration or repeal of this **Article V** shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

5.12 ***Certain Definitions***. For purposes of this **Article V**, references to the "**Company**" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this **Article V** with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this **Article V**, references to "**other enterprises**" shall include employee benefit plans; references to "**fines**" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "**serving at the request of the Company**" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "**not opposed to the best interests of the Company**" as referred to in this **Article V**.

ARTICLE VI — STOCK

6.1 ***Stock Certificates; Partly Paid Shares***. The shares of the Company shall be represented by certificates, *provided* that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Company. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the Company by the Chairperson of the Board or Vice-Chairperson of the Board, or the President or a Vice-President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Company representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Company with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The Company shall not have power to issue a certificate in bearer form.

The Company may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the Company in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the Company shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

6.2 ***Special Designation on Certificates***. If the Company is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the Company shall issue to represent such class or series of stock; *provided* that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the Company shall issue to represent such class or series of stock, a statement that the Company will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the Company shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this **section 6.2** or Sections 156, 202(a) or 218(a) of the DGCL or with respect to this **section 6.2** a statement that the Company will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.3 ***Lost Certificates***. Except as provided in this **section 6.3**, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Company and cancelled at the same time. The Company may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Company may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Company a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

6.4 ***Dividends***. The Board, subject to any restrictions contained in the certificate of incorporation or applicable law, may declare and pay dividends upon the shares of the Company's capital stock. Dividends may be paid in cash, in property, or in shares of the Company's capital stock, subject to the provisions of the certificate of incorporation.

The Board may set apart out of any of the funds of the Company available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve.

6.5 ***Stock Transfer Agreements***. The Company shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Company to restrict the transfer of shares of stock of the Company of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

6.6 ***Registered Stockholders***. The Company:

(i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;

(ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

6.7 ***Transfers***. Transfers of record of shares of stock of the Company shall be made only upon its books by the holders thereof, in person or by an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer.

ARTICLE VII — MANNER OF GIVING NOTICE AND WAIVER

7.1 ***Notice of Stockholder Meetings***. Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the Company's records. An affidavit of the Secretary or an Assistant Secretary of the Company or of the transfer agent or other agent of the Company that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

7.2 ***Notice by Electronic Transmission***. Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the Company under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Company. Any such consent shall be deemed revoked if:

(i) the Company is unable to deliver by electronic transmission two consecutive notices given by the Company in accordance with such consent; and

(ii) such inability becomes known to the Secretary or an Assistant Secretary of the Company or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Company that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

An "**electronic transmission**" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

7.3 ***Notice to Stockholders Sharing an Address***. Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Company under the provisions of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the Company. Any stockholder who fails to object in writing to the Company, within 60 days of having been given written notice by the Company of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

7.4 ***Notice to Person with Whom Communication is Unlawful***. Whenever notice is required to be given, under the DGCL, the certificate of incorporation or these bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the Company is such as to require the filing of a certificate under the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

7.5 ***Waiver of Notice***. Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE VIII — GENERAL MATTERS

8.1 ***Fiscal Year***. The fiscal year of the Company shall be fixed by resolution of the Board and may be changed by the Board.

8.2 ***Seal***. The Company may adopt a corporate seal, which shall be in such form as may be approved from time to time by the Board. The Company may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.3 ***Annual Report***. The Company shall cause an annual report to be sent to the stockholders of the Company to the extent required by applicable law. If and so long as there are fewer than 100 holders of record of the Company's shares, the requirement of sending an annual report to the stockholders of the Company is expressly waived (to the extent permitted under applicable law).

8.4 ***Construction; Definitions***. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX — AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote. However, the Company may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

A bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the Board.

EXCLUSIVE PATENT LICENSE AGREEMENT

This Exclusive Patent License Agreement is made as of July 27, 2009 ("**Effective Date**") between Ensisheim Partners, LLC, a Washington limited liability company ("**Licensor**"), and Atossa Genetics, Inc., a Delaware corporation ("**Atossa**"). The parties agree as follows:

1. DEFINITIONS

1.1 "**First Commercial Sale**" means the initial transfer of a Licensed Product by Atossa, an affiliate or a sublicensee to a third party in exchange for cash or some equivalent to which value can be assigned in any country after all required marketing and pricing approvals have been granted, or otherwise permitted, by the authorities of such country, in each case for use or consumption of such Licensed Product in such country by the general public. Sales for test marketing, sampling and promotional uses, clinical trial purposes, or compassionate or similar use will not be considered a First Commercial Sale.

1.2 "**Licensed Patents**" means: (a) all patents and patent applications set forth in Exhibit A; (b) all divisions, substitutions, continuations, continuation-in-parts, reissues, reexaminations, and extensions of the patents and patent applications described in Section 1.1(a); (c) all foreign and international counterparts of the patents and patent applications described in Sections 1.1(a) and 1.1(b); and (d) all patents issuing from patent applications described in Sections 1.1(a), 1.1(b), and 1.1(c).

1.3 "**Licensed Product**" means any product the manufacture, use, or sale of which would, in the absence of the licenses granted in this Agreement, infringe a Valid Claim of a Licensed Patent in the country in which that product is made, used, or sold.

1.4 "**Net Sales Revenues**" means the gross amount collected by Atossa for the sale of a Licensed Product, less all: (a) normal and customary cash and trade discounts and rebates (including prompt payment and volume discounts); (b) duties and taxes (including excise, sales, use, and value added taxes); (c) insurance, freight, packaging, handling, shipment, and transportation expenses (including associated insurance costs); (d) amounts allowed or credited due to returns, rejections, recalls, rebates, charge backs, billing errors, or retroactive price reductions; and (e) sales commissions or fees paid. Net Sales Revenues excludes amounts collected by Atossa: (i) that are not directly related to sale of a Licensed Product, including amounts paid for support, maintenance, development, research, clinical trials, training, and products bundled with a Licensed Product; (ii) for transfers made to a third party for resale by the third party or to an affiliate; and (iii) for Licensed Products used for research and development or other non-commercial uses, supplied as commercial samples, or supplied as charitable donations.

1.5 "**Valid Claim**" means a pending or issued and unexpired claim of a Licensed Patent so long as that claim has not been: (a) irrevocably abandoned, withdrawn, or declared to be unpatentable, invalid, or unenforceable in an unappealable decision of a court or other authority of competent jurisdiction; or (b) found or admitted to be invalid or unenforceable through no fault or cause of Atossa, whether through reissue, re-examination, disclaimer or otherwise.

2. GRANT OF RIGHTS

2.1 Licensed Patents. Licensor hereby grants to Atossa and its affiliates an exclusive, worldwide, perpetual, irrevocable, royalty-bearing (as set forth in Section 3), license, with the right to grant and authorize sublicenses, under the Licensed Patents to do the following: (a) make, have made, use, sell, offer to sell, export, import, and otherwise distribute Licensed Products; (b) practice and perform any processes, methods, and procedures described in or that would infringe a Valid Claim of a Licensed Patent; and (c) otherwise exploit the Licensed Patents.

2.2 Exclusivity. The license granted in Section 2.1 is exclusive in that Licensor must not, directly or indirectly: (a) exercise or grant to any third party any license or other right under a Licensed Patent; or (b) develop or sell any products or services in the Exclusive Field that would infringe a Licensed Patent. Without limiting Atossa's rights or remedies at law, and without regard to whether Atossa has an adequate remedy at law, Atossa will have the right to seek equitable relief to prevent any breach or threatened breach of this Section 2.2.

2.3 Ownership of Licensed Patents. Licensor will at all times be the sole owner of all right, title, and interest (including intellectual property rights) in and to the Licensed Patents.

2.4 No Requirements. Atossa is not required to: (a) develop Licensed Products; (b) receive Licensor's or a third party's approval for any use of any Licensed Products; (c) attribute creation or development of any Licensed Product to Licensor; or (d) take action against any third party relating to the third party's use or exploitation of any Licensed Product.

2.5 Rights in Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by Licensor to Atossa are, and will otherwise be deemed to be, for purposes of Section 365(n) of the United States Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101(56) of the Bankruptcy Code. Atossa, as a licensee of the rights under this Agreement, will retain and may fully exercise all of its rights and elections under the Bankruptcy Code.

3. ROYALTY

3.1 Royalty Rate. Subject to Section 3.2, Atossa will pay Licensor a royalty equal to two percent (2%) of Net Sales Revenues ("**Licensing Royalty**"). No more than one royalty payment will be due under this Agreement with respect to a sale of a particular Licensed Product, even if that Licensed Product is covered by multiple Valid Claims.

3.2 Minimum Royalty. Atossa will pay Licensor, in accordance with this Section, a minimum royalty of $12,500 per fiscal quarter during the term of this Agreement, which will increase to a minimum royalty of $25,000 per fiscal quarter beginning in the quarter in which the First Commercial Sale of a Licensed Product takes place (each, a "**Minimum Royalty**"). Atossa will pay Licensor a pro-rata portion of the first Minimum Royalty within 30 days of the Effective Date, and the Minimum Royalty for each subsequent fiscal quarter will be due upon the first day of that fiscal quarter. The Minimum Royalty for any given fiscal quarter is creditable against any Licensing Royalties due in that fiscal quarter.

3.3 Reduction for Third Party Payments. If Atossa's manufacture, sale, use, importation, or other exploitation of a Licensed Product is subject to one or more patents owned, controlled, or licensable by a third party and Atossa pays the third party to license such patents, then the Licensing Royalty will be reduced by the amount paid to the third party for such license, except that the Licensing Royalty payable to Licensor will not fall below 1% of Net Sales Revenues during any fiscal quarter.

3.4 Reporting and Payment. No later than 60 days after the end of each fiscal quarter during the term of this Agreement, Atossa will deliver to Licensor a written report of the Net Sales Revenues collected during the fiscal quarter. With each report submitted by Atossa, Atossa will deliver payment of the Licensing Royalty due for the applicable fiscal quarter to the extent not covered by any other payments made by Atossa that are creditable against Licensing Royalty payments, e.g., the applicable Minimum Royalty payment.

4. PROSECUTION AND MAINTENANCE OF THE LICENSED PATENTS

4.1 Atossa's Rights. Licensor grants to Atossa: (a) the right to prepare, file, prosecute, and maintain, in its own name and at its own expense, the Licensed Patents in any country; and (b) an irrevocable power of attorney to act on Licensor's behalf and to execute and file documents on Licensor's behalf to prepare, file, prosecute, and maintain these rights.

4.2 Licensor's Obligations. Licensor will consult with Atossa regarding the preparation, filing, prosecution, and maintenance of the Licensed Patents. Licensor will not prepare, file, prosecute, or maintain the Licensed Patents without Atossa's prior written consent. Licensor will have the right to prepare, file, prosecute, and maintain, in its own name and at its own expense, the Licensed Patents in any country where Atossa fails or declines to prosecute or maintain those rights. Licensor may exercise this right only if it notifies Atossa of its intent in writing and Atossa does not proceed to prosecute or maintain those rights within 60 days after the notice. Licensor will keep Atossa reasonably informed regarding Licensor's prosecution and maintenance of the Licensed Patents in accordance with this Section (e.g., status of patent filings and registrations).

5. ENFORCEMENT OF LICENSED PATENTS

5.1 Atossa's Rights. Licensor grants to Atossa the right to bring and prosecute lawsuits against third parties, in Atossa's own name or jointly with Licensor if required by law, for infringement of a Licensed Patent. This right includes bringing any legal action for infringement, defending any counter claim of invalidity or action of a third party for declaratory judgment for non-infringement or non-interference, and settling a suit. Atossa will be entitled to all of the damages, profits, and awards of whatever nature recoverable from the suit. Licensor will fully cooperate with Atossa in the prosecution of any such lawsuit at Atossa's expense.

5.2 Licensor's Obligations. Licensor will not bring or prosecute a lawsuit against any third party for infringement of a Licensed Patent without Atossa's prior written consent. In addition, if Atossa does not institute a lawsuit (including, but not limited to, temporary and permanent injunctive actions) within a reasonable period, but no more than 60 days following Licensor's written request to do so, Licensor will have the right to institute and

prosecute the lawsuit in its own name or jointly with Atossa if required by law. Atossa will fully cooperate with Licensor in the prosecution of any such lawsuit at Licensor's expense.

6. TERM AND TERMINATION

6.1 Term. This Agreement will take effect on the Effective Date and will continue in effect, on a country-by-country basis, until the date on which no further Licensing Royalty would be due in such country, unless terminated earlier in accordance with the terms of this Agreement.

6.2 Termination by Atossa for Convenience. Atossa may terminate this Agreement, in whole or as to any particular Licensed Patent or Licensed Product, for any reason or for no reason by notifying Licensor in writing. Termination in accordance with this Section 6.2 will take effect five days after Licensor receives Atossa's written notice of termination.

6.3 Effects of Termination or Expiration

(a) Payment or Refund. Within 60 days after termination or expiration of the Agreement, Atossa will pay to Licensor all Licensing Royalties that it owes for sale of Licensed Products prior to the date of termination or expiration.

(b) Survival. All rights and duties of the parties under this Agreement will terminate upon termination or expiration of this Agreement for any reason except that: (i) all sublicenses granted by Atossa prior to termination or expiration will survive termination; and (ii) Sections 6.3 and 8 will survive termination or expiration of this Agreement.

7. REPRESENTATIONS AND WARRANTIES

7.1 Authorization. Licensor represents and warrants that: (a) it is duly organized, validly existing, and in good standing in the jurisdiction stated in the preamble to this Agreement; (b) the execution and delivery of this Agreement by Licensor has been duly and validly authorized; and (c) this Agreement constitutes a valid, binding, and enforceable obligation of Licensor.

7.2 No Conflict. Licensor represents and warrants that: (a) the execution of this Agreement and Licensor's performance under this Agreement does not and will not violate, conflict with, or result in a material default under any other agreement, indenture, decree, judgment, lien, or encumbrance to which Licensor is a party or by which any of the Licensed Patents are or may become subject or bound; (b) Licensor has not granted any other rights under the Licensed Patents; and (c) Licensor will not grant any rights under any future agreement, nor will it permit or suffer any lien, obligation, or encumbrances, that will conflict with the full enjoyment by Atossa of its rights under this Agreement.

7.3 Validity and Enforceability. Licensor represents and warrants that: (a) to Licensor's knowledge, Licensor's rights to the Licensed Patents are valid and enforceable; and (b) Licensor does not know of any facts or circumstances that could impair the validity or enforceability of any of its rights to the Licensed Patents.

7.4 Legal Proceedings. Licensor represents and warrants that: (a) Licensor is not involved in any legal proceeding (litigation, arbitration, mediation, or otherwise) relating to the Licensed Patents; (b) Licensor has not received notice of a claim relating to the Licensed Patents; and (c) Licensor is not aware of any facts or circumstances that might lead to a legal proceeding relating to the Licensed Patents.

8. GENERAL

8.1 Remedies

(a) No Consequential Damages. IN NO EVENT WILL EITHER PARTY HAVE LIABILITY TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, SPECIAL, OR CONSEQUENTIAL DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY OF THESE DAMAGES. THESE LIMITATIONS WILL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY IN THIS AGREEMENT.

(b) Limitation to Damages. Licensor's sole remedy, if any, in the event of a breach will be an action for monetary damages. Licensor will not be entitled to injunctive or other equitable relief or to terminate or rescind this Agreement or the licenses granted in this Agreement.

8.2 Relationship. Nothing in this Agreement may be construed as creating an employer-employee relationship, agency relationship, joint venture, or partnership between the parties.

8.3 Assignability. Neither this Agreement nor any rights or obligations under this Agreement may be assigned or otherwise transferred by Licensor, in whole or in part, whether voluntarily or by operation of law, without the prior written consent of Atossa. Atossa may assign this Agreement or any rights and obligations under this Agreement freely. Subject to the foregoing, this Agreement will be binding upon and will inure to the benefit of the parties and their respective successors and assigns. Any assignment in violation of the foregoing will be null and void.

8.4 Further Assurances. Each party agrees that it will execute and deliver such documents as may be required to implement any of the provisions of this Agreement.

8.5 Governing Law. This Agreement is governed by the laws of the State of Washington, without giving effect to provisions related to choice of laws or conflict of laws.

8.6 Venue and Jurisdiction. Venue and jurisdiction of any lawsuit involving this Agreement exists exclusively in the state and federal courts in King County, Washington, unless Atossa seeks injunctive relief that, in Atossa's judgment, would not be effective unless obtained in some other venue.

8.7 Waiver. The waiver by either party of any breach of any provision of this Agreement does not waive any other breach. The failure of any party to insist on strict performance of any covenant or obligation under this Agreement will not be a waiver of such

party's right to demand strict compliance in the future, nor will the same be construed as a novation of this Agreement.

8.8 Severability. If any part of this Agreement is found to be unenforceable, the remaining portions of this Agreement will remain in full force and effect.

8.9 Drafting. The parties have had an equal opportunity to participate in the drafting of this Agreement and the attached exhibits. No ambiguity will be construed against any party based upon a claim that that party drafted the ambiguous language.

8.10 Headings. The headings appearing at the beginning of several sections contained in this Agreement have been inserted for identification and reference purposes only and must not be used to construe or interpret this Agreement.

8.11 Notices. Any notice required or permitted to be given under this Agreement will be effective if it is in writing and sent by certified or registered mail, or insured courier, return receipt requested, to the appropriate party at the address set forth below and with the appropriate postage affixed. Either party may change its address for receipt of notice by notice to the other party in accordance with this Section. Notices will be deemed given two business days following the date of mailing or one business day following delivery to a courier.

To Licensor:	To Atossa:
Shu-Chih Chen Quay Ensisheim Partners, LLC 4105 E Madison St, Suite 320 Seattle, WA 98112 With a copy to: Ms. Effie Toshav, Esq. Wilson Sonsini Goodrich & Rosati, PC 701 Fifth Ave., Suite 5100 Seatlle, WA 98104	Dr. Steven Quay Atossa Genetics, Inc. 4105 E. Madison St., Suite 320 Seattle, WA 98112

8.12 Counterparts. This Agreement may be executed in any number of identical counterparts, notwithstanding that the parties have not signed the same counterpart, with the same effect as if the parties had signed the same document. All counterparts will be construed as and constitute the same agreement.

8.13 Entire Agreement. This Agreement, including any exhibits, is the final and complete expression of all agreements between these parties and supersedes all previous oral and written agreements regarding these matters. It may be changed only by a written agreement signed by the party against whom enforcement is sought.

"Licensor"	**"Atossa"**
Ensisheim Partners, LLC	**Atossa Genetics, Inc.**
Name: Shu-Chih Chen Quay	Name: Dr. Steven Quay
Title: Principal	Title: President
Signature: /s/ Shu-Chih Chen Quay	Signature: /s/ Steven Quay
Date: 27 July, 2009	Date: 27 July, 2009

EXHIBIT A

LICENSED PATENTS

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
ATOS-0003 US (020424-000100US)	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay	08/709,207 08/27/96	5,798,266 08/25/98 11.5 Yr MF-February 25, 2010
ATOS-0005 Australia (020424-000100AU)	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003)	40850/97 08/22/97	740,160 13th Yr MF-August 22, 2009
ATOS-0006 Canada (020424-000100CA)	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003)	2,264,277 08/22/97	2,264,277 04/15/2008 13th Yr MF-August 22, 2009

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
PCT ATOS-0004?	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003) Foreign filing of ATOS-0003	PCT/US97/14863 filed 08/22/97 WO 98/08976 published 03/05/1998	NATIONAL
ATOS-0007 European (020424-000100EP)	Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003)	97938551.5 08/22/97 Notice of Intent to Grant EU Validation-November 8, 2008	EP 0932699 - withdrawn January 8, 2009-2 Month Further Processing Request
ATOS-0025 Hong Kong (020424-000100HK)	Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003)	00100654.7 08/22/97	13th Yr MF-August 22, 2009

WWKMN Ref. (TTC Ref. No.) Country	Title	Inventor(s) Priority	Application Number Filing Date	Patent Number Issue Date Due:
ATOS-0026 Japan (020424-000100JP)	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (claims priority to ATOS-0004 and ATOS-00003)	10-511772 03/01/99 08/22/97	Abandoned in Favor of CYTC-11-0407
ATOS-0027 US (020424-000110US)	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (CIP of ATOS-0003)	09/027,362 02/20/98	6,287,521 B1 09/11/01 7.5 Yr MF-March 11, 2009
ATOS-0028 US (020424-000120US)	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (Cont. of ATOS-0027 which is a CIP of ATOS-0003)	09/435,131 11/05/99	Abandoned

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
ATOS-0040 US	Devices and Methods for Obtaining Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (Utility filing of ATOS-0030 and ATOS-0033	10/002,540 11/13/01	6,887,210 05/03/2005
ATOS-0041 US	Methods and Devices for Collecting, Handling and Processing Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (Utility filing of ATOS-0030 and ATOS-0033	10/001,041 11/13/01	6,689,073 02/10/2004
US	Methods and Devices for Collecting, Handling and Processing Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay	60/248,134 11/13/00	EXPIRED

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
US	Methods and Devices for Collecting, Handling and Processing Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay	60/248,136 11/13/00	EXPIRED
ATOS-0042 PCT	Methods and Devices for Collecting, Handling and Processing Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (foreign filing of ATOS-0030 and ATOS -0033 both filed 11/13/00)	PCT/US01/46032 11/13/01 Publication No. WO 02/38032 A2 on May 16, 2002	NATIONAL
ATOS-0043 Australia	Methods and Kits for Obtaining and Assaying Mammary Fluid Samples for Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (Divisional of ATOS-0005 which claims priority to ATOS-0004 and ATOS-0003)	14725/02 01/31/02	781,187 13th Yr MF- August 22, 2009

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
ATOS-0070 U.S. Utility	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay Debra L. Quay (Cont. of ATOS-0028, which is a cont. of ATOS-0027, which is a CIP of ATOS-0003)	10/404,866 Filed 3/31/03	7,128,877 10/31/2006
US	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay	11/116,961 04/27/2005	Abandoned
JP	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	2003-343663 03/24/2004 11/13/2001	

WWKMN Ref. (TTC Ref. No.) Country	**Title**	**Inventor(s) Priority**	**Application Number Filing Date**	**Patent Number Issue Date Due:**
CA	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	2,427,967 08/22/1997 11/13/2001	2,427,967 8th Yr MF – November 13, 2008
EP	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	01993422.3 11/13/2001	
JP	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	11/13/2001 4,050,612	4,050,612 10th Yr MF – November 13, 2008

WWKMN Ref. (TTC Ref. No.) Country	Title	Inventor(s) Priority	Application Number Filing Date	Patent Number Issue Date Due:
AU	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	2002-227163 11/13/2001	8th Yr MF – November 13, 2008
HK	Methods and Devices for Obtaining and Assaying Mammary Fluid Samples for Evaluating Breast Diseases, Including Cancer	Steven C. Quay (claims priority to ATOS-0042, 60/248,134 & 60/248,136)	03105927.4 11/13/2001	9th Yr MF – August 19, 2009

June 17, 2010

Robert Kelly, President
Atossa Genetics, Inc.
4105 E Madison St, Suite 320
Seattle, WA 98112

OBJECT: TERMINATION OF EXCLUSIVE PATENT LICENSE AGREEMENT

Dear Robert,

With this letter, we hereby terminate the Exclusive Patent License Agreement between Ensisheim Partners LLC ("Ensisheim") and Atossa Genetics, Inc. ("Atossa") dated July 27, 2009. The reason for this termination is that we have agreed that an assignment of all patent rights rather than a license is a better business arrangement.

Upon acceptance of this letter, Atossa will have no further obligation with respect to royalty payments to Ensisheim. Any accrued but unpaid royalties are immediately forgiven. Upon assignment, Atossa will have all responsibility for prosecution, maintenance, and enforcement and will indemnify Ensisheim from any and all claims against the patent estate. Ensisheim will retain no residual rights with respect to the patents and patent applications.

Thank you for your immediate attention to this matter.

Sincerely

STEVEN C. QUAY, M.D., PH.D.

/s/ Steven C. Quay

Chairman and CEO
Atossa Genetics, Inc.
4105 E. Madison St, Suite 320
Seattle, WA 98112

Accepted on behalf of Atossa Genetics, Inc.

/s/ Robert Kelly
Robert Kelly, President

RESTATED AND AMENDED EMPLOYMENT AGREEMENT

THIS RESTATED AND AMENDED EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of September 27, 2010 and restates and amends the Restated and Amended Employment Agreement made as of July 22, 2010 (the "Prior Agreement") by and between Steven C. Quay, M.D., Ph.D., an individual ("Employee"), and Atossa Genetics, Inc. a Delaware corporation, having its principal office at 4105 E. Madison Street, Suite 320, Seattle, WA 98112 (the "Company", and collectively with Employee referred to herein as the "Parties," and individually, as a "Party").

RECITALS

Whereas, the Company is engaged in the commercialization of a patented, FDA approved non-invasive test for the detection of pre-cancerous conditions that may lead to breast cancer;

Whereas, the Company has not yet completed development of its infrastructure and is in need of capital, management, infrastructure, accounting and various other critical elements including management and negotiations with sophisticated corporate entities and organizations;

Whereas, Employee is a founder of the Company;

Whereas, Employee desires to be employed by Company and Company desires to employ the Employee on the terms provided herein;

Whereas, the Employee and the Company desire to amend and restate the Prior Agreement and to accept the terms and conditions hereof in lieu of the terms and conditions provided under the Prior Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the Parties agree as follows:

1. Employment. The Company hereby hires and employs Employee as Chief Executive Officer of the Company and Employee hereby accepts such employment with the Company on the terms and conditions set forth herein.

2. Term & Position.

(a) Employment Term. Subject to the terms and conditions set forth in Section 7 of this Agreement, the Employee and the Company shall each have the right to terminate Employee's employment hereunder. The term of Employee's employment hereunder is referred to herein as the "Employment Term."

(b) Position. During the Employment Term, Employee shall be the Chief Executive Officer of the Company and shall be appointed Chairman of the Board of Directors.

3. Duties and Responsibilities. Employee shall serve the Company diligently and faithfully in the performance of his duties on the Company's behalf, which shall include duties and responsibilities as the Company may from time to time reasonably prescribe consistent with the duties and responsibilities of the Chief Executive Officer of the Company. Employee and the Board of Directors shall be responsible for strategy and tactics and for setting corporate goals during the Employment Term, as and if appropriate.

4. Compensation. For services rendered to the Company pursuant to this Agreement, Employee shall be entitled to receive the following cash and equity compensation:

(a) Base Salary. Employee shall be entitled to an initial base salary of $250,000.00 per year, payable biweekly. The Company may elect to accrue payment of such base salary until the completion of a financing.

(b) Bonus. Employee shall be eligible to receive an annual cash performance bonus in an amount of up to 40% of his then-current base salary, subject to the achievement of goals established prospectively by the Compensation Committee of the board. The performance goals for 2010 will be set at the first board meeting following the completion of the Company's initial public offering.

(c) Equity. The Company will grant to Employee an option (the "Option") to purchase 565,833 shares of common stock at an exercise price per share equal to the fair market value per share on the date the option is granted, as determined by the Board of Directors. The Option will be subject to the terms and conditions applicable to options granted under an equity incentive plan to be adopted by the Board of Directors and stockholders of the Company (the "Plan"), and the applicable stock option agreement pursuant to the Plan, which will include the appropriate provisions contained in this Agreement. 25% of the shares of common stock underlying the option, or 141,458 shares, will vest on December 31, 2010, and the remaining 75%, or 424,375 shares, will vest in equal quarterly installments over the next three years, so long as Employee remains employed with the Company.

(d) Change in Control. In the event of a Change in Control (as defined below) during the Employment Term, Employee shall be entitled to receive a one-time bonus equal to 2.9 (two and nine-tenths) times his then-current base salary as set forth and determined above, or on any amendment to this Agreement, and all then-unvested shares of restricted stock, warrants and/or employee stock options, if any, then held by Employee shall accelerate and become fully vested as of immediately prior to the completion of the Change in Control. For purposes hereof, a "Change in Control" shall mean:

(i) merger or consolidation in which (A) the Company is a constituent party or (B) a Subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation, in each case except any such merger or consolidation involving the Company or a Subsidiary in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or

(ii) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any Subsidiary of all or substantially all the assets of the Company and its Subsidiaries taken as a whole, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly-owned subsidiary of the Company.

5. Fringe Benefits. During the Employment Term, the Company agrees to make available the following fringe benefits to Employee in accordance with the policies and plans adopted by the Company; said fringe benefits shall be no less favorable to the Employee than those provided to other key employees and officers of the Company. To the extent such benefits are based on length of service with the Company, Employee shall receive full credit for prior service with the Company.

(a) Expenses. Employee shall be expected to incur various business expenses and other out-of-pocket expenses customarily incurred by persons holding like positions, including but not limited to traveling, entertainment and similar expenses incurred by Employee in the performance of Employee's services for the benefit of the Company. Company shall reimburse Employee for all reasonable business expenses incurred or paid by Employee upon presentation of documentation reasonably acceptable to the Company and subject to any reimbursement policy adopted by the Company.

(b) Health Insurance. Participation in health, hospitalization, disability, dental and other insurance plans that the Company may have in effect for other executives, all of which shall be paid for by the Company with contribution by the Employee as set for the other executives, as and if appropriate.

(c) Vacation. Employee shall be entitled to six weeks of paid vacation per year for each full year of employment and pro rata for each partial year. Vacation time not taken during a calendar year is not accrued to the next calendar year.

6. Termination. Either the Company or Employee may terminate Employee's employment by the Company at the end of any calendar month, with or without "Cause" or "Good Reason" (as such terms are defined below), in its or his sole discretion, upon thirty (30) days' prior written notice of termination. In addition, Employee's employment by the Company shall terminate upon the death or Disability (as defined below) of Employee. Termination of Executive's employment as provided for herein shall terminate the Employment Term. For purposes of this Agreement, in the case of a termination of Employee's employment hereunder, the following terms shall have the following meanings:

(a) "Good Reason" shall mean the Employee has complied with the Good Reason Process (as defined below) following the occurrence of any of the following events: (i) a material diminution in Employee's responsibilities, authority or duties at the Company that constitutes a demotion or (ii) a material diminution in Employee's base salary (other than a general reduction applicable to all executive employees of the Company) (each, a "Good Reason Condition").

(b) "Good Reason Process" means that (i) Employee reasonably determines in good faith that a Good Reason Condition has occurred, (ii) Employee notifies the Company in writing of the occurrence of the Good Reason Condition within 60 days after the first occurrence of such condition; (iii) Employee cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the "Cure Period"), to remedy the Good Reason Condition; (iv) notwithstanding such efforts, the Good Reason Condition continues to exist; and (v) Employee terminates his employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason Condition during the Cure Period, Good Reason will be deemed not to have occurred.

(c) "Cause" shall mean: (i) Employee's willful and repeated failure reasonably to perform his duties hereunder or to comply with any reasonable and proper direction given by the Board if such failure of performance or compliance is not cured within thirty (30) days following receipt by Employee of written notice from the Company containing a description of such failures and non-compliance and a demand for immediate cure thereof; (B) Employee being found guilty in a criminal court of an offense involving moral turpitude; (C) Employee's commission of any material act of fraud or theft against the Company; or (D) Employee's material violation of any of the material terms, covenants, representations or warranties contained in this Agreement if such violation is not cured within thirty (30) days following receipt by Employee of written notice from the Company containing a description of the violation and a demand for immediate cure thereof.

(d) "Disability" shall mean total and permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

7. Severance. Subject to Section 6 hereof, if (i) the Company terminates the employment of Employee without Cause, or (ii) Employee terminates his employment for Good Reason, then Employee shall be entitled to receive all of his accrued and then-unpaid base salary, any bonus cash compensation earned by Employee through the effective date of termination (determined at the maximum annual rate for bonus cash compensation provided for above but on a pro-rated basis for the portion of the fiscal year that shall have elapsed when the termination occurs). In addition, subject to Employee's execution and non-revocation of an agreement containing a release of any and all legal claims and other termination-related provisions in a form acceptable to the Company (the "Separation Agreement"), Employee shall be entitled to receive upon such termination an additional cash payment in the amount of twelve (12) months of such base salary (the "Severance Payment"), and notwithstanding the vesting and exercisability provisions otherwise applicable to the options issued to Employee under prior agreements, the vesting of all shares of common stock underlying such options shall accelerate as of the effective date of such termination, and such options shall remain exercisable for the remainder of their terms. The Company shall pay the Severance Payment in substantially equal installments over six (6) months (the "Severance Benefits Period") in accordance with the Company's standard payroll practice, in arrears beginning on the first payroll date that occurs following the thirtieth (30th) day after the date on which Employee's employment with the Company terminates; *provided*, that prior to such date, the Separation Agreement becomes effective. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), each installment of the Severance Payment will be considered a separate payment. Notwithstanding the foregoing, the Company shall not be required to pay any severance pay for any period following the effective date of termination of Employee's employment hereunder if Employee shall have materially violated the provisions of Sections 3, 8, 10 or 11 of this Agreement and such violation is not cured within thirty (30) days following receipt of written notice from the Company containing a description of the violation and a demand for immediate cure.

8. Noncompetition and Non-Solicitation Commitment. Employee hereby agrees as follows:

(a) Agreement Not to Compete. Employee hereby covenants, and agrees that, during the Employment Term and for a period of twelve (12) months thereafter, he shall not within the United States directly or indirectly in any manner or capacity (whether alone or as a partner, joint venturer, stockholder or investor, creditor, principal, agent, advisor, employee, officer, director, licensor, licensee, salesman, broker or representative, for any "Person" (defined as any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, association, organization, or other entity or governmental body), or through any agency or by any other means whatsoever) engage in the Business of the Company or any Subsidiary, except for on behalf of the Company or its affiliates. For purposes of the foregoing, the "Business of the Company," from time to time means the Company's business as is described in Part I, Item 1 ("Description of Business") of the Company's then most recent Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, and the term "Subsidiary" means a corporation or other entity that is at least majority owned, directly or indirectly, by the Company.

(b) No Interference. Employee shall not take any action to interfere with the relationships between the Company and its Affiliates, on the one hand, and their customers on the other, during the Non-Compete Period.

(c) Indirect Competition. Employee further agrees that, during the Non-Compete Period, he shall not, directly or indirectly, assist or encourage any other Person in carrying out, directly or indirectly, any activity that would be prohibited by the foregoing provisions of this Section 8 if such activity were carried out by Employee.

(d) No Solicitation. Employee agrees that during the Non-Compete Period, he will not, directly or indirectly, on behalf of himself or any other Person, solicit the hiring of or hire, on any basis, any Person employed by the Company or its Affiliates at the time of such solicitation.

9. Reasonable Restriction; Limits on Enforcement.

(a) The parties hereto agree that the restrictions on the activities and business of Employee provided for in this Agreement, and the duration and territorial scope thereof, are, under all circumstances, reasonable and necessary to safeguard the interests of the Company and its Affiliates and to protect the goodwill acquired pursuant thereto.

(b) If any court of competent jurisdiction shall refuse to enforce any or all of the provisions hereof because the time limit applicable thereto is deemed unreasonable, it is expressly understood and agreed that such provisions shall not be void, but that for the purpose of such proceedings and in such jurisdiction such time limitation shall be deemed to be reduced to the extent necessary to permit enforcement of such provisions.

(c) If any court of competent jurisdiction shall refuse to enforce any or all of the provisions hereof because they are more extensive (whether as to geographical area, scope of business or otherwise) than is deemed reasonable, it is expressly understood and agreed that such provisions shall not be void, but that for the purpose of such proceedings and in such jurisdiction, the restrictions contained herein (whether as to geographic area, scope of business or otherwise) shall be deemed to be reduced to the extent necessary to permit enforcement of such provisions.

(d) The existence of any claim or cause of action by Employee or any other Person against the Company or its Affiliates shall not constitute a defense to the enforcement of any provision hereof.

(e) Employee expressly stipulates and agrees that this Agreement shall be construed in a manner which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) permissible under applicable law.

10. Confidential Information.

(a) For purposes of this Section 10, the term "Confidential Information" means, in addition to its meaning under applicable law, information which is not generally known in the Company's industry and which is proprietary to the Company and which is subject to efforts by the Company to maintain its confidentiality, including (i) trade secret information about the Company, its customers and its products, and (ii) information relating to the business of the Company as conducted at any time within the previous five (5) years or anticipated to be conducted by the Company, and to any of its past, current or anticipated products, including, without limitation, information about the Company's purchasing, accounting, marketing, selling, or servicing. "Confidential Information" shall not include information that is, or thereafter by legal means becomes, lawfully available from public sources or any information that is required by a law or any competent administrative agency or judicial authority to be disclosed, or the disclosure of which is otherwise reasonably necessary or appropriate in connection with performance by Employee of his duties under this Agreement.

(b) Employee shall not, either during the term of this Agreement or for a period one (1) year following the expiration or termination of this Agreement, use Confidential Information for any purpose other than the performance of his duties and responsibilities under this Agreement or disclose any Confidential Information to any Person not employed by the Company except with the prior written authorization of the Company or as may be necessary for Employee to perform his duties hereunder and shall exercise prudence and the same degree of care taken by the Company to safeguard and protect, and to prevent the unauthorized disclosure of, all such Confidential Information.

(c) Upon expiration or termination of this Agreement, Employee shall turn over to a designated representative of the Company all property in Employee's possession and custody and belonging to the Company and all tangible embodiments of Confidential Information. Employee shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents relating in any way to the affairs of the Company and containing Confidential Information which came into Employee's possession at any time during the term of this Agreement.

11. Inventions and Innovations. Employee agrees to communicate to the Company, promptly and fully, and to assign to the Company, all inventions, trade secrets, and technical or business innovations, and all worldwide intellectual property rights therein, developed or conceived solely by Employee, or jointly with others, while employed by the Company, which were developed on the time of the Company or in reliance on Confidential Information. Employee further agrees to execute all necessary papers and otherwise to assist the Company, at the Company's sole expense, to obtain patents or other legal protection as the Company deems fit, and to assist in perfecting in the Company all rights granted to it hereunder. Both the Company and Employee intend that all original works of authorship created by Employee while working in the employ of the Company will be works for hire within the meaning of applicable copyright laws and will be the sole and exclusive property of the Company.

12. Third Party Beneficiaries. Employee acknowledges and agrees that the covenants contained in Sections 8 through 11 hereof are expressly intended to benefit the Company and all of its Affiliates, and that for purposes of such sections the term "Company" shall include all of Company's Affiliates.

13. Survival. The covenants and agreements of the Employee set forth in Sections 8 through 12 shall remain in effect and survive the termination of this Agreement for the respective periods set forth therein.

14. Waiver. No waiver of any term, condition or covenant of this Agreement shall be deemed to be a waiver of subsequent breaches of the same or other terms, covenants or conditions hereof.

15. Amendment. This Agreement may not be amended, altered or modified except by a written agreement between the parties hereto.

16. Assignability. Employee may not assign this Agreement to any third party for whatever purpose without the express written consent of the Company, other than as specifically authorized herein. The Company may not assign this Agreement to any third party without the express written consent of Employee except by operation of law, or through merger, liquidation, recapitalization or sale of all or substantially all of the assets of the Company, provided that the Company may assign this Agreement at any time to an Affiliate of the Company.

17. Invalidity. In the event part or any portion of this Agreement is determined in a legally binding manner to be invalid and unenforceable, the parties agree that this Agreement as so construed shall remain in force and effect between them and applied as if the offending part or portion did not comprise an element hereof.

18. Severability. If any particular provision of this Agreement shall be determined to be invalid or unenforceable, the parties expressly authorize the court or other tribunal making such a determination to edit the invalid or unenforceable provision to allow this Agreement, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by applicable law.

19. Entire Agreement. This Agreement contains the entire agreement of the parties relative to the subject matter of this Agreement and there is no provision, condition or understanding relative to the employment of Employee outside this Agreement.

20. Notices. Any notice required to be given hereunder shall be duly and properly given, effective as of the date of mailing, if mailed postage prepaid to either party at the addresses set forth below, or to such other address as such party may subsequently notify to the other.

If to Employee:	Steven C. Quay, MD, PhD 4105 E. Madison Street, Suite 320 Seattle, WA 98112
If to Company:	Atossa Genetics, Inc. Attn: Directors 4105 E. Madison Street, Suite 320 Seattle, WA 98112

21. Governing Law. This Agreement shall be governed by and construed under the internal laws of the State of Washington, without regard to the principles of comity and/or the applicable conflicts of laws of any state that would result in the application of any laws other than the State of Washington.

22. Jurisdiction & Arbitration. The validity, performance and interpretation of the Agreement shall be governed by the laws of the State Washington, without regard to its conflicts of law rules. Any dispute or claim arising under or with respect to this Agreement, which is incapable of resolution, will be resolved by arbitration before one (1) arbitrator in Seattle, Washington, in accordance with the Rules for Commercial Arbitration of the American Arbitration Association ("AAA"). The appointing agency shall be the AAA and the arbitrator shall apply Washington State law to both interpret this Agreement and fashion an award.

23. Tax Matters.

(a) The parties intend that this Agreement be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with, or exemption from, Section 409A of the Code, the provision will be read in such a manner so that all payments hereunder either comply with, or are exempt from, Section 409A of the Code. The Parties agree that this Agreement may be amended as reasonably requested by either Party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. The Company makes no representation or warranty and will have no liability to Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

(b) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee's "separation from service" within the meaning of Section 409A of the Code, the Company determines that Employee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that Employee becomes entitled to under this Agreement on account of his separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after Employee's separation from service or (B) Employee's death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments will be payable in accordance with their original schedule.

(c) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon Employee's termination of employment, then such payments or benefits shall be payable only upon Employee's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A 1(h).

(d) All in-kind benefits provided and expenses eligible for reimbursement under this Agreement shall be provided by the Company or incurred by Employee during the time periods set forth in this Agreement. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

24. Counterparts and Electronic Signatures. This Agreement may be executed in two or more counterparts and by facsimile or any electronic means, each of which shall be deemed an original but all of which together shall constitute one and the same Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement as of September 27, 2010.

COMPANY:

Atossa Genetics, Inc.

By: /s/ John Barnhart
John Barnhart
Director, Board of Directors

EMPLOYEE:

By: /s/ Steven C. Quay
Steven C. Quay, M.D., Ph.D.

[SIGNATURE PAGE TO EMPLOYMENT AGREEMENT]

RESTATED AND AMENDED EMPLOYMENT AGREEMENT

THIS RESTATED AND AMENDED EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of September 27, 2010 and restates and amends the Restated and Amended Employment Agreement made as of July 22, 2010 (the "Prior Agreement") by and between Shu-Chih Chen, Ph.D., an individual ("Employee"), and Atossa Genetics, Inc. a Delaware corporation, having its principal office at 4105 E. Madison Street, Suite 320, Seattle, WA 98112 (the "Company", and collectively with Employee referred to herein as the "Parties," and individually, as a "Party").

RECITALS

Whereas, the Company is engaged in the commercialization of a patented, FDA approved non-invasive test for the detection of pre-cancerous conditions that may lead to breast cancer;

Whereas, the Company has not yet completed development of its infrastructure and is in need of capital, management, infrastructure, accounting and various other critical elements including management and negotiations with sophisticated corporate entities and organizations;

Whereas, Employee is a founder of the Company;

Whereas, Employee desires to be employed by Company and Company desires to employ the Employee on the terms provided herein;

Whereas, the Employee and the Company desire to amend and restate the Prior Agreement and to accept the terms and conditions hereof in lieu of the terms and conditions provided under the Prior Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the Parties agree as follows:

1. Employment. The Company hereby hires and employs Employee as Chief Scientific Officer of the Company and Employee hereby accepts such employment with the Company on the terms and conditions set forth herein.

2. Term & Position.

(a) Employment Term. Subject to the terms and conditions set forth in Section 7 of this Agreement, the Employee and the Company shall each have the right to terminate Employee's employment hereunder. The term of Employee's employment hereunder is referred to herein as the "Employment Term."

(b) Position. During the Employment Term, Employee shall be the Chief Scientific Officer of the Company and shall be appointed as a member of the Board of Directors.

3. Duties and Responsibilities. Employee shall serve the Company diligently and faithfully in the performance of her duties on the Company's behalf, which shall include duties and responsibilities as the Company may from time to time reasonably prescribe consistent with the duties and responsibilities of the Chief Scientific Officer of the Company, including establishing the Company's laboratory, and managing the Company's biomarker research and development efforts.

4. Compensation. For services rendered to the Company pursuant to this Agreement, Employee shall be entitled to receive the following cash and equity compensation:

(a) Base Salary. Employee shall be entitled to an initial base salary of $200,000.00 per year, payable biweekly. The Company may elect to accrue payment of such base salary until the completion of a financing.

(b) Bonus. Employee shall be eligible to receive an annual cash performance bonus in an amount of up to 30% of her then-current base salary, subject to the achievement of goals established prospectively by the Compensation Committee of the board. The performance goals for 2010 will be set at the first board meeting following the completion of the Company's initial public offering.

(c) Equity. The Company will grant to Employee an option (the "Option") to purchase 226,333 shares of common stock at an exercise price per share equal to the fair market value per share on the date the option is granted, as determined by the Board of Directors. The Option will be subject to the terms and conditions applicable to options granted under an equity incentive plan to be adopted by the Board of Directors and stockholders of the Company (the "Plan"), and the applicable stock option agreement pursuant to the Plan, which will include the appropriate provisions contained in this Agreement. 25% of the shares of common stock underlying the option, or 56,583 shares, will vest on December 31, 2010, and the remaining 75%, or 169,750 shares, will vest in equal quarterly installments over the next three years, so long as Employee remains employed with the Company.

(d) Change in Control. In the event of a Change in Control (as defined below) during the Employment Term, Employee shall be entitled to receive a one-time bonus equal to 2.9 (two and nine-tenths) times her then-current base salary as set forth and determined above, or on any amendment to this Agreement, and all then-unvested shares of restricted stock, warrants and/or employee stock options, if any, then held by Employee shall accelerate and become fully vested as of immediately prior to the completion of the Change in Control. For purposes hereof, a "Change in Control" shall mean:

(i) merger or consolidation in which (A) the Company is a constituent party or (B) a Subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation, in each case except any such merger or consolidation involving the Company or a Subsidiary in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; or

(ii) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any Subsidiary of all or substantially all the assets of the Company and its Subsidiaries taken as a whole, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly-owned subsidiary of the Company.

5. Fringe Benefits. During the Employment Term, the Company agrees to make available the following fringe benefits to Employee in accordance with the policies and plans adopted by the Company; said fringe benefits shall be no less favorable to the Employee than those provided to other key employees and officers of the Company. To the extent such benefits are based on length of service with the Company, Employee shall receive full credit for prior service with the Company.

(a) Expenses. Employee shall be expected to incur various business expenses and other out-of-pocket expenses customarily incurred by persons holding like positions, including but not limited to traveling, entertainment and similar expenses incurred by Employee in the performance of Employee's services for the benefit of the Company. Company shall reimburse Employee for all reasonable business expenses incurred or paid by Employee upon presentation of documentation reasonably acceptable to the Company and subject to any reimbursement policy adopted by the Company.

(b) Health Insurance. Participation in health, hospitalization, disability, dental and other insurance plans that the Company may have in effect for other executives, all of which shall be paid for by the Company with contribution by the Employee as set for the other executives, as and if appropriate.

(c) Vacation. Employee shall be entitled to six weeks of paid vacation per year for each full year of employment and pro rata for each partial year. Vacation time not taken during a calendar year is not accrued to the next calendar year.

6. Termination. Either the Company or Employee may terminate Employee's employment by the Company at the end of any calendar month, with or without "Cause" or "Good Reason" (as such terms are defined below), in its or her sole discretion, upon thirty (30) days' prior written notice of termination. In addition, Employee's employment by the Company shall terminate upon the death or Disability (as defined below) of Employee. Termination of Executive's employment as provided for herein shall terminate the Employment Term. For purposes of this Agreement, in the case of a termination of Employee's employment hereunder, the following terms shall have the following meanings:

(a) "Good Reason" shall mean the Employee has complied with the Good Reason Process (as defined below) following the occurrence of any of the following events: (i) a material diminution in Employee's responsibilities, authority or duties at the Company that constitutes a demotion or (ii) a material diminution in Employee's base salary (other than a general reduction applicable to all executive employees of the Company) (each, a "Good Reason Condition").

(b) "Good Reason Process" means that (i) Employee reasonably determines in good faith that a Good Reason Condition has occurred, (ii) Employee notifies the Company in writing of the occurrence of the Good Reason Condition within 60 days after the first occurrence of such condition; (iii) Employee cooperates in good faith with the Company's efforts, for a period not less than 30 days following such notice (the "Cure Period"), to remedy the Good Reason Condition; (iv) notwithstanding such efforts, the Good Reason Condition continues to exist; and (v) Employee terminates her employment within 60 days after the end of the Cure Period. If the Company cures the Good Reason Condition during the Cure Period, Good Reason will be deemed not to have occurred.

(c) "Cause" shall mean: (i) Employee's willful and repeated failure reasonably to perform her duties hereunder or to comply with any reasonable and proper direction given by the Board if such failure of performance or compliance is not cured within thirty (30) days following receipt by Employee of written notice from the Company containing a description of such failures and non-compliance and a demand for immediate cure thereof; (B) Employee being found guilty in a criminal court of an offense involving moral turpitude; (C) Employee's commission of any material act of fraud or theft against the Company; or (D) Employee's material violation of any of the material terms, covenants, representations or warranties contained in this Agreement if such violation is not cured within thirty (30) days following receipt by Employee of written notice from the Company containing a description of the violation and a demand for immediate cure thereof.

(d) "Disability" shall mean total and permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

7. Severance. Subject to Section 6 hereof, if (i) the Company terminates the employment of Employee without Cause, or (ii) Employee terminates her employment for Good Reason, then Employee shall be entitled to receive all of her accrued and then-unpaid base salary, any bonus cash compensation earned by Employee through the effective date of termination (determined at the maximum annual rate for bonus cash compensation provided for above but on a pro-rated basis for the portion of the fiscal year that shall have elapsed when the termination occurs). In addition, subject to Employee's execution and non-revocation of an agreement containing a release of any and all legal claims and other termination-related provisions in a form acceptable to the Company (the "Separation Agreement"), Employee shall be entitled to receive upon such termination an additional cash payment in the amount of twelve (12) months of such base salary (the "Severance Payment"), and notwithstanding the vesting and exercisability provisions otherwise applicable to the options issued to Employee under prior agreements, the vesting of all shares of common stock underlying such options shall accelerate as of the effective date of such termination, and such options shall remain exercisable for the remainder of their terms. The Company shall pay the Severance Payment in substantially equal installments over six (6) months (the "Severance Benefits Period") in accordance with the Company's standard payroll practice, in arrears beginning on the first payroll date that occurs following the thirtieth (30th) day after the date on which Employee's employment with the Company terminates; *provided*, that prior to such date, the Separation Agreement becomes effective. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), each installment of the Severance Payment will be considered a separate payment. Notwithstanding the foregoing, the Company shall not be required to pay any severance pay for any period following the effective date of termination of Employee's employment hereunder if Employee shall have materially violated the provisions of Sections 3, 8, 10 or 11 of this Agreement and such violation is not cured within thirty (30) days following receipt of written notice from the Company containing a description of the violation and a demand for immediate cure.

8. Noncompetition and Non-Solicitation Commitment. Employee hereby agrees as follows:

(a) Agreement Not to Compete. Employee hereby covenants, and agrees that, during the Employment Term and for a period of twelve (12) months thereafter, she shall not within the United States directly or indirectly in any manner or capacity (whether alone or as a partner, joint venturer, stockholder or investor, creditor, principal, agent, advisor, employee, officer, director, licensor, licensee, salesman, broker or representative, for any "Person" (defined as any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, association, organization, or other entity or governmental body), or through any agency or by any other means whatsoever) engage in the Business of the Company or any Subsidiary, except for on behalf of the Company or its affiliates. For purposes of the foregoing, the "Business of the Company," from time to time means the Company's business as is described in Part I, Item 1 ("Description of Business") of the Company's then most recent Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, and the term "Subsidiary" means a corporation or other entity that is at least majority owned, directly or indirectly, by the Company.

(b) No Interference. Employee shall not take any action to interfere with the relationships between the Company and its Affiliates, on the one hand, and their customers on the other, during the Non-Compete Period.

(c) Indirect Competition. Employee further agrees that, during the Non-Compete Period, she shall not, directly or indirectly, assist or encourage any other Person in carrying out, directly or indirectly, any activity that would be prohibited by the foregoing provisions of this Section 8 if such activity were carried out by Employee.

(d) No Solicitation. Employee agrees that during the Non-Compete Period, she will not, directly or indirectly, on behalf of himself or any other Person, solicit the hiring of or hire, on any basis, any Person employed by the Company or its Affiliates at the time of such solicitation.

9. Reasonable Restriction; Limits on Enforcement.

(a) The parties hereto agree that the restrictions on the activities and business of Employee provided for in this Agreement, and the duration and territorial scope thereof, are, under all circumstances, reasonable and necessary to safeguard the interests of the Company and its Affiliates and to protect the goodwill acquired pursuant thereto.

(b) If any court of competent jurisdiction shall refuse to enforce any or all of the provisions hereof because the time limit applicable thereto is deemed unreasonable, it is expressly understood and agreed that such provisions shall not be void, but that for the purpose of such proceedings and in such jurisdiction such time limitation shall be deemed to be reduced to the extent necessary to permit enforcement of such provisions.

(c) If any court of competent jurisdiction shall refuse to enforce any or all of the provisions hereof because they are more extensive (whether as to geographical area, scope of business or otherwise) than is deemed reasonable, it is expressly understood and agreed that such provisions shall not be void, but that for the purpose of such proceedings and in such jurisdiction, the restrictions contained herein (whether as to geographic area, scope of business or otherwise) shall be deemed to be reduced to the extent necessary to permit enforcement of such provisions.

(d) The existence of any claim or cause of action by Employee or any other Person against the Company or its Affiliates shall not constitute a defense to the enforcement of any provision hereof.

(e) Employee expressly stipulates and agrees that this Agreement shall be construed in a manner which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) permissible under applicable law.

10. Confidential Information.

(a) For purposes of this Section 10, the term "Confidential Information" means, in addition to its meaning under applicable law, information which is not generally known in the Company's industry and which is proprietary to the Company and which is subject to efforts by the Company to maintain its confidentiality, including (i) trade secret information about the Company, its customers and its products, and (ii) information relating to the business of the Company as conducted at any time within the previous five (5) years or anticipated to be conducted by the Company, and to any of its past, current or anticipated products, including, without limitation, information about the Company's purchasing, accounting, marketing, selling, or servicing. "Confidential Information" shall not include information that is, or thereafter by legal means becomes, lawfully available from public sources or any information that is required by a law or any competent administrative agency or judicial authority to be disclosed, or the disclosure of which is otherwise reasonably necessary or appropriate in connection with performance by Employee of her duties under this Agreement.

(b) Employee shall not, either during the term of this Agreement or for a period one (1) year following the expiration or termination of this Agreement, use Confidential Information for any purpose other than the performance of her duties and responsibilities under this Agreement or disclose any Confidential Information to any Person not employed by the Company except with the prior written authorization of the Company or as may be necessary for Employee to perform her duties hereunder and shall exercise prudence and the same degree of care taken by the Company to safeguard and protect, and to prevent the unauthorized disclosure of, all such Confidential Information.

(c) Upon expiration or termination of this Agreement, Employee shall turn over to a designated representative of the Company all property in Employee's possession and custody and belonging to the Company and all tangible embodiments of Confidential Information. Employee shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents relating in any way to the affairs of the Company and containing Confidential Information which came into Employee's possession at any time during the term of this Agreement.

11. Inventions and Innovations. Employee agrees to communicate to the Company, promptly and fully, and to assign to the Company, all inventions, trade secrets, and technical or business innovations, and all worldwide intellectual property rights therein, developed or conceived solely by Employee, or jointly with others, while employed by the Company, which were developed on the time of the Company or in reliance on Confidential Information. Employee further agrees to execute all necessary papers and otherwise to assist the Company, at the Company's sole expense, to obtain patents or other legal protection as the Company deems fit, and to assist in perfecting in the Company all rights granted to it hereunder. Both the Company and Employee intend that all original works of authorship created by Employee while working in the employ of the Company will be works for hire within the meaning of applicable copyright laws and will be the sole and exclusive property of the Company.

12. Third Party Beneficiaries. Employee acknowledges and agrees that the covenants contained in Sections 8 through 11 hereof are expressly intended to benefit the Company and all of its Affiliates, and that for purposes of such sections the term "Company" shall include all of Company's Affiliates.

13. Survival. The covenants and agreements of the Employee set forth in Sections 8 through 12 shall remain in effect and survive the termination of this Agreement for the respective periods set forth therein.

14. Waiver. No waiver of any term, condition or covenant of this Agreement shall be deemed to be a waiver of subsequent breaches of the same or other terms, covenants or conditions hereof.

15. Amendment. This Agreement may not be amended, altered or modified except by a written agreement between the parties hereto.

16. Assignability. Employee may not assign this Agreement to any third party for whatever purpose without the express written consent of the Company, other than as specifically authorized herein. The Company may not assign this Agreement to any third party without the express written consent of Employee except by operation of law, or through merger, liquidation, recapitalization or sale of all or substantially all of the assets of the Company, provided that the Company may assign this Agreement at any time to an Affiliate of the Company.

17. Invalidity. In the event part or any portion of this Agreement is determined in a legally binding manner to be invalid and unenforceable, the parties agree that this Agreement as so construed shall remain in force and effect between them and applied as if the offending part or portion did not comprise an element hereof.

18. Severability. If any particular provision of this Agreement shall be determined to be invalid or unenforceable, the parties expressly authorize the court or other tribunal making such a determination to edit the invalid or unenforceable provision to allow this Agreement, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by applicable law.

19. Entire Agreement. This Agreement contains the entire agreement of the parties relative to the subject matter of this Agreement and there is no provision, condition or understanding relative to the employment of Employee outside this Agreement.

20. Notices. Any notice required to be given hereunder shall be duly and properly given, effective as of the date of mailing, if mailed postage prepaid to either party at the addresses set forth below, or to such other address as such party may subsequently notify to the other.

If to Employee:	Shu-Chih Chen, PhD 4105 E. Madison Street, Suite 320 Seattle, WA 98112
If to Company:	Atossa Genetics, Inc. Attn: President 4105 E. Madison Street, Suite 320 Seattle, WA 98112

21. Governing Law. This Agreement shall be governed by and construed under the internal laws of the State of Washington, without regard to the principles of comity and/or the applicable conflicts of laws of any state that would result in the application of any laws other than the State of Washington.

22. Jurisdiction & Arbitration. The validity, performance and interpretation of the Agreement shall be governed by the laws of the State Washington, without regard to its conflicts of law rules. Any dispute or claim arising under or with respect to this Agreement, which is incapable of resolution, will be resolved by arbitration before one (1) arbitrator in Seattle, Washington, in accordance with the Rules for Commercial Arbitration of the American Arbitration Association ("AAA"). The appointing agency shall be the AAA and the arbitrator shall apply Washington State law to both interpret this Agreement and fashion an award.

23. Tax Matters.

(a) The parties intend that this Agreement be administered in accordance with Section 409A of the Code. To the extent that any provision of this Agreement is ambiguous as to its compliance with, or exemption from, Section 409A of the Code, the provision will be read in such a manner so that all payments hereunder either comply with, or are exempt from, Section 409A of the Code. The Parties agree that this Agreement may be amended as reasonably requested by either Party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. The Company makes no representation or warranty and will have no liability to Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

(b) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee's "separation from service" within the meaning of Section 409A of the Code, the Company determines that Employee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that Employee becomes entitled to under this Agreement on account of her separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment shall not be payable and such benefit shall not be provided until the date that is the earlier of (A) six months and one day after Employee's separation from service or (B) Employee's death. If any such delayed cash payment is otherwise payable on an installment basis, the first payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments will be payable in accordance with their original schedule.

(c) To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon Employee's termination of employment, then such payments or benefits shall be payable only upon Employee's "separation from service." The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A 1(h).

(d) All in-kind benefits provided and expenses eligible for reimbursement under this Agreement shall be provided by the Company or incurred by Employee during the time periods set forth in this Agreement. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of in-kind benefits provided or reimbursable expenses incurred in one taxable year shall not affect the in-kind benefits to be provided or the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

24. Counterparts and Electronic Signatures. This Agreement may be executed in two or more counterparts and by facsimile or any electronic means, each of which shall be deemed an original but all of which together shall constitute one and the same Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement as of September 27, 2010.

COMPANY:	EMPLOYEE:
Atossa Genetics, Inc.	
By: /s/ John Barnhart	By: /s/ Shu-Chih Chen
John Barnhart	Shu-Chih Chen, Ph.D.
Director, Board of Directors	

[SIGNATURE PAGE TO EMPLOYMENT AGREEMENT]

EXHIBIT 10.6

ATOSSA GENETICS INC.

2010 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Atossa Genetics Inc. 2010 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and other key persons (including Consultants and prospective employees) of Atossa Genetics Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"*Act*" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"*Administrator*" means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

"*Award*" or "*Awards,*" except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Units, Restricted Stock Awards, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights.

"*Award Certificate*" means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

"*Board*" means the Board of Directors of the Company.

"*Cash-Based Award*" means an Award entitling the recipient to receive a cash-denominated payment.

"*Code*" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"*Consultant*" means any natural person that provides bona fide services to the Company, and such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

"*Covered Employee*" means an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code.

"*Dividend Equivalent Right*" means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

"*Effective Date*" means the date on which the Plan is approved by stockholders as set forth in Section 21.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"*Fair Market Value*" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), NASDAQ Global Market or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations; provided further, however, that if the date for which Fair Market Value is determined is the first day when trading prices for the Stock are reported on a national securities exchange, the Fair Market Value shall be the "Price to the Public" (or equivalent) set forth on the cover page for the final prospectus relating to the Company's Initial Public Offering.

"*Incentive Stock Option*" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"*Initial Public Offering*" means the consummation of the first fully underwritten, firm commitment public offering pursuant to an effective registration statement under the Act covering the offer and sale by the Company of its equity securities, or such other event as a result of or following which the Stock shall be publicly held.

"*Non-Employee Director*" means a member of the Board who is not also an employee of the Company or any Subsidiary.

"*Non-Qualified Stock Option*" means any Stock Option that is not an Incentive Stock Option.

"*Option*" or "*Stock Option*" means any option to purchase shares of Stock granted pursuant to Section 5.

"*Performance-Based Award*" means any Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award granted to a Covered Employee that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code and the regulations promulgated thereunder.

"*Performance Criteria*" means the criteria that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for an individual for a Performance Cycle. The Performance Criteria (which shall be applicable to the organizational level specified by the Administrator, including, but not limited to, the Company or a unit, division, group, or Subsidiary of the Company) that will be used to establish Performance Goals are limited to the following: earnings before interest, taxes, depreciation and amortization, net income (loss) (either before or after interest, taxes, depreciation and/or amortization), changes in the market price of the Stock, economic value-added, funds from operations or similar measure, sales or revenue, acquisitions or strategic transactions, operating income (loss), cash flow (including, but not limited to, operating cash flow and free cash flow), return on capital, assets, equity, or investment, stockholder returns, return on sales, gross or net profit levels, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings (loss) per share of Stock, sales or market shares and number of customers, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group.

"*Performance Cycle*" means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee's right to and the payment of a Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award. Each such period shall not be less than 12 months.

"*Performance Goals*" means, for a Performance Cycle, the specific goals established in writing by the Administrator for a Performance Cycle based upon the Performance Criteria.

"*Performance Share Award*" means an Award entitling the recipient to acquire shares of Stock upon the attainment of specified Performance Goals.

"*Restricted Stock Award*" means an Award entitling the recipient to acquire, at such purchase price (which may be zero) as determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"*Restricted Stock Units*" means an Award of phantom stock units to a grantee.

"*Sale Event*" shall mean (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person or entity, or (iv) any other transaction in which the owners of the Company's outstanding voting power prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company.

"*Sale Price*" means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

"*Section 409A*" means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

"*Stock*" means the Common Stock, par value $0.001 per share, of the Company, subject to adjustments pursuant to Section 3.

"*Stock Appreciation Right*" means an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

"*Subsidiary*" means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

"*Ten Percent Owner*" means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

"*Unrestricted Stock Award*" means an Award of shares of Stock free of any restrictions.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS

(a) Administration of Plan. The Plan shall be administered by the Administrator.

(b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(b), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) Award Certificate. Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or service terminates.

(d) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(e) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 2,263,320 shares (the "Initial Limit"), subject to adjustment as provided in Section 3(b), plus on January 1, 2012 and each January 1 thereafter, the number of shares of Stock reserved and available for issuance under the Plan shall be cumulatively increased by 4 percent (4%) of the number of shares of Stock issued and outstanding on the immediately preceding December 31 (the "Annual Increase"). Subject to such overall limitation, the maximum aggregate number of shares of Stock that may be issued in the form of Incentive Stock Options shall not exceed the Initial Limit cumulatively increased on January 1, 2012 and on each January 1 thereafter by the lesser of the Annual Increase for such year or 50% of the Initial Limit, subject in all cases to adjustment as provided in Section 3(b). For purposes of this limitation, the shares of Stock underlying any Awards that are forfeited, canceled, held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. In the event the Company repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 50% of the Initial Limit may be granted to any one individual grantee during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.

(b) Changes in Stock. Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-Based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (v) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(c) Mergers and Other Transactions. Except as the Administrator may otherwise specify with respect to particular Awards in the relevant Award Certificate, in the case of and subject to the consummation of a Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate, unless provision is made in connection with the Sale Event in the sole discretion of the parties thereto for the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree (after taking into account any acceleration hereunder). In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a cash payment to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable (after taking into account any acceleration hereunder) at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights; or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights held by such grantee. The Administrator shall also have the discretion to accelerate the vesting of all other Awards.

(d) Substitute Awards. The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors or other key persons of another corporation in connection with the merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitation set forth in Section 3(a).

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and key persons (including Consultants and prospective employees) of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(a) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

(b) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

(c) Exercisability; Rights of a Stockholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(d) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award Certificate:

(i) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(ii) Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that have been beneficially owned by the optionee for at least six months and that are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure; or

(iv) With respect to Stock Options that are not Incentive Stock Options, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(e) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

(a) Exercise Price of Stock Appreciation Rights. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant.

(b) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

(c) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator. The term of a Stock Appreciation Right may not exceed ten years.

SECTION 7. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Awards. The Administrator shall determine the restrictions and conditions applicable to each Restricted Stock Award at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award Certificate shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) Rights as a Stockholder. Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the Restricted Stock Award Certificate. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Stock shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Stock are vested as provided in Section 7(d) below, and (ii) certificated Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(c) Restrictions. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Stock that has not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of unvested Restricted Stock that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) Vesting of Restricted Stock. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the grantee's termination of employment (or other service relationship) with the Company and its Subsidiaries and such shares shall be subject to the provisions of Section 7(c) above.

SECTION 8. RESTRICTED STOCK UNITS

(a) Nature of Restricted Stock Units. The Administrator shall determine the restrictions and conditions applicable to each Restricted Stock Unit at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award Certificate shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. At the end of the deferral period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Stock. To the extent that an award of Restricted Stock Units is subject to Section 409A, it may contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order for such Award to comply with the requirements of Section 409A.

(b) Election to Receive Restricted Stock Units in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.

(c) Rights as a Stockholder. A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the phantom stock units underlying his Restricted Stock Units, subject to such terms and conditions as the Administrator may determine.

(d) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

SECTION 10. CASH-BASED AWARDS

Grant of Cash-Based Awards. The Administrator may, in its sole discretion, grant Cash-Based Awards to any grantee in such number or amount and upon such terms, and subject to such conditions, as the Administrator shall determine at the time of grant. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash or in shares of Stock, as the Administrator determines.

SECTION 11. PERFORMANCE SHARE AWARDS

(a) Nature of Performance Share Awards. The Administrator may, in its sole discretion, grant Performance Share Awards independent of, or in connection with, the granting of any other Award under the Plan. The Administrator shall determine whether and to whom Performance Share Awards shall be granted, the Performance Goals, the periods during which performance is to be measured, and such other limitations and conditions as the Administrator shall determine.

(b) Rights as a Stockholder. A grantee receiving a Performance Share Award shall have the rights of a stockholder only as to shares actually received by the grantee under the Plan and not with respect to shares subject to the Award but not actually received by the grantee. A grantee shall be entitled to receive shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award Certificate (or in a performance plan adopted by the Administrator).

(c) Termination. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Performance Share Awards shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 12. PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES

(a) Performance-Based Awards. Any employee or other key person providing services to the Company and who is selected by the Administrator may be granted one or more Performance-Based Awards in the form of a Restricted Stock Award, Restricted Stock Units, Performance Share Awards or Cash-Based Award payable upon the attainment of Performance Goals that are established by the Administrator and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Administrator. The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Administrator, in its discretion, may adjust or modify the calculation of Performance Goals for such Performance Cycle in order to prevent the dilution or enlargement of the rights of an individual (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development, (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or (iii) in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions provided however, that the Administrator may not exercise such discretion in a manner that would increase the Performance-Based Award granted to a Covered Employee. Each Performance-Based Award shall comply with the provisions set forth below.

(b) Grant of Performance-Based Awards. With respect to each Performance-Based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the Performance Criteria for such grant, and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-Based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-Based Awards to different Covered Employees.

(c) Payment of Performance-Based Awards. Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-Based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-Based Award, and, in doing so, may reduce or eliminate the amount of the Performance-Based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d) Maximum Award Payable. The maximum Performance-Based Award payable to any one Covered Employee under the Plan for a Performance Cycle is up to 50% of the Initial Limit (subject to adjustment as provided in Section 3(b) hereof) or $500,000 in the case of a Performance-Based Award that is a Cash-Based Award.

SECTION 13. DIVIDEND EQUIVALENT RIGHTS

(a) Dividend Equivalent Rights. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units, Restricted Stock Award or Performance Share Award or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of an award of Restricted Stock Units, Restricted Stock Award or Performance Share Award may provide that such Dividend Equivalent Right shall be settled upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. A Dividend Equivalent Right granted as a component of a Restricted Stock Units, Restricted Stock Award or Performance Share Award may also contain terms and conditions different from such other Award.

(b) Interest Equivalents. Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

(c) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Dividend Equivalent Rights or interest equivalents granted as a component of an award of Restricted Stock Units, Restricted Stock Award or Performance Share Award that has not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 14. TRANSFERABILITY OF AWARDS

(a) Transferability. Except as provided in Section 14(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) Administrator Action. Notwithstanding Section 14(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Awards (other than any Incentive Stock Options or Restricted Stock Units) to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.

(c) Family Member. For purposes of Section 14(b), "family member" shall mean a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) Designation of Beneficiary. Each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 15. TAX WITHHOLDING

(a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) Payment in Stock. Subject to approval by the Administrator, a grantee may elect to have the Company's minimum required tax withholding obligation satisfied, in whole or in part, by authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

SECTION 16. SECTION 409A AWARDS

To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 17. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 18. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. The Administrator is specifically authorized to exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect the repricing through cancellation and re-grants. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 18 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(b) or 3(c).

SECTION 19. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 20. GENERAL PROVISIONS

(a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) Delivery of Stock Certificates. Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) Stockholder Rights. Until Stock is deemed delivered in accordance with Section 20(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

(f) Forfeiture of Awards under Sarbanes-Oxley Act. If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, then any grantee who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 shall reimburse the Company for the amount of any Award received by such individual under the Plan during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission, as the case may be, of the financial document embodying such financial reporting requirement.

SECTION 21. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon stockholder approval in accordance with applicable state law, the Company's bylaws and articles of incorporation, and applicable stock exchange rules or pursuant to written consent. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 22. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS: September 28, 2010

DATE APPROVED BY STOCKHOLDERS: September 28, 2010

ATOSSA GENETICS, INC.

Subscription Agreement

Name of Subscriber:_____

Number of Shares Purchased (_____) share minimum):_____

Subscription Amount ($_____ per share):_____

State of Residence:_____

1. **Subscription.** The undersigned hereby subscribes to the number of shares set forth above of the common stock of Atossa Genetics, Inc. (the "Investment Securities") a corporation organized and existing under the laws of the State of Delaware (the "Company"), and agrees to pay for such Investment Securities the amount set forth above in cash or by check subject to collection upon execution of this subscription agreement.

2. **Agreements and Understandings of the Undersigned.** The undersigned agrees and understands that:

2.1. The undersigned is entitled to full information about the Company and its principals. Written materials describing the Company and the Investment Securities (the "Investment Documents") have been furnished to the undersigned prior to execution of this subscription agreement and the undersigned has been given the time required to read such materials, alone or with the undersigned's advisor(s).

2.2. If the undersigned has made any deposit, escrow or other payment in whole or in part toward the purchase of the Investment Securities offered hereby before executing this subscription agreement, the undersigned may elect to either: (i) ratify the undersigned's investment and receive a credit in full for such payment by execution of this subscription agreement; or (ii) have returned on demand the full amount of such payment, less distributions received by the undersigned, if any, plus lawful interest, at which time the undersigned will have no interest in or further obligation in regard to the Investment Securities offered hereby.

2.3. The undersigned (or the entity for which the undersigned is acting, if any) will not offer or sell all or any part of the undersigned's Investment Securities until and unless the Investment Securities are registered under the Securities Act of 1933, as amended and under applicable state laws or unless the undersigned has delivered to the Company an opinion of counsel satisfactory to it that such registration is not required.

2.4. No Federal or state agency has made any finding or determination as to the fairness for investment, nor recommendation or endorsement, of the Investment Securities.

2.5. If the undersigned is neither a United States citizen nor a resident of the United States, then the undersigned agrees: (a) to supply the Company with any and all information necessary so that the Company may satisfy any and all United States legal reporting requirements; and (b) to indemnify the Company for any liability incurred by the Company as a result of its failure to withhold any taxes or comply with any reporting requirements because the undersigned did not provide the necessary information to the Company to enable it to withhold the necessary taxes or fully comply with such requirements. Furthermore, if the undersigned is a foreign investor who fails to timely file U.S. Internal Revenue Service Form 4224 with the Company (the first such Form must be filed in duplicate with the Company prior to the acceptance of this subscription), the undersigned agrees, at the request of the Company, to execute any and all documents and instruments requested by the Company in order to consummate a sale or disposition of the Investment Securities as required to comply with law.

2.6. If the undersigned is an organization (other than a cooperative described in Section 521 of the Internal Revenue Code of 1986, as amended) whose income from the Company will be exempt from United States income tax, the undersigned shall so advise the Company.

2.7. **THE OFFERING OF THESE SECURITIES IS NOT REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. AS SUCH THE UNDERSIGNED MUST BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME BECAUSE THE SECURITIES CANNOT BE SOLD UNLESS THEY ARE SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. RESTRICTIONS WILL BE PLACED ON THE TRANSFERABILITY OF THE SECURITIES.**

2.8. **THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE STATE OR JURISDICTION OF THE UNDERSIGNED'S RESIDENCE NOR HAS THE STATE OR JURISDICTION OF THE UNDERSIGNED'S RESIDENCE PASSED UPON THE ACCURACY OR ADEQUACY OF ANY INFORMATIONAL MATERIALS.**

2.9. **THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF ANY INFORMATIONAL MATERIALS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

3. **Warranties of the Undersigned.** The undersigned represents and warrants that:

3.1. The undersigned has reached the age of majority in the state or country in which the undersigned resides.

3.2. The undersigned (or the entity for which the undersigned is acting, if any) intends to retain indefinitely, and has no present arrangement, understanding or agreement for disposing of the Investment Securities and takes such Investment Securities solely for the account of the name(s) which appear below.

3.3. If a trust, corporation, partnership, or other entity, the undersigned: (i) is duly organized and validly existing under the laws of the state of formation; (ii) is duly authorized and empowered to purchase the Investment Securities; (iii) was not organized exclusively for the purpose of acquiring the Investment Securities and has an independent reason for existence beyond such investment; (iv) has duly authorized the signatory hereto to execute this subscription agreement on behalf of the undersigned, and, upon such execution, the subscription agreement and any related documents shall be a binding obligation of the undersigned; and (v) will, upon request of counsel to the Company, furnish evidence of the representations and warranties of this subparagraph, including certified copies of the certificate (articles) of incorporation, articles of (limited) partnership, or other creating or implementing documents.

3.4. If the undersigned is not an Accredited Investor (described hereinafter) under Regulation D of the General Rules and Regulations of the Securities and Exchange Commission, the undersigned, either alone or with an advisor(s), has such knowledge and experience in financial and business matters that the undersigned is capable of evaluating the merits and risks of the prospective investment.

3.5. It has been called to the undersigned's attention that this investment involves a high degree of risk, and no assurances are or have been made regarding the economic advantages, if any, which may inure to the benefit of investors. The economic benefit from an investment in the Investment Securities depends on the ability of the Company to successfully conduct its business activities. The accomplishment of such goals in turn depends on many factors beyond the control of the Company or its management. Accordingly, the suitability for any particular investor of a purchase of the Investment Securities will depend upon, among other things, such investor's investment objectives and such investor's ability to accept speculative risks, including the risk of a total loss of investment in the Investment Securities. The undersigned and the undersigned's advisor(s), if any, have carefully reviewed and understand the risk of, and other considerations relating to, a purchase of the Investment Securities.

3.6. The undersigned is able to bear the economic risks of this investment, is able to hold the Investment Securities for an indefinite period of time, and has sufficient net worth to sustain a loss of the entire investment in the Company in the event such loss should occur.

3.7. The undersigned and the undersigned's advisor(s), if any, have relied only upon the information contained in the Investment Documents made available to the undersigned and the undersigned's advisor(s). Any other information concerning this offering, whether oral or written, may be incomplete or inaccurate. Only the Investment Documents are intended to be an accurate description of the offering and its terms.

3.8. The Company has answered all inquiries that the undersigned and the undersigned's advisor(s), if any, have made of it concerning the Company or any other matters relating to the business and proposed operation of the Company and the offer and sale of the Investment Securities. No oral statement, printed material, or inducement which is contrary to the information contained in the Investment Documents has been given or made by or on behalf of the Company to the undersigned or the undersigned's advisor(s), if any.

3.9. All of the representations and information provided by the undersigned in this subscription agreement and any additional information which the undersigned has furnished to the Company with respect to the undersigned's financial position and business experience is accurate and complete as of the date that this subscription agreement was executed by the undersigned. If there should be any material adverse change in such representations or information prior to the sale of the Investment Securities subscribed for herein to the undersigned, the undersigned will immediately furnish accurate and complete information concerning any such material change to the Company.

3.10. The undersigned represents, if the undersigned is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), that in making the proposed investment the undersigned is aware of and has taken into consideration the diversification requirements of Section 404(a)(1)(C) of ERISA, and has concluded that the proposed investment is a prudent one.

4. **"Non-Resident Alien" Status (if applicable).** By indication below, the undersigned represents and warrants that the undersigned (or the entity for which the undersigned is acting, if any) is not a citizen of the United States or Canada and is not, and has no present intention of becoming, a resident of the United States (defined as being any natural person physically present within the United States for at least 183 days in a 12-month consecutive period or any entity who maintained an office in the United States at any time during a 12-month consecutive period). The undersigned understands that the Company may rely upon the representations and warranty of this paragraph as a basis for an exemption from registration of the Investment Securities under the Securities Act of 1933, as amended, and the provisions of relevant state securities laws.

_____ CHECK HERE IF *NOT* A CITIZEN/RESIDENT OF THE UNITED STATES OR CANADA.

5. **"Accredited Investor" Status.** Unless indicated otherwise herein, the undersigned falls within one of the following definitions of Accredited Investor:

For individuals:

○ The undersigned is a natural person whose individual net worth, or joint net worth with spouse, exceeds $1,000,000 at the time of purchase of the Investment Securities.

○ The undersigned is a natural person who had an individual income in excess of $200,000 in each of the last two years or joint income with spouse in excess of $300,000 in each of those years and reasonably expects to reach the same income level in the current year.

○ The undersigned is either a director, executive officer or general partner of the Company, or adirector, executive officer or general partner of a general partner of the Company.

If an Accredited Investor, the undersigned further certifies that: (i) the undersigned (or the undersigned's professional advisor(s)) has the capacity to protect the undersigned's interests in this investment; (ii) the undersigned is able to bear the economic risks of this investment; and (iii) the amount of the investment does not exceed 10% of the undersigned's net worth or joint net worth with spouse.

For entities:

○ The undersigned is an institutional investor as provided in Regulation Section 230.501(a)(1) under the Securities Act of 1933.

○ The undersigned is a private business development company within the meaning of Section 202(a)(22) of the Investment Advisers Act of 1940.

○ The undersigned is any organization described in Section 501©(3) of the Internal Revenue Code, not formed for the specific purpose of acquiring the Investment Securities, with total assets in excess of $5,000,000.

○ The undersigned is a trust with total assets in excess of $5,000,000, not formed for the special purpose of acquiring the Investment Securities, whose investment is directed by a person described in Regulation Section 230.506(b)(2)(ii) under the Securities Act of 1933.

○ The undersigned is an entity owned entirely by any of the persons described above.

6. **Suitability Information for Investors who are not Accredited Investors.** If the undersigned does *not* meet the definition above of an Accredited Investor, the undersigned must be able to check the following category as applicable.

IF NOT AN ACCREDITED INVESTOR YOU MUST BE ABLE TO CHECK THIS CATEGORY:

_____ I have such knowledge and experience in financial and business matters that I (alone or together with a Purchaser Representative) am capable of evaluating the merits and risks of this investment.

If the undersigned is not an Accredited Investor, the Company may require that the undersigned utilize the services of a Purchaser Representative or equivalent advisor who may be required to complete a Purchaser Representative Questionnaire.

7. **Acceptance and Conditions of Investment.**

The undersigned agrees and is aware that:

7.1. The Company reserves the unrestricted right to reject any subscription, and no subscription will be binding unless and until accepted by it. A subscription from a non-accredited investor will not be accepted if the maximum limitation on the number of non-accredited investors has already been reached.

7.2. A legend in substantially the following form will be placed on any certificate(s) evidencing the Investment Securities:

THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF BY ANY INVESTOR TO ANY OTHER PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND UNDER APPLICABLE LAW OF THE STATE OR JURISDICTION WHERE SOLD, TRANSFERRED OR DISPOSED OF, UNLESS SUCH SALE, TRANSFER OR DISPOSITION SHALL QUALIFY UNDER AN ALLOWED EXEMPTION TO SUCH REGISTRATION.

7.3. Stop transfer instructions will be placed with respect to the Investment Securities so as to restrict resale or other transfer thereof subject to further items hereof, including the provisions of the legend set forth above.

7.4. Unless otherwise provided by law, the legend and stop transfer instructions described above will be placed with respect to any new certificate(s) or other document(s) issued upon presentment by the undersigned of certificate(s) or other document(s) for transfer.

8. **Registration Rights.** The undersigned, or subsequent holder of the Investment Securities, shall have the right to have the Investment Securities included in the first registration statement effected by the Company for any of its stock or other securities under the Securities Act of 1933, as amended, (other than a registration statement relating solely to the sale of securities to participants in a Company stock plan, a Form S-4 registration statement, or a registration on any other form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Investment Securities). Holders who wish their Investment Securities included in such registration statement shall comply with reasonable conditions imposed by the Company, including the furnishing of certain information required to be included in the registration statement. The expenses of the registration statement will be borne by the Company except for expenses (such as the advice of an attorney, accountant or financial advisor) incurred by the holder individually.

9. **Accuracy of Information Given.** The undersigned certifies that the undersigned has given the information contained herein to the best of the undersigned's knowledge and answers thereto are complete and accurate. The undersigned agrees that the foregoing representations and warranties shall survive the purchase of the Investment Securities as well as any acceptance of this subscription for the Investment Securities.

10. **Election of Purchaser Representative.** The undersigned understands that the undersigned is entitled to be advised by a Purchaser Representative or an equivalent advisor in making a decision to invest and that (unless the undersigned is an Accredited Investor) the undersigned must be so advised if the undersigned does not have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of this investment.

11. **Indemnification.** The undersigned acknowledges that the undersigned understands the meaning and legal consequences of the representations and warranties hereof, and hereby agrees to indemnify and hold harmless the Company, its affiliates, attorneys, accountants, agents, employees and any selling securityholder from and against any and all loss, damage or liability, including, without limitation, reasonable attorneys fees incurred as a result of such breach, due to or arising out of a breach of any such representations or warranties. This indemnification shall not require that the Company shall have been determined by any Federal, state or other authority or person to have qualified for any exemption from the registration provisions of Federal or state securities laws, rules or regulations.

12. **Arbitration.** The undersigned hereby agrees that any and all claims (other than claims for injunctive or other equitable relief) now or at any time hereafter as to which the Company, its affiliates, attorneys, accountants, agents or employees and the undersigned, the undersigned's successors or assigns may be adverse parties, whether arising out of this agreement or from any other cause, will be resolved by arbitration before the American Arbitration Association. Each party irrevocably consents to subject matter and personal jurisdiction before the American Arbitration Association. The parties covenant that under no conditions will any of them file any action at law against any other or bring any claim in any forum other than before the American Arbitration Association, and they agree that any litigation, if filed, shall be immediately dismissed upon application and shall be referred for arbitration hereunder with costs and attorneys' fees to the prevailing party. The situs of arbitration and any counterclaims shall be selected by the person against whom arbitration is sought provided that such situs is within the United States and is the situs of such person's principal residence or place of business. Any dispute concerning situs shall be determined by the American Arbitration Association.

The parties shall restrict themselves to claims for compensatory damages. No claims shall be made by any party for lost profits, punitive or similar damages. The parties agree that any award or decision by the American Arbitration Association shall be final and non-appealable except as to errors of law. Any appeal from an award of the arbitrator shall be taken to the appropriate court having jurisdiction over the situs of the arbitration. No bond shall be required of any party on appeal, and no enforcement of the award shall be granted until a determination of the appeal is final or until time to take an appeal has expired. Each party shall pay their own attorneys fees and costs of the arbitration and any appeal.

It is the intent of the parties and their affiliates to deal with all disputes between them by arbitration to the maximum degree allowed by law (including claims against any party's current or former attorneys, accountants, agents, employees, successors or assigns), and if any claim or claims should be held not subject to arbitration, only such claim or claims shall be excluded from this paragraph.

PLEASE EXECUTE THE ATTACHED SIGNATURE PAGE

Signature Page to Subscription Agreement

_____
Name of Subscriber

_____
Street

_____
City, State, Zip Code

$_____
Amount of Subscription

By_____
Signature

Date_____

Taxpayer Identification Number_____
(Social Security number for individuals)

Status (if not individual):

( ) Trust
( ) Partnership
( ) IRA
( ) Corporation
( ) Other_____
(describe)

Title to be Taken By (if not individual):

( ) Joint Tenant with _____
(name of co-tenant)

( ) Other (describe):_____

Accepted:

ATOSSA GENETICS, INC.

By:_____

Date:

EXHIBIT 10.11

PROMISSORY NOTE & AGREEMENT

$5,000.00 Date: January 2, 2010

For value received, the undersigned Atossa Genetics, Inc. (the “Borrower”), at 4105 E Madison St, Suite 320 Seattle, WA 98112, promises to pay to the order of Steven Quay, (the “Lender”), at 4105 E Madison St, Suite 320, Seattle WA 98112 (or at such other place as the Lender may designate in writing) the sum of Five Thousand Dollars ($5,000.00) with interest from June 30, 2010, on the unpaid principal at the rate of 10.00% per annum, as the loan was “interest free” prior to the date of the execution of this Agreement.

The unpaid principal and accrued interest shall be payable in full on, or before, December 30, 2010.

All payments on this Note shall be applied first in payment of accrued interest and any remainder in payment of principal.

If any payment obligation under this Note is not paid when due, the remaining unpaid principal balance and any accrued interest shall become due immediately at the option of the Lender.

The Borrower reserves the right to prepay this Note (in whole or in part) prior to the Due Date with no prepayment penalty.

If any payment obligation under this Note is not paid when due, the Borrower promises to pay all costs of collection, including reasonable attorney fees, whether or not a lawsuit is commenced as part of the collection process.

If any of the following events of default occur, this Note and any other obligations of the Borrower to the Lender shall become due immediately, without demand or notice:

1) the failure of the Borrower to pay the principal and any accrued interest in full on or before the Due Date;

2) the filing of bankruptcy proceedings involving the Borrower as a debtor;

3) the application for the appointment of a receiver for the Borrower;

4) the making of a general assignment for the benefit of the Borrower’s creditors;

5) the insolvency of the Borrower;

If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative.

All payments of principal and interest on this Note shall be paid in the legal currency of the United States. The Borrower waives presentment for payment, protest, and notice of protest and nonpayment of this Note.

No renewal or extension of this Note, delay in enforcing any right of the Lender under this Note, or assignment by Lender of this Note shall affect the liability or the obligations of the Borrower. All rights of the Lender under this Note are cumulative and may be exercised concurrently or consecutively at the Lender's option.

This Note shall be construed in accordance with the laws of the State of Washington.

Signed this 30th day of June, 2010,

Borrower:
ATOSSA GENETICS Inc.

/s/ Robert L. Kelly

By: Robert L. Kelly
Its: President

STEVEN C. QUAY, M.D., PH.D.

/s/ Steven C. Quay

EXHIBIT 10.12

PROMISSORY NOTE & AGREEMENT

$100,000.00 Date: June 30, 2010

For value received, the undersigned Atossa Genetics, Inc. (the “Borrower”), at 4105 E Madison St, Suite 320 Seattle, WA 98112, promises to pay to the order of Steven Quay, (the “Lender”), at 4105 E Madison St, Suite 320, Seattle WA 98112or at such other place as the Lender may designate in writing) the sum of One Hundred Thousand Dollars ($100,000.00) with interest from June 30, 2010, on the unpaid principal at the rate of 10.00% per annum.

A loan initiation fee of $4,000.00 is charged.

The unpaid principal, initiation fee, and accrued interest shall be payable in full on, or before, December 30, 2010.

All payments on this Note shall be applied first in payment of initiation fee, then to accrued interest and any remainder in payment of principal.

If any payment obligation under this Note is not paid when due, the remaining unpaid principal balance and any accrued interest and fee shall become due immediately at the option of the Lender.

The Borrower reserves the right to prepay this Note (in whole or in part) prior to the Due Date with no prepayment penalty.

If any payment obligation under this Note is not paid when due, the Borrower promises to pay all costs of collection, including reasonable attorney fees, whether or not a lawsuit is commenced as part of the collection process.

If any of the following events of default occur, this Note and any other obligations of the Borrower to the Lender shall become due immediately, without demand or notice:

1) the failure of the Borrower to pay the principal and any accrued interest in full on or before the Due Date;

2) the filing of bankruptcy proceedings involving the Borrower as a debtor;

3) the application for the appointment of a receiver for the Borrower;

4) the making of a general assignment for the benefit of the Borrower’s creditors;

5) the insolvency of the Borrower;

If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative.

All payments of principal and interest on this Note shall be paid in the legal currency of the United States. The Borrower waives presentment for payment, protest, and notice of protest and nonpayment of this Note.

No renewal or extension of this Note, delay in enforcing any right of the Lender under this Note, or assignment by Lender of this Note shall affect the liability or the obligations of the Borrower. All rights of the Lender under this Note are cumulative and may be exercised concurrently or consecutively at the Lender's option.

This Note shall be construed in accordance with the laws of the State of Washington.

Signed this 30th day of June, 2010,

Borrower:
ATOSSA GENETICS Inc.

/s/ Robert L. Kelly

By: Robert L. Kelly
Its: President

STEVEN C. QUAY, M.D., PH.D.

/s/ Steven C. Quay

EXHIBIT 10.13

SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") is made effective as of September 29, 2010, by and between CompleGen, Inc. ("Tenant"), and Atossa Genetics, Inc. ("Subtenant"). The Tenant has previously entered into a lease agreement with Alexandria Real Estate Equities, Inc. (the "Landlord"), said lease agreement dated June 26, 2006 (the "Prime Lease") with a First amendment dated October 1, 2009, which is incorporated by reference and has been provided to Subtenant. Tenant now desires to sublet the leased property to the Subtenant and the Subtenant desires to sublet the leased property from the Tenant. Therefore, the parties agree as follows:

PREMISES. Tenant, in consideration of the payments provided in the Sublease, subleases to the Subtenant laboratory rooms 622 and 621, located on the 6th floor of the Seattle Life Sciences Building, at 1124 Columbia Street, Seattle, WA 98104-2050 (the "Premises"). Subtenant shall share CompleGen's leased cold room (laboratory room 647), lunch room (Room 644) and conference room (Room 644A). A sketch of the Premises subject to this Sublease is attached as Exhibit A.

TERM AND POSSESSION. The term of this Sublease shall commence on September 30, 2010, and unless terminated sooner pursuant to the terms of this Sublease, it shall terminate in six months on March 31, 2011. Sublease will continue on a month to month basis at the expiration of the original sublease term provided that either party may terminate the option by giving two (2) months written notice. The Subtenant shall be entitled to possession on the first day of the term of this Sublease, and shall yield possession to the Tenant on the last day of the term of this Sublease, unless otherwise agreed by both parties in writing, or sooner if this Sublease is terminated pursuant to the terms of the Sublease by either party.

SUBLEASE PAYMENTS. The Subtenant shall pay to the Tenant monthly payments of $3,657.05 per month, payable in advance on the first day of each month. Sublease payments shall be made to the Tenant at 1124 Columbia Street, Suite 662, Seattle, WA 98104-2050, which may be changed from time to time by the Tenant upon providing written notice.

ADDITIONAL RENT. In addition to Sublease payments, Subtenant agrees to pay to Tenant as additional rent: (i) Subtenant's share, equal to 13.25%, of "Net Operating Expenses" as defined in the Prime Lease, which share is based on a formula of 1,296 square feet divided by 9,778 square feet, and (ii) any and all other amounts Subtenant expressly assumes or agrees to pay under the provisions of this Sublease, including, without limitation, any and all other sums that may become due by reason of any default of Subtenant or failure to comply with the agreements, terms, covenants and conditions of this Sublease to be performed by Subtenant, after any applicable notice and cure period.

SERVICES. The Subtenant will arrange and pay separately to third parties for all Subtenant's communication needs, including but not limited to telephone, facsimile, copier and internet access expenses. Charges for janitorial service will be the responsibility of Subtenant.

SECURITY DEPOSIT. A security deposit of $3,657.05 is due on signing of this agreement, provided that this amount shall be refunded in full within 2 business days if the Tenant does not obtain Landlord approval for this Sublease as contemplated below under the caption "Landlord's Consent."

TENANT IMPROVEMENTS. The passage way in the northwest corner of Room 622 to 625 shall be closed by a wall or other substantial structure to prevent unauthorized access to 622 at a cost of up to $200.00 to the Subtenant. Otherwise, the Subtenant shall accept the space in "as is" condition. Subtenant shall be permitted to install security keypads, at Subtenant's expense, on its dedicated space in laboratory rooms 622 and 625. Upon request the Subtenant shall return the premises to its original condition and configuration.

NOTICE. Notices under this Sublease shall not be deemed valid unless given or served in writing and forwarded by mail, postage prepaid, addressed as follows and sent to every interested party:

TENANT:

Name: CompleGen, Inc.
Address: 1124 Columbia Street, Suite 600
Seattle, WA 98104
Attention: John Swindle, PhD, President & CEO

SUBTENANT:
Name: Atossa Genetics, Inc.
Address: 4105 E Madison St, Ste 320
Seattle, WA 98112
Attention: Steven Quay, MD, PhD, Chairman, President & CEO

LANDLORD:

Name: Alexandria Real Estate Equities, Inc.
Address: 385 East Colorado Blvd, Suite #229
Pasadena, CA 91101
Attention: General Counsel

Such addresses may be changed from time to time by any party by providing notice to the other interested party(ies) as described above.

GOVERNING LAW. This Lease shall be construed in accordance with the laws of the State of Washington.

LANDLORD'S CONSENT. The Prime Lease requires the prior written consent of the Landlord to any sublease of the Premises. The terms and conditions of this Sublease are conditional upon the Landlord's written consent to this Sublease. The Tenant agrees to use the Tenant's best efforts to obtain such consent within 20 days of signing of the sublease, however this must be obtained before the Subtenant may take possession. Should the Landlord refuse to consent to this Sublease, this Sublease shall be null and void and neither party shall have any further obligations or liabilities under its terms.

INCORPORATION OF PRIME LEASE. This Sublease Agreement is subject to all of the terms of the Prime Lease with the same force and effect as if each provision of the Prime Lease were included in this Sublease, excepting as otherwise provided herein. Tenant covenants that it has provided Subtenant a full and complete copy of the Prime Lease. All of the terms which Tenant is bound to comply with under the Prime Lease shall, to the extent only that they apply to the Premises and except as otherwise provided herein, be binding upon Subtenant. All of the obligations of Landlord set forth in the Prime Lease shall, to the extent that they apply to the Premises, inure to Subtenant's benefit provided, however, that this shall not be construed to establish any direct obligations on the part of the Landlord to Subtenant under the terms of the Prime Lease, nor any direct obligation on the part of Subtenant to Landlord. It is the intention of the parties that, except as otherwise provided in this Sublease, the relationship between Tenant and Subtenant shall be governed by the language of the various sections and the covenants of the Prime Lease as if those sections were included in this Sublease in full, and the words "Landlord", "Tenant" and "Lease" as used in the Prime Lease, shall refer to, respectively, "Tenant", "Subtenant" and "Sublease". To the extent that action is required by the Landlord to effect the terms of the Prime Lease or Sublease, Tenant agrees to assist Subtenant and use its best efforts to effect such action on the part of Landlord in a commercially reasonable manner.

REPRESENTATION. Tenant hereby represents to Subtenant that Tenant is using commercially reasonable best efforts to comply with the terms of the Prime Lease and covenants that it will use commercially reasonable best efforts to continue to comply with the terms of the Prime Lease during the term of this Sublease.

INDEMNIFICATION. (a) Except to the extent caused by the negligence or willful misconduct of Tenant, its agents, employees, contractors or invitees, Subtenant shall indemnify, defend with counsel reasonably acceptable to Tenant and hold Tenant harmless from and against any and all claims, liabilities, judgments, causes of action, damages, costs and expenses (including reasonable attorneys' and experts' fees) caused by or arising in connection with: (i) the use, occupancy or condition of the Premises by Subtenant; (ii) the negligence or willful misconduct of Subtenant or its agents, employees, contractors, or invitees; or (iii) a breach of Subtenant's obligations under this Sublease or the provisions of the Prime Lease assumed by Subtenant hereunder. Subtenant's indemnification of Tenant shall survive termination of this Sublease. (b) Except to the extent caused by the negligence or willful misconduct of Subtenant, its agents, employees, contractors or invitees, Tenant shall indemnify, defend with counsel reasonably acceptable to Subtenant and hold Subtenant harmless from and against any and all claims, liabilities, judgments, causes of action, damages, costs and expenses (including reasonable attorneys' and experts' fees) caused by or arising in connection with: (i) a breach of Tenant's representations or obligations under this Sublease; (ii) a breach of Tenant's representations or obligations under the Prime Lease to the extent those obligations are not assumed by Subtenant under this Sublease; or (iii) the negligence or willful misconduct of Tenant, its agents, employees, contractors or invitees occurring on the Subleased Premises. Tenant's indemnification of Subtenant shall survive termination of this Sublease.

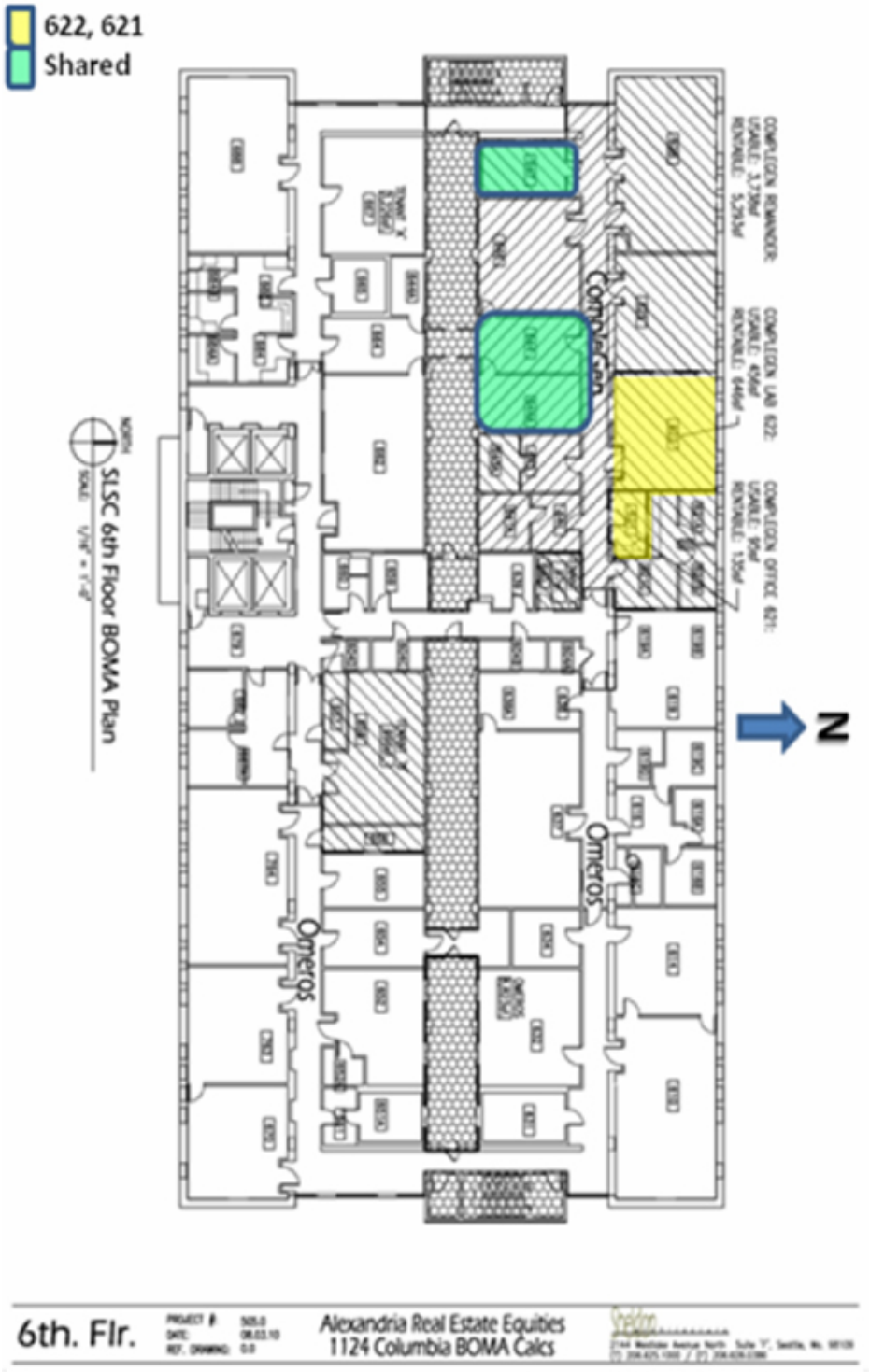
INSURANCE. The Subtenant, at its sole cost and expense shall maintain during the Term of the Sublease, risk property insurance in an amount reasonably expected to cover the full replacement cost of all property and improvements installed or placed in the Premises by the Subtenant at the Subtenant’s expense. The Subtenant must have workers’ compensation insurance with no less than the minimum limits required by law, employer’s liability insurance with such limits as required by law and commercial general liability insurance with a minimum limit of $2,000,000 per occurrence for bodily injury and property damage with respect to the Premises. The commercial general liability insurance policy shall name CompleGen and the Landlord Parties, Alexandria Real Estate Equities, Inc., including its employees and agents as additional insureds. A Certificate of Insurance consistent with the foregoing terms must be submitted to the Landlord before taking possession of the premises.

Dated: September 29, 2010

TENANT	SUBTENANT
/s/ John Swindle	/s/ Steven C. Quay
CompleGen, Inc. President & CEO	Atossa Genetics, Inc. Chairman, President & CEO

DCN

Exhibit A:



KCCW
CERTIFIED PUBLIC ACCOUNTANTS

Audit • Tax • Consulting • Financial Advisory
Registered with Public Company Accounting Oversight Board (PCAOB)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form S-1 of Atossa Genetics Inc. (a development stage company) of our report dated February 20, 2010 relating to the financial statements as of December 31, 2009 and for the period from April 30, 2009 (date of inception) to December 31, 2009 appearing in the Prospectus, which is part of this Registration Statement. We also consent to the reference to us under the heading "Experts" in such Prospectus.

KCCW

KCCW Accountancy Corp.

Diamond Bar, California
September 30, 2010

EXHIBIT 99.1

ATOSSA GENETICS INC.

CONSENT OF PROSPECTIVE DIRECTOR

I, Mary Tagliaferri, hereby consent to be named as a prospective director of Atossa Genetics Inc. (the "Company") in the Registration Statement on Form S-1 of the Company to be filed in connection with the initial public offering of the Company's securities, and in any amendments thereto.

/s/ Mary Tagliaferri

Mary Tagliaferri, M.D.

Dated: September 28, 2010

EXHIBIT 99.2

ATOSSA GENETICS INC.

CONSENT OF PROSPECTIVE DIRECTOR

I, Stephen Galli, hereby consent to be named as a prospective director of Atossa Genetics Inc. (the "Company") in the Registration Statement on Form S-1 of the Company to be filed in connection with the initial public offering of the Company's securities, and in any amendments thereto.

/s/ Stephen Galli

Stephen Galli, M.D.

Dated: September 27, 2010

EXHIBIT 99.3

ATOSSA GENETICS INC.

CONSENT OF PROSPECTIVE DIRECTOR

I, Alexander Cross, Ph.D., hereby consent to be named as a prospective director of Atossa Genetics Inc. (the "Company") in the Registration Statement on Form S-1 of the Company to be filed in connection with the initial public offering of the Company's securities, and in any amendments thereto.

/s/ Alexander Cross

Alexander Cross, Ph.D.

Dated: September 28, 2010