As filed with the Securities and Exchange Commission on October 3, 2012

Registration No. 333-179500

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

Amendment No. 9 to
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 E. 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, Chief Executive Officer and President
4105 E. 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
Lisa Kahle
Ropes & Gray LLP
Three Embarcadero Center
San Francisco, California 94111
Phone: (415) 315-6300

Kyle Guse
K. Amar Murugan
Baker Botts LLP
1001 Page Mill Road
Building One
Palo Alto, California 94304
Phone: (650) 739-7500

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. o

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. o

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. o

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. o

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

The registrant is an emerging growth company, as defined in Section 2(a) of the Securities Act. This Registration Statement complies with the requirements that apply to an issuer that is an emerging growth company.

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.

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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 October 3, 2012**

1,200,000 Shares

This is the initial public offering of 1,200,000 shares of our common stock. We expect the initial public offering price will be between $4.00 and $6.00 per share. Currently, no public market exists for our securities. Provided we raise at least $6 million in gross proceeds in this offering, our common stock has been approved for listing on the NASDAQ Capital Market under the symbol "ATOS".

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions*	$	$
Proceeds, before expenses, to Company	$	$

* Does not include a non-accountable expense reimbursement fee of 3% of the gross proceeds of this offering.

We are an "emerging growth company" under applicable Securities and Exchange Commission rules and will be subject to reduced public company reporting requirements.
Investing in these securities involves a high degree of risk.
See "Risk Factors" contained in this prospectus beginning on page 12.

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 underwriters 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 180,000 shares to cover overallotments.

Delivery of the shares of common stock will be made on or about , 2012.

DAWSON JAMES SECURITIES, INC.

The date of this prospectus is , 2012.

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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 shares 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. and our wholly-owned subsidiary, National Reference Laboratory for Breast Health 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 healthcare company focused on the prevention of breast cancer through the commercialization of diagnostic tests that can detect precursors to breast cancer, and through the research, development, and ultimate commercialization of treatments for pre-cancerous lesions.

Our diagnostic tests consist of patented medical devices cleared by the Food and Drug Administration, or FDA, that can collect fluid samples from the breast milk ducts, where, according to the National Cancer Institute, over 95% of breast cancers arise. These samples are processed at our wholly-owned National Reference Laboratory for Breast Health, which has been certified pursuant to the Clinical Laboratory Improvement Amendments, or CLIA, has been licensed in the states of California, Florida, Maryland, Rhode Island, and Washington, and is in the process of obtaining a license to accept testing samples from New York (which requires out-of-state laboratories to hold a state license). CLIA certification is legally required to receive reimbursement from federal or state medical benefit programs, like Medicare and Medicaid, and is a practical requirement for most third-party insurance benefit programs. Our CLIA-certified laboratory, which is permitted to accept samples from all 50 states under its CLIA certification, its state licenses, or, in New York under recognized exemption provisions while its license application is pending, examines the specimens by microscopy for the presence of normal, pre-malignant, or malignant changes as determined by cytopathology and biomarkers that distinguish "usual" ductal hyperplasia, a benign condition, from atypical ductal hyperplasia, which may lead to cancer. These cytopathological results provide patients and physicians with information about the care path that should be followed, depending on the individual risk of future cancer as determined by the results.

Additionally, we are conducting research on the treatment of these pre-cancerous cells by using our patented and FDA-cleared microcatheters to deliver, directly into the milk ducts, pharmaceutical formulations that can be used to treat these pre-cancerous lesions. By using this localized delivery method, patients are expected to receive high local concentrations of these drugs at the site of the pre-cancerous lesions, potentially promoting efficacy of the treatment while limiting systemic exposure, which has the potential to lower the overall toxicity of these treatments.

We launched our commercial operations in late 2011 and, as of September 14, 2012, have enrolled and sold MASCT System kits or provided ArgusCYTE collection kits to 34 doctors and clinics as providers of the ForeCYTE and/or ArgusCYTE tests. We have received, processed, and reported the results to physicians from 956 ForeCYTE samples and 41 ArgusCYTE samples as of June 30, 2012 and 1,256 ForeCYTE samples and 41 ArgusCYTE samples as of September 14, 2012. When we launched operations in December 2011, we did so as part of our field experience trial to collect information about the ease or difficulty of adoption of the ForeCYTE and ArgusCYTE tests in both mammography clinics and physicians' offices, the number of sales calls to receive the first orders, and the growth of sales of specimen collection kits on a monthly basis. We intend to use the data from this field experience trial to form our national marketing efforts as we scale up our commercial operations going forward. As of December 31, 2011 and June 30, 2012, we have generated $1,500 and $277,810 in revenue, respectively, from the sale of our products and services. We incurred net operating losses of approximately $2.2 million, $1.1 million and $3.4 million for our six months ended June 30, 2012 and our fiscal years ended December 31, 2010 and 2011, respectively. As of June 30, 2012, we had an accumulated deficit of approximately $6.9 million. We have not yet established an ongoing source of revenue sufficient to cover our operating costs and allow us to continue as a going concern. Our ability to continue as a going concern is dependent on obtaining adequate capital to fund operating losses until we become profitable. We plan to obtain additional capital resources by selling our equity securities, selling the MASCT System and generating laboratory service revenue from our tests, and making short-term borrowings from stockholders or other related parties when needed. However, we cannot assure you that we will be successful in accomplishing any of these plans and, if we are unable to obtain adequate capital, we could be forced to cease operations.

Our Diagnostic Tests

We currently offer two diagnostic tests and plan to offer two additional tests in early 2013. The tests that we currently offer and that are in development consist of the following:

ForeCYTE The ForeCYTE Breast Health Test, launched in December 2011, provides personalized information about the 10-year and lifetime risk of breast cancer for women between ages 18 and 65. It involves collecting a specimen of nipple aspirate fluid, or NAF, using our patented, FDA-cleared *Mammary Aspirate Specimen Cytology Test*, or MASCT, System (our MASCT System received 510(k) clearance from the FDA in 2003). The NAF specimen is collected by a physician and returned to our CLIA-certified laboratory. We study the patient's NAF specimen and use a proprietary molecular and cellular biomarker test that detects basal or luminal cells to identify the presence of atypical ductal hyperplasia, or ADH, which is considered a precursor to breast cancer. We then input these cytopathological test results, together with the patient's personal medical and reproductive history and family history, into a clinically-validated risk assessment algorithm that calculates 10-year and lifetime risk of breast cancer and presents these results in one of three risk tiers developed by The National Comprehensive Cancer Network: Normal (<15% lifetime risk), Intermediate (15 – 20% lifetime risk), or High (>20% lifetime risk). The ForeCYTE Test results contain recommendations for care paths in each risk group and personalized information so that patients and healthcare providers can make more informed treatment decisions. The algorithm was developed from a Swedish registry of 158,041 individuals, in whom 3,257 cancers occurred, and was validated by E. Amir, D.G. Evans, A. Shenton, and others in an independent study of 3,150 women, 64 of whom developed breast cancer. The algorithm incorporates family history, personal reproductive history, and the presence or absence of usual ductal hyperplasia, or UDH (which is benign), ADH (which is pre-malignant) or malignant changes. The present methods used by pathologists to analyze traditional biopsy specimens, i.e., microscopy and, when needed, immunohistochemistry, are the same methods used to analyze ForeCYTE specimens and would be expected to achieve similar results for patients with similar medical conditions.

ArgusCYTE The ArgusCYTE Breast Health Test, launched in December 2011, provides information to help inform breast cancer treatment options and to help monitor potential recurrence. It involves collecting a blood specimen from a patient using our patented, FDA 510(k)-Exempt blood collection tube and submitting it to our CLIA-certified laboratory (our ArgusCYTE Breast Health Test blood collection tube was registered with the FDA in 2011). It can monitor breast cancer distant recurrence by obtaining a "liquid biopsy" or blood sample, and analyzing it for the presence of circulating tumor cells, which can then be analyzed to determine the expression of Estrogen Receptor/Progesterone Receptor, or ER/PR, and Human Epidermal Growth Factor Receptor, or Her2, in those cells, a predictor of the cancer's sensitivity to existing treatment options. The presence of circulating tumor cells in the blood sample may serve as an early indicator of the recurrence of breast cancer and the data obtained from the ArgusCYTE sensitivity analysis may help physicians better select which treatment options to use with a particular patient. The ArgusCYTE test uses a proprietary blood collection tube to obtain a blood sample for shipment and analysis at our CLIA-certified laboratory. The supplier of the blood collection tube owns patents with respect to the tube, while we own patents concerning laboratory features utilized in the testing process. Because the ArgusCYTE test involves the collection of a blood sample to be analyzed for the presence of circulating tumor cells, there is no comparable method relating to the analysis of traditional biopsy specimens that could be used to achieve results similar to or better than those provided by our ArgusCYTE test.

FullCYTE The FullCYTE Breast Health Test, which we intend to launch in early 2013 and is currently in development, is designed to assess the individual breast ducts for pre-cancerous changes in women previously identified to be at high risk for breast cancer. It involves collecting ductal lavage samples from each of the five to seven individual breast milk ducts using our patented and FDA-cleared Mammary Ductal Microcatheter System (our Microcatheter System received 510(k) clearances from the FDA in 1999 and 2000) and analyzing the samples by the same molecular and cellular biomarkers used in the ForeCYTE test described above. From these tests, we are able to ascertain which individual duct contains pre-malignant or malignant changes, which may allow the physician to better target treatment to the specific duct with the pre-malignant changes or malignant changes and therefore avoid side effects associated with systemic treatment. Traditional biopsies, involving invasive procedures in which tissue is removed surgically, typically cut across the natural anatomy of the breast ductal system, making subsequent intraductal treatment difficult or, in certain cases, impossible. The present methods used by pathologists to analyze traditional biopsy specimens, i.e., microscopy and, when needed, immunohistochemistry, are the same methods used to analyze FullCYTE specimens and would be expected to achieve similar results for patients with similar medical conditions.

NextCYTE The NextCYTE Breast Cancer Test, which is in the prevalidation phase and which we intend to launch in early 2013, is designed to profile breast cancer specimens for prediction of treatment outcomes and distant recurrence in women newly diagnosed with breast cancer. It involves using surgery specimens and advanced genome sequencing techniques to quantify and analyze the entire tumor genetic transcriptome, which represents all genes that are being actively expressed within the tumor. Because our NextCYTE test analyzes traditional biopsy specimens using advanced genome sequencing techniques, we believe that other present methods of analyzing traditional biopsy specimens would not achieve results similar to or better than results provided by our NextCYTE test and we expect that physicians will be able to use the information provided by the NextCYTE test to better customize treatment options for women, based on the genetic composition of the individual tumor. We are currently conducting non-clinical trial research to verify the superiority of the technology regarding NextCYTE by profiling gene expression from breast cancer biopsy specimens obtained from commercial archival tissue banks, in which the five-year survival or death for the patients from whom the specimens are taken is known, and seeing if the algorithm can accurately predict the known outcome. The experiments are being conducted in a blinded fashion, without knowledge of the survival data, and we will not have knowledge of the outcome until the blind is broken (currently planned for February 2013). We own a pending PCT patent application on the NextCYTE technology to the use of full transcriptome analysis of 22,000 human genes in predicting breast cancer recurrence and have an option through February 2013 to license additional technology (specifically certain algorithms involving over 900 of these genes) to augment our existing technology from the University of Oslo in Norway. We do not believe this additional technology is essential to the operation or future development of the NextCYTE test, should we decide not to exercise this option.

Our Diagnostic Tools In September 2012, we acquired the assets of Acueity Healthcare, Inc. The assets included six 510(k)-cleared medical devices, 35 issued patents (18 issued in the U.S. and 17 issued in foreign countries) and 41 patent applications (32 in the U.S. and 9 in foreign countries). The FDA-cleared, patented medical devices consist of microendoscopes, light sources, and biopsy tools. The microendoscopes are less than 0.9 mm outside diameter and can be inserted into a milk duct. This permits a physician to pass a microendoscope into the milk duct system of the breast and view the duct system via fiberoptic video images. Abnormalities that are visualized can then be biopsied from inside the duct with the biopsy tools that are inserted adjacent to the microendoscope. The patents relate to intraductal diagnostic and therapeutic devices and methods of use. We did not, however, acquire an inventory of these diagnostic tools, manufacturing capabilities or any personnel to market and sell the tools. We intend to complete the steps necessary to begin marketing and selling these tools, such as securing manufacturers, in late 2013; we cannot, however, provide any assurances that we will ultimately be successful selling these tools.

We may not, however, achieve commercial market acceptance of any of our products and services. We must first demonstrate to physicians and other healthcare professionals the benefits of our tests and the MASCT System for their practice and these physicians and healthcare professionals may be reluctant to introduce new services into their practice due to uncertainty regarding reliability of the results of a new product or the learning curve associated with adoption of new services and techniques. Moreover, if third-party payors continue to refuse to cover the cost of collection of the NAF sample, whether from our MASCT System or competitors' NAF collection devices, physicians may be less likely to recommend or use our products and services if the cost of performing a particular test will not be reimbursed. Even if we are successful in convincing physicians and other healthcare professionals to utilize our tests and services, we must obtain adequate capital to fund our operations until we become profitable and we may not be able to do so. Additionally, we have no prior experience with commercializing any products or services and will need to create an infrastructure to scale operations for commercialization, including hiring experienced personnel (including anatomic pathologists, cytologists, histotechnologists, skilled laboratory and information technology staff, and sales representatives) and building a network of regional, specialty distributors, each with a staff of independent sales representatives who have experience in women's health products to target physicians and mammography clinics in the United States.

Intraductal Treatment Research

Our Intraductal Treatment Research Program comprises our patented microcatheter-delivery technology and our patented pharmaceutical formulations for the intraductal treatment of breast pre-cancerous changes, ductal carcinoma in situ, or DCIS, and breast cancers. The method uses our Mammary Ductal Microcatheter System, invented by Dr. Susan Love, President of the Dr. Susan Love Research Foundation, and her colleagues, to administer proprietary pharmaceutical formulations into milk ducts that display pre-cancerous changes, with high local concentrations of the drugs in order to promote greater efficacy and limited systemic exposure, potentially lowering the overall toxicity of the treatment.

An October 2011 peer-reviewed paper published in *Science Translational Medicine* documented a study conducted at the Johns Hopkins Medical School demonstrating the prevention of breast cancer in rats with intraductal non-systemic chemotherapy, and a proof-of-principle Phase 1 clinical trial involving 17 women with breast cancer who subsequently received surgery. An accompanying editorial commented that "intraductal treatment could be especially useful for women with premalignant lesions or those at high risk of developing breast cancer, thus drastically improving upon their other, less attractive options of breast-removal surgery or surveillance (termed 'watch and wait')." We intend to build on these academic studies with a research program targeted initially at neoadjuvant therapy in DCIS and to begin preclinical studies during 2012. We have not yet begun the process of applying for FDA approval of our Intraductal Treatment Research Program.

Intellectual Property and FDA Marketing Clearances

As of the date of this prospectus, we own 179 issued patents (56 in the United States and 123 in foreign countries), and 50 pending patent applications (38 in the United States, 11 pending foreign applications and 1 pending International Patent Cooperation Treaty (PCT) application) directed to our products, services, and technologies. We have eleven 510(k)-cleared medical devices and two 510(k)-exempt medical devices.

Our Founder

Our founder and chief executive officer, Steven C. Quay, M.D., Ph.D., FCAP, invented the MASCT System. Dr. Quay is a board-certified anatomic pathologist who completed both an internship and residency in anatomic pathology at the Massachusetts General Hospital, a Harvard Medical School teaching hospital, and is a former faculty member of the pathology department of Stanford University School of Medicine. He holds 76 U.S. patents and has invented and developed five FDA-approved pharmaceuticals.

Our Commercialization Strategy

The ForeCYTE Test provides us with two revenue sources:

(i) revenue from the sale of the MASCT System device and patient kits to physicians, breast health clinics, and mammography clinics; and

(ii) service revenue from the preparation and interpretation of the NAF samples sent to our laboratory for analysis.

The ArgusCYTE test provides only laboratory service revenue.

We offer each component of the MASCT System for sale separately. We currently price our NAF sample collection device at approximately $250 per device and our patient kits at approximately $30 per kit, and the cytology and molecular diagnostics testing and analysis services are billed to federal and/or state health plans at the 2012 Medicare reimbursement rates of either $384 or $1,275 per patient, depending on the complexity of the analysis performed. We expect that the substantial majority of patients will be billed at the $384 rate and that we would perform the more complex tests, corresponding with a reimbursement rate of $1,275, for only those patients who have an initial test result that requires further analysis. We have billed the testing and analysis regarding the 956 ForeCYTE samples processed through June 30, 2012 (which is equivalent to 478 patients) at the 2012 Medicare reimbursement rate of $384 per patient. We bill third-party payors at higher rates, as is customary for our industry. Currently, Medicare and certain insurance carriers do not reimburse for the NAF collection procedure by our MASCT System or for other NAF collection device systems similar to our MASCT System, although Medicare and certain insurance carriers do reimburse for the laboratory analysis of the NAF sample. Although we have received reimbursement from insurance carriers and Medicare for our ForeCYTE test, any lack of Medicare or insurance coverage for the NAF collection procedure will require patients to bear the full costs of the NAF sample acquisition process used with the MASCT System, which may result in physicians and other healthcare professionals not adopting the MASCT System or recommending its use in patients. If this were to occur, we may be forced to reduce the price of the MASCT System, provide discounted pricing arrangements to secure sales, or we may not be able to sell the product and services components of the MASCT System at acceptable margins, all of which could limit our ability to generate revenue.

While we are conducting our field experience trial we are not charging for our ArgusCYTE collection kits and we currently price the ArgusCYTE test at approximately $1,500. Because we do not currently have a sufficiently reliable prior history of reimbursement with respect to the ArgusCYTE test, we currently do not recognize revenue until we have received reimbursement. We have billed the testing and analysis regarding the 41 ArgusCYTE samples processed through June 30, 2012 at $1,500 per patient. We have received reimbursement from insurance carriers for our ArgusCYTE test.

In December 2011, we began limited marketing of the ForeCYTE Test to physicians, primarily obstetric-gynecologists, 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 are establishing relationships with breast cancer centers to provide the ArgusCYTE Test to their patients. We plan to use regional specialty product distributors, with independent

sale representatives specializing in women's health, to commercialize the ForeCYTE and ArgusCYTE Tests; however, we currently do not have distributor relationships and we cannot be certain that we will be able to build these relationships to adequately address the regional or national market. As of March 1, 2012 we had one person involved in sales.

Risk Factors

Our business is subject to numerous risks as discussed more fully in the section entitled "Risk Factors" beginning on page 12. 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 and have not identified significant alternative sources of funding, should this offering be unsuccessful;
- we have a history of operating losses and expect to incur losses for the foreseeable future and may never achieve profitability;
- The MASCT System and other risk assessment tools, diagnostic tests and tools and other predictive and personalized medicine products that we may develop may never achieve significant commercial market acceptance;
- we are dependent on the commercial success of the MASCT System and the ForeCYTE and ArgusCYTE Tests;
- we may not be successful in commercializing the MASCT System because physicians and clinicians may be slow to adopt our product and, even if commercialized, the fees we receive for our products and services may be significantly lower than currently expected;
- our ability to commercialize the MASCT System may be limited because Medicare and certain insurance carriers are not expected to provide reimbursement for the NAF sample collections which are necessary for our tests (even though Medicare and certain insurance carriers do provide reimbursement for the laboratory analysis of the collected NAF samples through our ForeCYTE and ArgusCYTE tests); and
- we may not be able to hire, train or maintain the independent sales representatives and build the distributorship arrangements necessary to market and sell the MASCT System and our services as planned.

Recent Developments

In December 2011, we began limited marketing of the ForeCYTE Test to physicians, primarily obstetric-gynecologists, 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 are establishing relationships with breast cancer centers to provide the ArgusCYTE Test to their patients. As of September 30, 2012, we had one person involved in sales.

In September 2012, we entered into a co-exclusive marketing agreement with Diagnostics Test Group LLC (DTG) for the supply and distribution of the MASCT System, under the DTG Clarity brand. Under the terms of the agreement, DTG will purchase the MASCT System from us and will use its best efforts to establish product codes and contracted agreements for the sale and placement of the Clarity branded MASCT product line with the following distributors: Henry Schein, McKesson, PSS World Medical, Cardinal Health, VWR, Vaxserve, Mercedes Medical, Fisher, NDC members, Imco members, B&H Surgical, Marshall Medical and Cascade HealthCare Products. These distributors have collectively over 5,000 employee sales representatives and/or independent sales representatives selling their products.

We will coordinate the sales and marketing effort, plan, and budget with DTG, with us paying agreed expenses. We can terminate the agreement if DTG fails to achieve set minimum sales over a certain period of time. In consideration for DTG's marketing of the MASCT System, we have agreed to pay DTG a minimal cash fee for each test performed by us on MASCT samples sold by DTG, as well as warrants to purchase our common stock, which warrants are earned based on the annual number of ForeCYTE tests performed by the National Reference Laboratory for Breast Health, provided that the total number of warrants cannot exceed 1,000,000. These warrants have an exercise price equal to the fair market value of our common stock on the day of issuance.

We currently plan to launch the ForeCYTE Breast Health Test with DTG under DTG's Clarity brand name by the end of the calendar year 2012. DTG and its distributors, however, may not be successful in selling the Clarity branded MASCT product line and we may not achieve any level of commercial success from their efforts.

In September 2012, we entered into an agreement with MultiPlan, Inc. ("MultiPlan"), a leading provider of healthcare cost management solutions, for diagnostic laboratory testing involving our tests. Approximately 20% of Americans are covered by MultiPlan. The agreement allows us to participate in the MultiPlan, PHCS and PHCS Savility Networks. Our agreement with MultiPlan will give MultiPlan's participating providers and their patients access to our tests, including the ForeCYTE and ArgusCYTE Breast Health Tests. We anticipate that the agreement with MultiPlan will help ensure that more doctors and their patients have access to the ForeCYTE and ArgusCYTE Breast Health Tests and that patients will receive insurance reimbursement for the laboratory costs associated with these tests.

Our agreement with MultiPlan provides that reimbursement will be provided at a prescribed rate when insurers agree to reimburse for the ForeCYTE and ArgusCYTE Breast Health Tests. The prescribed rate of reimbursement is within the range of reimbursement that we have historically received. Our agreement with MultiPlan does not, however, ensure that each test performed will be deemed medically necessary and ultimately reimbursed by insurers as the insurers may still determine the medical necessity of each test on a case-by-case basis.

In September 2012, in order to demonstrate that we will satisfy the minimum stockholders' equity requirement of the listing standards of the NASDAQ Capital Market upon completion of this offering, we reported unaudited balance sheet data as of August 31, 2012, as set forth in our free writing prospectus filed with the Securities and Exchange Commission on September 13, 2012.

On September 30, 2012, we acquired substantially all of the assets of Acueity Healthcare, Inc. ("Acueity"). The acquisition was effected through an asset purchase in which we acquired 35 issued patents (18 issued in the U.S. and 17 issued in foreign countries) and 41 patent applications (32 in the U.S. and 9 in foreign countries), and six 510(k) FDA marketing authorizations related to the manufacturing, use, and sale of the Viaduct Miniscope and accessories, the Manoa Breast Biopsy system, the Excisor Bioptome, the Acueity Medical Light Source, the Viaduct Microendoscope and accessories, and cash in the amount of $400,000; no liabilities were assumed in the transaction. In consideration for the assets, we issued 862,500 shares of common stock and warrants to purchase up to 325,000 shares of common stock at an exercise price of $5.00 per share, subject to a six-month lock up agreement. The warrants, which have a five-year term, do not have a cashless exercise provision. There are no future financial obligations from us to Acueity from the commercialization of the acquired assets.

The acquired patents and patent applications relate to intraductal diagnostic and therapeutic devices and methods of use. The microendoscopes are less than 0.9 mm outside diameter and can be inserted into a milk duct. This permits a physician to pass a microendoscope into the milk duct system of the breast and view the duct system via fiberoptic video images. Abnormalities that are visualized can then be biopsied from inside the duct with the biopsy tools that are inserted adjacent to the microendoscope.

We did not, however, acquire an inventory of these diagnostic tools, manufacturing capabilities or any personnel to market and sell the tools. We intend to complete the steps necessary to commercialize the tools, such as securing manufacturers, in late 2013. Acueity never achieved commercial success with these products and we have no experience marketing and selling diagnostic tools; we therefore may not be successful commercializing them.

Implications of being an Emerging Growth Company

As a company with less than $1 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- Only two years of audited financial statements in addition to any required unaudited interim financial

statements with correspondingly reduced “Management's Discussion and Analysis of Financial Condition and Results of Operations” disclosure.

- Reduced disclosure about our executive compensation arrangements.
- Not having to obtain non-binding advisory votes on executive compensation or golden parachute arrangements.
- Exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than $1 billion in annual revenue, we have more than $700 million in market value of our stock held by non-affiliates, or we issue more than $1 billion of non-convertible debt over a three-year period. We may choose to take advantage of some but not all of these reduced burdens. We have taken advantage of these reduced reporting burdens in this prospectus, and the information that we provide may be different than what you might get from other public companies in which you hold stock.

Company Information

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

MASCT is our registered trademark and Oxy-MASCT and our name and logo are our trademarks. ForeCYTE, FullCYTE, NextCYTE, and ArgusCYTE are our service marks. This prospectus also includes additional trademarks, trade names and service marks of third parties, which are the property of their respective owners.

Our company name comes from Queen Atossa, daughter of Cyrus 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 OFFERING

Securities offered by us:	1,200,000 shares of common stock (or 1,380,000 if the underwriters exercise their overallotment option in full).
Capitalization after the offering:	13,319,367 shares of common stock outstanding after the offering (or 13,499,367 if the underwriters exercise their over allotment option in full).
Use of proceeds:	We intend to use the net proceeds from this offering to expand our cytology and molecular diagnostics laboratory, fund the manufacture of MASCT System units, hire and train sales and marketing personnel, continue the research and development of the FullCYTE and NextCYTE Tests, support the internal research and development of the Intraductal Treatment Research Program and our diagnostic tools, and for general corporate purposes. See "Use of Proceeds."
Proposed NASDAQ trading symbol:	"ATOS"

The number of shares of our common stock outstanding is based on 12,119,367 shares of common stock outstanding as of the date of this prospectus, and excludes 627,757 shares issuable upon the exercise of options outstanding as of the date of this prospectus under our 2010 Stock Option and Incentive Plan, or 2010 Plan, as well as 822,517 shares of common stock reserved for future issuance under our 2010 Plan, in addition to 6,833,840 shares of common stock underlying outstanding warrants with a weighted-average exercise price of $1.56 per share and 325,000 shares of common stock issuable upon the exercise of warrants issued in connection with our acquisition of substantially all the assets of Acueity Healthcare, Inc.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters do not exercise their right to purchase up to 180,000 additional shares to cover overallotments, if any.

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 fiscal years ended December 31, 2010 and 2011 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, 2011 and 2012, and the balance sheet data as of June 30, 2012, 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, 2012 and results of operations for the six months ended June 30, 2011 and 2012. The operating results for any period are not necessarily indicative of financial results that may be expected for any future period.

	For The Years Ended December 31,		For The Six Months Ended June 30,		From April 30, 2009 (Inception) Through June 30, 2012
	2011	2010	2012	2011	
			(Unaudited)	(Unaudited)	(Unaudited)
Revenue					
Diagnostic Testing Service	$ —	$ —	$ 272,685	$ —	$ 272,685
Product Sales	1,500	—	5,125	—	6,625
Total Revenue	1,500	—	277,810	—	279,310
Cost of Revenue					
Diagnostic Testing Service	—	—	(20,985)	—	(20,985)
Product Sales	(5,164)	—	—	—	(5,164)
Total Cost of Revenue	(5,164)	—	(20,985)	—	(26,149)
Loss on Reduction of Inventory to LCM	(92,026)	—	(23,807)	—	(115,833)
Gross Profit (Loss)	(95,690)	—	233,018	—	137,328
Selling expenses	(160,851)	(12,204)	(194,267)	—	(367,322)
General and Administrative expenses	(3,172,649)	(1,065,792)	(2,266,731)	(1,007,717)	(6,628,030)
Total Operating Expenses	(3,333,500)	(1,077,996)	(2,460,998)	(1,007,717)	(6,995,352)
Operating Loss	(3,429,190)	(1,077,996)	(2,227,980)	(1,007,717)	(6,858,022)
Interest Income	4,914	455	1,173	1,161	6,542
Interest Expense	(17,992)	(9,139)	(4,060)	(7,630)	(31,191)
Net Loss before Income Taxes	(3,442,269)	(1,086,680)	(2,230,867)	(1,014,186)	(6,882,671)
Income Taxes	—	250	—	—	250
Net Loss	$ (3,442,269)	$ (1,086,930)	$ (2,230,867)	$ (1,014,186)	$ (6,882,921)
Loss per common share – basic	$ (0.38)	$ (0.18)	$ (0.20)	$ (0.15)	$ (0.93)
Loss per common share – diluted	$ (0.38)	$ (0.18)	$ (0.20)	$ (0.15)	$ (0.93)
Weighted average shares outstanding, basic	9,117,746	5,935,897	11,256,867	6,931,057	7,371,184
Weighted average shares outstanding, diluted	9,117,746	6,004,721	11,256,867	6,931,057	7,371,184

	As of June 30, 2012	
	Actual	As-adjusted
	(Unaudited)	
Balance Sheet Data:		
Total assets	$ 842,912	$ 5,742,912
Total liabilities	$ 1,398,396	$ 1,398,396
Stockholders' equity:		
Common Stock, $0.001 par value, 75,000,000 shares authorized, 11,256,867 shares outstanding, actual, as of June 30, 2012, and 12,456,867 shares outstanding, as-adjusted, as of June 30, 2012	11,257	12,457
Additional paid-in capital	6,316,182	11,214,982
Accumulated deficit	(6,882,922)	(6,882,922)
Total stockholders' equity (deficit)	(555,484)	4,344,516
Total liabilities & stockholders' equity	$ 842,912	$ 5,742,912

The June 30, 2012 as-adjusted balance sheet data reflects the sale of 1,200,000 shares in this offering at an assumed initial public offering price of $5.00 per share, which is the mid-point of the price range listed on the cover page of this prospectus, after deducting underwriting discounts and commissions of 7%, non-accountable expense reimbursement fee of 3% and estimated offering expenses of approximately $500,000 payable by us.

RISK FACTORS

A purchase of our shares of common stock is an investment in our securities and involves a high degree of risk. You should carefully consider 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, our business, financial condition and results of operations would likely suffer. In that case, the market price of the common stock could decline, and you may lose part or all of your investment in our company.

Risks Relating to our Business

We have only a limited operating history, and, as such, an investor cannot assess our profitability or performance based on past results.

We are a development stage company, with operations beginning in December 2008 around acquiring the MASCT System patent rights and assignments and the FDA clearance for marketing, which was completed in January 2009. We were incorporated in Delaware in April 2009 and our operations to date have consisted primarily of securing manufacturing for the MASCT and the Duct Microcatheter Systems, establishing our CLIA-certified laboratory, validating the Laboratory Developed Tests we use in the ForeCYTE and ArgusCYTE tests, conducting research and development on the FullCYTE and NextCYTE tests, and beginning the commercialization of our products. We will require significant additional capital to achieve our business objectives, and the inability to obtain such financing on acceptable terms or at all could lead to closure of the business.

Our revenue and income potential is uncertain. Any evaluation of our 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 our ability to:

- execute our business plan and commercialization strategy;
- work with contract manufacturers to produce the MASCT and Microcatheter Systems in commercial quantities;
- create brand recognition;
- respond effectively to competition;
- manage growth in operations;
- respond to changes in applicable government regulations and legislation;
- access additional capital when required;
- sell our products and service at the prices currently expected; and
- attract and retain key personnel.

Our independent auditors have issued a report questioning our ability to continue as a going concern.

The report of our independent auditors contained in our financial statements explains that we have not yet established an ongoing source of revenue 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 obtaining adequate capital to fund operating losses until we become profitable. If we are unable to obtain adequate capital, we may be unable to expand our product offerings or geographic reach and we could be forced to cease operations.

We will depend on the proceeds from this offering to continue the commercial launch of the ForeCYTE and ArgusCYTE Tests, and we do not have specific plans to obtain funding from alternative sources; if the proceeds from this offering are insufficient, the further commercial launch of our tests may be delayed.

We expect to spend substantial amounts of capital to:

- launch and commercialize the ForeCYTE and ArgusCYTE Tests, including the manufacture of the device in commercial quantities and building an independent distributor sales force to address certain markets;

- maintain laboratory facilities for our testing and analytical services, including necessary testing equipment; and
- continue our research and development activities to advance our product pipeline.

We expect that we will require additional capital beyond the proceeds from this offering to complete our commercialization plans and may need to raise additional funds if we encounter delays or problems in the production of the MASCT System device in commercial quantities, or the establishment of a larger sales force. We have not identified sources for such additional funding and cannot be certain that additional funding will be available on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts or on acceptable terms, we may have to significantly delay, scale back or discontinue the commercialization of our products and services or our research and development activities.

Failure to raise additional capital as needed could adversely affect us and our ability to grow.

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

We have a history of operating losses, we currently sell the MASCT System for significantly less than it costs to manufacture, and we expect to continue to incur losses in the future.

We have a limited operating history and have incurred total net operating losses of approximately $6.9 million from our incorporation in April 2009 through June 30, 2012. We have received $279,310 in revenue as of June 30, 2012 and we do not expect that we will be in a position to generate significant revenue until we are able to launch our tests more broadly. Additionally, we will continue to incur further losses in connection with inventory costs for our medical test products, marketing and sales expenses in launching our products and services, research and development costs for additional tests, and the maintenance of our CLIA-certified laboratory. For example, the sales price of our MASCT System is currently substantially lower than its cost because the MASCT System is currently manufactured only in sufficient quantities to be utilized in our field experience trial and because the Company's current marketing strategy is to attempt to quickly penetrate the market of the products and services offered by the Company by offering the MASCT System at a price substantially lower than its cost to attract market awareness. This practice of selling our MASCT System substantially below its cost negatively impacts our profitability. Although we expect that the cost to manufacture our MASCT System will be substantially lower when we increase the volume of production for post-trial commercial launch and once we have been more successful in penetrating the market, if our expectation is not realized we may not be able to generate significant revenue nor achieve profitability. Accordingly, we may never achieve profitability.

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

If we were to raise additional capital by issuing equity securities, the 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 market 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 obtain additional funds may impose restrictions on our operations and may impair our working capital as we service any such debt obligations.

The products and services that we have developed or may develop may never achieve significant commercial market acceptance.

We may not succeed in achieving commercial market acceptance of any of our products and services. In order to market the MASCT System and to gain market acceptance for the MASCT System and our

ForeCYTE and ArgusCYTE Tests, we 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 may be 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 our 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 our products and services.

We will likely be increasingly required to offer discounted pricing arrangements to managed care payors and physicians and other referral services in response to competitive pressures.

There are other companies within the medical device product industry that have products used in NAF collection and there are laboratories other than ours that can process NAF samples. Because of this existing competition, as well as potential future competition from additional companies and laboratories, we will likely be increasingly required to offer discounted pricing arrangements to managed care payors, physicians and other referral services so that our products and services are selected over the products and services of others. If we offer such discounted pricing arrangements, our revenue will decrease and we may not generate sufficient revenue to cover our operating costs, which could materially adversely affect our business.

Additionally, such discounts could raise issues under the federal Anti-Kickback Statute and Medicare's discriminatory billing prohibition. If we were found to be in violation of such statute or prohibition, we could be subject to significant fines, and these fines would likely materially adversely affect our business and results of operations.

We may encounter difficulties in operating or maintaining our laboratory facility, which could cause delays and unexpected problems.

We have established the CLIA-certified National Reference Laboratory for Breast Health as a wholly-owned subsidiary and we rely on this physical facility in Seattle, Washington for the testing of patient samples. Our facility has received California, Florida, Maryland, Rhode Island, and Washington state laboratory licenses, and federal CLIA laboratory certification. However, our management team does not have significant prior experience with establishing and managing this type of laboratory facility. In addition, certain pieces of laboratory equipment required for the performance of our testing and analytical services may be difficult and costly to replace, and may require significant replacement lead-time. In the event that we are unable to maintain the laboratory facility in good working order, or if such laboratory or equipment is adversely affected by periodic malfunctions or man-made or natural disasters, then we may be unable to conduct business and meet potential customer demands for a significant period of time, which could negatively affect revenue and our long-term prospects.

The loss of the services of our Chief Executive Officer could adversely affect our business.

Our success is dependent in large part upon the ability to execute our business plan, manufacture the MASCT System, maintain our clinical and diagnostic laboratory, and attract and retain highly skilled professional, sales and marketing personnel. In particular, due to the relatively early stage of our business, our future success is highly dependent on the services of Steven C. Quay, our Chief Executive Officer and founder, who provides much of the necessary experience to execute our business plan. We do not currently maintain "key man" insurance with respect to Dr. Quay. The loss of his services for any reason could impede our ability to achieve our 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 we seek to build a reputation among physicians and clinicians.

We may experience difficulty in locating, attracting, and retaining experienced and qualified personnel, which could adversely affect our business.

We will need to attract, retain, and motivate experienced anatomic pathologists, cytologists, histotechnologists, skilled laboratory and information technology staff, experienced sales representatives, and other personnel, particularly in the Greater Seattle area as we expand our commercialization activities. 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 ours. If we are unable to attract and retain qualified personnel, revenue and earnings may be adversely affected.

We have no prior experience with commercializing any products or services, and will need to establish a sophisticated sales and marketing effort in order to be successful.

We intend to build a network of regional, specialty distributors, each with a staff of independent sales representatives with experience in women's health products to target physicians and mammography clinics in the United States. Marketing our products to physicians and healthcare professionals will require us to educate such professionals on the comparative advantages of our products over other methods currently used for the detection and diagnosis of breast cancer. Experienced independent sales representatives may be difficult to locate and all sales representatives will need to undergo extensive training. We will need to incur significant costs to build, train, supervise and effectively deploy this independent sales force. We cannot be certain that we will be able to recruit sufficiently skilled sales representatives or that any new sales representatives will ultimately become productive. Independent sales representatives may carry competing products or products that provide a better financial return to them and therefore may not emphasize our products. If we are unable to recruit, train and retain qualified and productive independent sales personnel, our ability to successfully commercialize our products and services will be impaired.

Although we entered into a co-exclusive marketing agreement with Diagnostics Test Group LLC (DTG) in September 2012 for the supply and distribution of the MASCT System under the DTG Clarity brand, and we currently plan to launch the ForeCYTE Breast Health Test with DTG under DTG's Clarity brand name by the end of the calendar year 2012, DTG and its distributors may not be successful in selling the Clarity branded MASCT product line and we may not achieve any level of commercial success from their efforts.

We use third-party suppliers for the production of the MASCT and Microcatheter Systems, which are currently manufactured in small quantities. If such suppliers are not capable of producing quantities of these systems sufficient for commercial sale when we are ready, we may not generate significant revenue or become profitable.

We rely on third-party suppliers for the continued manufacture and supply of the MASCT and Microcatheter Systems, including the 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 our third-party suppliers cannot produce the MASCT or Microcatheter Systems in quantities sufficient for our commercial needs on acceptable terms when needed, we may be unable to commercialize the MASCT System and Microcatheter System and generate revenue from their sales as planned. In addition, if at any time after commercialization of our products, we are unable to secure essential equipment or supplies in a timely, reliable and cost-effective manner, we could experience disruptions in our services that could adversely affect anticipated results.

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 us from pricing the MASCT System at desired levels.

The Halo® Breast Pap Test, an NAF collection device similar to the MASCT System, is being marketed by Halo Healthcare, Inc. (formerly Neomatrix, LLC) of Irvine, California (Halo Healthcare, Inc. owns the registered trademark Halo®). Certain insurance carriers do not currently reimburse for the HALO System procedures. For example, in September 2010, United Healthcare published a policy statement indicating that it would not cover the costs of these procedures because it believes there is insufficient clinical evidence to support medical efficacy, based on its conclusion that there is inadequate clinical evidence that automated nipple aspiration either allows for better clinical decision-making or reduces breast cancer mortality. United Healthcare also recommended further studies to determine the efficacy of cytological examination of ductal fluid in detecting atypical cells to identify women at increased risk of breast cancer, as well as comparisons of the results to established methods of detecting and diagnosing breast cancer. Similarly, Medicare does not currently 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. We may be forced to reduce the price of the MASCT System components in response to low demand or to provide discounted pricing arrangements in order to secure sales, or may not be able to sell the product and services components of the MASCT System at acceptable margins, which would severely limit our ability to generate revenue.

Our intended business to sell predictive medical products may expose us to possible litigation and product liability claims.

Our business may expose us to potential product liability risks from the MASCT System, ForeCYTE Test, and/or ArgusCYTE Test 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 our 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 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.

The ArgusCYTE Test must be run on fresh blood and improper storage conditions following drawing from the patient could lead to a missed diagnosis.

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 our business. Any successful product liability claim may prevent us 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 our products.

Our laboratory activities, including the analysis and reading of the NAF tests could expose us to possible litigation based on malpractice, data aggregation errors, or misdiagnoses.

Through a wholly-owned subsidiary, we operate a CLIA-certified laboratory to analyze patient samples and to report the results to referring healthcare professionals, researchers and potential collaborators worldwide. We or our subsidiary 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 tests;
- incorrect aggregation, categorization or labeling of data;
- improper, incorrect or inaccurate development of a computer database which categorizes, analyzes, or compares test data; or
- misinterpretation of the results of the test or collected data.

We maintain insurance to protect 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

adverse outcome against us could involve significant monetary judgments and could severely impact our financial resources and would be expected to impair our ability in the future to obtain malpractice, or other insurance, for our laboratory services.

If our patents do not adequately protect our products, others could compete with us more directly, which would adversely affect our business.

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

The patent positions of diagnostic, medical device, and pharmaceutical 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. In particular, on March 20, 2012, the U.S. Supreme Court issued a decision in *Mayo Collaborative Services, DBA Mayo Medical Laboratories, et al. v. Prometheus Laboratories, Inc*., No. 10-1150, holding that several claims drawn to measuring drug metabolite levels from patient samples were not patentable subject matter. Although the Court's decision seems to impact diagnostics patents that merely apply a law of nature via a series of routine steps, the full impact of the *Prometheus* decision is not yet known. We will thus be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, existing products and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets, and we are willing and have the necessary resources to take enforcement action against such unauthorized use by third parties.

The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- we were the first to make the inventions covered by each of our patents and pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar, or alternative technologies, or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents;
- any of our issued patents will be valid or enforceable;
- any patents issued to us will provide a basis for commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies or products that are patentable; or
- the patents of others will not have an adverse effect on our business.

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

We rely on trade secrets to protect our proprietary know-how and technological advances, particularly where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators and other advisors to protect our 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 our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. Failure to obtain, or maintain,

trade secret protection could enable competitors to use our proprietary information to develop products that compete with our products or cause additional, material adverse effects upon our competitive business position.

Our current patent portfolio may not include all patent rights needed for the full development and commercialization of our products. We cannot be sure that patent rights we may need in the future will be available for license on commercially reasonable terms, or at all.

Although our patents may prevent others from making, using or selling similar products, they do not ensure that we will not infringe the patent rights of third parties. We may not be aware of all patents or patent applications that may impact our ability to make, use or sell our products or services. Furthermore, we 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 our patents and limit our ability to obtain meaningful patent protection. If others obtain patents with conflicting claims, we may need to obtain licenses to these patents or to develop or obtain alternative technology.

We may be unable to obtain any licenses or other rights to patents, technology or know-how from third parties necessary to conduct our 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 us from developing or commercializing our proposed products and services, which would harm our business. Litigation or patent interference proceedings need to be brought against third parties, as discussed below, to enforce any of our 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 we are involved in such litigation, we could be delayed in bringing product or service candidates to market and our ability to operate could be harmed.

Our commercial success will depend in part on our 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 we are 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, the Mammary Ductal Microcatheter System or other 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 our technologies infringes these patent claims or that it is employing their proprietary technology without authorization.

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

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

Risks Related to our Industry

Our inadvertent or unintentional failure to comply with the complex government regulations concerning privacy of medical records could subject us to fines and adversely affect our reputation.

The federal privacy regulations, among other things, restrict our 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, we could incur damages under state laws to private parties for the wrongful use or disclosure of confidential health information or other private personal information.

We intend to implement policies and practices that we believe will make us 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 us 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, we are required to comply with both HIPAA privacy regulations and various state privacy laws. The failure to do so could subject us 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 us.

Changes in regulations, policies, or payor mix may adversely affect reimbursement for laboratory services and could have a material adverse impact on our revenue and profitability.

Most of our 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 rates and policies 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 we may 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 our business.

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

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. We currently do not have any managed care provider contracts and there can be no assurance any contracts will be established. If we do not have a contract with a managed care provider, we may be unable to gain those physicians as clients. In cases in which we will contract with a specified insurance company as a participating provider, we will be considered "in-network," and the reimbursement of third-party payments is governed by contractual relationships. Our in-network services will be primarily negotiated on a fee-for-service basis at a discount from our patient fee schedule, which could result in price erosion that would adversely affect revenue. Our failure to obtain managed care contracts, or participate in new managed care networks, could adversely affect revenue and profitability. In cases in which we do not have a contractual relationship with an insurance company, or are not an approved provider for a government program, we will have no contractual right to collect for services and such payors may refuse to reimburse us for services, which could lead to a decrease in accession volume and a corresponding decrease in revenue. As an out-of-network provider,

reductions in reimbursement rates for non-participating providers could also adversely affect us. Third-party payors, with whom we do not participate as a contracted provider, may also require that we enter into contracts, which may have pricing and other terms that are materially less favorable than the terms under which we intend to operate. While accession volume may increase as a result of these contracts, revenue per accession may decrease.

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

Changes in FDA policies regarding the "home brew" exception from FDA review for laboratory-developed tests and reagents could adversely affect our 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 subject to regulation under the federal Food, Drug and Cosmetic Act, or FDCA. To date, the FDA has decided, as a matter of enforcement discretion, 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 we have established. In addition, manufacturers and suppliers of analyte specific reagents, or ASRs, which we may utilize in our 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 we 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 our ability to provide specialized diagnostic services and may adversely affect our 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.

We are 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, for example, enrollment in PECOS, the Medicare Provider Enrollment, Chain and Ownership System, could result in our inability to receive payment for our services or attempts by third-party payors, such as Medicare and Medicaid, to recover payments from us that we have already received. 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, we could be adversely affected if it was determined that the services we provided were not medically necessary and not reimbursable, particularly if it were asserted that we contributed to the physician's referrals of unnecessary services. It is also possible that the government could attempt to hold us liable under fraud and

abuse laws for improper claims submitted by us if it were found that we knowingly participated in the arrangement that resulted in submission of the improper claims.

Our 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 our 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 our 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 ours, or that are more patient-friendly, efficient, or cost-effective. Our success depends in part upon our 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 our services.

Risks Related to This Offering, the Securities Markets and Investment in our Securities

We have received conditional approval from the NASDAQ Capital Market to list our shares of common stock, but we cannot guarantee that we will satisfy the initial listing standards of the NASDAQ Capital Market or, if we satisfy the initial listing standards, that we will be able to satisfy the continued listing standards going forward.

One requirement to obtain listing on the NASDAQ Capital Market is that we must have stockholders' equity of at least $4 million upon completion of this offering. Based on our communications with NASDAQ and based upon the balance sheet data as of August 31, 2012 that we filed with the Securities and Exchange Commission ("SEC") in a free writing prospectus on September 13, 2012, we will satisfy this requirement if we receive at least $6 million in gross proceeds in this offering. We cannot guarantee, however, that we will raise $6 million in gross proceeds in this offering. If we are unable to raise at least $6 million in gross proceeds to be able to list our shares of common stock on the NASDAQ Capital Market, we will not complete this offering.

Even if we are able to list the shares on the NASDAQ Capital Market, we cannot ensure that we will be able to satisfy the continued listing standards of the NASDAQ Capital Market going forward. If we cannot satisfy the continued listing standards going forward, NASDAQ may commence delisting procedures against us, which could result in our stock being removed from listing on the NASDAQ Capital Market. If our stock were to be delisted, the market liquidity of our stock could be adversely affected and the market price of our stock could decrease. Delisting could also adversely affect our stockholders' ability to trade or obtain quotations on our shares because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask price for our common stock. You may also not be able to resell your shares at or above the price you paid for such shares or at all. In addition, class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. Any such litigation brought against us could result in substantial costs and a diversion of management's attention and resources, which could hurt our business, operating results and financial condition.

There has been no prior public market for our common stock and the lack of such a market may make resale of our stock difficult.

No prior public market has existed for our common stock and we cannot assure any investor that an active trading market will develop following this offering. We do not know whether an active trading market for our common stock will ever develop or continue, particularly in light of the relatively small size of this offering. If an active trading market does not develop, you may have difficulty selling your common stock.

The ownership of our common stock is concentrated among a small number of stockholders, and if our principal stockholders, directors and officers choose to act together, they may be able to significantly influence management and operations, which may prevent us from taking actions that may be favorable to you.

Our ownership is concentrated among a small number of stockholders, including our founders, directors, officers and entities related to these persons. Following the completion of this offering, our directors, officers and entities affiliated with them will beneficially own over 37% of our outstanding voting securities. Accordingly, these stockholders, acting together, will have the ability to exert substantial influence over all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. 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 our charter documents and Delaware law could delay or prevent a change in control which could limit the market price of the our common stock and could prevent or frustrate attempts by the our stockholders to replace or remove current management and the current Board of Directors.

Our amended and restated certificate of incorporation and amended and restated bylaws, which will become effective upon the completion of this offering, contain provisions that could delay or prevent a change in control or changes in our Board of Directors that our stockholders might consider favorable. These provisions include the establishment of a staggered Board of Directors, which divides the board into three classes, with directors in each class serving staggered three-year terms. The existence of a staggered board can make it more difficult for a third party to effect a takeover of our company if the incumbent board does not support the transaction. 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 our 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 not nominated by our Board. Furthermore, the existence of these provisions, together with certain provisions of Delaware law, might hinder or delay an attempted takeover other than through negotiations with the Board of Directors.

We do 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 a sale.

We have never, and do not anticipate that we will, declare or pay a cash dividend. We expect to retain future earnings, if any, for our business and do not anticipate paying dividends on common stock at any time in the foreseeable future. Because we do not anticipate paying dividends in the future, the only opportunity for our stockholders to realize the creation of value in our common stock will likely be through a sale of those shares.

We are an “emerging growth company” and we cannot be certain if we will be able to maintain such status or if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart our Business Startups Act of 2012, or JOBS Act, and we intend to adopt certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may remain as an “emerging growth company” for up to five full fiscal years following our initial public offering. We would cease to be an emerging growth company, and therefore not be able to rely upon the above exemptions, if we have more than $1 billion in annual revenue in a fiscal year, we issue more than $1 billion of non-convertible debt over a three-year period, or we have more than $700 million in market value of our common stock held by non-affiliates as of any June 30 before the end of the five full fiscal years.

Additionally, we cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The underwriter, Dawson James Securities, Inc. and persons associated with Dawson James Securities, Inc. will benefit from the completion of this offering because they hold warrants to purchase our common stock.

In connection with our private placement completed on June 23, 2011 and as described elsewhere in this prospectus, Dawson James Securities, Inc. and persons associated with Dawson James were issued placement agent warrants to purchase a total of 788,520 shares of our common stock at $1.60 per share and 788,520 shares of our common stock at $1.25 per share. Subject to waiver rights by Dawson James and other terms and conditions of the lock-up agreements, the holders of these warrants do not have the right to exercise the warrants for 180 days after the effective date of the registration statement of which this prospectus forms a part. The underwriter and its associates will benefit from the completion of this offering because of their ownership of these warrants, particularly if the warrants are exercisable or if they are exercised when the exercise price of the warrants is less than the market price of our stock.

FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information, certain information, assumptions and discussions that may constitute forward-looking statements. These statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected or anticipated. Although we believe our assumptions underlying our forward-looking statements are reasonable as of the date of this prospectus, 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 ability to successfully sell our products and services at currently expected prices or otherwise at prices acceptable to us;
- our ability to successfully develop and commercialize new tests, tools and technologies currently in development and in the time frames currently expected;
- our ability to engage third-party suppliers to manufacture the MASCT or Microcatheter System and its components at quantities and costs acceptable to us;
- our ability to satisfy ongoing FDA requirements for the MASCT and Microcatheter System and to obtain regulatory approvals for our other products and services in development;
- the benefits and clinical accuracy of the ForeCYTE and ArgusCYTE Tests 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 health insurance companies, including those who are members of the MultiPlan Network, and other third-party payors to approve our products and services for coverage and reimbursement;
- our ability to establish and maintain an independent sales representative force, including with DTG and its distributors, to market our products and services that we may develop, both regionally and nationally;
- our expectations regarding, and our ability to satisfy, 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; and
- our ability to attract and retain key personnel.

This prospectus also contains estimates and other statistical data provided 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 after the date of this prospectus. 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 shares that we are offering will be approximately $4.9 million, or approximately $5.7 million if the underwriters exercise their overallotment option in full assuming an initial public offering price of $5.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions, underwriter non-accountable expense reimbursement fee, other underwriter expense reimbursement obligations and estimated offering expenses that we must pay.

A $1.00 increase (decrease) in the assumed initial public offering price of $5.00 per share would increase (decrease) the net proceeds to us from this offering by approximately $1.1 million, assuming 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.

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 capital markets. We estimate that we will use the net proceeds from this offering for the following purposes (set forth in order of use):

- up to approximately $500,000 of these net proceeds to expand our cytology and molecular diagnostics laboratory;
- up to approximately $500,000 of these net proceeds to fund manufacture of a number of MASCT System units needed to launch the MASCT System across the United States as our initial national roll-out of the product;
- up to approximately $1,500,000 of these net proceeds to hire and train sales and marketing personnel for initial regional marketing and subsequent national distribution;
- up to approximately $1,000,000 of these net proceeds to develop and commence manufacturing and commercialization of the FullCYTE Test;
- up to approximately $1,000,000 of these net proceeds to develop and commercialize the NextCYTE Test; and
- the remaining net proceeds for the research and development of Intraductal Treatment Programs, our diagnostic tools and for general working capital purposes.

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.

Although we currently anticipate that we will use the net proceeds as described above, there may be circumstances where a reallocation of funds may be necessary. The amounts and timing of our actual expenditures will depend upon numerous factors, including the progress of our development and commercialization efforts, the development of our business opportunities and our operating costs and expenditures. Accordingly, our management will have significant flexibility in applying these net proceeds. 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.

The costs and timing of commercialization of our products and development of business opportunities are highly uncertain, are subject to substantial risks and can often change. Accordingly, we may change the allocation of use of these proceeds as a result of contingencies such as the uptake of our products in the marketplace, competitive responses, and operating costs and expenditures.

Pending use of the proceeds from this offering as described above or otherwise, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities.

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 our capitalization as of June 30, 2012 on:

- an actual basis; and
- an as-adjusted basis to reflect the receipt of the net proceeds from the sale of common stock in this offering at an assumed initial public offering price of $5.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions, the underwriters' non-accountable expense reimbursement fee and estimated offering expenses.

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, 2012	
	Actual	As Adjusted
	(unaudited)	
Common Stock, $0.001 par value, 75,000,000 shares authorized and 11,256,867 and 12,456,867 shares outstanding, actual and as-adjusted, respectively[(1)]	$ 11,257	$ 12,457
Additional paid-in capital	6,316,182	11,214,982
Accumulated deficit	(6,882,922)	(6,882,922)
Total stockholders' equity (deficit)	(555,484)	4,344,516

(1) The number of shares of our common stock to be outstanding before the offering is based on 11,256,867 shares of common stock outstanding as of June 30, 2012, and excludes 627,757 shares issuable upon the exercise of options outstanding as of this prospectus under our 2010 Stock Option and Incentive Plan, or 2010 Plan, as well as 822,517 shares of common stock reserved for future issuance under our 2010 Plan, in addition to 6,833,840 shares of common stock underlying outstanding warrants with a weighted-average exercise price of $1.56 per share and shares and warrants issued in connection with our acquisition of substantially all the assets of Acueity Healthcare, Inc.

DILUTION

Our net tangible book value as of June 30, 2012 was $(587,914), or $(0.05) 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, 2012. After giving effect to the sale by us of 1,200,000 shares of common stock being sold in this offering at an assumed initial public offering price of $5.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting the 7% estimated underwriting discounts and commissions, the 3% non-accountable expense reimbursement fee, underwriter expense reimbursement obligations and estimated offering expenses payable by us, our pro forma net tangible book value as of June 30, 2012 would have been approximately $4.3 million, or approximately $0.35 per share. This amount represents an immediate increase in net tangible book value of $0.40 per share to our existing stockholders and an immediate dilution in net tangible book value of approximately $4.65 per share to new investors.

The following table illustrates this hypothetical per-share dilution:

Assumed initial public offering price		$ 5.00
Net tangible book value per share as of June 30, 2012	$ (0.05)	
Increase in net tangible book value per share attributed to new investors purchasing shares in this offering	0.40	
As-adjusted net tangible book value per share after this offering		0.35
Dilution per share to new investors		$ 4.65

A $1.00 increase (decrease) in the assumed initial public offering price of $5.00 per share would increase (decrease) our adjusted net tangible book value per share after this offering by approximately $0.09 and would increase (decrease) dilution per share to new investors by approximately $0.92, 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, 2012, 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 1,200,000 shares of our common stock at an assumed offering price of $5.00 per share, which is the midpoint of the price range listed on the cover page of this prospectus.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	11,256,867	90.4%	$ 6,898,540	53.5%	$ 0.61
New investors	1,200,000	9.6%	6,000,000	46.5%	5.00
Total	12,456,867	100%	$ 12,898,540	100%	$ 1.04

A $1.00 increase (decrease) in the assumed initial public offering price of $5.00 per share would increase (decrease) the total consideration paid by new investors by $1,080,000 and increase (decrease) the percent of total consideration paid by new investors by 8.5% 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, underwriter expense reimbursement obligations and estimated offering expenses payable by us.

Assuming the underwriters' overallotment option is not exercised, sales by us in this offering will reduce the percentage of shares held by existing stockholders to approximately 90.4% and will increase the number of shares held by our new investors to approximately 1,200,000, or 9.6%.

The number of shares of our common stock to be outstanding after this offering is based on 11,256,867 shares of our common stock outstanding as of June 30, 2012 and excludes:

- 608,000 shares issuable upon the exercise of options outstanding as of June 30, 2012 under our 2010 Plan;
- 392,000 shares of common stock reserved for future issuance under our 2010 Plan;
- 6,833,840 shares of common stock underlying outstanding warrants with a weighted-average exercise price of $1.56 per share; and
- 862,500 shares of common stock and 325,000 warrants issued in connection with our acquisition of substantially all the assets of Acueity Healthcare, Inc.

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 Data" 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 could 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.

Company Overview

We are a healthcare company focused on the prevention of breast cancer through the commercialization of diagnostic tests that can detect precursors to invasive breast cancer, and through the research, development, and ultimate commercialization of treatments for pre-cancerous lesions.

Our diagnostic tests consist of FDA-cleared and patented medical devices that can collect fluid and tissue samples from the breast milk ducts, where, according to the National Cancer Institute, over 95% of breast cancers arise. These samples are processed at our CLIA-certified laboratory, the National Reference Laboratory for Breast Health, which examines the specimens by microscopy for the presence of normal, pre-malignant, or malignant changes as determined by cytopathology and biomarkers that distinguish "usual" ductal hyperplasia, a benign condition, from atypical ductal hyperplasia, which may lead to cancer. These cytopathological results provide patients and physicians with information about the care path that should be followed, depending on the individual risk of future cancer as determined by the results.

Additionally, we are conducting research on the treatment of these pre-cancerous cells by using our patented and FDA-cleared microcatheters to deliver, directly into the milk ducts, pharmaceutical formulations that can be used to treat these pre-cancerous lesions. By using this localized delivery method, patients are expected to receive high local concentrations of these drugs at the site of the pre-cancerous lesions, potentially promoting efficacy of the treatment while limiting systemic exposure, which has the potential to lower the overall toxicity of these treatments.

Current Operations

We launched our commercial operations in late 2011 and, as of June 30, 2012, have enrolled and sold MASCT System kits or provided ArgusCYTE collection kits to 34 doctors and clinics as providers of the ForeCYTE and/or ArgusCYTE tests and have received, processed, and reported the results to physicians from 956 ForeCYTE samples and 41 ArgusCYTE samples. From inception (April 30, 2009) through June 30, 2012, we have generated $279,310 in revenue from the sale of our MASCT System and providing laboratory services. We incurred net operating losses of $2,230,867 and $1,014,186 for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, we had an accumulated deficit of approximately $6.9 million. We have not yet established an ongoing source of revenue sufficient to cover our operating costs and allow us to continue as a going concern. Our ability to continue as a going concern is dependent on obtaining adequate capital to fund operating losses until we become profitable. We plan to obtain additional capital resources by selling our equity securities, selling the MASCT System and generating laboratory service revenue from our tests, and making short-term borrowings from stockholders or other related parties when needed. However, we cannot assure you that we will be successful in accomplishing any of these plans and, if we are unable to obtain adequate capital, we could be forced to cease operations.

Revenue Sources

The commercialization of the ForeCYTE Test provides us with two 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. The commercialization of the ArgusCYTE test provides only laboratory service revenue.

Commencing in December 2011, we began to market the ForeCYTE Test to physicians, primarily obstetric-gynecologists, 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 are establishing relationships with breast cancer centers to provide the ArgusCYTE Test to their patients. We plan to initially use regional specialty product distributors, with independent sale representatives specializing in Women's Health, to commercialize the ForeCYTE and ArgusCYTE Tests. As of June 30, 2012, we have one person involved in sales; however, we cannot be certain that we will be able to build distributor relationships, including our relationship with DTG, adequately to address the national market. In addition to Dr. Quay, in April 2012 we hired a board-certified pathologist part-time to assist in the interpretation of the NAF samples.

We intend to use the net proceeds from this offering to expand our cytology and molecular diagnostics laboratory, fund the manufacture of MASCT System units, hire and train sales and marketing personnel, continue the research and development of the FullCYTE and NextCYTE Tests, support the internal research and development of the Intraductal Treatment Research Program, and for general corporate purposes.

Commercial Lease Agreements

In December 2009, we entered into a commercial lease agreement with Ensisheim, an affiliated entity, for office space located in Seattle, Washington. From inception through December 31, 2009, we incurred only a nominal amount of rent expense for the lease. For the period of January 1, 2010 through June 30, 2010, we incurred $6,600 of rent expense for the lease. We and Ensisheim terminated the lease, effective July 1, 2010 and we commenced use of the facility rent-free for the period from July 1, 2010 through March 31, 2011. In March 2011, we entered into a commercial lease agreement with Sanders Properties, LLC for the same office space located in Seattle, Washington. The lease provides for monthly rent of $1,100 and a security deposit of $1,500. The lease terms are from April 1, 2011 to March 31, 2013. For the periods of April 1, 2011 through December 31, 2011 and the six months ended June 30, 2012, we incurred $9,900 and $6,600, respectively, of rent expense for the lease.

In September 2010, we entered into a commercial lease agreement with CompleGen, Inc. for laboratory space located in Seattle, Washington. The lease provides for monthly rent of $3,658. The initial lease term was from September 2010 through March 2011, at which time the lease converted into a month-to-month lease. The monthly rent for the lease increased to $4,267 commencing January 2012. For the periods of September 2010 through December 31, 2011 and the six months ended June 30, 2012, we incurred $43,890 and $25,602, respectively, of rent expense for the lease.

In July 2011, we entered into a commercial lease agreement with Sanders Properties, LLC for another office space located in Seattle, Washington. The lease provides for monthly rent of $600 and a security deposit of $1,200. The lease terms are from July 11, 2011 to July 31, 2012. For the periods of July 11, 2011 through July 31, 2012 and the six months ended June 30, 2012, we incurred $3,395 and $3,600, respectively, of rent expense for the lease. This lease terminated on July 31, 2012 and was not renewed.

In September 2011, we entered into a commercial lease agreement with Sanders Properties, LLC for additional office space located in Seattle, Washington. The lease provides for monthly rent of $1,400 and a security deposit of $1,000. The lease terms are from October 1, 2011 to March 31, 2012. For the periods of October 1, 2011 through December 31, 2011 and the three months ended March 31, 2012, we incurred $4,200 and $4,200, respectively, of rent expense for the lease. This lease ended on March 31, 2012 and was not renewed.

In December 2011, we entered into a commercial lease agreement with Fred Hutchinson Cancer Research Center for laboratory space located in Seattle, Washington. The lease provides for monthly rent of $16,395 for the period from February 24, 2012 to August 31, 2012, $19,923 for the period from September 1, 2012 to August 31, 2013, and $20,548 for the period from September 1, 2013 to November 29, 2014. The lease terms are from February 2012 through November 2014. We will initially rent temporary office and laboratory space of 6,342 sq. ft. and then move into permanent office and laboratory space in the same building of 7,504 sq. ft. in or around October 2012. We will be entitled to rent abatement for 6.25 months upon moving into the permanent space. We expect to move our CLIA-certified laboratory facilities and executive offices into this space once the new space is CLIA-certified and we expect to terminate our month-to-month lease with CompleGen following completion of this move. For the six months ended June 30, 2012, we incurred $94,030 of rent expense for the lease.

We expect that these new facilities will be sufficient to meet our needs for the foreseeable future and we do not expect to need additional office and laboratory space for at least the next 24 months.

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

Overview

We will recognize product and service revenue in accordance with GAAP when the following overall 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 is reasonably assured.

Product Revenue

We recognize revenue for sales of the MASCT kits and devices upon the occurrence of all of the following: (i) receipt of cash, (ii) confirmation of product delivery (shipping documents and the completion of any customer acceptance requirements, when applicable, will be used to verify product delivery), and (iii) assessment of 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. Once a history of sales and collectability has been established, we expect to recognize revenue upon delivery of goods from the supplier's or our warehouse or upon arrival of goods at the customer's designated location, depending on the shipping terms, with an offsetting reserve for doubtful accounts estimated based on the relevant collections history.

Service Revenue

We recognize revenue for our diagnostic testing on an accrual basis at the Medicare allowed and invoiced amount and upon satisfaction of the above four fundamental criteria. Amounts invoiced above the Medicare allowed reimbursement amount are recognized upon receipt of cash during the initial three- to six-month period as we have insufficient individual customer history on which to determine the collectability of amounts that are invoiced above the Medicare amount. Diagnostic testing revenue at the Medicare rate is recognized upon completion of the test, communication of results to the patient's physician, and when collectability is reasonably assured. Customer purchase orders and/or contracts will generally be used to determine whether persuasive evidence of an arrangement exists. Once the Company has an appropriate history of sales and can determine the proper amount to recognize as uncollectible, it will then begin to recognize the entire amount, both Medicare allowed and non-Medicare billing, when all criteria of revenue recognition are met, with an offsetting allowance for doubtful accounts estimated based on collections history. We estimate it will take between three to six months of sales and collection history to establish reasonable assurance of collection and estimate of doubtful accounts, which is subject to change based on the sufficiency of the actual number of sales transactions for the period.

Cash and Cash Equivalents

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

Inventory

The Company's inventories are stated at lower of cost or market. Cost is determined on a moving-average basis. Costs of inventories include purchase and related costs incurred in delivering the products to their present location and condition. Market value is determined by reference to selling prices after the balance sheet date or to management's estimates based on prevailing market conditions. Inherent in the lower of cost or market calculation are several significant judgments based on a review of the aging of the inventory, inventory movement of products, economic conditions, and replacement costs. Because the sales price of the MASCT System was substantially lower than its cost for the six months ended June 30, 2012 and for the year ended December 31, 2011, resulting in the net realizable value of the MASCT System being determined at zero as of the balance sheet dates through taking the average sales price subtracted by selling expenses per unit, $23,807 and $92,026 of loss on reduction of inventory to the lower of cost or market was assessed and recorded as of and for the period and for the year then ended, respectively. Additionally, management periodically evaluates the composition of its inventories at least quarterly to identify slow-moving and obsolete inventories to determine if valuation allowance is required. As of June 30, 2012 and December 31, 2011, management had identified no slow moving or obsolete inventory.

The Company provides ForeCYTE testing specimen collection kits to doctors with our MASCT System for doctors to collect specimens that are returned to the Company for diagnostic analysis. These collection kits are considered part of the MASCT System. During the initial marketing phase, the Company has decided to distribute the kits to customers at no cost and bundle them with the MASCT System, and has not intended to deem the kits as a primary product line due to their nominal cost and value per unit. As a result, the kits are immediately expensed and recorded as selling expense upon purchasing of the kits. For the six months ended June 30, 2012 and for the year ended December 31, 2011, selling expense of $16,878 and $0 was recorded related to the ForeCYTE kits, respectively.

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 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. 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.

The amended employment agreement with the CEO, entered into on July 22, 2010, granted options to purchase 250,000 shares (or 565,830 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share, in consideration of his service to the Company. Of these options, 25% (or 62,500 shares) vested on December 31, 2010 with the remaining 75% (or 187,500 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

The amended employment agreement with the CTO, entered into on July 22, 2010, granted options to purchase 100,000 shares (or 226,332 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share in consideration of her service to the Company. Of these options, 25% (or 25,000 shares) vested on December 31, 2010 with the remaining 75% (or 75,000 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

On April 4, 2011, 45,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest as follows:

(i) 11,250 option shares shall vest ninety (90) days after the date of grant;

(ii) 11,000 option shares shall vest one hundred and eighty (180) days after the date of grant;

(iii)11,500 option shares shall vest two hundred and seventy (270) days after the date of grant;

(iv)11,250 option shares shall vest three hundred and sixty (360) days after the date of grant.

On September 1, 2011, 219,000 incentive stock options were granted under the 2010 Stock Option and Incentive Plan to employees and officers as part of their employment agreements, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) twenty-five percent (25%) of the underlying shares on the first anniversary of the date of grant; and

(ii) one-forty eighth (1/48) of the underlying shares monthly thereafter.

On September 1, 2011, 200,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) 80,000 option shares shall vest on September 1, 2011;

(ii) 30,000 options shares shall vest on December 1, 2011;

(iii)30,000 options shares shall vest on March 1, 2012;

(iv)30,000 options shares shall vest on June 1, 2012;

(v) 30,000 options shares shall vest on September 1, 2012.

On April 30, 2012, 19,757 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for serving as directors of the Company, at an exercise price of $6.00 per share. These options have a ten-year contractual term and shall vest and become exercisable in full immediately as of the grant date.

In accordance with the guidance provided in ASC Topic 718, Stock Compensation (formerly SFAS 123R), the compensation costs associated with these options are recognized, based on the grant-date fair values of these options, over the requisite service period, or vesting period. Accordingly, the Company recognized a compensation expense of $70,662 for the six months ended June 30, 2012.

The Company estimated the fair value of these options using the Black-Scholes-Merton option pricing model based on the following weighted-average assumptions:

	CEO & CTO	Dr. Hunkapiller	Employees & Officers	Non-employee Directors	Non-employee Directors
Date of grant	22-Jul-10	4-Apr-11	1-Sep-11	1-Sep-11	30-Apr-12
Fair value of common stock on date of grant	$ 2.756 (B)	$ 0.906 (C)	$ 0.906 (C)	$ 0.906 (C)	$ 6.00 (D)
Exercise price of the options	$ 5.00	$ 1.25	$ 1.25	$ 1.25	$ 6.00
Expected life of the options (years)	3.33	5.31	5.65	5.65	5.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	58.59%	54.12%	53.90%	53.90%	62.46%
Risk-free interest rate	1.03%	2.26%	1.08%	1.08%	0.89%
Expected forfeiture per year (%)	0.00%	0.00%	(A)	0.00%	0.00%
Weighted-average fair value of the options (per unit)	$ 0.6744	$ 0.3729	$ 0.3579	$ 0.3579	$ 3.0367

(A) 0.00% for the first year after the grant date, and 2.50% for every three months thereafter.

(B) The fair value of the Company's common stock was derived implicitly from the public offering filed in March 2010 at $3.00 per share and from the terms of an underwritten offering contemplated in July 2010 at $6.00 per Unit that was filed in October 2010, with $2.756 per share being allocated to common stock using an iterative approach in order for the combined fair value of the common stock and warrants to equal the amount of consideration to be received in the offering.

(C) The fair value of the Company's common stock was derived implicitly from the Private Placement during April through June 2011 at $1.25 per Unit, wherein one Unit was comprised of one share of common stock and one warrant to purchase one share of common stock at an exercise price of $1.60 per share.

(D) The fair value of the Company's common stock was derived implicitly from the public offering filed in February 2012 at $6.00 per share.

In October 2010, the Company filed a Registration Statement on Form S-1 with the SEC. However, the market for early stage investments in medical technology transactions had deteriorated between mid-2010 and early 2011. In addition, the Company's ability to negotiate with potential investors was limited. The Company's cash position had also diminished since the summer of 2010 and the founders of the Company were unable to finance the Company at the level needed for growth. The withdrawal of the Registration Statement in February 2011 further weakened the impression of the Company in the market. The fair value of the Company's common stock decreased from $2.756 in 2010 to $0.906 in 2011 primarily because the grants in 2011 relied on the arm's-length negotiation of the private placement financing (for illiquid stock) as opposed to relying on an anticipated initial public offering (of publicly-traded stock), as was the case in 2010. The private placement transactions were between the company and over 200 accredited investors and ascribed a value of $0.906 to the Company's common stock.

Fair value hierarchy of the above assumptions can be categorized as follows:

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

- Risk-free rate — The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the options.

(3) Level 3 inputs include:

- Expected lives — The expected lives of options granted were derived from the output of the option valuation model and represented the period of time that options granted are expected to be outstanding.
- Expected forfeitures per year — The expected forfeitures are estimated at the dates of grant and will be revised in subsequent periods pursuant to actual forfeitures, if significantly different from the previous estimates.

- Expected volatility — We did not have a historical trading history sufficient to develop an internal volatility rate for use in the model. As a result, as required by ASC 718-10-30, the Company has accounted for the options using the calculated value method. The Company identified seven public entities in the similar industry for which share price information was available, and considered the historical volatilities of those public entities' share prices in calculating the expected volatility appropriate to the Company.

The estimates of fair value from the model are theoretical values of stock options and changes in the assumptions used in the model could result in materially different fair value estimates. The actual value of the stock options will depend on the market value of the Company's common stock when the stock options are exercised.

Notwithstanding that the fair market value of the Company's common stock in September 2011 was $0.906 per share, the Company filed a Registration Statement on Form S-1 in February 2012 to offer shares of its common stock at $5.00 to $7.00 per share. This increase in share value is justified by the accomplishments achieved by the Company between September 2011 and February 2012, the end results of which are described elsewhere in this prospectus in the summary of the Company's business and operations. However, the specific actions that took place between September 2011 and February 2012 that supported this increase in value were as follows. The MASCT System manufacturing had been completed, supplies for the field experience trial were completed and the Company had established an FDA-compliant inventory and warehousing facility. Further, the National Reference Laboratory for Breast Health, the Company's wholly-owned subsidiary, was established as a Delaware corporation, was equipped and staffed, and the protocols and procedures needed to be a CLIA-registered facility were put in place. Moreover, the ForeCYTE test, which involves cytopathology and five biomarkers of hyperplasia and one biomarker of sample integrity, was completed, tested, and validated to CLIA standards. Computer hardware and software was acquired, set up, made operational, and the ForeCYTE report template, with unique reporting information for the requesting physician and a patient letter template, were created. The company explored and identified a technology for the ArgusCYTE test (which is the technology that the Company is currently using for the ArgusCYTE test), negotiated a supply agreement with the supplier, and tested and validated the test. An ArgusCYTE report template was also established and a new reporting scheme invented and a patent application filed.

Further, the Company acquired the FullCYTE Microcatheter System from Hologics, reestablished the supply chain and began preparing for a commercial launch later in 2012 or early 2013. In doing so, the Company increased its U.S. patent portfolio from 5 to 31 and its total portfolio of patents and applications to over 120. The Hologic patent estate also contains the key patents that permit microcatheter-based intractuctal treatment of cancer and pre-cancer. The Company also prepared marketing documents for the launch of the ForeCYTE and ArgusCYTE tests, which occurred in December 2011. The Company studied the use of the FullCYTE microcatheter in six patients (which study is described in more detail on pages 51 and 51) to establish the feasibility of performing next-generation tests on samples taken with the microcatheters. Additionally, the Company's scientists invented and filed a patent application to the NextCYTE technology and the Company has negotiated a one-year option to acquire commercial rights to additional NextCYTE-related technology to augment its existing position and has started researching the utility of the technology in providing superior information in the setting of cancer diagnosis and treatment selection.

The Company also established third-party relationships to perform the reimbursement billing in anticipation of the commercial launch and to permit electronic remittance of testing revenue. The Company launched a Field Test Experience limited launch of both the ForeCYTE and ArgusCYTE tests on schedule in December 2011 and has seen significant market acceptance of both tests from the doctors and clinics using the tests. The Company passed a CLIA inspection and became CLIA-certified, has obtained five state licenses and has a pending application in New York State, the only remaining state where licensure is required. Finally, the Board of Directors and scientific advisory board were each strengthened with the addition of key new executives and scientists.

The Board of Directors considered each of the foregoing achievements, and considered input from the Company's investment bankers, in determining that the value of the Company supported a valuation of $5.00 to $7.00 per share of the Company's common stock when the Company filed its initial Registration Statement on Form S-1 in February 2012.

Options issued and outstanding as of June 30, 2012 and their activities during the six months then ended are as follows:

	Number of Underlying Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life Remaining in Years
Outstanding as of January 1, 2011	608,000	$ 3.41	
Granted	19,757	6.00	
Expired	—	—	
Forfeited	—	—	
Outstanding as of June 30, 2012	627,757	3.49	5.76
Exercisable as of June 30, 2012	453,507	3.27	6.22
Vested and expected to vest(1)	627,757	3.49	5.76

(1) Includes vested shares and unvested shares after a forfeiture rate is applied.

As of June 30, 2012 and December 31, 2011, the aggregate intrinsic value of options outstanding, exercisable, and vested and expected to vest was $389,053 and $329,053, respectively.

A summary of the status of the Company's unvested shares as of June 30, 2012 and changes during the period then ended is presented below:

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2012	289,250	$ 159,013
Granted	19,757	60,000
Vested	(134,757)	(115,174)
Forfeited	—	—
Unvested as of June 30, 2012	174,250	$ 103,839

The intrinsic value of all outstanding vested and unvested options as of December 31, 2011 and June 30, 2012 based on the assumed initial public offering midpoint price of $5.00 per share and the exercise price of the outstanding options are as follows:

	December 31, 2011		June 30, 2012	
	Number of Options	Intrinsic Value ($)	Number of Options	Intrinsic Value ($)
Unvested	289,250	778,083	174,250	475,703
Vested	318,750	857,438	453,507	1,238,074

Results of Operations

Discussion of Fiscal Year Ended December 31, 2010

For the year ended December 31, 2010, we had no revenue and total expenses of $1,077,996, consisting of $119,996 in expenses for research and development, or R&D, $478,276 in expenses for legal and professional fees, $242,718 in expenses for compensation, $108,664 in expenses for consulting and $128,342 for all other general and administrative, or G&A, expenses. The R&D expenses consisted primarily of $103,750 of compensation paid to R&D management and staff, and rent of $10,971. The legal and professional expenses consisted entirely of legal and accounting fees primarily related to corporate matters, including fees incurred in connection with the prior filing of a Registration Statement on Form S-1, which was withdrawn in favor of a private placement that we completed in 2011. The all other G&A expenses consisted of $52,500 for website development and Internet expenses, $12,204 for advertising and promotion expenses, and $63,637 for other miscellaneous G&A expenses.

Discussion of Fiscal Year Ended December 31, 2011

For the year ended December 31, 2011, we had revenue of $1,500, cost of goods sold of $5,164, $92,026 in loss on reduction of inventory to lower of cost or market, and total operating expenses of $3,333,500, consisting of $3,172,649 in G&A expenses and $160,851 in selling expenses.

The revenue consisted of sales of $1,500 of our MASCT System. The cost of goods sold of $5,164 consisted of $4,158 in direct costs related to the revenue and $1,006 in non-inventory item costs of goods. The loss on reduction of inventory to lower of cost or market of $92,026 was a result of the sales price of our MASCT System being substantially lower than its cost. Our MASCT System is currently sold at a price substantially lower than its cost because the MASCT System is currently manufactured only in sufficient quantities to be utilized in our field experience trial. Because the MASCT System is being manufactured in small quantities, the manufacturing cost is higher than we expect it will be when the volume of production of our MASCT System is increased for post-trial commercial launch.

The G&A expenses consisted primarily of $486,877 in salaries and bonus expense, $431,280 in legal expense, $124,189 in consulting expense, $75,651 in accounting expense, $73,454 in travel expense, $65,784 in payroll taxes, $57,218 in licenses & permits expenses, $56,133 in professional fees, $47,103 in health insurance expense and $26,973 in business insurance. Also included in G&A expense is $1,580,749 in research and development expense, consisting primarily of $589,861 in salaries and bonus expense, $45,199 in rent expense, $75,109 in laboratory supplies, $164,631 in MASCT System development, $265,120 in ductal lavage product development, $76,405 in ductal lavage service development, $135,234 in circulating tumor cells service development, and $103,225 in patent licenses acquisition.

The selling expenses consisted of $104,401 in salaries and $56,450 in advertising.

Discussion of Six Months Ended June 30, 2012

For the six months ended June 30, 2012, we had total revenue of $277,810, consisting of $5,125 product revenue from sales of MASCT Systems and $272,685 diagnostic testing service revenue from our ForeCYTE and ArgusCYTE testing services performed. Total cost of revenue was $20,985, primarily attributable to cost of diagnostic testing services performed, which consisted of $18,470 in payments to doctors for their time administering the ForeCYTE testing service and $2,515 in shipping and packaging costs related to the delivery of test specimens from doctors to the Company. Since the inventory of MASCT System was recorded at zero net realizable value as a result of the lower of cost or market analysis performed at December 31, 2011, no corresponding cost of goods sold was recorded for the sales of MASCT System for the six months ended June 30, 2012. Gross profit was $251,700 for the diagnostic testing service and $5,125 for the product sales of MASCT System with no corresponding cost of goods sold. Loss on reduction of inventory to lower of cost or market was $23,807 for the six months ended June 30, 2012, primarily due to write-off of parts purchased during the six months for the assembly of MASCT System, which was determined at zero net realizable value as a result of lower of cost or market analysis performed at December 31, 2011 and June 30, 2012. Our MASCT System is currently sold at a price substantially lower than its cost because the MASCT System is currently manufactured by our suppliers only in sufficient quantities to be utilized in our field experience trial. Because the MASCT System is being manufactured in small quantities, the manufacturing cost allocated to each inventory unit is high. Total operating expenses were $2,460,998, consisting of G&A expenses of $2,266,731 and selling expenses of $194,267, which included $16,878 of cost of ForeCYTE and ArgusCYTE testing specimen collection kits that were immediately expensed upon purchase during the quarter. During the initial marketing phase, the Company has decided to distribute the kits to customers at no cost and bundle them with the MASCT System and has not intended to deem the kits as a primary product line due to their nominal cost and value per unit. The selling expenses also included $128,833 in salaries and $48,557 in advertising.

The G&A expenses consisted primarily of $201,698 in salaries and bonus expense, $573,098 in legal expense, $101,666 in consulting expense, $68,165 in accounting expense, $20,408 in travel expense, $62,622 in payroll taxes, $48,027 in professional fees, $30,213 in health insurance expense and $34,090 in business insurance. Also included in G&A expense is $961,535 in research and development expense, consisting primarily of $318,453 in salaries and bonus expense, $118,612 in rent expense, $24,287 in laboratory supplies,

$99,224 in MASCT System development, $306,427 in ductal lavage product development, $39,789 in ductal lavage service development and $23,773 in circulating tumor cells service development.

Comparison of the Six Months Ended June 30, 2012 and 2011

Revenue and Cost of Goods Sold. For the six months ended June 30, 2012, we had total revenue of $277,810, consisting of $5,125 product revenue from sales of MASCT Systems and $272,685 diagnostic testing service revenue from our ForeCYTE and ArgusCYTE testing services performed. This compares to total revenue of $0 for the six months ended June 30, 2011. Total cost of revenue for the six months ended June 30, 2012 was $20,985 primarily attributable to cost of diagnostic testing services performed, which consisted of $18,470 in payments to doctors for their time administering the ForeCYTE testing service and $2,515 in shipping and packaging costs related to the delivery of test specimens from doctors to the Company. Since the inventory of MASCT System was recorded at zero net realizable value as a result of the lower of cost or market analysis performed at December 31, 2011, no corresponding cost of goods sold was recorded for the sales of MASCT System for the six months ended June 30, 2012. For the six months ended June 30, 2011, total cost of revenue was $0. Gross profit for the six months ended June 30, 2012 was $251,700 for the diagnostic testing service and $5,125 for the product sales of MASCT System with no corresponding cost of goods sold. This compares to gross profit of $0 for the six months ended June 30, 2011. Loss on reduction of inventory to lower of cost or market was $23,807 for the six months ended June 30, 2012, primarily due to write-off of parts purchased during the quarter for the assembly of MASCT System which was determined at zero net realizable value as a result of lower of cost or market analysis at December 31, 2011 and June 30, 2012. Our MASCT System is currently sold at a price substantially lower than its cost because the MASCT System is currently manufactured by our suppliers only in sufficient quantities to be utilized in our field experience trial. Because the MASCT System is being manufactured in small quantities, the manufacturing cost allocated to each inventory unit is high. No loss on reduction of inventory to lower of cost or market was recorded for the six months ended June 30, 2011 due to no primary operating activities.

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.

Operating Expenses. Total operating expenses were $2,460,998 for the six months ended June 30, 2012, consisting of G&A expenses of $2,266,731 and selling expenses of $194,267, which included $16,878 of cost of ForeCYTE and ArgusCYTE testing specimen collection kits that were immediately expensed upon purchase during the quarter. During the initial marketing phase, the Company has decided to distribute the kits to customers at no cost and bundle them with the MASCT System and has not intended to deem the kits as a primary product line due to their nominal cost and value per unit. The selling expenses also included $128,833 in salaries and $48,557 in advertising. This compares to total operating expenses of $1,007,717 for the six months ended June 30, 2011, consisting of G&A expenses of $1,007,717 and selling expenses of $0. Total operating expenses increased by $1,453,281 or 144% from $1,007,717 for the six months ended June 30, 2011 to $2,460,998 for the six months ended June 30, 2012.

General and Administrative Expenses. G&A expenses for the six months ended June 30, 2012 were $2,266,731, an increase of $1,259,014 or 125% from $1,007,717 for the six months ended June 30, 2011. G&A expenses for the six months ended June 30, 2012 primarily consisted of $201,698 in salaries and bonus expense, $573,098 in legal expense, $101,666 in consulting expense, $68,165 in accounting expense, $20,408 in travel expense, $62,622 in payroll taxes, $48,027 in other professional fees, $30,213 in health insurance expense and $34,090 in business insurance. Also included in G&A expense is $961,535 in research and development expense, consisting primarily of $318,453 in salaries and bonus expense, $118,612 in rent expense, $24,287 in laboratory supplies, $99,224 in MASCT System development, $306,427 in ductal lavage product development, $39,789 in ductal lavage service development and $23,773 in circulating tumor cells service development.

G&A expenses for the six months ended June 30, 2011 were $1,007,717, and mainly consisted of $9,457 in legal and professional expenses, $174,395 in compensation expenses, $48,120 in consulting expenses, $15,121 in travel expense, $22,545 accounting expense, and $21,208 in other professional fees. Also included in G&A expense is $484,181 of R&D expense, consisting primarily of $287,470 in salaries and bonus expense, $22,369 in rent expense, $70,100 in MASCT System development, $38,810 in Ductal Lavage service development, and $50,450 in patent license acquisition.

The increase in expenses was attributed to the receipt of funding in the second quarter of 2011 from a private placement, which allowed the company to hire additional employees and begin efforts to build, market and sell the MASCT System. We expect that our G&A expenses will continue to increase if we successfully complete the offering under this prospectus as we add full-time accounting and finance personnel and incur additional costs as a publicly traded company. Additionally, G&A costs are expected to rise as we increase headcount to coordinate the production and manufacture of the MASCT System.

Liquidity and Capital Resources

We have a history of operating losses as we have focused our efforts on raising capital and building the MASCT System. The report of our independent auditors issued on our financial statements as of and for the year ended December 31, 2011 expresses substantial doubt about our ability to continue as a going concern. In 2011, we were successful in raising net proceeds of $5.7 million through a private placement in order to fund the growth of our operations and product development. Our ability to continue as a going concern is dependent on our obtaining additional adequate capital to fund additional 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, 2012, we incurred a net loss of $2,230,867. Net cash used in operating activities was $1,816,646 and net cash used in financing activities was $6,178. During the six months ended June 30, 2012 we repaid $750,000 that we previously drew on our bank line of credit. For the six months ended June 30, 2011, we incurred a net loss of $1,014,186, and net cash used in operating activities was $1,109,492.

Funding Requirements

We expect to incur substantial expenses and generate ongoing operating losses for the foreseeable future as we prepare for the scale-up manufacturing and ongoing launch of the MASCT System, complete the development of and launch the FullCYTE and NextCYTE Tests, and build and operate our planned diagnostics laboratory in the Fred Hutchinson Cancer Research Center. To fund our operations for at least the next 12 months under our current business plan, we estimate that we would need between $5 million and $7 million of additional capital. We expect that the proceeds from 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. If we are unable to raise this amount of capital, however, 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:

- the amount of capital raised in this offering;
- the time and expense needed to complete the manufacturing of the MASCT and Microcatheter Systems;
- the expense associated with building a network of independent sales representatives to market the MASCT System, ForeCYTE Test and ArgusCYTE Test; and
- the degree of patient and physician acceptance of our products and the degree to which third-party payors approve the ForeCYTE and ArgusCYTE Tests for reimbursement.

As of June 30, 2012, we have generated $279,310 in revenue. We do not expect to generate significant revenue until we are able to manufacture and launch the MASCT System more broadly. We expect our continuing operating losses to result in increases in cash used in operations over at least the next year. Although 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, we may require additional funds earlier than we currently expect to successfully commercialize the MASCT System. Because of the numerous risks and uncertainties associated with the development and commercialization of the MASCT System and our 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 and commercialization efforts.

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 would 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. Further, we may elect to raise additional funds even before we need them if we believe 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.

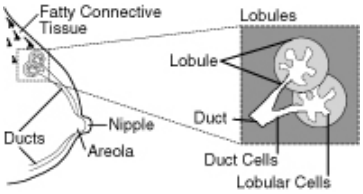
Jumpstart Our Business Startups Act of 2012

The JOBS Act permits an “emerging growth company” such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are choosing to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

SCIENTIFIC AND INDUSTRY BACKGROUND

Breast Anatomy and Nipple Aspirate Fluid Collection

The female breast has two main components: milk-producing, or glandular, tissue (lobes and ducts) and connective/fatty tissue. The breast is divided into 5 to 7 lobes that extend 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-based determination of whether cells are luminal or basal in origin aids in the sub-typing of pre-cancerous changes and cancers. 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 and dried secretions. This fluid contains several cell types, including breast duct cells that are shed, which may be normal, hyperplastic, atypical, or even malignant. The fluid also contains molecular diagnostic biomarkers, including associated proteins, complex lipids, ribonucleic acid, or RNA, and deoxyribonucleic acid, or 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 medical literature reports that in general, these devices are successful in obtaining NAF from 39% to 66% 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 Role of Atypical Ductal Hyperplasia as a Precursor to Breast Cancer

Atypical ductal hyperplasia, or ADH, is a condition in which the cells lining the breast duct grow excessively and abnormally. Without other risk factors, it produces up to 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 a clinically inapparent malignancy, or 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 40% 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.

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 incidence of each sub-type, and the treatment options available, are shown in the following table:

Molecular Subtype	Incidence	Treatment Options
Luminal 1, Basal Negative	60%	Tamoxifen, Raloxifene
Luminal 1, Basal Positive	6%	Tamoxifen, Raloxifene, EGFR inhibitors
Luminal 2, Basal Negative	6%	Tamoxifen, Raloxifene, Trastuzumab
Non-Luminal HER2+	6%	Trastuzumab
Core Basal Subgroup	9%	EGFR inhibitors
Five Negative Phenotype	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 Role of NAF Cytology and IHC 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 Surgery* in October 2009, the incidence of ADH was found to be 4.4%. A separate study conducted in 2003 of 824 women found an incidence of ADH of 7.4% by biopsy. 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, the incidence of biopsy-proven ADH was 0.1%, suggesting that the use of biopsies in conjunction with screening mammography fails to detect ADH in over 97% 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 4,046 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, the women were classified according to the most severe epithelial cytology observed in fluid specimens, and breast cancer incidence through March 1999 was determined. 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%. A separate study of raloxifene versus placebo showed a 72% reduction in cancer incidence at four years and a 66% reduction at eight years in women at high risk for invasive breast cancer.

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.

Risk Stratification with Duct Cytology

Breast cancer risk stratification is becoming increasingly important as additional screening and prevention options are now available for women at different levels of risk. For example, use of screening breast MRI, tamoxifen chemoprevention, and genetic counseling and testing for hereditary breast cancer are appropriate for some women at increased susceptibility. The National Comprehensive Cancer Network, or NCCN, sets risk thresholds as: “Normal Risk,” defined as less than 15% lifetime risk; “Intermediate Risk,” as 15-20% lifetime risk; and “High Risk,” as greater than 20% lifetime risk.

The ForeCYTE Breast Health Test uses an established algorithm based on family history (including cousins with breast cancer and unaffected female relatives), personal medical data (including height (premenopausal) and BMI (postmenopausal) and use of hormone replacement therapy, and ductal cytology to provide estimates of BRCA1/2 mutation probability in addition to empiric age adjusted 10-year and lifetime breast cancer risk. In contrast, other algorithms use only atypia, hyperplasia, or lobular carcinoma in situ to

increase the risk estimate in the model. Our model was developed using previously published data on the effects of familial and personal risk factors. Genetic risk is predicted assuming two autosomal-dominant loci — BRCA1/2 and a hypothetical low-penetrance dominant gene. The relative risk based on personal factors is used to adjust the calculated genetic absolute risk via a proportional hazard model. According to a peer-reviewed study published in *Oncology Genetics* in August 2009, this algorithm appeared the most consistently accurate for the prediction of breast cancer.

The Role of Ductal Lavage in Assessing Women at High Risk of Breast Cancer

Ductal lavage is a washing procedure that can remove fluid found in the individual breast ducts. The procedure involves inserting a small catheter into the ductal openings in the nipple and washing out cells from inside the duct. The cells are then analyzed to assess if they are normal or abnormal and the fluid can be tested for biomarkers of pre-cancerous and cancerous changes. We are conducting research using next-generation sequencing techniques to examine the genomic changes that occur in pre-cancerous hyperplasia and DCIS in the cells obtained from lavage fluid. Based on the generally accepted hypothesis that each of the five to seven breast ducts arises from a single cell during fetal development and is thus clonally distinct, breast cancer can be thought of as a “sick duct” disease. Knowing which duct is affected by precursors to breast cancer is the requisite diagnostic information to treating the condition with intraductal therapy. An October 2011 report from the Johns Hopkins Medical School demonstrated prevention of breast cancer in rats with intraductal but not systemic chemotherapy and the successful treatment of 17 women with breast cancer who subsequently received surgery.

Predicting Treatment and Recurrence Using Tumor Tissue Transcriptome Data

Gene expression is a measure of a gene’s activity, which is determined by the number of times it is transcribed into mRNA and finally by the protein it encodes. A snapshot of a tissue’s global gene activity (or expression) is captured by DNA microarray technology, by reverse transcription polymerase chain reaction, or RT-PCR, or by RNASeq, also called Whole Transcriptome Shotgun Sequencing, and is called a transcriptome. Lists of genes associated with prognoses, responses to various treatments or phenotypes, are called “gene profiles” or “gene signatures.” The four major test platforms used for detecting gene profiles are immunohistochemistry (IHC), fluorescent in situ hybridization (FISH), quantitative reverse transcriptase polymerase chain reaction (qRT-PCR), and cDNA microarray (quantitative cDNA detection). While the former two platforms are semiquantitative and well established for detection of ER and HER2 status at low costs, the latter two are quantitative methods that require complex statistical methods to avoid false discovery. These two methodologies provide highly standardized and reproducible outcomes of uncertain prognostic value at this point. In addition, IHC has the advantage of directly measuring protein expression, not just mRNA copy numbers, and it provides a visualization of the difference of protein localization and modification, which gene profiling cannot.

Breast cancer is a complex disease characterized by a number of genetic and epigenetic abnormalities. Patients associated with similar clinical and pathological parameters may have very different tumor profiles at the molecular level and may respond differently to treatment. Genome-wide expression profiling of tumors has become an important tool to identify gene sets and gene signatures that can be used to predict clinical endpoints, such as survival and therapy response. A number of tumor classification algorithms based on gene expression profiles have been proposed using clinical data or known biological class labels to build predictive models for outcome: the 70-gene signature MammaPrint, the 16-gene signature of Oncotype Dx, and the Genomic Grade Index.

In a peer-reviewed publication in *PLoS One* in March 2011, a statistical framework to explore whether combination of the information from such sets may improve prediction of recurrence and breast cancer specific death in early-stage breast cancers was established. Microarray data from two clinically similar cohorts of breast cancer patients are used as training (n = 123) and test set (n = 81), respectively. Gene sets from eleven previously published gene signatures are included in the study.

Combining the predictive strength of multiple gene signatures improved prediction of breast cancer survival.

Monitoring Recurrence and Assisting Treatment Decisions from Analysis of Circulating Tumor Cells

Among women with early breast cancer, the presence of circulating tumor cells (cancer cells in the bloodstream, which are also called CTCs) increased the risk of cancer recurrence and shortened survival. Among women with metastatic breast cancer (cancer that has spread to other sites in the body), detection of cancer cells in the bloodstream has been linked with shorter time to cancer progression and shorter survival.

To evaluate the impact of CTCs among women with early breast cancer, researchers evaluated more than 2,000 patients. The test to detect CTCs was performed after surgery and before the start of chemotherapy. CTCs were detected in 21.5% of patients. Women with CTCs were more likely to have node-positive breast cancer than women without CTCs. Compared with women with no CTCs, women with one to four CTCs were almost twice as likely to experience cancer recurrence and death. The presence of five or more CTCs was linked with a fourfold increase in recurrence risk and a threefold increase in risk of death. These results suggest that detection of CTCs may provide information about recurrence risk and prognosis among women with early breast cancer.

CTCs may also be an indicator for therapeutic efficacy. During chemotherapy the continuous appearance of CTCs in blood would only occur if there was a persistent proliferation process. This may be halted with a successful therapy (stable disease) or might even be reduced (remission). There, the source of CTCs and their dissemination would have been removed, which is then associated with the disappearance of CTCs from blood.

BUSINESS

Overview

We are a healthcare company focused on the prevention of breast cancer through the commercialization of diagnostic tests that can detect precursors to invasive breast cancer, and through the research, development, and ultimate commercialization of treatments for pre-cancerous lesions.

Our diagnostic tests consist of FDA-cleared and patented medical devices that can collect fluid and tissue samples from the breast milk ducts, where, according to the National Cancer Institute, over 95% of breast cancers arise. These samples are processed at our CLIA-certified laboratory, the National Reference Laboratory for Breast Health, which examines the specimens by microscopy for the presence of normal, pre-malignant, or malignant changes as determined by cytopathology and biomarkers that distinguish "usual" ductal hyperplasia, a benign condition, from atypical ductal hyperplasia, which may lead to cancer. These cytopathological results provide patients and physicians with information about the care path that should be followed, depending on the individual risk of future cancer as determined by the results.

Additionally, we are conducting research on the treatment of these pre-cancerous cells by using our patented and FDA-cleared microcatheters to deliver, directly into the milk ducts, pharmaceutical formulations that can be used to treat these pre-cancerous lesions. By using this localized delivery method, patients are expected to receive high local concentrations of these drugs at the site of the pre-cancerous lesions, potentially promoting efficacy of the treatment while limiting systemic exposure, which has the potential to lower the overall toxicity of these treatments.

Our Diagnostic Tests

We currently offer two diagnostic tests and plan to offer two additional tests by the end of 2012 or beginning of 2013. The tests that we currently offer and that are in development consist of the following:

ForeCYTE The ForeCYTE Breast Health Test, launched in December 2011, provides personalized information about the 10-year and lifetime risk of breast cancer for women between ages 18 and 65. It involves collecting a specimen of nipple aspirate fluid, or NAF, using our patented, FDA-cleared *Mammary Aspirate Specimen Cytology Test*, or MASCT, System (our MASCT System received 510(k) clearance from the FDA in 2003). The NAF specimen is collected by a physician and returned to our CLIA-certified laboratory. We study the patient's NAF specimen and use a proprietary molecular and cellular biomarker test that detects basal or luminal cells to identify the presence of atypical ductal hyperplasia, or ADH, which is considered a precursor to breast cancer. We then input these cytopathological test results, together with the patient's personal medical and reproductive history and family history, into a clinically-validated risk assessment algorithm that calculates 10-year and lifetime risk of breast cancer and presents these results in one of three risk tiers developed by The National Comprehensive Cancer Network: Normal (<15% lifetime risk), Intermediate (15 – 20% lifetime risk), or High (>20% lifetime risk). The ForeCYTE Test results contain recommendations for care paths in each risk group and personalized information so that patients and healthcare providers can make more informed treatment decisions. The algorithm was developed from a Swedish registry of 158,041 individuals, in whom 3,257 cancers occurred, and was validated by E. Amir, D.G. Evans, A. Shenton, and others in an independent study of 3,150 women, 64 of whom developed breast cancer. The algorithm incorporates family history, personal reproductive history, and the presence or absence of usual ductal hyperplasia, or UDH (which is benign), ADH (which is pre-malignant), or malignant changes. The present methods used by pathologists to analyze traditional biopsy specimens, i.e., microscopy and, when needed, immunohistochemistry, are the same methods used to analyze ForeCYTE specimens and would be expected to achieve similar results for patients with similar medical conditions.

ArgusCYTE The ArgusCYTE Breast Health Test, launched in December 2011, provides information to help inform breast cancer treatment options and to help monitor potential recurrence. It involves collecting a blood specimen from a patient using our patented, FDA 510(k)-Exempt blood collection tube and submitting it to our CLIA-certified laboratory (our ArgusCYTE Breast Health Test blood collection tube was registered with the FDA in 2011). It can monitor breast cancer distant recurrence by obtaining a "liquid biopsy" or blood sample, and analyzing it for the presence of circulating tumor cells, which can then be analyzed to determine the expression of ER/PR and Her2 in those cells, a predictor of the cancer's sensitivity to existing treatment options. The presence of circulating tumor cells in the blood sample may serve as an early indicator of the recurrence of breast cancer and the data obtained from the ArgusCYTE sensitivity analysis may help physicians better select which treatment options to use with a particular patient. The ArgusCYTE test uses a proprietary blood collection tube to obtain a blood sample for shipment and analysis at our CLIA-certified laboratory. The supplier of the blood collection tube owns patents with respect to the tube, while we own patents concerning laboratory features utilized in the testing process. Because the ArgusCYTE test involves the collection of a blood sample to be analyzed for the presence of circulating tumor cells, there is no comparable method relating to the analysis of traditional biopsy specimens that could be used to achieve results similar to or better than those provided by our ArgusCYTE test.

FullCYTE The FullCYTE Breast Health Test, which we intend to launch in early 2013 and is currently in development, is designed to assess the individual breast ducts for pre-cancerous changes in women previously identified to be at high risk for breast cancer. It involves collecting ductal lavage samples from each of the 5 to 7 individual breast milk ducts using our patented and FDA-cleared Mammary Ductal Microcatheter System (our Microcatheter System received 510(k) clearances from the FDA in 1999 and 2000) and analyzing the samples by the same molecular and cellular biomarkers used in the ForeCYTE test described above. From these tests, we are able to ascertain which individual duct contains pre-malignant or malignant changes, which may allow the physician to better target treatment to the specific duct with the pre-malignant changes or malignant changes and therefore avoid side effects associated with systemic treatment. Traditional biopsies, involving invasive procedures in which tissue is removed surgically, typically cut across the natural anatomy of the breast ductal system, making subsequent intraductal treatment difficult or, in certain cases, impossible. The present methods used by pathologists to analyze traditional biopsy specimens, i.e., microscopy and, when needed, immunohistochemistry, are the same methods used to analyze FullCYTE specimens and would be expected to achieve similar results for patients with similar medical conditions.

NextCYTE The NextCYTE Breast Cancer Test, which is in the prevalidation phase and which we intend to launch in early 2013, is designed to profile breast cancer specimens for prediction of treatment outcomes and distant recurrence in women newly diagnosed with breast cancer. It involves using surgery specimens and advanced genome sequencing techniques to quantify and analyze the entire tumor genetic transcriptome, which represents all genes that are being actively expressed within the tumor. Because our NextCYTE test analyzes traditional biopsy specimens using advanced genome sequencing techniques, we believe that other present methods of analyzing traditional biopsy specimens would not achieve results similar to or better than results provided by our NextCYTE test and we expect that physicians will be able to use the information provided by the NextCYTE test to better customize treatment options for women, based on the genetic composition of the individual tumor. We are currently conducting non-clinical trial research to verify the superiority of the technology regarding NextCYTE by profiling gene expression from breast cancer biopsy specimens obtained from commercial archival tissue banks, in which the five-year survival or death for the patients from whom the specimens are taken is known, and seeing if the algorithm can accurately predict the known outcome. The experiments are being conducted in a blinded fashion, without knowledge of the survival data, and we will not have knowledge of the outcome until the blind is broken (currently planned for February 2013). We own a pending PCT patent application on the NextCYTE technology to the use of full transcriptome analysis of 22,000 human genes in predicting breast cancer recurrence and have an option through February 2013 to license additional technology (specifically certain algorithms involving over 900 of these genes) to augment our existing technology from the University of Oslo in Norway. We do not believe this additional technology is essential to the operation or future development of the NextCYTE test, should we decide not to exercise this option.

Our Diagnostic Tools In September 2012, we acquired the assets of Acueity Healthcare, Inc. The assets included six 510(k)-cleared medical devices, 35 issued patents (18 issued in the U.S. and 17 issued in foreign countries) and 41 patent applications (32 in the U.S. and 9 in foreign countries). The FDA-cleared, patented medical devices consist of microendoscopes, light sources, and biopsy tools. The microendoscopes are less than 0.9 mm outside diameter and can be inserted into a milk duct. This permits a physician to pass a microendoscope into the milk duct system of the breast and view the duct system via fiberoptic video images. Abnormalities that are visualized can then be biopsied from inside the duct with the biopsy tools that are inserted adjacent to the microendoscope. The patents relate to intraductal diagnostic and therapeutic devices and methods of use. We did not, however, acquire an inventory of these diagnostic tools, manufacturing capabilities or any personnel to market and sell the tools. We intend to complete the steps necessary to begin marketing and selling these tools, such as securing manufacturers, in late 2013; we cannot, however, provide any assurances that we will ultimately be successful selling these tools.

We may not, however, achieve commercial market acceptance of any of our products and services. We must first demonstrate to physicians and other healthcare professionals the benefits of our tests and the MASCT System for their practice and these physicians and healthcare professionals may be reluctant to introduce new services into their practice due to uncertainty regarding reliability of the results of a new product or the learning curve associated with adoption of new services and techniques. Moreover, if third-party payors continue to refuse to cover the cost of collection of the NAF sample, whether from our MASCT System or competitors' NAF collection devices, physicians may be less likely to recommend or use our products and services if the cost of performing a particular test will not be reimbursed. Even if we are successful in convincing physicians and other healthcare professionals to utilize our tests and services, we must obtain adequate capital to fund our operations until we become profitable and we may not be able to do so. Additionally, we have no prior experience with commercializing any products or services and will need to create an infrastructure to scale operations for commercialization, including hiring experienced personnel

(including anatomic pathologists, cytologists, histotechnologists, skilled laboratory and information technology staff, and sales representatives) and building a network of regional, specialty distributors, each with a staff of independent sales representatives who have experience in women's health products to target physicians and mammography clinics in the United States.

Intraductal Treatment Research

Our Intraductal Treatment Research Program comprises our patented microcatheter-delivery technology and our patented pharmaceutical formulations for the intraductal treatment of breast pre-cancerous changes, DCIS, and breast cancers. The method uses our Mammary Ductal Microcatheter System, invented by Dr. Susan Love, President of the Dr. Susan Love Research Foundation, and her colleagues, to administer proprietary pharmaceutical formulations into milk ducts that display pre-cancerous changes, with high local concentrations of the drugs in order to promote greater efficacy and limited systemic exposure, potentially lowering the overall toxicity of the treatment.

An October 2011 peer-reviewed paper published in *Science Translational Medicine* documented a study conducted at the Johns Hopkins Medical School demonstrating the prevention of breast cancer in rats with intraductal non-systemic chemotherapy, and a proof-of-principle Phase 1 clinical trial involving 17 women with breast cancer who subsequently received surgery. An accompanying editorial commented that "intraductal treatment could be especially useful for women with premalignant lesions or those at high risk of developing breast cancer, thus drastically improving upon their other, less attractive options of breast-removal surgery or surveillance (termed 'watch and wait')". We intend to build on these academic studies with a research program targeted initially at neoadjuvant therapy in DCIS and to begin preclinical studies during 2012. We have not yet begun the process of applying for FDA approval of our Intraductal Treatment Research Program.

Intellectual Property and FDA Marketing Clearances

As of the date of this prospectus, we own 179 issued patents (56 in the United States and 123 in foreign countries), and 50 pending patent applications (38 in the United States, 11 pending foreign applications and 1 pending International Patent Cooperation Treaty (PCT) application) directed to our products, services, and technologies. We have eleven 510(k)-cleared medical devices and two 510(k)-exempt medical devices.

Clinical Development and FDA-clearance of the MASCT System

Under the direction of Steven 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 and to observe the morphology of breast gland cells in the NAF (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.
Category I	Normal ductal cytology	Normal ductal epithelial cells.
Category II	Usual ductal hyperplasia	Cell groups with >10 – 50 cells.
Category III	Atypical ductal hyperplasia	Distinct large nuclei with irregular nuclear borders.
Category IV	Suspicious for malignancy	Single cells and groups of cells suspicious for cancer.

Of the 31 subjects, 30, or 97%, had measurable NAF; 24 from both breasts and six from only one breast. NAF samples ranged from less than one to 37 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 and subsequently

cleared by 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 ForeCYTE Breast Health Test

The ForeCYTE Test uses the patented, FDA-cleared MASCT System medical device for the collection, shipment and clinical laboratory analysis of NAF. The ForeCYTE test involves cytopathology and five biomarkers of hyperplasia and one biomarker of sample integrity and has been validated to CLIA standards. The product components of the MASCT System consist of a reusable hand-held pump for the collection of NAF, single-use patient kits that include two NAF sample collection tools per kit, and shipment boxes for the transportation of NAF samples to the National Reference Laboratory for Breast Health, our wholly-owned, CLIA-certified specialized cytology and molecular diagnostics laboratory in Seattle, Washington. Through our laboratory we provide the ForeCYTE Test, which consists of receiving and accessioning the two NAF samples from each patient, preparing routine and immunohistochemistry, or IHC, staining of slides from the NAF samples, and generating a report of the findings. The NAF is analyzed by microscopy for cytological abnormalities and by a patent-pending IHC staining technique for five biomarkers of hyperplasia and a sample integrity marker.

We offer each component of the MASCT System for sale separately. We currently price our NAF sample collection device at approximately $250 per device and our patient kits at approximately $30 per kit, and the cytology and molecular diagnostics testing and analysis services are billed to federal and/or state health plans at the 2012 Medicare reimbursement rates of either $384 or $1,275 per patient, depending on the complexity of the analysis performed. We expect that the substantial majority of patients will be billed at the $384 rate and that we would perform the more complex tests, corresponding with a reimbursement rate of $1,275, for only those patients who have an initial test result that requires further analysis. We have billed the testing and analysis regarding the 956 ForeCYTE samples processed through June 30, 2012 (which is equivalent to 478 patients) at the 2012 Medicare reimbursement rate of $384 per patient. We bill third-party payors at higher rates, as is customary for our industry. Currently, Medicare and certain insurance carriers do not reimburse for the NAF collection procedure by our MASCT System or for other NAF collection device systems similar to our MASCT System, although Medicare and certain insurance carriers do reimburse for the laboratory analysis of the NAF sample. We have received reimbursement from insurance carriers and Medicare for our ForeCYTE test.

In September 2012, we entered into an agreement with MultiPlan, Inc. (“MultiPlan”), a leading provider of healthcare cost management solutions, for diagnostic laboratory testing involving our tests. Approximately 20% of Americans are covered by MultiPlan. Our agreement with MultiPlan will give MultiPlan’s participating providers and their patients access to our tests, including the ForeCYTE Breast Health Test.

The ArgusCYTE Breast Health Test

The ArgusCYTE test has been tested and validated and provides information to help inform breast cancer treatment options and to help monitor potential recurrence. It uses a proprietary blood collection tube to obtain a blood sample for shipment and analysis at the NRLBH. In June 2011, we entered into a non-exclusive supply agreement with Biomarkers LLC for the blood collection tubes and laboratory reagents and supplies for the ArgusCYTE test. The agreement provides for fixed purchase prices which decrease as we place larger orders. The ArgusCYTE test consists of a two-step “Combination-of-Combinations-Principle” involving (1) cell isolation, whereby tumor cells are enriched by a three antibody-mix linked to magnetic particles and mRNA is isolated from the selected tumor cells, and (2) molecular biological detection and analysis, whereby the isolated mRNA is transcribed into cDNA and a multiplex PCR is carried out for the analysis of epithelial cell related transcripts and tumor associated gene expression. Due to the combination of different selection and tumor markers, both the heterogeneity of the tumor cells and possible individual or therapy-induced deviations in the expression patterns are taken into account.

As far as we know, the ArgusCYTE is the only CLIA-certified circulating breast tumor cell test available that identifies mRNA expression levels for estrogen receptors (ER), progesterone receptors (PR), and HER-2 antigen in a single blood draw to help guide treatment selection by determining which of the most commonly used therapies may be effective for the individual patient. The test can identify circulating tumor cells immediately after a woman begins breast cancer therapy or at the time of diagnosis or biopsy so that she

and her healthcare provider can make better-informed decisions about effective treatment options. Analytical validation studies demonstrated a sensitivity of 94% and specificity of 100% at the 5 cancer cell/5 mL blood sample level (n=106). Clinical validation has been performed by unaffiliated research institutions in breast cancer patients in trials in Europe and the United States over the last eight years.

We provide the proprietary, blood collection tube free of charge and currently charge approximately $1,500 for the ArgusCYTE test. Because we do not currently have a sufficiently reliable prior history of reimbursement with respect to the ArgusCYTE test, we currently do not recognize revenue until we have received reimbursement. We have billed the testing and analysis regarding the 41 ArgusCYTE samples processed through June 30, 2012 at $1,500 per patient. We have received reimbursement from insurance carriers for our ArgusCYTE test.

In September 2012, we entered into an agreement with MultiPlan, a leading provider of healthcare cost management solutions, for diagnostic laboratory testing involving our tests. Approximately 20% of Americans are covered by MultiPlan. Our agreement with MultiPlan will give MultiPlan's participating providers and their patients access to our tests, including the ArgusCYTE Breast Health Test.

The FullCYTE Breast Health Test

The FullCYTE Breast Health Test uses our patented, FDA-cleared Mammary Duct Microcatheter System, invented by Dr. Susan Love, author, breast surgeon, and founder of the Dr. Susan Love Research Foundation, Santa Monica, California to lavage, or irrigate, each of the five to seven breast ducts and to collect the lavage fluid for analysis of biomarkers of hyperplasia by immunohistochemistry for protein biomarkers, Next Generation Sequencing for somatic DNA mutations, and transcriptome microarray analysis for mRNA expression patterns.

In April 2011 we acquired from Hologic, Inc. all of the ownership rights to the U.S. trademark, FirstCYTE, the 23 U.S. issued patents and 84 issued foreign counterparts (in Europe, France, Germany, Ireland, United Kingdom, Australia, Canada, Israel, Italy, The Netherlands, Spain, and Switzerland) covering the manufacture, use, and sale of the FirstCyte™ Breast Aspirator, the Micro-Stylet Dilator, and the FullCYTE Microcatheter for ductal lavage, the related manufacturing documentation, and the related regulatory documentation, including the FDA marketing authorization for these medical devices. We also paid an up-front fee and are obliged to pay patent-based royalties between 2% and 6% on aggregate net sales in the countries with issued patents. The FDA-cleared indications for use of the Breast Aspirator are to elicit fluid from multiple ductal orifices for subsequent cytological evaluation and/or to identify ductal orifices for subsequent cannulation with the microcatheter. The FDA-cleared indication for use of the Micro-Stylet Dilator is to dilate breast milk ducts prior to enhanced radiography (i.e., ductography) or ductal lavage procedures. The FDA-cleared indication for use of the microcatheter is to perform contrast enhanced radiography of breast milk ducts; it may also be used for the collection of cells and/or fluid for cytological analysis.

This project is in the research and development phase, and the Company has studied the use of the FullCYTE microcatheter in six patients to establish the feasibility of performing next-generation tests on samples taken with the microcatheters. The purpose of the study was to see if ductal lavage specimens provided sufficient quantities of DNA and RNA to perform full genome sequencing and transcriptome profiling. All specimens from the six patients contained sufficient, high-quality DNA and RNA to proceed to sequencing and transcriptome profiling. Results are expected in the fourth quarter of 2012 and the Company intends to launch the FullCYTE test in early 2013.

In August 2011, we entered into an agreement with Accellent to perform development work to re-establish the supply chain for the FullCYTE microcatheter and manufacture the microcatheter for commercialization. The agreement divided the development work into three phases with a fixed time and budget for each phase. In aggregate, the budget to complete all phases is approximately $713,000. The agreement also contains a fixed price schedule for manufacturing the microcatheter following commercial launch. The price schedule contains a volume-based reduction in the cost per microcatheter.

The NextCYTE Breast Cancer Test

The NextCYTE Breast Cancer Test uses surgical biopsy specimens that have been routinely processed into formalin-fixed, paraffin embedded tissue blocks to extract RNA and analyze the whole-genome mRNA

expression profiles of the extracted RNA to predict breast cancer 10-year survival. The method combines eleven published gene signatures, including over 900 breast cancer-related genes. In a March 2011 publication of the technology, training (n=123) and test (n=81) cohorts of breast cancer patients were analyzed by the method and the resulting algorithm outperformed all individual gene signatures, including a 16-gene test and a 70-gene test, in predicting 10-year recurrence. Our scientists made inventions regarding this technology and have filed a PCT patent application related to the NextCYTE test to the use of full transcriptome analysis of 22,000 human genes in predicting breast cancer recurrence. We are conducting research to verify the superiority of the technology and have a one-year option to license additional technology (specifically certain algorithms involving over 900 of these genes) from the University of Oslo in Norway. In February 2012 we signed a term sheet with Inven2 AS for an option to acquire and commercialize intellectual property from the University of Oslo and a term sheet containing the principal terms of a definitive license agreement. The definitive agreement contains signing and milestone payments in an amount up to $50,000 in the aggregate (not including a potential milestone payment of $15,000 per country upon reaching a pre-determined performance milestone in each country in which the test is marketed), as well as royalties in the mid single digits on the service revenue from the NextCYTE test as a percent of net income and minimum annual royalties in the high tens of thousands for 2012 and between $100,000 and $200,000 for 2013 and after. If we exercise this option and license the technology, we would be required to pay the University of Oslo an up-front fee, milestone payments, and an annual royalty on the service revenue from the NextCYTE test as a percent of net income. We do not believe this additional technology is essential to the operation or future development of the NextCYTE test, should we decide not to exercise this option.

Our operations began in December 2008 around acquiring the MASCT System patent rights and assignments and the FDA clearance for marketing, which was completed in January 2009. We were incorporated in Delaware in April 2009. Our operations to date have consisted primarily of securing manufacturing for the MASCT and the Mammary Duct Microcatheter Systems, establishing our CLIA-certified laboratory, validating the Laboratory Developed Tests we use in the ForeCYTE and ArgusCYTE tests, conducting research and development on the FullCYTE and NextCYTE tests, and preparing for the commercialization of our products.

Our Diagnostic Tools

On September 30, 2012, we acquired substantially all of the assets of Acueity Healthcare, Inc. (“Acueity”). The acquisition was effected through an asset purchase in which we acquired 35 issued patents (18 issued in the U.S. and 17 issued in foreign countries) and 41 patent applications (32 in the U.S. and 9 in foreign countries), and six 510(k) FDA marketing authorizations related to the manufacturing, use, and sale of the Viaduct Miniscope and accessories, the Manoa Breast Biopsy system, the Excisor Bioptome, the Acueity Medical Light Source, the Viaduct Microendoscope and accessories, and cash in the amount of $400,000; no liabilities were assumed in the transaction. In consideration for the assets, we issued 862,500 shares of common stock and warrants to purchase up to 325,000 shares of common stock at an exercise price of $5.00 per share, subject to a six-month lock up agreement. The warrants, which have a five-year term, do not have a cashless exercise provision. There are no future financial obligations from us to Acueity from the commercialization of the acquired assets. As of the date of this prospectus, we are in the process of completing the valuation of the common stock and warrants issued.

The acquired patents and patent applications relate to intraductal diagnostic and therapeutic devices and methods of use. The microendoscopes are less than 0.9 mm outside diameter and can be inserted into a milk duct. This permits a physician to pass a microendoscope into the milk duct system of the breast and view the duct system via fiberoptic video images. Abnormalities that are visualized can then be biopsied from inside the duct with the biopsy tools that are inserted adjacent to the microendoscope.

We did not, however, acquire an inventory of these diagnostic tools, manufacturing capabilities or any personnel to market and sell the tools. We intend to complete the steps necessary to begin marketing and selling these tools, such as securing manufacturers, in late 2013. Acueity never achieved commercial success with these products and we have no experience marketing and selling diagnostic tools; we therefore may not be successful commercializing them.

The Market

United States Market for ForeCYTE Test

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.

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 39.0 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 American Cancer Society, or 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.

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 12 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 detected by NAF cytology ranged from 5.3 to 10.3 per 1,000 women (non-yielder to hyperplasia/atypia).

Breast cancer risk stratification

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 for breast cancer risk stratification would be between 39.3 million and 55 million women. This conclusion is based on the following data:

MASCT System in conjunction with mammography, all ages. According to the Mammography Quality Standards Act (MQSA) National Statistics, the total annual mammography procedures in the United States, as of January 1, 2012, was 39,311,535.

MASCT System in conjunction with cervical cancer screening (Pap smear), all ages. According to the National Cancer Institute as of December 2011, approximately 55 million Pap smear examinations are performed annually in the United States.

United States Market for ArgusCYTE Test

Breast Cancer Survivors. The ACS has estimated that in 2010 there were more than 2.5 million breast cancer survivors, who we believe would be potential candidates for a blood test for circulating tumor cells.

Newly diagnosed breast cancer patients. According to the National Cancer Institute, 210,000 women are diagnosed with breast cancer each year. These women would be candidates for a blood test for circulating tumor cells during the staging of their tumor and as a method to monitor treatment effects.

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, 2012 Medicare reimbursement rates for the anatomic pathology services of the type that the Company expects to perform are either $384 or $1,275 per patient. The patient fee schedule for self-pay or private payors for these tests is typically higher.

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 2011 for microarray-based molecular diagnostics tests is $1,250, while the reimbursement rate for fluorescent cellular probe-based tests is $479 per probe. According to PriceWaterhouseCoopers, this market segment is expected to grow 14% annually between 2007 and 2012, from $2.6 billion to $5.0 billion.

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, including the NAF specimen collection kits, 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 revenue from both the sale and the use of the MASCT System.

In order to achieve its two-pronged revenue base, the Company manufactures, through medical device suppliers, the MASCT System components (i.e., the collection device and patient NAF specimen kits) and will establish a network of independent sales representatives 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's product- and service-based income plan is intended to provide revenue from multiple, different sources with different timing in the procedure cycle. The Company expects to generate product revenue from the sale of kits in bulk to clinics and physicians for the testing of their patients, and laboratory service revenue after its laboratory analyzes the results of these tests and renders a diagnosis.

Specialty Sales Team

To market the MASCT System and its related laboratory diagnostic services, the Company will need to hire independent 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.

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 physician address

information, patient demographic information, and other data. The Company also expects to use the FDA website containing contact information on the approximately 8,600 MQSA-certified clinics to identify potential clients.

In September 2012 we entered into a co-exclusive marketing agreement with Diagnostic Test Group (DTG) for the supply and distribution of the MASCT System, under the DTG Clarity brand. Under the terms of the agreement, we granted to DTG the co-exclusive right to sell and distribute our MASCT breast health test in the Territory (U.S., Canada, and Puerto Rico, with other territories available with written consent). We retain co-exclusive rights to sell and distribute the MASCT breast health test in the Territory under the terms of the agreement. DTG has agreed to purchase all breast health tests only from us during the term of the agreement. DTG also has a 30-day right of first refusal for the co-exclusive right to sell our other products on terms and conditions to be negotiated by us and DTG. The term of the agreement is a rolling six years, with automatic extension if DTG achieves its annual minimum sales requirements. Following an initial launch period, minimum sales have been set for the first 12-month period.

Under the terms of the agreement, DTG will purchase the MASCT System from us at a fixed price and will use its best efforts to market and sell the MASCT System, including establishing product codes and contracted agreements, if these are deemed necessary by DTG, for the sale and placement of the Clarity branded MASCT product line with the following distributors: Henry Schein, McKesson, PSS World Medical, Cardinal Health, VWR, Vaxserve, Mercedes Medical, Fisher, NDC members, Imco members, B&H Surgical, Marshall Medical and Cascade HealthCare Products. These distributors have collectively over 5,000 employee sales representatives and/or independent sales representatives selling their products.

We will coordinate the sales and marketing effort, plan, and budget with DTG, with us paying agreed expenses, as well as a marketing and sales fee that is less than 10% of the Medicare reimbursement rate for the ForeCYTE test. DTG earns warrants in Atossa common stock based on a low, double-digit percentage of the annual number of ForeCYTE tests performed by the National Reference Laboratory for Breast Health, priced at the fair market value on the date of issuance, with a maximum number of warrants issuable under the life of the agreement equal to 1,000,000 shares of common stock.

We currently plan to launch the ForeCYTE Breast Health Test with DTG under DTG's Clarity brand name by the end of the calendar year 2012. DTG and its distributors, however, may not be successful in selling the Clarity branded MASCT product line and we may not achieve any level of commercial success from their efforts.

The National Reference Laboratory for Breast Health

The Company has established the National Reference Laboratory for Breast Health, a wholly-owned CLIA-certified clinical laboratory for the cytology and molecular diagnostics testing and reading of results of collected NAF samples and ArgusCYTE blood samples. The Company believes that by maintaining its own clinical laboratory, it will be positioned to generate substantial additional service revenue through cytology and molecular diagnostic testing, in addition to the sale of the MASCT System pumps and specimen collection kits.

The Company has established 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 also participates in externally administered quality surveillance programs.

Growth Strategy

The Company launched the ForeCYTE and ArgusCYTE Tests at the end of the fourth quarter of 2011. The Company markets to both mammography clinics and physicians' offices. The Company is conducting a field experience trial to collect information about the ease or difficulty of adoption of the products in each location, the number of sales calls needed to receive the first orders, and the growth of sales of specimen

collection kits on a monthly basis. The outcome of the Company's initial marketing efforts in this region will impact the Company's national marketing strategies, for example, we may decide to emphasize physicians' offices over mammography clinics.

The Company plans to market the MASCT System nationally after its field experience trial, which provides the Company with feedback on the patient and physician experiences, as well as with information relating to the issues and problems that may arise as the Company continues to market its products.

Research and Development

Our Intraductal Treatment Research

Our Intraductal Treatment Research Program comprises our patented microcatheter-delivery technology and our patented pharmaceutical formulations for the intraductal treatment of breast pre-cancerous changes, DCIS, and cancers. The method uses our Mammary Ductal Microcatheter System, invented by Dr. Susan Love, President of the Dr. Susan Love Research Foundation, and colleagues, to administer proprietary pharmaceutical formulations into a milk duct displaying pre-cancerous changes, with high local concentrations that promote efficacy and limited systemic exposure, potentially lowering toxicity.

An October 2011 peer-reviewed paper in Science Translational Medicine from the Johns Hopkins Medical School demonstrated the prevention of breast cancer in rats with intraductal but not systemic chemotherapy and a proof-of-principle Phase 1 clinical trial involving 17 women with breast cancer who subsequently received surgery. An accompanying editorial commented that "intraductal treatment could be especially useful for women with premalignant lesions or those at high risk of developing breast cancer, thus drastically improving upon their other, less attractive options of breast-removal surgery or surveillance (termed 'watch and wait')". We intend to build on these academic studies with a research program targeted initially at neoadjuvant therapy in DCIS and to begin preclinical studies using our Microcatheter delivery technology during 2012. We have not yet begun the process of applying for FDA approval of our Intraductal Treatment Research Program.

Billing and Reimbursement

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

Medicare and certain insurance carriers do not currently cover the cost of collecting the NAF sample. The Company intends to work with physicians and other interest groups to attempt 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

Although Medicare and certain insurance carriers do not currently cover the cost of collecting the NAF sample, Medicare and certain insurance carriers do reimburse for the laboratory analysis of the NAF sample. We have received reimbursement from insurance carriers and Medicare for the ForeCYTE test and from insurance carriers for the ArgusCYTE test. Billing for diagnostic services is generally complex. As a result, the Company relies on a third-party billing company to perform all 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 performs the requested tests and reports 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 and the length of time to recognize revenue. 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.

The National Reference Laboratory for Breast Health, the Company's wholly-owned subsidiary, bills Medicare for the laboratory services provided for the ForeCYTE and ArgusCYTE testing.

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. 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 shares for each procedure or service, and an annually determined conversion factor is applied to the relative value shares 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.

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 revenue 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 2010 was minus 1.9%.

The Medicare statute permits Federal Health and Human Services Centers for Medicare and Medicaid Services, or 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 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.

Reimbursement Strategy

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 typically reimburse for CPT 19499 procedures.

CPT Code for ForeCYTE Cytology and IHC Biomarker Testing

Category I laboratory procedure codes for cytology and IHC biomarker tests currently exist and reimbursement for these codes by Medicare has been established for 2012 at either $384 or $1,275, depending on the complexity of the test.

Laboratories typically set patient fee schedules at higher rates for the same procedure.

Intellectual Property

As of the date of this prospectus, we own 179 issued patents (56 in the United States and 123 in foreign countries), and 50 pending patent applications (38 in the United States, 11 pending foreign applications and 1 pending International Patent Cooperation Treaty (PCT) application) directed to our products, services, and technologies. We have eleven 510(k)-cleared medical devices and two 510(k)-exempt medical devices.

	United States			Foreign / PCT		
Description	Issued[1]	Expiration	Pending[1]	Issued[1]	Expiration	Pending
MASCT (ForeCYTE) Test	6	2016 – 2031	1	11	2016 – 2031	1
Microcatheter (FullCYTE) Test	19	2019 – 2031	2	56	2019 – 2031	0
NextCYTE Test	0	2031	0	0	2031	1
ArgusCYTE Test	1	2020	0	1	2031	0
Intraductal Treatment Program	11	2030	1	35	2030	1
Carbohydrate biomarkers	1	2022	2	3	2022	0
Microendoscopes	18	2015 – 2027	32	17	2015 – 2027	9

(1) The total patents issued or pending, as applicable, exceed the totals in the respective columns because some patents and applications contain claims directed to more than one technology.

MASCT is our registered trademark and we have applied with the United States Patent and Trademark Office for registration of the use of the marks Atossa (word and design), ForeCYTE, FullCYTE, NextCYTE, ArgusCYTE, and Oxy-MASCT.

Competition

We believe 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 and is the only non-”homemade” NAF collection system of which we are currently aware. The advantages of the MASCT System compared to the Neomatrix device include a lower acquisition cost and portability. The disadvantages of the MASCT System compared to the Neomatrix device include the requirement that a nurse or other healthcare provider manually operate the device, which may result in increased risks of human error and improper sample collection, and the reduced availability of experience with the device among the medical community.

We believe we will compete in the anatomic pathology laboratory industry based on the patent portfolio for the MASCT System, the technical expertise provided by our focus on diagnoses utilizing NAF, service-focused relationships with referring physicians, and our advanced technology. Based on the scope of our patent claims and the terms of use accompanying the MASCT System, we do not believe that our competitors can transport or process NAF samples collected with the MASCT System without infringing our patent estate and the contractual terms of use.

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 several 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.

Alternative Diagnostic Tools. We also anticipate that the MASCT System will face challenges in market adoption due to the reliance of physicians and other medical professionals on existing diagnostic tools for breast cancer, including mammograms, ultrasound examinations, magnetic resonance imaging, or MRI, fine needle aspiration and core biopsies, among others. These methods are currently more widely used and accepted by physicians, and may continue to be more widely used than our proposed products and services because they are currently reimbursed by third-party payors. In addition, physicians and other medical professionals may view the MASCT System as a screening tool for existing breast cancer, like mammography, rather than as an adjunctive procedure to mammography. As a result, the MASCT System could be deemed to compete directly with mammography, an established procedure, which could impair market adoption of the MASCT System. The advantages of the MASCT System compared to ultrasound, mammography, or magnetic resonance imaging include obtaining cytology and molecular information, the ease and simplicity of the procedure, and the cost, especially compared to MRI. The disadvantages of the MASCT System compared to ultrasound, mammography, and MRI include a lower sensitivity to detection of cancer. The advantage of the MASCT System compared to fine needle aspiration and core biopsies include the ease and simplicity of the procedure, the cost, and the patient comfort. The disadvantages of the MASCT System compared to fine needle aspiration and core biopsies include the reduced sample size and the consequent limitation of the range of molecular studies that can be conducted.

In addition to facing competition with respect to our MASCT System and the processing of collected NAF samples, we also face competition regarding our ArgusCYTE diagnostic test. The detection and analysis of circulating tumor cells, or CTCs, in the blood of patients with breast cancer is an active area of medical research, and many companies and academic research institutes that have substantially greater financial and research resources than we do are involved in such detection and analysis. For example, The Massachusetts General Hospital, Harvard Medical School, received a multimillion dollar grant from Stand Up To Cancer in 2009 for a CTC chip to diagnose cancer. Additionally, Johnson & Johnson markets an FDA-cleared test for breast cancer CTCs and Clariant Laboratories, a GE Healthcare company, also markets a breast cancer CTC test.

Information Systems

We have acquired and implemented a third-party pathology laboratory report management system that supports our operations and physician services. Our information systems, to the extent such systems hold or transmit patient medical information, are believed to operate 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 we have endeavored to establish our 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 manufacture and market a medical device that is regulated by the FDA, comparable state agencies and regulatory bodies in other countries. We also operate a clinical and diagnostic laboratory which uses 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 is a Class II device. 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 uses, 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 and Microcatheter Systems 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.

CLIA and State Regulation

As a 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.

In addition to CLIA requirements, the Company is 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 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 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 is 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 has implemented 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, 2005. The Company has employed 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 has outsourced 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 patients 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 provide healthcare providers and other parties with an affirmative defense against prosecution 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, as well as the retention of any overpayment. 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. Finally, recent amendments to these laws require self-disclosure of violations by providers.

Discriminatory Billing Prohibition

In response to competitive pressures, the Company will be increasingly required to offer discounted pricing arrangements to managed care payors 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.

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 is certified by CLIA and has been licensed in the states of California, Florida, Maryland, Rhode Island, and Washington. The Company is in the process of obtaining a license to accept testing samples from New York, which requires out-of-state laboratories to hold a state license, and is currently processing samples from New York under recognized exemption provisions. All other states do not have specific state licensing requirements and/or recognize our Federal CLIA certification as an out-of-state laboratory. Similarly, many of the states from which the Company 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 is 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 uses outside vendors who are contractually obligated to comply with applicable laws and regulations to dispose of such waste. These vendors are 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 conducted 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 seeks to conduct its business in compliance with all statutes and regulations applicable to its operations. To this end, it has established a compliance program that reviews for regulatory compliance procedures, policies, and facilities throughout its business.

Legal Proceedings

On June 30, 2011, Robert Kelly, our former President, filed a counterclaim against us in an arbitration proceeding, alleging breach of contract in connection with the termination of a consulting agreement between Mr. Kelly (d/b/a Pitslayer LLC) and us. The consulting agreement was terminated by us in September 2010. Mr. Kelly seeks $450,000 in compensatory damages, which is the amount he claims would have been earned had the consulting agreement been fulfilled to completion. We are reasonably confident in our defenses to Mr. Kelly's claims. Consequently, no provision or liability has been recorded for Mr. Kelly's claims as of June 30, 2012. However, it is at least reasonably possible that our estimate of our liability may change in the near term. Any payments by reason of an adverse determination in this matter will be charged to earnings in the period of determination.

Employees

As of the date of this prospectus, we employed three executive officers, one of whom serves in such capacity part-time, and seven other full-time employees. We expect that we will hire more employees as we expand.

Property

We lease approximately 9,800 square feet of office and laboratory space in Seattle, Washington, which includes space rented from Sanders Properties, LLC, CompleGen, Inc., and the Fred Hutchinson Cancer Research Center, as described elsewhere in this prospectus. We believe that our current facilities will be adequate to meet our needs for the next 24 months.

Insurance

We currently maintain director's and officer's insurance, commercial general and office premises liability insurance, and product errors and omissions liability insurance for our products and services.

MANAGEMENT

The following table sets forth information regarding the members of the Board of Directors of the Company and its executive officers as of the date of this prospectus:

Executive Officers and Directors

Name	Age	Position(s)
Steven C. Quay, M.D., Ph.D.	61	Chairman of the Board of Directors, Chief Executive Officer and President
Christopher Benjamin	38	Chief Financial Officer
Shu-Chih Chen, Ph.D.	50	Director, Chief Scientific Officer
John Barnhart	55	Director
Stephen J. Galli, M.D.	65	Director
Alexander Cross, Ph.D.	80	Director
H. Lawrence Remmel, Esq.	60	Director

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 currently 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. Effective upon the completion of this offering, our Board of Directors will be divided into three classes and directors will serve for a three-year term until the third annual meeting following their election and until their respective successors have been elected and qualified or until death, resignation or removal. Effective upon the completion of this offering, Dr. Quay and Mr. Barnhart will be Class I directors (whose terms will expire on the date of the 2013 annual meeting), Dr. Cross and Dr. Galli will be Class II directors (whose terms will expire on the date of the 2014 annual meeting), and Dr. Chen and Mr. Remmel will be Class III directors (whose terms will expire on the date of the 2015 annual meeting). 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 substantial minority of the outstanding voting securities of the Company. Following the completion of this offering 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., a biotechnology company focused on the development and commercialization of RNAi-based therapeutic products, from August 2000 to May 2008, and as its Chief Scientific Officer until November 30, 2008 (MDRNA, Inc. was formerly known as Nastech Pharmaceutical Company Inc. and is currently known as Marina Biotech, Inc.). From December 2008 to April 2009, Dr. Quay was involved in acquiring the Company's assets and preparing the Company's business plan. Dr. Quay is certified in Anatomic Pathology with the American Board of Pathology, completed both an internship and residency in anatomic pathology at the Massachusetts General Hospital, a Harvard Medical School teaching hospital, 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 76 U.S. patents, 106 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, the Society for Laboratory Automation and Screening 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 Phoenix, Arizona, Mr. Benjamin has served as President of Rogue CFO Consulting since November 2007, as well as serving as the interim Chief Financial Officer for Quantum Materials Corporation, a manufacturer of quantum dots, and Paradise Publishers, a company focused on the marketing of electronic books. In the past, he held the position of Controller for NexTec Group, a company that consults with other companies regarding enterprise resource planning and customer relationship management solutions, from March 2007 through November 2007, Redfin Corporation, an online real estate agent company, from September 2006 to March 2007, and was the Accounting Manager and Assistant Controller for the Bsquare Corporation, a company focused on software development, from September 2005 to September 2006. 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 2006 and a B.A. in accounting from the University of the 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 in medical technology and 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 1983. 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-oriented products and services.

Stephen J. Galli, M.D. Dr. Galli has served as a director of the Company since July 2011. 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 to serve on the Company's Board of Directors because of his qualifications as a professor and physician, and his specialized expertise as a pathologist.

Alexander D. Cross, Ph.D. Dr. Cross has served as a director of the Company since July 2011. 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 Marina Biotech, Inc. (formerly MDRNA, Inc. and, before that, Nastech Pharmaceutical Company Inc. from July 2005 through May 2009). Dr. Cross also served as Chairman of the Board and CEO of CytoPharm, Inc., a company engaged in the development of light-activated drugs for the treatment of various diseases, 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, a consulting firm that provides strategic advisory services for the development of medical products, 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 U.S. 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 to serve on the Company's Board of Directors 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.

H. Lawrence Remmel, Esq. Mr. Remmel served as a director of the Company since February 2012. He is currently a partner of the law firm Pryor Cashman LLP, located in New York City, where he chairs the Banking and Finance practice group. Mr. Remmel joined Pryor Cashman in 1988. His practice includes corporate and banking financings, issues relating to the Investment Company Act of 1940, and intellectual property and licensing issues, in particular in the biotechnology and biocosmeceutical areas. He was an associate of the law firm Reboul, MacMurray, Hewitt, Maynard & Kristol from 1984 to 1988, and began his legal career at Carter, Ledyard & Milburn, where he was an associate from 1979 to 1984. He was admitted to the New York bar in 1980 and is a member of the New York State Bar Association. He received his J.D. from the Washington & Lee University School of Law in 1979 and his B.A. from Princeton University in 1975. Mr. Remmel has been selected to serve on the Company's Board of Directors because of his substantial experience as a corporate attorney advising biotechnology companies and his familiarity with the fiduciary duties and the regulatory requirements affecting publicly traded 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 has knowledge in breast cancer, NAF, breast cancer biomarkers, and Next Generation Sequencing technologies. The Company expects to expand the size of the advisory board in the future. The members of the Scientific Advisory Board work individually with the Company to advise the Company on matters of research interest to the Company and which are within the expertise of the advisor. Accordingly, the Scientific Advisory Board does not meet as a full board and the Company does not anticipate having a need for such meetings 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 and has served in this position since Fall 2008. 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 from 2002 to 2008. 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 currently extends through December 31, 2012. This is the only compensation received for being a member of the Scientific Advisory Board.

Dr. Timothy Hunkapiller, Ph.D.

Dr. Hunkapiller has been a pioneering presence in computational biotechnology since its infancy 30 years ago and is co-inventor of the largest selling analytical research instrument in the world: the Perkin Elmer/Applied Biosystems DNA sequencer. Through his Seattle, Washington-based company, DiscoveryBiosciences, he provides technical consulting and commercialization services to both established and upcoming biotech companies.

Dr. Hunkapiller earned a Ph.D. from California Institute of Technology and was Research Assistant Professor in the Department of Molecular Biotechnology at the University of Washington from 1992 until 1999. As a scientist, Dr. Hunkapiller's research focus included molecular immunology, evolution, computational genetics and comparative genomics. He is considered a leading expert on the genetics, genomic organization and functional diversity of the immune system. For the last 20 years, he has also been involved in bioinformatics, algorithm and database development and experimental process optimization.

While at Caltech, Dr. Hunkapiller originated the model for the automated, fluorescent DNA sequencer. The manifestation of this idea in products such as the ABI 3700™ and the MD Megabase™ sequencers catalyzed and enabled the completion of the first drafts of the Human Genome and helped to revolutionize the field of genomics. He continues to work with Applied Biosystems today on improving the throughput and quality of data from these instruments and their associated chemistry.

Dr. Hunkapiller has been an advisor to a number of biotechnology companies as well as technology companies servicing the biotechnology and pharmaceutical industry. These efforts range from helping with SNP association studies for target discovery in breast cancer to the application of novel computer technologies in intelligently searching very large, unstructured text sources to improve intellectual property analysis.

In April 2011, Dr. Hunkapiller received options to purchase up to 45,000 shares of our common stock at an exercise price of $5.00 per share, the then fair market value. This is the only compensation received for being a member of the Scientific Advisory Board.

DIRECTOR COMPENSATION

The non-employee directors of the Company receive the following:

- upon joining the Board, 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
- a fee of $2,000 for the chairperson for each Board or committee meeting attended in person, a fee of $1,500 for the members for each Board or committee meeting attended in person, a fee of $1,500 for the chairperson for each Board or committee meeting attended via telephone and a fee of $1,000 for the members for each Board or committee meeting attended via telephone.

In addition to the above, annual compensation for service on the Audit Committee is $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; and annual compensation for service on the Compensation Committee and Nominating/Governance Committee is $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.

The employee directors receive no compensation for their board service. Pursuant to the policies of Pryor Cashman, the law firm of which Mr. Remmel is a partner, the compensation Mr. Remmel receives for his services as a director (other than expense reimbursement) is paid to the firm directly. All directors receive reimbursement for reasonable travel expenses. The following table sets forth information regarding compensation earned by our non-employee directors during the fiscal year ended December 31, 2011:

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)[1]	Total ($)
John Barnhart[2]	$ 28,000	$ 42,948	$ 70,948
Stephen J. Galli, M.D.[3]	$ 20,000	$ 14,316	$ 34,316
Alexander Cross, Ph.D.[4]	$ 22,500	$ 14,316	$ 36,816
H. Lawrence Remmel, Esq.[5]	—	—	—

(1) This column reflects the aggregate grant date fair value of equity awards granted in the applicable year and calculated in accordance with FASB ASC 718, excluding the effect of estimated forfeitures. Assumptions used in the calculations for these amounts are included elsewhere in this prospectus.

(2) Fees earned or paid in cash consists of (a) $4,000 in meeting attendance fees; (b) $8,000 paid in fully vested options, payable quarterly in arrears, for service as a member of the Audit Committee; (c) $6,000 paid in fully vested options, payable quarterly in arrears, for service as a member of the Compensation Committee; and (d) $10,000 paid in fully vested options, payable quarterly in arrears, for service as chairperson of the Nominating/Governance Committee. During the fiscal year ended December 31, 2011, in lieu of an annual director retainer of $50,000 paid in shares of the Company's common stock for each of the years 2009, 2010 and 2011, Mr. Barnhart was granted options to purchase 120,000 shares of our common stock at an exercise price per share of $1.25. 80,000 options were fully vested on September 1, 2011, 10,000 options were fully vested on December 1, 2011 and 10,000 options will vest on each of March 1, 2012, June 1, 2012 and September 1, 2012.

(3) Fees earned or paid in cash consists of (a) $2,000 in meeting attendance fees; (b) $8,000 paid in fully vested options, payable quarterly in arrears, for service as a member of the Audit Committee; and (c) $10,000 paid in fully vested options, payable quarterly in arrears, for service as chairperson of the Nominating/Governance Committee. During the fiscal year ended December 31, 2011, in lieu of an annual director grant of $50,000 paid in shares of the Company's common stock for 2011, Dr. Galli was granted options to purchase 40,000 shares of our common stock at an exercise price per share of $1.25. 10,000 options were fully vested on December 1, 2011 and 10,000 options vest on each of March 1, 2012, June 1, 2012 and September 1, 2012.

(4) Fees earned or paid in cash consists of (a) $4,500 in meeting attendance fees; (b) $12,000 paid in fully vested options, payable quarterly in arrears, for service as chairperson of the Audit Committee; and (c) $6,000 paid in fully vested options, payable quarterly in arrears, for service as a member of the Compensation Committee. During the fiscal year ended December 31, 2011, in lieu of an annual director grant of $50,000 paid in shares of the Company's common stock for 2011, Dr. Cross was granted options to purchase 40,000 shares of our common stock at an exercise price per share of $1.25. 10,000 options were fully vested on December 1, 2011 and 10,000 options vest on each of March 1, 2012, June 1, 2012 and September 1, 2012.

(5) Mr. Remmel was appointed to our Board of Directors on February 8, 2012 and thus did not receive compensation for service as a director during the fiscal year ended December 31, 2011.

Director Independence

The Board of Directors of the Company has reviewed the materiality of any relationship that each of our 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, Stephen J. Galli, M.D., Alexander Cross, Ph.D. and Lawrence Remmel, Esq. are "independent directors" as defined under the applicable rules of the NASDAQ Capital Market.

Committees of the Board of Directors of the Company

The Board of Directors of the Company has established an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. The composition and function of each of these committees is described below.

Audit Committee

Upon the completion of this offering, the Audit Committee will be comprised of Dr. Cross (chair), Mr. Barnhart and Mr. Remmel. 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 is 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 annual audit;
- review and pre-approve audit and non-audit fees and services;
- review proposed changes in the Company's financial and accounting standards and principles;
- review the Company's policies and procedures with respect to its internal accounting, auditing and financial controls;
- review and approve transactions between the Company and its directors, officers and affiliates; and
- establish procedures for complaints received by the Company regarding accounting matters.

The Company believes that the composition of its Audit Committee meets the independence requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the NASDAQ Capital Market.

Compensation Committee

Upon the completion of this offering, the Compensation Committee will be comprised of Mr. Barnhart (chair), Dr. Cross, and Dr. Galli. All members of the Compensation Committee qualify as independent directors under the current definition promulgated by the NASDAQ Capital Market. The Compensation Committee is authorized to:

- review and recommend the compensation arrangements for management, or approve such arrangements, if directed by the board;
- establish and review general compensation policies with the objective to attract and retain superior talent, to reward individual performance and to achieve corporate goals;
- administer stock incentive and purchase plans; and
- review and recommend to the board the compensation paid to non-employee directors for their service on the Board of Directors.

Nominating and Governance Committee

Upon the completion of this offering, the Nominating and Governance Committee will be comprised of Dr. Galli (chair), Mr. Barnhart, and Mr. Remmel. All members of the Nominating and Governance Committee qualify as independent directors under the current definition promulgated by the NASDAQ Capital Market. The Nominating and Governance Committee is authorized to:

- identify and nominate candidates for election to the Board of Directors of the Company;
- establish policies under which stockholders may recommend a candidate for consideration for nomination as a director;
- annually review and evaluate the performance, operations, size and composition of the Board; and
- periodically assess and review the Company's Corporate Governance Guidelines and recommend any changes deemed appropriate to the Board for its consideration.

Compensation Committee Interlocks and Insider Participation

No 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 Ethics

The Company has adopted a Code of Ethical Conduct that applies to all its employees, officers and directors, including those officers responsible for financial reporting. The Code of Ethical Conduct is 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, or the Securities Act, 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 accrued salary payments to Dr. Steven C. Quay and Dr. Shu-Chih Chen commencing as of May 19, 2010, which is the date that the employment agreement for each of Dr. Quay and Dr. Chen, repectively, became effective, in the amounts and on the terms as defined below. In July 2011, the Company paid accrued salary amounts of $154,762 and $123,810 to Drs. Quay and Chen, respectively. The accrued salary amounts were calculated on a pro rated basis for the period served during fiscal 2010 (i.e., May 19, 2010 through December 31, 2010) for each of Dr. Quay and Dr. Chen, on the basis of an annual salary of $250,000 for Dr. Quay and $200,000 for Dr. Chen, respectively.

The Company's Compensation Committee is responsible for reviewing and evaluating key executive employee base salaries, setting goals and objectives for executive bonuses and administering benefit plans. The Compensation Committee provides 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.

Summary Compensation Table

The following table sets forth the compensation earned by the Company's Chief Executive Officer, Chief Scientific Officer and Chief Financial Officer (collectively, the "Named Executive Officers") for fiscal 2011:

Name and Position	Year	Salary	Bonus	Option Awards[1]	Total
Steven C. Quay, M.D., Ph.D. President and Chief Executive Officer	2011	$ 250,000	$ 61,905	$ —	$ 311,905
Christopher Benjamin[2] Chief Financial Officer	2011	$ 38,968	$ —	$ —	$ 38,968
Shu-Chi Chen, Ph.D. Chief Scientific Officer	2011	$ 200,000	$ 37,143	$ —	$ 237,143

(1) This column reflects the aggregate grant date fair value of equity awards granted in the applicable year and calculated in accordance with FASB ASC 718, excluding the effect of estimated forfeitures. Assumptions used in the calculations for these amounts are included elsewhere in this prospectus.

(2) Mr. Benjamin serves as a part-time employee and is compensated pursuant to a consulting agreement, as described below.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information regarding our outstanding equity awards at December 31, 2011 for the Named Executive Officers:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Steven C. Quay, M.D., Ph.D.	125,000	125,000	$ 5.00	7/22/2015
Christopher Benjamin	—	—	—	—
Shu Chi Chen, Ph.D.	50,000	50,000	$ 5.00	7/22/2015

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 provides 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. The goals for fiscal 2011 included the MASCT System manufacturing scale-up and launch, filling additional key senior management positions in marketing and sales, finance, and laboratory management, establishing laboratory registration and certification, and launching the ForeCYTE Test.

Under the employment agreement, Dr. Quay received an option to purchase up to 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. One-quarter of the shares of common stock underlying the option, or 62,500 shares, vested on December 31, 2010, and the remaining 75%, or 187,500 shares, 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, Ph.D.

The Company has entered into an employment agreement with Dr. Chen to act as the Company's Chief Scientific Officer. The agreement provides 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. The goals for fiscal 2011 included filling additional key positions in research and development as well as laboratory management, and establishing laboratory registration and certification.

Under the employment agreement, Dr. Chen received an option to purchase up to 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. One quarter of the shares of common stock underlying the option, or 25,000 shares, vested on December 31, 2010, and the remaining 75%, or 75,000 shares, 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 that directly concern the MASCT System, Oxy-MASCT System, or future products, research, or development, or that 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 12 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 12 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 (or 2,263,320 shares prior to the reverse stock-split on September 28, 2010). 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 50% of 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 NASDAQ Capital Market 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 NASDAQ Capital Market, 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 Shares. The Compensation Committee may award restricted stock shares to any participants. Restricted stock shares are generally payable in the form of shares of common stock, although restricted stock shares granted to the chief executive officer may be settled in cash. These shares 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 NASDAQ Capital Market 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.

Other Benefits

The Company offers health, dental, disability, and life insurance to its full-time employees. All employees pay a portion of health, dental, and disability insurance premiums and pay all life insurance premiums.

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 significant minority stockholders of the Company. After the completion of this offering Drs. Quay and Chen will remain significant minority stockholders. Ensisheim Partners, LLC, which holds 35.3% 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 sale 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 the patents, patent applications and FDA marketing authorization but received shares of common stock of the Company in consideration for its contribution of these assets. Ensisheim holds patents and patent applications for inventions created by the owners in fields unrelated to the Company's business and provides a corporate structure for consulting activities of the owners in fields unrelated to the Company's business. Drs. Quay and Chen currently devote substantially all of their professional efforts to the business of the Company.

Loans from Officer

On May 26, 2009, the Company borrowed $5,000 from its Chairman of the Board and Chief Executive Officer as a short-term, unsecured loan via an oral 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. This note was repaid in full on May 16, 2011, including approximately $439 in accrued interest.

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 loan under the note was funded to the Company on July 12, 2010. The note bore interest at a rate of 10% per annum and carried a $4,000 loan origination fee, which accreted to the loan balance over the life of the loan. The $4,000 loan origination fee was fully accreted to the loan balance as of March 31, 2011 and December 31, 2010, and recorded as interest expense for the year ended December 31, 2010. This note (including the $4,000 origination fee) was repaid in full on May 19, 2011, including approximately $8,959 in accrued interest.

On November 3, 2010, the Company entered into a line of credit for borrowing up to $500,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The note bore interest at a rate of 10% per annum. An aggregate of $140,000 was funded to the Company under the line of credit through March 31, 2011, which was repaid on May 31, 2011, including approximately $6,093 in accrued interest. As of December 31, 2011, the unpaid principal balance drawn from the line of credit was $10,000. The note is payable in full on or before December 31, 2011 for the outstanding balance borrowed. As of December 31, 2011, the unpaid principal balance drawn from the line of credit was $5,078, which was fully repaid on March 31, 2012, as well as $823 in interest.

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 revenue, 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 December 31, 2010,

the Company had incurred $16,250 in patent-related expenses under the license agreement with Ensisheim. The $16,250 in patent-related expenses relates to legal fees in connection with filing and prosecuting the related patent applications and has been paid in full by the Company.

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 reversed through royalty expense during the second quarter of 2010. Ensisheim did not receive further cash or equity consideration under the Assignment Agreement other than the shares of common stock it had already received in April 2009 as a result of its contribution of intellectual property rights and FDA marketing authorization for the MASCT System. Neither the Chief Executive Officer nor the Chief Technology Officer of the Company received consideration under the Assignment Agreement. However, since Ensisheim has at all times held a substantial equity position in the Company, the potential increased profits of the Company as a result of the removal of this royalty payment obligation may provide more potential economic value to Ensisheim than the royalty payment would have provided.

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, the 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 until April 1, 2011 when the commercial lease agreement the Company entered into with Sanders Properties, LLC became effective. The $1,100 security deposit paid to Ensisheim remained outstanding and was recorded as Due from Related Party as of June 30, 2012.

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.

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 consulting expense had been paid.

On July 22, 2010, the Company amended and restated the employment agreements with its Chief Executive Officer and Chief Scientific Officer. The agreements modified the annual base salary amounts to $250,000 and $200,000, respectively, effective retroactively to May 19, 2010. These salaries were accrued and amounted to $391,071 and $278,571 as of March 31, 2011 and December 31, 2010, respectively, and paid in full in April 2011. For the twelve-month periods ended December 31, 2011 and 2010, salaries and bonuses of the Chief Executive Officer and Chief Scientific Officer amounted to $693,048 and $377,620, of which $492,095 and $0 was recorded to research and development expense, respectively. For the six months ended June 30, 2012, salaries and bonuses of CEO and CTO amounted to $179,625 and $133,700, of which $89,813 and $133,700 were recorded to research and development expense, respectively.

Share-Based Compensation

The amended and restated employment agreement with the Chief Executive Officer granted options to purchase 250,000 shares (or 565,830 shares prior to the reverse stock split on September 28, 2010) at a price of $5.00 per share (or $2.64 per share prior to the reverse stock split on September 28, 2010), in consideration of his service to the Company. Of these options, 25% (or 62,500 shares) vested on December 31, 2010 with the remaining 75% (or 187,500 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the Company. These options have five-year contractual terms.

The amended employment agreement with the Chief Scientific Officer granted options to purchase 100,000 shares (or 226,332 shares prior to the reverse stock split on September 28, 2010) at a price of $5.00 per share (or $2.64 per share prior to the reverse stock split on September 28, 2010) in consideration of her service to the Company. Of these options, 25% (or 25,000 shares) vested on December 31, 2010 with the remaining 75% (or 75,000 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the Company. These options have five-year contractual terms.

On April 4, 2011, 45,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest as follows:

(i) 11,250 option shares vest ninety (90) days after the date of grant;

(ii) 11,000 option shares vest one hundred and eighty (180) days after the date of grant;

(iii) 11,500 option shares vest two hundred and seventy (270) days after the date of grant; and

(iv) 11,250 option shares vest three hundred and sixty (360) days after the date of grant.

On September 1, 2011, 219,000 incentive stock options were granted under the 2010 Stock Option and Incentive Plan to employees and officers as part of their employment agreements, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) twenty-five percent (25%) of the underlying shares on the first anniversary of the date of grant; and

(ii) one-forty eighth (1/48) of the underlying shares monthly thereafter.

On September 1, 2011, 200,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) 80,000 option shares vest on September 1, 2011;

(ii) 30,000 option shares vest on December 1, 2011;

(iii) 30,000 option shares vest on March 1, 2012;

(iv) 30,000 option shares vest on June 1, 2012; and

(v) 30,000 option shares vest on September 1, 2012.

On April 30, 2012, 19,757 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for serving as directors of the Company, at an exercise price of $6.00 per share. These options have a ten-year term and shall vest and become exercisable in full immediately as of the grant date.

Sales of Unregistered Securities

In connection with the formation of the Company, the Company sold securities, which were not registered under the Securities Act, to certain related parties. The Company issued 4,899,888 shares of its common stock pursuant to an exemption from registration under Section 4(2) of the Securities Act, as a transaction by an issuer not involving any public offering to the following related parties:

	Shares	Date	Consideration
Steven Quay	883,662	April 30, 2009	$ 12,000
Ensisheim Partners LLC	1,767,316	April 30, 2009	(1)
Ensisheim Partners LLC	883,658	December 28, 2009	$ 100,000
John Barnhart	39,765	July 28, 2009	$ 540

(1) The 1,767,316 shares of common stock issued to Ensisheim Partners LLC at the Company's inception were issued in consideration for $24,000 in cash and this entity's contribution to the Company of intellectual property rights and FDA marketing authorization for the MASCT System.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its directors and certain of its executive officers. These agreements 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 October 1, 2012 regarding the beneficial ownership of our common stock by each of our 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 October 1, 2012. Unless indicated otherwise, the address for the beneficial holders is c/o Atossa Genetics Inc., 4105 East Madison Street, Suite 320, Seattle, Washington.

Name of Beneficial Owner	Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned	
		Before Offering[1]	After Offering[2]
Steven C. Quay, M.D., Ph.D.[3]	5,031,998	40.9%	37.3%
Shu-Chih Chen, Ph.D.[4]	4,344,330	35.6%	32.5%
John Barnhart[5]	185,342	1.5%	1.4%
Christopher Benjamin	—	—	—
Stephen J. Galli, M.D.[6]	63,601	*	*
Alexander D. Cross, Ph.D.[7]	134,293	1.1%	1.0%
H. Lawrence Remmel, Esq.	—	—	—
All Current Officers and Directors as a Group (7 persons)	5,483,984	43.6%	39.8%

* Less than 1%

(1) Based on 12,119,367 shares of common stock issued and outstanding as of October 1, 2012.

(2) Assumes the sale of 1,200,000 shares of common stock pursuant to this prospectus.

(3) Consists of (i) 584,543 shares of common stock directly owned by Dr. Quay, (ii) 4,275,580 shares of common stock owned by Ensisheim and (iii) 171,875 shares of common stock issuable upon the exercise of stock options held by Dr. Quay and exercisable within 60 days after October 1, 2012. Drs. Quay and Chen share voting and investment power over the securities held 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 (i) 4,275,580 shares of common stock owned by Ensisheim and (ii) 68,750 shares of common stock issuable upon the exercise of stock options held by Dr. Chen and exercisable within 60 days after October 1, 2012. Drs. Quay and Chen share voting and investment power over the securities held 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) Consists of (i) 39,765 shares of common stock held by Mr. Barnhart (ii) 17,674 shares of common stock held by certain family members and for which Mr. Barnhart is the beneficial owner and (iii) 127,903 shares of common stock issuable upon the exercise of stock options held by Mr. Barnhart and exercisable within 60 days of October 1, 2012.

(6) Consists of 17,674 shares of common stock held by Dr. Galli and 45,927 shares of common stock issuable upon the exercise of stock options held by Dr. Galli and exercisable within 60 days of October 1, 2012.

(7) Consists of 88,366 shares of common stock held by the Alexander D. Cross Family Trust (Mr. Alexander D. Cross has sole voting and investment power over the securities held by the trust and as such, is deemed to be the beneficial owner of the shares held by this entity) and 45,927 shares of common stock issuable upon the exercise of stock options held by Dr. Cross and exercisable within 60 days of October 1, 2012.

DESCRIPTION OF SECURITIES

Capitalization

The Company is authorized to issue 75,000,000 shares of common stock, par value $0.001 per share, of which 12,119,367 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. Warrants exercisable for 6,833,840 shares of common stock at a weighted-average exercise price of $1.56 per share, as well as 325,000 warrants issued in connection with the Company's acquisition of substantially all the assets of Acueity Healthcare, Inc. were outstanding as of the date of this prospectus.

As of the date of this prospectus, there were 225 record holders of the Company's common stock.

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. Dividends, if any, may be declared from time to time by the Board of Directors of the Company or any authorized committee of the Board of Directors in its discretion from funds legally available therefor. 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. Provided we raise at least $6 million in gross proceeds in this offering, our common stock has been approved for listing on the NASDAQ Capital Market under the symbol "ATOS".

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.

Warrants

Warrants exercisable for 6,833,840 shares of common stock at a weighted-average exercise price of $1.56 per share were outstanding as of the date of this prospectus. The Company's outstanding warrants entitle the holders to acquire one share of common stock during the exercise period. The warrants are exercisable for five years, starting on the earliest of the following: (a) six months after the closing of the Company's initial public offering of its common stock, if successful, the (b) the closing of a "significant private financing" (as defined in the warrants), or (c) the closing of a "fundamental transaction" (as defined in the warrants). As a result of the amount of money raised in the private placement discussed elsewhere in this prospectus, the private placement constituted a "significant private financing" as defined in the warrants. Accordingly, the warrants became exercisable on June 23, 2011 and remain exercisable through June 23, 2016. The warrants have a net exercise feature whereby a holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the Company's common stock at the time of exercise of the warrant after deduction of the aggregate exercise price. The warrants also contain a provision for the adjustment of the exercise price and the aggregate number of shares issuable upon the exercise of the warrant in the event of stock splits, stock dividends, reorganizations, reclassifications, and consolidations.

We have also issued warrants to purchase 325,000 shares of common stock at an exercise price of $5.00 per share. These warrants expire on September 30, 2017.

Registration Rights

The Company has granted the investors in the private placement completed in April 2011 through July 2011 the right to have the resale of their shares of common stock (including common stock issuable upon exercise of the warrants) registered with the SEC beginning 180 days after completion of the Company's initial public offering (the "IPO"). Pursuant to these resale registration rights, the Company must file a resale registration statement within 180 days after the closing of the IPO. The Company must then use commercially reasonable efforts to have this registration statement declared effective within that 180-day period. If the resale registration statement is declared effective and remains effective, then investors will be able to sell the common stock underlying the units purchased in the private placement (including the common stock issuable upon exercise of the warrants) pursuant to the prospectus contained in the registration statement. These registration rights terminate if the Company does not complete an IPO within five years from the initial closing of the private placement.

Anti-Takeover Devices

The Company's certificate of incorporation and bylaws that will be effective upon completion of this offering will include a number of provisions that may have the effect of delaying, deferring or preventing another party from acquiring control of us and encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our Board of Directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Board Composition and Filling Vacancies. In accordance with the Company's certificate of incorporation, our Board of Directors is divided into three classes serving staggered three-year terms, with one class being elected each year. The Company's certificate of incorporation also provides that directors may only be removed from office for cause and only by the affirmative vote of holders of 75% or more of the outstanding shares of capital stock then entitled to vote at an election of directors. Furthermore, any vacancy on the Company's Board of Directors, however occurring, including any vacancy resulting from an increase in the size of the board, may only be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum. The classification of directors, together with the limitations on removal of

directors and treatment of vacancies, has the effect of making it more difficult for stockholders to change the composition of our Board of Directors.

Undesignated Preferred Stock. 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.

Section 203 of the Delaware General Corporation Law. 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 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.

No Trading Market

There is currently no established public trading market for the Company's securities. An active trading market in the securities may never develop. Provided we raise at least $6 million in gross proceeds in this offering, our common stock has been approved for listing on the NASDAQ Capital Market under the symbol "ATOS". We will not complete this offering if we are unable to raise at least $6 million in gross proceeds to be able to list the shares on the NASDAQ Capital Market. Even if we are able to list the shares on the NASDAQ Capital Market, an active trading market may not develop and purchasers of the shares may have difficulty selling their securities.

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

VStock Transfer, LLC, 77 Spruce Street, Suite 201, Cedarhurst, New York 11516 (Telephone: (212) 828-8436; Facsimile (646) 536-3179) will serve as transfer agent for the common stock of the Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and a liquid trading market for our common stock may not develop or be sustained after this offering. Future sales of substantial amounts of our common stock in the public market, including shares issued upon exercise of outstanding options and warrants or in the public market after this offering, or the anticipation of these sales, could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of equity securities in the future.

Upon the completion of this offering, we will have outstanding an aggregate of 13,319,367 shares of common stock, assuming no exercise by the underwriters of their overallotment option and no exercise of options or warrants outstanding as of the date of this prospectus. None of our shares of common stock outstanding as of the date of this prospectus are being registered for sale under this prospectus.

Of the shares to be outstanding immediately after the closing of this offering, we expect that 1,200,000 shares will be freely tradable without restriction under the Securities Act unless purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act (1,380,000 shares if the underwriters' overallotment option is exercised in full). The remaining 12,119,367 shares of our common stock outstanding after this offering will be "restricted securities" under Rule 144 of the Securities Act. "Restricted securities" as defined under Rule 144 were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. As a result of the lock-up agreements described below and the provisions of Rule 144 and Rule 701, summarized below, as of the date of this prospectus, these restricted shares may be sold in the public market as follows:

Date of Availability of Sale	Aggregate Number of Shares
Immediately upon completion of the offering	1,141,024
1/6 per month after completion of offering	300,734
Six months after completion of the offering	10,677,609

Up to an additional 7,158,840 shares of common stock issuable upon exercise of warrants will be available for resale, as described below.

Rule 144

Sales by Affiliates. In general, under Rule 144 as currently in effect, beginning 90 days after the consummation of this offering, a person who is one of our affiliates (as defined below) and who has beneficially owned the shares proposed to be sold for at least six months is entitled to sell in the public market, within any three-month period, a number of shares of common stock that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 124,568 shares of common stock immediately after consummation of this offering; or
- the average weekly trading volume of our common stock on the NASDAQ Capital Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such a sale.

Such sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions, notice requirements and to the availability of current public information about us. An "affiliate" is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with an issuer.

Notwithstanding the availability of Rule 144, our affiliates holding a total of 5,023,602 shares of common stock have entered into six month lock-up agreements as referenced above and their restricted securities will become eligible for sale (subject to the above limitations under Rule 144) upon the expiration of the restrictions set forth in those agreements.

Sales by Non-Affiliates. In general, under Rule 144, beginning 90 days after the consummation of this offering, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale, and who has beneficially owned restricted securities, within the meaning of Rule 144, proposed to be sold for at least six months (including the holding period of any prior owner other than one of our affiliates), would be entitled to sell those shares in the public market without complying with the manner of sale, volume limitations or notice provisions of Rule 144, but subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than one of our affiliates, then such person is entitled to sell such shares in the public market immediately upon the closing of this offering without complying with any of the requirements of Rule 144.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who acquired shares of common stock from us in connection with a compensatory stock or option plan or other written agreement in compliance with Rule 701 under the Securities Act before the effective date of the registration statement of which this prospectus is a part, or who purchased shares of common stock from us after that date upon the exercise of options granted before such date, is entitled to rely on Rule 701 to resell such shares 90 days after the effective date of this offering in reliance upon Rule 144. Subject to the lock-up agreements described below, if such person is not an affiliate, such sale may be made without complying with the minimum holding period or public information requirements of Rule 144. If such a person is an affiliate, such sale may be made under Rule 144 without compliance with its minimum holding period requirements, but subject to the other Rule 144 restrictions and the lock-up agreements described above.

Stock Options

As of the date of this prospectus, options to purchase a total of 627,757 shares of common stock were outstanding, 569,757 of which are subject to the terms of the lock-up agreements with the underwriters. Upon completion of this offering, an additional 822,517 shares of common stock will be available for future option grants under our stock plan (which amount includes 450,274 shares added to the number of shares reserved for issuance pursuant to the evergreen feature of our 2010 Plan on January 1, 2012). Upon completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering all shares of common stock subject to outstanding options or issuable pursuant to our stock plans. Accordingly, shares registered under such registration statement will be available for sale in the open market following the effective date, subject to vesting restrictions with us, Rule 144 restrictions applicable to our affiliates or the lock-up restrictions described above.

Warrants

As of the date of this prospectus, we had outstanding warrants to purchase an aggregate of 6,833,840 shares of our common stock, with a weighted-average exercise price of $1.56 per share and 325,000 shares at an exercise price of $5.00 per share. See “Description of Capital Stock — Warrants.” Any shares acquired upon the net exercise or cash exercise of these warrants may be sold in the public market pursuant to Rule 144, subject to the lock-up restrictions described above. In addition, these shares are entitled to registration rights as described under “Description of Securities — Registration Rights.”

Lock-Up Agreements

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

Certain of the lock-up agreements restrict the sale of such securities from the effective date of the registration statement of which this prospectus is a part for a period of six months, after which time the provisions of the lock-up agreement expire. Other of the lock-up agreements restrict the sale of such securities from the effective date of the registration statement of which this prospectus is a part for a period of six months, after which time the provisions of the lock-up agreement expire, but also provide that one percent of the securities subject to such lock-up shall be automatically released from the lock-up restrictions on each

monthly anniversary of the effective date of the registration statement of which this prospectus is a part. However, such securities cannot be sold publicly even after the expiration of the lock-up period unless registered under the Securities Act or sold pursuant to provisions of Rule 144 described above.

The lock-up agreements are more fully described under the caption “Underwriting” in this prospectus.

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 shares at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

Underwriters	Number of Shares
Dawson James Securities, Inc.	
Total	

The underwriting agreement provides that the obligation of the underwriters to purchase all of the 1,200,000 shares being offered to the public (assuming a $5.00 per share 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 1,200,000 shares being offered to the public, other than those covered by the over-allotment option described below, if any of these shares 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 180,000 additional shares 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 shares 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 shares as the number of shares to be purchased by it in the above table bears to the total number of shares offered by this prospectus. We will be obligated, pursuant to the option, to sell these additional shares to the underwriters to the extent the option is exercised. If any additional shares are purchased, the underwriters will offer the additional shares on the same terms as those on which the other shares 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 underwriter's over-allotment option. In addition, we have agreed to pay to Dawson James Securities, Inc. a non-accountable expense reimbursement fee of 3% of the gross proceeds of this offering.

The representative has advised us that the underwriters propose to offer the shares 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 shares to other securities dealers at such price less a concession of $ per share. The underwriters may also allow, and such dealers may re-allow, a concession not in excess of $ per share 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 Share	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 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 $500,000, all of which are payable by us.

Lock-Up Agreements

We and each of our officers and directors and certain of our stockholders and warrant holders are bound by agreements providing that we and these persons 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 six months from the effective date of the registration statement of which this prospectus is a part without the prior written consent of Dawson James. Other stockholders of ours are bound by lock-up agreements providing that these persons 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 six months from the effective date of the registration statement of which this prospectus is a part without the prior written consent of Dawson James, but such agreements also provide that one percent of the securities subject to such lock-up shall be automatically released from the lock-up restrictions on each monthly anniversary of the effective date of the registration statement of which this prospectus is a part.

Dawson James may in its sole discretion and at any time without notice release some or all of the securities subject to lock-up agreements prior to the expiration of the lock-up period. When determining whether or not to release securities from the lock-up agreements, the representative will consider, among other factors, the security holder’s reasons for requesting the release, the number of securities 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 shares was negotiated between us and Dawson James. Factors considered in determining the price and terms of the shares 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, short positions, 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. In connection with the offering, the underwriters may make short sales of the Company's shares. 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, short positions, 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 makes 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 any representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Other Terms

We have agreed to reimburse Dawson James for up to $100,000 of the legal fees incurred by Dawson James in connection with the offering, plus up to an additional $15,000 in legal fees for blue sky matters, up to $25,000 for legal fees related to filings with FINRA and up to $15,000 for reimbursement of travel expenses of one representative of Dawson James to attend road show and diligence meetings. These expenses, which are in addition to the 3% expense reimbursement fee described above, will be paid from the proceeds of this offering.

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 shares 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, 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.

In connection with our private placement completed on June 23, 2011 and as described elsewhere in this prospectus, Dawson James Securities, Inc. and persons associated with Dawson James were issued placement agent warrants to purchase a total of 788,520 shares of our common stock at $1.60 per share and 788,520 shares of our common stock at $1.25 per share. These warrants are substantially similar to the warrants issued to the investors in the private placement. All of the holders of the placement agent warrants have entered into lock-up agreements described above which, subject to waiver rights by Dawson James and other terms and conditions, prohibit the disposition or exercise of the warrants for 180 days after the effective date of the registration statement of which this prospectus forms a part.

Foreign Regulatory Restrictions on Purchase of Shares

We have not taken any action to permit a public offering of the shares 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 shares 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 Ropes & Gray LLP, San Francisco, California. Baker Botts LLP, Palo Alto, California, is acting as legal counsel for Dawson James Securities, Inc. in this offering.

EXPERTS

KCCW Accountancy Corp., an independent PCAOB registered public accounting firm, has audited the Company's balance sheets as of December 31, 2010 and 2011 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 with respect to the shares 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 shares 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 Exchange Act 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.

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ATOSSA GENETICS INC.
(A Development Stage Company)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

	June 30, 2012	December 31, 2011
	(Unaudited)	(Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 87,997	$ 1,910,821
Restricted cash	250,000	1,000,000
Accounts receivable	178,279	1,224
Due from related party	1,100	—
Prepaid expense	181,140	31,184
Rental deposits	2,200	2,200
Total Current Assets	700,716	2,945,429
Fixed Assets		
Furniture and Equipment, net	71,821	80,467
Total Fixed Assets	71,821	80,467
Other Assets		
Security deposit	37,946	5,157
Intangible assets, net	32,430	40,841
Total Other Assets	70,376	45,998
Total Assets	$ 842,912	$ 3,071,894
Liabilities and Stockholders' Equity		
Current Liabilities		
Line of Credit	$ 250,000	$ 1,000,000
Accounts payable	71,468	64,766
Accrued expenses	1,076,928	442,329
Note payable – related party	—	5,078
Total Current Liabilities	1,398,396	1,512,173
Stockholders' Equity		
Preferred stock – $.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock – $.001 par value; 75,000,000 shares authorized, 11,256,867 shares issued and outstanding	11,257	11,257
Additional paid-in capital	6,316,182	6,200,520
Accumulated deficit	(6,882,922)	(4,652,056)
Total Stockholders' Equity (Deficit)	(555,484)	1,559,721
Total Liabilities and Stockholders' Equity	$ 842,912	$ 3,071,894

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,		From April 30, 2009 (Inception) Through June 30, 2012
	2012	2011	2012	2011	
Revenue					
Diagnostic Testing Service	$ 219,972	$ —	$ 272,685	$ —	$ 272,685
Product Sales	3,125	—	5,125	—	6,625
Total Revenue	223,097	—	277,810	—	279,310
Cost of Revenue					
Diagnostic Testing Service	(17,788)	—	(20,985)	—	(20,985)
Product Sales	—	—	—	—	(5,164)
Total Cost of Revenue	(17,788)	—	(20,985)	—	(26,149)
Loss on Reduction of Inventory to LCM	—	—	(23,807)	—	(115,833)
Gross Profit	205,309	—	233,018	—	137,328
Selling expenses	(123,832)	—	(194,267)	—	(367,322)
General and Administrative expenses	(1,247,289)	(756,871)	(2,266,731)	(1,007,717)	(6,628,030)
Total operating expenses	(1,371,121)	(756,871)	(2,460,998)	(1,007,717)	(6,995,352)
Operating Loss	(1,165,811)	(756,871)	(2,227,980)	(1,007,717)	(6,858,022)
Interest Income	310	1,161	1,173	1,161	6,542
Interest Expense	(2,446)	(2,661)	(4,060)	(7,630)	(31,191)
Net Loss before Income Taxes	(1,167,947)	(758,371)	(2,230,867)	(1,014,186)	(6,882,671)
Income Taxes	—	—	—	—	250
Net Loss	$ (1,167,947)	$ (758,371)	$ (2,230,867)	$(1,014,186)	$ (6,882,921)
Loss per common share – basic and diluted	$ (0.10)	$ (0.10)	$ (0.20)	$ (0.15)	$ (0.93)
Weighted average shares outstanding, basic & diluted	11,256,867	7,862,077	11,256,867	6,931,057	7,371,184

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

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

	For The Six Months Ended June 30, 2012	For The Six Months Ended June 30, 2011	For The Period From April 30, 2009 (Inception) to June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(2,230,867)	$(1,014,186)	$ (6,882,921)
Common shares issued for services	—	—	71,000
Compensation cost for stock options granted	70,662	62,174	241,114
Loss on reduction of inventory to LCM	23,807	—	115,833
Loan initiation fee accrued for notes payable	—	—	2,000
Depreciation and amortization	17,057	1,375	32,679
Adjustments to reconcile net loss to net cash provided by operating activities:			
Increase in accounts receivable	(177,055)	—	(178,279)
Increase in inventory	(23,807)	—	(115,833)
Increase in prepaid expenses	(149,956)	(40,115)	(181,140)
Increase in security deposits	(32,789)	(1,500)	(40,146)
Increase in accounts payable	6,702	—	71,468
Decrease in accrued payroll	—	(278,571)	—
Increase in accrued expenses	679,600	161,332	1,121,928
Net cash used in operating activities	(1,816,646)	(1,109,492)	(5,742,297)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of machinery and equipment	—	(20,218)	(86,465)
Purchase of software	—	(49,500)	(50,466)
Net cash used in investing activities	—	(69,718)	(136,931)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of common stocks	—	5,713,785	5,970,325
(Repayments of) Proceeds from bank line of credit	(750,000)	1,000,000	250,000
(Repayments of) Proceeds from loans from related parties	(6,178)	(179,000)	(3,100)
Cash released from (restricted for) commercial line of credit	750,000	(1,000,000)	(250,000)
Net cash (used in) provided by financing activities	(6,178)	5,534,785	5,967,225
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(1,822,824)	4,355,575	87,997
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	1,910,821	10,253	—
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 87,997	$ 4,365,828	$ 87,997
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$ 6,036	$ 4,631	$ 6,036
Income taxes paid	$ —	$ —	$ 250

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

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

NOTE 1: NATURE OF OPERATIONS

The Company's operations began in December 2008 with the negotiations for the acquisition of the Mammary Aspirate Specimen Cytology Test System, or the MASCT System, patent rights and assignments and the FDA clearance for marketing, which acquisition was completed in January 2009. 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 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.

In December 2011 the Company established the National Reference Laboratory for Breast Health, or NRLBH, as a wholly-owned subsidiary. NRLBH is the Company's CLIA-certified laboratory where the ForeCYTE and ArgusCYTE test specimens are examined for the presence of normal, pre-malignant, or malignant changes as determined by cytopathology and biomarkers that distinguish "usual" ductal hyperplasia, a benign condition, from atypical ductal hyperplasia, which may lead to cancer. These cytopathological results provide patients and physicians with information about the care path that should be followed, depending on the individual risk of future cancer as determined by the results.

Development Stage Risk

From April 30, 2009 (inception) through June 30, 2012, the Company earned $279,310 in revenue from the sale of its MASCT System and laboratory services. 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 revenue 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 revenue 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 equity securities, (2) sales of the MASCT System and laboratory service revenue, and (3) short-term borrowings from banks, 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.

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

NOTE 2: GOING CONCERN – (continued)

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

The unaudited consolidated financial statements of Atossa Genetics Inc. 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 financial statements. However, the information included in these interim consolidated 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 consolidated financial position and the results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The consolidated balance sheet information as of December 31, 2011 was derived from the Company's audited consolidated financial statements. These interim consolidated financial statements should be read in conjunction with that report. Certain comparative amounts have been reclassified to conform to the current period's presentation.

Basis of Presentation:

The accompanying consolidated financial statements include the financial statements of Atossa Genetics Inc. and its wholly-owned subsidiary NRLBH. All significant intercompany account balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

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.

Revenue Recognition:

Overview

The Company recognizes product and service revenue in accordance with GAAP when the following overall 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.

Product Revenue

The Company recognizes revenue for sales of the MASCT kits and devices upon receipt of cash as the company has an insufficient sales history on which to determine the collectability. Shipping documents and the completion of any customer acceptance requirements, when applicable, are used to verify product delivery. The Company assesses 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. Once a sufficient history of sales and collectability has been established for product sales, the company will recognize revenue on an accrual basis with an offsetting reserve for doubtful accounts based on the history during the initial sales period.

Service Revenue

The Company records revenue for diagnostic testing on an accrual basis at the Medicare allowed and invoiced amount. Amounts invoiced above the Medicare amount, namely non-Medicare, are not recognized on an accrual basis and instead are recognized on a cash basis as received. Diagnostic testing revenue at the

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES – (continued)

Medicare rate is recognized upon completion of the test, communication of results to the patient's physician, and when collectability is reasonably assured. Customer purchase orders and/or contracts are generally used to determine the existence of an arrangement. Once the Company has historical sales and can determine the proper amount to recognize as uncollectible, it will then begin to recognize the entire amount, both Medicare and non-Medicare billing on an accrual basis, with an offsetting allowance for doubtful accounts recorded based on history. The Company estimates it will utilize the diagnostic testing revenue history to determine a proper allowance for doubtful accounts once it has 9 months of collection data.

Cash and Cash Equivalents:

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

As of June 30, 2012 and December 31, 2011, $250,000 and $1,000,000 of cash was restricted as collateral for a commercial line of credit obtained from JPMorgan Chase Bank in September 2011 (see Note 8). These amounts were designated as restricted cash under current assets on our consolidated balance sheets.

Use of Estimates:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable:

Accounts receivable are recorded at net realizable value consisting of the carrying amount less allowance for doubtful accounts, as needed. We assess the collectability of accounts receivable based primarily upon the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends, and changes in customer payment patterns to evaluate the adequacy of these reserves.

Inventories:

The Company's inventories are stated at lower of cost or market. Cost is determined on a moving-average basis. Costs of inventories include purchase and related costs incurred in delivering the products to their present location and condition. Market value is determined by reference to selling prices after the balance sheet date or to management's estimates based on prevailing market conditions. Inherent in the lower of cost or market calculation are several significant judgments based on a review of the aging of the inventory, inventory movement of products, economic conditions, and replacement costs. Because the sales price of the MASCT System was substantially lower than its cost for the six months ended June 30, 2012 and for the year ended December 31, 2011, resulting in the net realizable value of the MASCT System being determined at zero as of the balance sheet dates through taking the average sales price subtracted by selling expenses per unit, a $23,807 and $92,026 loss on reduction of inventory to the lower of cost or market was assessed and recorded as of and for the period and for the year then ended, respectively. Additionally, management periodically evaluates the composition of its inventories at least quarterly to identify slow-moving and obsolete inventories to determine if any valuation allowance is required. As of June 30, 2012 and December 31, 2011, management had identified no slow moving or obsolete inventory.

The Company provides ForeCYTE testing specimen collection kits to doctors with our MASCT System for doctors to collect specimens that are returned to the Company for diagnostic analysis. These collection kits

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES – (continued)

are considered part of the MASCT System. During the initial marketing phase, the Company has decided to distribute the kits to customers at no cost and bundle them with the MASCT System, and has not intended to deem the kits as a primary product line due to their nominal cost and value per unit. As a result, the kits are immediately expensed and recorded as selling expense upon purchase of the kits. For the six months ended June 30, 2012 and for the year ended December 31, 2011, selling expense of $16,878 and $0 was recorded related to the ForeCYTE kits, respectively.

Property, plant, and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property, plant and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life (in years)
Machinery and equipment	5

Intangible assets:

For intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. Intangible assets as of June 30, 2012 and December 31, 2011 were mainly software acquired for the purpose of managing laboratory results (see Note 7).

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 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.

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES – (continued)

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.

NOTE 4: PREPAID EXPENSES

Prepaid expenses consisted of the following:

	June 30, 2012	December 31, 2011
Prepaid payroll taxes	$ 163,128	$ —
Prepaid insurances	6,705	14,146
Prepaid hardware/software maintenance and support service fee	5,340	12,850
Prepaid rent	5,967	4,188
	$ 181,140	$ 31,184

NOTE 5: RENTAL DEPOSITS

Rental deposits amounted to $2,200 as of June 30, 2012 and December 31, 2011, and mainly consisted of security deposits for two office leases. The lease terms are from July 11, 2011 through July 31, 2012 and from October 1, 2011 to March 31, 2012, respectively (see Note 13). Both were terminated on July 31, 2012 and March 31, 2012, respectively and were not renewed, while the security deposits are expected to be received within one year or be written off.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment consisted of the following:

	June 30, 2012	December 31, 2011
Machinery and equipment	$ 86,465	$ 86,465
Less: Accumulated depreciation	(14,645)	(5,998)
Property, plant, and equipment, net	$ 71,821	$ 80,467

Depreciation expense for the six months ended June 30, 2012 and 2011 was $8,647 and $0, respectively.

NOTE 7: INTANGIBLE ASSET

Intangible asset amounted to $32,430 and $40,841 as of June 30, 2012 and December 31, 2011, respectively, and mainly consisted of the acquired software for the purpose of managing laboratory results pursuant to a software installation agreement entered into on June 8, 2011. The amortization period for the purchased software is 3 years. Amortization expense for the six months ended June 30, 2012 and 2011 was $8,410 and $0, respectively.

Future estimated amortization expenses as of June 30, 2012 for the five succeeding years is as follows:

As of June 30,	Amounts
2013	$ 16,822
2014	15,447
2015	161
2016	—
2017	—
	$ 32,430

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

NOTE 8: LINE OF CREDIT

In June 2011, the Company entered into a commercial line of credit agreement with JPMorgan Chase Bank. The term of the loan began on June 28, 2011 and matured of June 28, 2012. On July 23, 2012, the Company entered into a business loan extension agreement with JPMorgan Chase Bank to extend the loan for three months from the original maturity date. The line of credit agreement provides for borrowings of up to $1,000,000. The adjustable interest rate is a rate per annum equal to the sum of an index, which is the LIBOR Rate plus 1.914 percentage point(s). The outstanding balance of the line of credit was $250,000 and $1,000,000 as of June 30, 2012 and December 31, 2011, respectively. The adjustable annual interest rate for the line of credit was 2.9832% and 2.2070% as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 and December 31, 2011, $250,000 and $1,000,000 of cash was restricted as collateral for the commercial line of credit, respectively.

NOTE 9: ACCRUED EXPENSES

Accrued expenses consisted of the following:

	June 30, 2012	December 31, 2011
Accrued expenses	$ 987,327	$ 201,113
Accrued bonus payable	85,506	153,830
Accrued payroll tax liabilities	4,095	87,386
	$ 1,076,928	$ 442,329

NOTE 10: 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 $0.001 per share, and 10,000,000 shares of Preferred Stock, par value $0.001 per share.

Reverse Stock-Split

On September 28, 2010, the Board of Directors approved a 1-for-2.26332 reverse share split for all issued and outstanding shares of Common Stock, with no change to the par value of the Common Stock.

Prior Issuances of Common Stock

On April 30, 2009 (inception), the Company issued 1,767,316 shares (or 4,000,000 shares prior to the reverse stock-split on September 28, 2010) to Ensisheim Partners LLC, a related party to the Company through common ownership, for cash in the amount of $24,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010); 1,325,487 shares (or 3,000,000 shares prior to the reverse stock-split on September 28, 2010) to Manistee Ventures LLC, a related party to the Company through common ownership, for cash in the amount of $18,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010); and 883,662 shares (or 2,000,000 shares prior to the reverse stock-split on September 28, 2010) to the Chairman, CEO and President of the Company at that time for cash in the amount of $12,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010).

On July 28, 2009, the Company issued 39,765 shares (or 90,000 shares prior to the reverse stock-split on September 28, 2010) to a director of the Company for cash in the amount of $540, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010).

On December 28, 2009, the Company issued 883,658 shares (or 2,000,000 shares prior to the reverse stock-split on September 28, 2010) to Ensisheim Partners LLC for cash in the amount of $100,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

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

NOTE 10: STOCKHOLDERS' EQUITY – (continued)

On January 21, 2010, the Company issued 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) to forty-four (44) investors for cash in the amount of $98,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

On January 21, 2010, the Company issued 132,549 shares (or 300,000 shares prior to the reverse stock-split on September 28, 2010) to a servicer for effecting transactions intended to cause the Company to become a public company and to have its securities traded in the United States. The shares were issued at a value of $15,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010), the same price as the issuance of the 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date.

On January 21, 2010, the Company issued an additional 53,020 shares (or 120,000 shares prior to the reverse stock-split on September 28, 2010) to a shareholder who acquired 13,255 shares (or 30,000 shares prior to the reverse stock-split on September 28, 2010) 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 $0.05 per share prior to the reverse stock-split on September 28, 2010), the same price as the issuance of the 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date.

On January 23, 2010, the Company issued 35,346 shares (or 80,000 shares prior to the reverse stock-split on September 28, 2010) to an investor for cash in the amount of $4,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

On April 27, 2010, the Company issued 13,256 shares (or 30,000 shares prior to the reverse stock-split on September 28, 2010) to a service provider for website development services pursuant to an original agreement between the Company and the web site developer executed on December 14, 2009 (the "measurement date"), where it was agreed at that time that, at the Company's option, $50,000 would be paid or 13,256 shares (or 30,000 shares of common stock prior to the reverse stock-split on September 28, 2010) would be issued to the developer in exchange for his services.

Private Placements and Warrants

On April 28, May 31, June 10, and June 23, 2011, pursuant to Securities Purchase Agreements with various investors (the "Investors"), the Company issued 5,256,800 shares of the Company's common stock and 5,256,800 warrants (the "Investor Warrants"), each of which entitles the investors to purchase the Company's common stock at $1.25 per share, for aggregate gross proceeds of $6,571,000 (the "Private Placement").

Placement Agent Fees

In connection with the Private Placement, the Company paid Dawson James Securities, Inc. (the "Placement Agent"), a cash fee equal to 10% of the gross proceeds from sale of the common stocks and warrants, plus 3% non-accountable expense allowance, an aggregate of $857,230 (the "Placement Agent Fee"). In addition, the Company entered into Warrant Agreements with the placement agent pursuant to which the Placement Agent received 788,520 warrants (the "Placement Agent Warrants"), each of which entitles the Placement Agent to purchase one share of the Company's common stock at $1.60 per share, plus an additional 788,520 warrants (the "Placement Agent Warrants"), each of which entitles the placement agent to purchase the Company's common stock at $1.25 per share. The cash payment of $857,230 Placement Agent Fee and the $495,876 aggregated initial fair value of the Placement Agent Warrants (see *Fair Value Considerations* below) were directly attributable to an actual offering and were charged through additional paid-in capital in accordance with the SEC Staff Accounting Bulletin (SAB) Topic 5A.

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

Warrants

The Warrants, including the Investor Warrants and the Placement Agent Warrants, are exercisable at any time commencing after the earliest of the following to occur (the "Initial Exercise Date"):

(a) Six (6) months from the closing of the Company Initial Public Offering (initial public offering of the Company's Common Stock registered under the Securities Act),

(b) The closing of a "fundamental transaction" (in case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock, or in case of any consolidation or merger of the Company with or into another corporation or entity, or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company), or

(c) Closing of a "significant private financing" (sale of the Company's securities primarily for capital raising purposes in a transaction or series of related transactions that is exempt from registration under the Securities Act and in which the Company issues securities representing at least 20% of the then outstanding capital stock of the Company, calculated assuming the conversion or exercise of all outstanding options, warrants and other securities convertible into or exercisable for capital stock of the Company).

The Warrants shall expire and no longer be exercisable on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"). The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company. The Warrants may be exercised for cash or, at the option of the Investor, may be exercised on a cashless basis. There are no redemption features embodied in the Warrants and they have met the conditions provided in current accounting standards for equity classification.

Fair Value Considerations

The Company's accounting for the issuance of warrants to the Investors and the Placement Agent required the estimation of fair values of the financial instruments. The development of fair values of financial instruments requires the selection of appropriate methodologies and the estimation of often subjective assumptions. The Company selected the valuation techniques based upon consideration of the types of assumptions that market participants would likely consider in exchanging the financial instruments in market transactions. The warrants were valued using a Black-Scholes-Merton Valuation Technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments.

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

The Investor Warrants and the Placement Agent Warrants were initially valued at $1,808,025 or $0.344 per warrant, $228,712 or $0.290 per warrant, and $267,164 or $0.339 per warrant, respectively. The following tables reflect assumptions used to determine the fair value of the Warrants:

		April – June 2011	December 2011	
	Fair Value Hierarchy Level	Investor Warrants	Placement Agent Warrants	Placement Agent Warrants
Indexed shares		5,256,800	788,520	788,520
Exercise price		$ 1.60	$ 1.60	$ 1.25
Significant assumptions:				
Stock price	3	$ 0.906	$ 0.906	$ 0.906
Remaining term	3	6 years	6 years	6 years
Risk free rate	2	2.49%	1.12%	1.12%
Expected volatility	3	53.55%	54.21%	54.21%

Fair value hierarchy of the above assumptions can be categorized as follows:

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

- Risk-free rate — The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the warrants.

(3) Level 3 inputs include:

- Stock price — The Company's common stock was not publicly traded at the time the Warrants were issued. Therefore, the stock price was determined implicitly from an iterative process in order for the combined fair value of the common stock and the warrants to equal the amount of proceeds received in the Private Placement, based upon the assumption that the Private Placement was the result of an arm's length transaction.
- Remaining term — The Company does not have a history to develop the expected term for its warrants. Accordingly, the Company expected that the Initial Exercise Date to occur within one year from the date of issuance plus the contractual term in the calculations.
- Expected volatility — We did not have a historical trading history sufficient to develop an internal volatility rate for use in the model. As a result, as required by ASC 718-10-30, the Company has accounted for the warrants using the calculated value method. The Company identified seven public entities in the similar industry for which share price information was available, and considered the historical volatilities of those public entities' share prices in calculating the expected volatility appropriate to the Company.

Stock Option and Incentive Plan

On September 28, 2010, the Board of Directors approved the adoption of the 2010 Stock Option and Incentive Plan, or the 2010 Plan, subject to stockholder approval, to provide 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. An aggregate of 1,000,000 shares (or 2,263,320 shares prior to the reverse stock-split on September 28, 2010) are reserved for issuance in connection with awards granted under the 2010 Plan, such

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

number of shares to be subject to adjustment as provided in the plan and in any award agreements entered into by the Company under the plan, and upon the exercise or conversion of any awards granted under the plan.

On April 4, 2011, 45,000 non-qualified stock options were granted under the Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company.

On September 1, 2011, 219,000 incentive stock options were granted under the Plan to employees and officers and 200,000 non-qualified stock options were granted under the Plan to non-employee directors, respectively, for their employment with and services to be provided to the Company (see Note 14).

On April 30, 2012, 19,757 non-qualified stock options were granted under the Plan to members of the Board of Directors for their services provided to the Company.

NOTE 11: 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.

As a result of the Company's cumulative losses, management has concluded that a full valuation allowance against the Company's net deferred tax assets is appropriate. No income tax liabilities existed as of June 30, 2012 and December 31, 2011 due to the Company's continuing operating losses.

NOTE 12: 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, 2012 and December 31, 2011, the Company had $87,997 and $2,660,821 in excess of the FDIC insured limit, respectively.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Lease Commitments

On September 29, 2010, the Company entered into a commercial lease agreement with CompleGen, Inc. for laboratory space located in Seattle, WA. The lease provides for monthly rent of $3,658 and a security deposit of $3,658. The lease terms are from September 29, 2010 through March 31, 2011, at which time the lease has converted to month to month unless two months' prior written notice of the intent to terminate the agreement is given. The monthly rent for the lease increased to $4,267 commencing January 2012. For the six months ended June 30, 2012, we incurred $25,602 of rent expense for the lease.

On March 4, 2011, the Company entered into a commercial lease agreement with Sanders Properties, LLC for office space located in Seattle, WA. The lease provides for monthly rent of $1,100 and a security deposit of $1,500. The lease terms are from April 1, 2011 through March 31, 2013. For the six months ended June 30, 2012, we incurred $6,600 of rent expense for the lease.

On July 9, 2011, the Company entered into a commercial lease agreement with Sanders Properties, LLC for additional office space located in Seattle, WA. The lease provides for monthly rent of $600 and a security

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NOTE 13: COMMITMENTS AND CONTINGENCIES – (continued)

deposit of $1,200. The lease terms are from July 11, 2011 through July 31, 2012. For the six months ended June 30, 2012, we incurred $3,600 of rent expense for the lease. This lease terminated on July 31, 2012 and was not renewed.

On September 27, 2011, the Company entered into another commercial lease agreement with Sanders Properties, LLC for additional office space located in Seattle, WA. The lease provides for monthly rent of $1,400 and a security deposit of $1,000. The lease terms are from October 1, 2011 to March 31, 2012. For the period of October 1, 2011 through March 31, 2012, we incurred $8,400 of rent expense for the lease. This lease terminated on March 31, 2012 and was not renewed.

On December 9, 2011, the Company entered into another commercial lease agreement with Fred Hutchinson Research Center for lab and office space located in Seattle, WA. The lease provides for monthly rent of $16,395 for the period from February 24, 2012 to August 31, 2012, $19,923 for the period from September 1, 2012 to August 31, 2013, and $20,548 for the period from September 1, 2013 to November 29, 2014. The security deposit of $32,789 was paid in March 2012 and recorded as Security Deposit on the consolidated balance sheet as of June 30, 2012. For the six months ended June 30, 2012, we incurred $94,030 of rent expense for the lease.

The future minimum lease payments due subsequent to June 30, 2012 under all non-cancelable operating leases for the next five years are as follows:

As of June 30,	Amount
2013	$ 244,507
2014	245,324
2015	102,740
2016	—
2017	—
Thereafter	—
Total minimum lease payments	$ 592,571

Contingencies

On June 30, 2011, Robert Kelly, the Company’s former President, filed a counterclaim against the Company in an arbitration proceeding, alleging breach of contract in connection with the termination of a consulting agreement between Mr. Kelly (dba Pitslayer) and the Company. The consulting agreement was terminated by the Company in September 2010. Mr. Kelly seeks $450,000 in compensatory damages, which is the amount he claims would have been earned had the consulting agreement been fulfilled to completion. The Company is in arbitration with Mr. Kelly and is reasonably confident in its defenses to Mr. Kelly's claims. Consequently, no provision or liability has been recorded for Mr. Kelly’s claims as of June 30, 2012 and December 31, 2011. However, it is at least reasonably possible that the Company’s estimate of its liability may change in the near term. Any payments by reason of an adverse determination in this matter will be charged to earnings in the period of determination.

NOTE 14: RELATED PARTY TRANSACTIONS

Loans from Officer

On May 26, 2009, the Company borrowed $5,000 from its Chairman of the Board and Chief Executive Officer 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. This note was repaid in full on May 16, 2011 including approximately $439 of accrued interest.

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

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 loan under the note was funded to the Company on July 12, 2010. The note bears a 10% interest rate per annum and carries a $4,000 loan origination fee which is accreted to the loan balance throughout the life of the loan. The $4,000 loan origination fee was fully accreted to the loan balance as of March 31, 2011 and December 31, 2010, and recorded as interest expense for the year ended December 31, 2010. This note (including the $4,000 origination fee) was repaid in full on May 19, 2011 including approximately $8,959 in accrued interest.

On November 3, 2010, the Company entered into a line of credit agreement for borrowing up to $500,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The note bears a 10% interest rate per annum. An aggregate of $140,000 was funded to the Company under the line of credit as of March 31, 2011 which was repaid on May 31, 2011, including approximately $6,093 in accrued interest. As of December 31, 2011, the unpaid principal balance drawn from the line of credit was $5,078, which was fully repaid on March 31, 2012, as well as $823 in interest.

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 Technology 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 revenue, 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. From inception through December 31, 2010, the Company had incurred $16,250 in patent-related expenses under the license agreement with Ensisheim.

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 reversed through royalty expense 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 with security deposit of $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 until April 1, 2011 when the commercial lease agreement the Company entered into with Sanders Properties, LLC became effective (see Note 13). The $1,100 security deposit paid to Ensisheim remained outstanding and was recorded as Due from Related Party as of June 30, 2012.

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

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 Technology 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.

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 consulting expense had been paid.

On July 22, 2010, the Company restated and amended the employment agreements with its CEO and CTO. 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 $391,071 and $278,571 as of March 31, 2011 and December 31, 2010 and paid in full in April 2011. For the twelve-month periods ended December 31, 2011 and 2010, salaries and bonuses of the CEO and CTO amounted to $693,048 and $377,620, of which $492,095 and $0 was recorded to research and development expense, respectively. For the six months ended June 30, 2012, salaries and bonuses of CEO and CTO amounted to $179,625 and $133,700, of which $89,813 and $133,700 were recorded to research and development expense, respectively.

Share-Based Compensation

The amended employment agreement with the CEO, entered into on July 22, 2010, granted options to purchase 250,000 shares (or 565,830 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share, in consideration of his service to the Company. Of these options, 25% (or 62,500 shares) vested on December 31, 2010 with the remaining 75% (or 187,500 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

The amended employment agreement with the CTO, entered into on July 22, 2010, granted options to purchase 100,000 shares (or 226,332 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share in consideration of her service to the Company. Of these options, 25% (or 25,000 shares) vested on December 31, 2010 with the remaining 75% (or 75,000 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

On April 4, 2011, 45,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest as follows:

(i) 11,250 option shares shall vest ninety (90) days after the date of grant;

(ii) 11,000 option shares shall vest one hundred and eighty (180) days after the date of grant;

(iii) 11,500 option shares shall vest two hundred and seventy (270) days after the date of grant;

(iv) 11,250 option shares shall vest three hundred and sixty (360) days after the date of grant.

On September 1, 2011, 219,000 incentive stock options were granted under the 2010 Stock Option and Incentive Plan to employees and officers as part of their employment agreements, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

(i) twenty-five percent (25%) of the underlying shares on the first anniversary of the date of grant; and

(ii) one-forty eighth (1/48) of the underlying shares monthly thereafter.

On September 1, 2011, 200,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) 80,000 option shares shall vest on September 1, 2011;

(ii) 30,000 options shares shall vest on December 1, 2011;

(iii)30,000 options shares shall vest on March 1, 2012;

(iv)30,000 options shares shall vest on June 1, 2012;

(v) 30,000 options shares shall vest on September 1, 2012.

On April 30, 2012, 19,757 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for serving as directors of the Company, at an exercise price of $6.00 per share. These options have a ten-year contractual term and shall vest and become exercisable in full immediately as of the grant date.

In accordance with the guidance provided in ASC Topic 718, Stock Compensation (formerly SFAS 123R), the compensation costs associated with these options are recognized, based on the grant-date fair values of these options, over the requisite service period, or vesting period. Accordingly, the Company recognized a compensation expense of $70,662 for the six months ended June 30, 2012.

The Company estimated the fair value of these options using the Black-Scholes-Merton option pricing model based on the following weighted-average assumptions:

	CEO & CTO	Dr. Hunkapiller	Employees & Officers	Non-employee Directors	Non-employee Directors
Date of grant	22-Jul-10	4-Apr-11	1-Sep-11	1-Sep-11	30-Apr-12
Fair value of common stock on date of grant	$ 2.756(B)	$ 0.906(C)	$ 0.906(C)	$ 0.906(C)	$ 6.00(D)
Exercise price of the options	$ 5.00	$ 1.25	$ 1.25	$ 1.25	$ 6.00
Expected life of the options (years)	3.33	5.31	5.65	5.65	5.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	58.59%	54.12%	53.90%	53.90%	62.46%
Risk-free interest rate	1.03%	2.26%	1.08%	1.08%	0.89%
Expected forfeiture per year (%)	0.00%	0.00%	(A)	0.00%	0.00%
Weighted-average fair value of the options (per unit)	$ 0.6744	$ 0.3729	$ 0.3579	$ 0.3579	$ 3.0367

(A) 0.00% for the first year after the grant date, and 2.50% for every three months thereafter.

(B) The fair value of the Company's common stock was derived implicitly from the public offering filed in March 2010 at $3.00 per share and from the terms of an underwritten offering contemplated in July 2010 at $6.00 per Unit that was filed in October 2010, with $2.756 per share being allocated to common stock using an iterative approach in order for the combined fair value of the common stock and warrants to equal the amount of consideration to be received in the offering.

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

(C) The fair value of the Company's common stock was derived implicitly from the Private Placement during April through June 2011 at $1.25 per Unit, wherein one Unit was comprised of one share of common stock and one warrant to purchase one share of common stock at an exercise price of $1.60 per share.

(D) The fair value of the Company's common stock was derived implicitly from the public offering filed in February 2012 at $6.00 per share.

In October 2010, the Company filed a Registration Statement on Form S-1 with the SEC. However, the market for early stage investments in medical technology transactions had deteriorated between mid-2010 and early 2011. In addition, the Company's ability to negotiate with potential investors was limited. The Company's cash position had also diminished since the summer of 2010 and the founders of the Company were unable to finance the Company at the level needed for growth. The withdrawal of the Registration Statement in February 2011 further weakened the impression of the Company in the market. The fair value of the Company's common stock decreased from $2.756 in 2010 to $0.906 in 2011 primarily because the grants in 2011 relied on the arm's-length negotiation of the private placement financing (for illiquid stock) as opposed to relying on an anticipated initial public offering (of publicly-traded stock), as was the case in 2010. The private placement transactions were between the company and over 200 accredited investors and ascribed a value of $0.906 to the Company's common stock.

Fair value hierarchy of the above assumptions can be categorized as follows:

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

- Risk-free rate — The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the options.

(3) Level 3 inputs include:

- Expected lives — The expected lives of options granted were derived from the output of the option valuation model and represented the period of time that options granted are expected to be outstanding.
- Expected forfeitures per year — The expected forfeitures are estimated at the dates of grant and will be revised in subsequent periods pursuant to actual forfeitures, if significantly different from the previous estimates.
- Expected volatility — We did not have a historical trading history sufficient to develop an internal volatility rate for use in the model. As a result, as required by ASC 718-10-30, the Company has accounted for the options using the calculated value method. The Company identified seven public entities in the similar industry for which share price information was available, and considered the historical volatilities of those public entities' share prices in calculating the expected volatility appropriate to the Company.

The estimates of fair value from the model are theoretical values of stock options and changes in the assumptions used in the model could result in materially different fair value estimates. The actual value of the stock options will depend on the market value of the Company's common stock when the stock options are exercised.

Notwithstanding that the fair market value of the Company's common stock in September 2011 was $0.906 per share, the Company filed a Registration Statement on Form S-1 in February 2012 to offer shares of its common stock at $5.00 to $7.00 per share. This increase in share value is justified by the accomplishments achieved by the Company between September 2011 and February 2012. Specifically, the MASCT System manufacturing had been completed, supplies for the Field Experience Trial were completed and the Company

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had established an FDA-compliant inventory and warehousing facility. Further, the National Reference Laboratory for Breast Health, the Company's wholly-owned subsidiary, was established as a Delaware corporation, was equipped and staffed, and the protocols and procedures needed to be a CLIA-registered facility were put in place. Moreover, the ForeCYTE test, which involves cytopathology and five biomarkers of hyperplasia and one biomarker of sample integrity, was completed, tested, and validated to CLIA standards. Computer hardware and software was acquired, set up, made operational, and the ForeCYTE report template, with unique reporting information for the requesting physician and a patient letter template, were created. The company explored and identified a technology for the ArgusCYTE test (which is the technology that the Company is currently using for the ArgusCYTE test), negotiated a supply agreement with the supplier, and tested and validated the test. An ArgusCYTE report template was also established and a new reporting scheme invented and a patent application filed.

Further, the Company acquired the FullCYTE Microcatheter System from Hologics, reestablished the supply chain and began preparing for a commercial launch later in 2012 or early 2013. In doing so, the Company increased its U.S. patent portfolio from 5 to 31 and its total portfolio of patents and applications to over 120. The Hologic patent estate also contains the key patents that permit microcatheter-based intraductal treatment of cancer and pre-cancer. The Company also prepared marketing documents for the launch of the ForeCYTE and ArgusCYTE tests, which occurred in December 2011. The Company studied the use of the FullCYTE microcatheter in six patients to establish the feasibility of performing next generation tests on samples taken with the microcatheters. Additionally, the Company's scientists invented and filed a patent application to NextCYTE technology and the Company has negotiated a one-year option to acquire commercial rights to additional NextCYTE-related technology to augment its existing position and has started researching the utility of the technology in providing superior information in the setting of cancer diagnosis and treatment selection.

The Company also established third-party relationships to perform the reimbursement billing in anticipation of the commercial launch and to permit electronic remittance of testing revenue. The Company launched a Field Test Experience limited launch of both the ForeCYTE and ArgusCYTE tests on schedule in December 2011 and has seen significant market acceptance of both tests from the doctors and clinics using the tests. The Company passed a CLIA inspection and became CLIA-certified, has obtained several state licenses and has pending applications in all remaining states where licensure is required. Finally, the Board of Directors and scientific advisory board were each strengthened with the addition of key new executives and scientists.

The Board of Directors considered each of the foregoing achievements, and considered input from the Company's investment bankers, in determining that the value of the Company supported a valuation of $5.00 to $7.00 per share of the Company's common stock when the Company filed its initial Registration Statement on Form S-1 in February 2012.

Options issued and outstanding as of June 30, 2012 and their activities during the six months then ended are as follows:

	Number of Underlying Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life Remaining in Years
Outstanding as of January 1, 2012	608,000	$ 3.41	
Granted	19,757	6.00	
Expired	—	—	
Forfeited	—	—	
Outstanding as of June 30, 2012	627,757	3.49	5.76
Exercisable as of June 30, 2012	453,507	3.27	6.22
Vested and expected to vest[(1)]	627,757	3.49	5.76

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(1) Includes vested shares and unvested shares after a forfeiture rate is applied.

As of June 30, 2012 and December 31, 2011, the aggregate intrinsic value of options outstanding, exercisable, and vested and expected to vest was $389,053 and $329,053, respectively.

A summary of the status of the Company's unvested shares as of June 30, 2012 and changes during the six-monh period then ended is presented below:

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2012	289,250	$ 159,013
Granted	19,757	60,000
Vested	(134,757)	(115,174)
Forfeited	—	—
Unvested as of June 30, 2012	174,250	$ 103,839

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2012, the date which the consolidated financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2012 have been incorporated into these consolidated financial statements and there are no subsequent events that require disclosure in accordance with FASB ASC Topic 855, "Subsequent Events".

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Atossa Genetics Inc. (a development stage company) (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended and since inception (April 30, 2009). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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, 2011 and 2010 and the consolidated results of its operations and its cash flows for the years then ended and since inception (April 30, 2009) in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 of the consolidated 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KCCW Accountancy Corp.

Diamond Bar, California
March 22, 2012

KCCW Accountancy Corp.
22632 Golden Springs Dr. #230, Diamond Bar, CA 91765, USA
Tel: +1 909 348 7228 • Fax: +1 626 529 1580 • info@kccwcpa.com

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 1,910,821	$ 10,253
Restricted cash	1,000,000	—
Accounts receivable	1,224	—
Prepaid expense	31,184	—
Rental deposit	2,200	—
Total Current Assets	2,945,429	10,253
Fixed Assets		
Furniture and Equipment, net	80,467	—
Total Fixed Assets	80,467	—
Other Assets		
Security deposit	5,157	4,757
Intangible assets, net	40,841	—
Total Other Assets	45,998	4,757
Total Assets	$ 3,071,894	$ 15,010
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Line of Credit	$ 1,000,000	$ —
Accounts payable	64,766	—
Accrued payroll	—	278,571
Accrued expenses	442,329	399,289
Note payable – related party	5,078	189,000
Total Current Liabilities	1,512,173	866,861
Stockholders' Equity (Deficit)		
Preferred stock – $.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock – $.001 par value; 75,000,000 shares authorized, 11,256,867 and 6,000,067 shares issued and outstanding, respectively	11,257	6,000
Additional paid-in capital	6,200,520	351,936
Accumulated deficit	(4,652,056)	(1,209,787)
Total Stockholders' Equity (Deficit)	1,559,721	(851,851)
Total Liabilities and Stockholders' Equity (Deficit)	$ 3,071,894	$ 15,010

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

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Years Ended December 31,		From April 30, 2009 (Inception) Through December 31, 2011
	2011	2010	
Net Product Revenues	$ 1,500	$ -	$ 1,500
Cost of Goods Sold	(5,164)	-	(5,164)
Loss on Reduction of Inventory to LCM	(92,026)	-	(92,026)
Gross Profit	(95,690)	-	(95,690)
Selling expenses	(160,851)	(12,204)	(173,055)
General and Administrative expenses	(3,172,649)	(1,065,792)	(4,361,299)
Total operating expenses	(3,333,500)	(1,077,996)	(4,534,353)
Operating Loss	(3,429,190)	(1,077,996)	(4,630,043)
Interest Income	4,914	455	5,369
Interest Expense	(17,992)	(9,139)	(27,131)
Net Loss before Income Taxes	(3,442,269)	(1,086,680)	(4,651,806)
Income Taxes	-	250	250
Net Loss	$ (3,442,269)	$ (1,086,930)	$ (4,652,056)
Loss per common share – basic	$ (0.38)	$ (0.18)	$ (0.70)
Loss per common share – diluted	$ (0.38)	$ (0.18)	$ (0.70)
Weighted average shares outstanding, basic	9,117,746	5,935,897	6,645,834
Weighted average shares outstanding, diluted	9,117,746	6,004,721	6,645,834

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

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AUDITED)

	For The Years Ended December 31,		For The Period From April 30, 2009 (Inception) to December 31, 2011
	2011	2010	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(3,442,269)	$(1,086,930)	$(4,652,056)
Common shares issued for services	—	71,000	71,000
Compensation cost for stock options granted	140,056	30,396	170,452
Loss on reduction of inventory to LCM	92,026	—	92,026
Loan initiation fee accrued for notes payable	—	2,000	2,000
Depreciation and amortization	15,623	—	15,623
Adjustments to reconcile net loss to net cash provided by operating activities:			
Increase in accounts receivable	(1,224)	—	(1,224)
Increase in inventory	(92,026)	—	(92,026)
Increase in prepaid expenses	(31,184)	—	(31,184)
Increase in security deposits	(2,600)	(3,657)	(7,357)
(Decrease) Increase in accounts payable	64,765	—	64,766
(Decrease) Increase in accrued payroll	(278,571)	278,571	—
(Decrease) Increase in accrued expenses	43,040	363,008	442,329
Increase (Decrease) in royalty payable – related party	—	(12,500)	—
Net cash used in operating activities	(3,492,364)	(358,111)	(3,925,651)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of furniture & fixtures	(86,465)	—	(86,465)
Purchase of software	(50,466)	—	(50,466)
Net cash used in investing activities	(136,931)	—	(136,931)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stocks	5,713,785	102,000	5,970,325
Proceeds from bank line of credit	1,000,000	—	1,000,000
(Repayments) Proceeds of loans from related parties	(183,922)	182,000	3,078
Cash restricted for commercial line of credit	(1,000,000)	—	(1,000,000)
Net cash provided by financing activities	5,529,863	284,000	5,973,403
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	1,900,568	(74,111)	1,910,821
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	10,253	84,364	—
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 1,910,821	$ 10,253	$ 1,910,821
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$ 17,992	$ —	$ 17,992
Income taxes paid	$ —	$ 250	$ 250

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

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at April 30, 2009, Founders' shares issued at $0.014 per share for cash	3,976,465	$ 3,976	$ 50,024	$ —	$ 54,000
Issuance of shares for cash at $0.014 per share, July 28, 2009	39,765	40	500	—	540
Issuance of shares for cash at $0.11 per share, December 21, 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	4,899,888	$ 4,900	$ 149,640	$ (122,857)	$ 31,683
Issuance of common shares for cash at $0.11 per share, January 21, 2010	866,007	866	97,134	—	98,000
Issuance of common shares for services at $0.11 per share, January 21, 2010	185,569	186	20,814	—	21,000
Issuance of common shares for cash at $0.11 per share, January 23, 2010	35,347	35	3,965	—	4,000
Issuance of common shares on April 27, 2010 for services for $50,000 or 13,256 shares (30,000 shares post-split) as agreed upon in December 2009	13,256	13	49,987	—	50,000
Compensation cost for stock options granted to executives	—	—	30,396	—	30,396
Net loss for the year ended December 31, 2010	—	—	—	(1,086,930)	(1,086,930)
Balance at December 31, 2010	6,000,067	$ 6,000	$ 351,936	$(1,209,787)	$ (851,851)
Issuance of common shares and warrants for cash at $1.25 per share, April 29, 2011	1,612,000	1,612	1,748,438	—	1,750,050
Issuance of common shares and warrants for cash at $1.25 per share, June 1, 2011	1,376,000	1,376	1,495,024	—	1,496,400
Issuance of common shares and warrants for cash at $1.25 per share, June 10, 2011	682,000	682	741,008	—	741,690
Issuance of common shares and warrants for cash at $1.25 per share, June 24, 2011	1,586,800	1,587	1,724,058	—	1,725,645
Compensation cost for stock options to executives, directors and employees	—	—	140,056	—	140,056
Net loss for the year ended December 31, 2011	—	—	—	(3,442,269)	(3,442,269)
Balance at December 31, 2011	11,256,867	$ 11,257	$6,200,520	$(4,652,056)	$ 1,559,721

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

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS

The Company's operations began in December 2008 with the negotiations for the acquisition of the Mammary Aspirate Specimen Cytology Test System, or the MASCT System, patent rights and assignments and the FDA clearance for marketing, which acquisition was completed in January 2009. 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 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.

In December 2011 the Company established the National Reference Laboratory for Breast Health, or NRLBH, as a wholly-owned subsidiary. NRLBH is the Company's CLIA-certified laboratory where the ForeCYTE and ArgusCYTE test samples are screened for the presence of normal, pre-malignant, or malignant changes as determined by cytopathology and biomarkers that distinguish "usual" ductal hyperplasia, a benign condition, from atypical ductal hyperplasia, which may lead to cancer. These screening results provide patients and physicians with information about the care path that should be followed, depending on the individual risk of future cancer as determined by the results.

Development Stage Risk

To date, the Company has earned $1,500 in revenue from the sale of its MASCT System. 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 revenue 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 revenue 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 laboratory service revenue, 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.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: GOING CONCERN – (continued)

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

Basis of Presentation:

The accompanying consolidated financial statements include the financial statements of Atossa Genetics Inc. and its wholly-owned subsidiary NRLBH. All significant intercompany account balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Revenue Recognition:

Overview

The Company will recognize product and service revenue in accordance with GAAP when the following overall 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.

Product Revenue

The Company will recognize revenue for sales of the MASCT kits and devices upon receipt of cash during the initial three to six month period as the company has no sales history on which to determine the collectability. Shipping documents and the completion of any customer acceptance requirements, when applicable, will be used to verify product delivery. 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. Once a history of sales and collectability has been established, the company will recognize revenue on an accrual basis with an offsetting reserve for doubtful accounts based on the history during the initial sales period.

Service Revenue

The Company will record revenue for diagnostic testing on an accrual basis at the Medicare allowed and invoiced amount. Amounts invoiced above the Medicare amount, namely non-Medicare, are not recognized on an accrual basis and instead are recognized on a cash basis as received. Diagnostic testing revenue at the Medicare rate is recognized upon completion of the test, communication of results to the patient's physician, and when collectability is reasonably assured. Customer purchase orders and/or contracts will generally be used to determine the existence of an arrangement. Once the Company has historical sales and can determine the proper amount to recognize as uncollectible, it will then begin to recognize the entire amount, both Medicare and non-Medicare billing on an accrual basis, with an offsetting allowance for doubtful accounts recorded based on history. The Company estimates it will take between 3 to 6 months of sales history to determine a proper allowance.

Cash and Cash Equivalents:

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

As of December 31, 2011, $1,000,000 of cash was restricted as collateral for $1,000,000 of a commercial line of credit obtained from JPMorgan Chase Bank in September 2011 (see Note 8). This amount is designated as restricted cash under current assets on our consolidated balance sheet.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SUMMARY OF ACCOUNTING POLICIES – (continued)

Use of Estimates:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable:

Accounts receivable are recorded at net realizable value consisting of the carrying amount less allowance for doubtful accounts, as needed. We assess the collectability of accounts receivable based primarily upon the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends, and changes in customer payment patterns to evaluate the adequacy of these reserves.

Inventories:

The Company's inventories are stated at lower of cost or market. Cost is determined on a moving-average basis. Costs of inventories include purchase and related costs incurred in delivering the products to their present location and condition. Market value is determined by reference to selling prices after the balance sheet date or to management's estimates based on prevailing market conditions. Inherent in the lower of cost or market calculation are several significant judgments based on a review of the aging of the inventory, inventory movement of products, economic conditions, and replacement costs. Because the sales price of the MASCT System was substantially lower than its cost for the year ended December 31, 2011, resulting in the net realizable value of the MASCT System being determined at zero as of the balance sheet date through taking the average sales price subtracted by selling expenses per unit, a $92,026 loss on reduction of inventory to the lower of cost or market was assessed and recorded as of and for the year then ended. Additionally, management periodically evaluates the composition of its inventories at least quarterly to identify slow-moving and obsolete inventories to determine if valuation allowance is required. As of December 31, 2011 and 2010, management had identified no slow moving or obsolete inventory.

The Company provides ForeCYTE testing specimen collection kits to doctors with our MASCT System for doctors to collect specimens that are returned to the Company for diagnostic analysis. These collection kits are considered part of the MASCT System. During the initial marketing phase, the Company has decided to distribute the kits to customers at no cost and bundle them with the MASCT System, and has not intended to deem the kits as a primary product line due to their nominal cost and value per unit. As a result, the kits are immediately expensed and recorded as selling expense upon purchasing of the kits. For the year ended December 31, 2011, selling expense of $0 was recorded related to the ForeCYTE kits.

Property, plant, and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property, plant and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SUMMARY OF ACCOUNTING POLICIES – (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life (in years)
Machinery and equipment	5

Intangible assets:

For intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. Intangible assets as of December 31, 2011 were mainly software acquired for the purpose of managing laboratory results (see Note 7).

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 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.

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.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: PREPAID EXPENSES

Prepaid expenses consisted of the following:

	December 31, 2011	December 31, 2010
Prepaid insurances	$ 14,146	$ —
Prepaid hardware/software maintenance and support service fee	12,850	—
Prepaid rent	4,188	—
	$ 31,184	$ —

NOTE 5: OTHER CURRENT ASSETS

Other current assets amounted to $2,200 as of December 31, 2011, and mainly consisted of security deposits for two office leases. The lease terms are from July 11, 2011 through July 31, 2012 and from October 1, 2011 to March 31, 2012, respectively (see Note 13).

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment consisted of the following:

	December 31, 2011	December 31, 2010
Machinery and equipment	$ 86,465	$ —
Less: Accumulated depreciation	(5,998)	—
Property, plant, and equipment, net	$ 80,467	$ —

Depreciation expense for the years ended December 31, 2011 and 2010 was $5,998 and $0 respectively.

NOTE 7: INTANGIBLE ASSET

Intangible asset amounted to $40,841 as of December 31, 2011, mainly consisted of the acquired software for the purpose of managing laboratory results pursuant to a software installation agreement entered into on June 8, 2011. The amortization period for the purchased software is 3 years. Amortization expense for the year ended December 31, 2011 was $9,625.

Future estimated amortization expenses as of December 31, 2011 for the five succeeding years is as follows:

As of December 31,	Amounts
2012	$ 16,822
2013	16,822
2014	7,197
2015	—
2016	—
	$ 40,841

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: LINE OF CREDIT

Line of credit consisted of the following at December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Line of credit, JPMorgan Chase Bank	$1,000,000.00	$ —

In June 2011, the Company entered into a commercial line of credit agreement with JPMorgan Chase Bank. The term of the loan started from June 28, 2011 with maturity date on June 28, 2012. The line of credit agreement provides for borrowings up to $1,000,000. The balance of the line of credit was fully drawn up as of December 31, 2011. The adjustable interest rate is a rate per annum equal to the sum of an index, which is the LIBOR Rate plus 1.914 percentage point(s). The adjustable interest rate for the line of credit was 2.2070% as of December 31, 2011.

As of December 31, 2011, $1,000,000 of cash was restricted as collateral for the commercial line of credit.

NOTE 9: ACCRUED EXPENSES

Accrued expenses consisted of the following:

	December 31, 2011	December 31, 2010
Accrued expenses	$ 201,113	$ 391,749
Accrued bonus payable	153,830	—
Accrued payroll tax liabilities	87,386	7,540
	$ 442,329	$ 399,289

NOTE 10: 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 $0.001 per share, and 10,000,000 shares of Preferred Stock, par value $0.001 per share.

Reverse Stock-Split

On September 28, 2010, the Board of Directors approved a 1-for-2.26332 reverse share split for all issued and outstanding shares of Common Stock, with no change to the par value of the Common Stock.

Prior Issuances of Common Stock

On April 30, 2009 (inception), the Company issued 1,767,316 shares (or 4,000,000 shares prior to the reverse stock-split on September 28, 2010) to Ensisheim Partners LLC, a related party to the Company through common ownership, for cash in the amount of $24,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010); 1,325,487 shares (or 3,000,000 shares prior to the reverse stock-split on September 28, 2010) to Manistee Ventures LLC, a related party to the Company through common ownership, for cash in the amount of $18,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010); and 883,662 shares (or 2,000,000 shares prior to the reverse stock-split on September 28, 2010) to the Chairman, CEO and President of the Company at that time for cash in the amount of $12,000, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010).

On July 28, 2009, the Company issued 39,765 shares (or 90,000 shares prior to the reverse stock-split on September 28, 2010) to a director of the Company for cash in the amount of $540, or $0.014 per share (or $0.006 per share prior to the reverse stock-split on September 28, 2010).

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: STOCKHOLDERS' EQUITY – (continued)

On December 28, 2009, the Company issued 883,658 shares (or 2,000,000 shares prior to the reverse stock-split on September 28, 2010) to Ensisheim Partners LLC for cash in the amount of $100,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

On January 21, 2010, the Company issued 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) to forty-four (44) investors for cash in the amount of $98,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

On January 21, 2010, the Company issued 132,549 shares (or 300,000 shares prior to the reverse stock-split on September 28, 2010) to a servicer for effecting transactions intended to cause the Company to become a public company and to have its securities traded in the United States. The shares were issued at a value of $15,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010), the same price as the issuance of the 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date.

On January 21, 2010, the Company issued an additional 53,020 shares (or 120,000 shares prior to the reverse stock-split on September 28, 2010) to a shareholder who acquired 13,255 shares (or 30,000 shares prior to the reverse stock-split on September 28, 2010) 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 $0.05 per share prior to the reverse stock-split on September 28, 2010), the same price as the issuance of the 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date.

On January 23, 2010, the Company issued 35,346 shares (or 80,000 shares prior to the reverse stock-split on September 28, 2010) to an investor for cash in the amount of $4,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010).

On April 27, 2010, the Company issued 13,256 shares (or 30,000 shares prior to the reverse stock-split on September 28, 2010) to a service provider for website development services pursuant to an original agreement between the Company and the web site developer executed on December 14, 2009 (the "measurement date"), where it was agreed at that time that, at the Company's option, $50,000 would be paid or $50,000 in the form of 13,256 shares (or 30,000 shares of common stock prior to the reverse stock-split on September 28, 2010) would be issued to the developer in exchange for his services.

Private Placements and Warrants

On April 28, May 31, June 10, and June 23, 2011, pursuant to Securities Purchase Agreements with various investors (the "Investors"), the Company issued 5,256,800 shares of the Company's common stock and 5,256,800 warrants (the "Investor Warrants"), each of which entitles the investors to purchase the Company's common stock at $1.25 per share, for aggregate gross proceeds of $6,571,000 (the "Private Placement").

Placement Agent Fees

In connection with the Private Placement, the Company paid Dawson James Securities, Inc. (the "Placement Agent"), a cash fee equal to 10% of the gross proceeds from sale of the common stocks and warrants, plus 3% non-accountable expense allowance, an aggregate of $857,230 (the "Placement Agent Fee"). In addition, the Company entered into Warrant Agreements with the placement agent pursuant to which the Placement Agent received 788,520 warrants (the "Placement Agent Warrants"), each of which entitles the Placement Agent to purchase one share of the Company's common stock at $1.60 per share, plus an additional 788,520 warrants (the "Placement Agent Warrants"), each of which entitles the placement agent to purchase the Company's common stock at $1.25 per share. The cash payment of $857,230 Placement Agent Fee and the $495,876 aggregated initial fair value of the Placement Agent Warrants (see *Fair Value Considerations*

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

below) were directly attributable to an actual offering and were charged through additional paid-in capital in accordance with the SEC Staff Accounting Bulletin (SAB) Topic 5A.

Warrants

The Warrants, including the Investor Warrants and the Placement Agent Warrants, are exercisable at any time commencing after the earliest of the following to occur (the "Initial Exercise Date"):

(a) Six (6) months from the closing of the Company Initial Public Offering (initial public offering of the Company's Common Stock registered under the Securities Act),

(b) The closing of a "fundamental transaction" (in case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock, or in case of any consolidation or merger of the Company with or into another corporation or entity, or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company), or

(c) Closing of a "significant private financing" (sale of the Company's securities primarily for capital raising purposes in a transaction or series of related transactions that is exempt from registration under the Securities Act and in which the Company issues securities representing at least 20% of the then outstanding capital stock of the Company, calculated assuming the conversion or exercise of all outstanding options, warrants and other securities convertible into or exercisable for capital stock of the Company).

The Warrants shall expire and no longer be exercisable on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"). The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company. The Warrants may be exercised for cash or, at the option of the Investor, may be exercised on a cashless basis. There are no redemption features embodied in the Warrants and they have met the conditions provided in current accounting standards for equity classification.

Fair Value Considerations

The Company's accounting for the issuance of warrants to the Investors and the Placement Agent required the estimation of fair values of the financial instruments. The development of fair values of financial instruments requires the selection of appropriate methodologies and the estimation of often subjective assumptions. The Company selected the valuation techniques based upon consideration of the types of assumptions that market participants would likely consider in exchanging the financial instruments in market transactions. The warrants were valued using a Black-Scholes-Merton Valuation Technique because it embodies all of the requisite assumptions (including trading volatility, estimated terms and risk free rates) necessary to fair value these instruments.

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

The Investor Warrants and the Placement Agent Warrants were initially valued at $1,808,025 or $0.344 per warrant, $228,712 or $0.290 per warrant, and $267,164 or $0.339 per warrant, respectively. The following tables reflect assumptions used to determine the fair value of the Warrants:

		April-June 2011	December 2011	
	Fair Value Hierarchy Level	Investor Warrants	Placement Agent Warrants	Placement Agent Warrants
Indexed shares		5,256,800	788,520	788,520
Exercise price		$ 1.60	$ 1.60	$ 1.25
Significant assumptions:				
Stock price	3	$ 0.906	$ 0.906	$ 0.906
Remaining term	3	6 years	6 years	6 years
Risk free rate	2	2.49%	1.12%	1.12%
Expected volatility	3	53.55%	54.21%	54.21%

Fair value hierarchy of the above assumptions can be categorized as follows:

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

- Risk-free rate — The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the warrants.

(3) Level 3 inputs include:

- Stock price — The Company's common stock was not publicly traded at the time the Warrants were issued. Therefore, the stock price was determined by taking the $1.25 price per Unit (one Unit consisted of one share of common stock and one warrant) issued in the Private Placement and subtracting from $1.25 the fair value of the Warrant, which was determined by the Black-Scholes method. The difference remaining after subtracting the fair value of the Warrant ($0.344) from the price per Unit ($1.25) is the fair value of the common stock ($0.906).
- Remaining term — The Company does not have a history to develop the expected term for its warrants. Accordingly, the Company expected that the Initial Exercise Date to occur within one year from the date of issuance plus the contractual term in the calculations.
- Expected volatility — We did not have a historical trading history sufficient to develop an internal volatility rate for use in the model. As a result, as required by ASC 718-10-30, the Company has accounted for the warrants using the calculated value method. The Company identified seven public entities in the similar industry for which share price information was available, and considered the historical volatilities of those public entities' share prices in calculating the expected volatility appropriate to the Company.

Stock Option and Incentive Plan

On September 28, 2010, the Board of Directors approved the adoption of the 2010 Stock Option and Incentive Plan, or the 2010 Plan, subject to stockholder approval, to provide 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. An aggregate of 1,000,000 shares (or 2,263,320 shares prior to the reverse stock-split on

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NOTE 10: STOCKHOLDERS' EQUITY – (continued)

September 28, 2010) are reserved for issuance in connection with awards granted under the 2010 Plan, such number of shares to be subject to adjustment as provided in the plan and in any award agreements entered into by the Company under the plan, and upon the exercise or conversion of any awards granted under the plan.

On April 4, 2011, 45,000 non-qualified stock options were granted under the Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company.

On September 1, 2011, 219,000 incentive stock options were granted under the Plan to employees and officers and 200,000 non-qualified stock options were granted under the Plan to non-employee directors, respectively, for their employment with and services to be provided to the Company (see Note 14).

NOTE 11: 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.

As a result of the Company's cumulative losses, management has concluded that a full valuation allowance against the Company's net deferred tax assets is appropriate. No income tax liabilities existed as of December 31, 2011 and 2010 due to the Company's continuing operating losses.

NOTE 12: 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, 2011 and 2010, the Company had $2,660,821 and $0 in excess of the FDIC insured limit.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Lease Commitments

On September 29, 2010, the Company entered into a commercial lease agreement with CompleGen, Inc. for laboratory space located in Seattle, WA. The lease provides for monthly rent of $3,657.05 and a security deposit of $3,657.50. The lease terms are from September 29, 2010 through March 31, 2011, at which time the lease has converted to month to month unless two months' prior written notice of the intent to terminate the agreement is given.

On March 4, 2011, the Company entered into a commercial lease agreement with Sanders Properties, LLC for office space located in Seattle, WA. The lease provides for monthly rent of $1,100 and a security deposit of $1,500. The lease terms are from April 1, 2011 through March 31, 2013.

On July 9, 2011, the Company entered into a commercial lease agreement with Sanders Properties, LLC for additional office space located in Seattle, WA. The lease provides for monthly rent of $600 and a security deposit of $1,200. The lease terms are from July 11, 2011 through July 31, 2012.

On September 27, 2011, the Company entered into another commercial lease agreement with Sanders Properties, LLC for additional office space located in Seattle, WA. The lease provides for monthly rent of

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NOTE 13: COMMITMENTS AND CONTINGENCIES – (continued)

$1,400 and a security deposit of $1,000. The lease terms are from October 1, 2011 to March 31, 2012. This lease terminated on March 31, 2012 and was not renewed.

On December 9, 2011, the Company entered into another commercial lease agreement with Fred Hutchinson Research Center for lab and office space located in Seattle, WA. The lease provides for monthly rent of $16,395 for the period from February 24, 2012 to August 31, 2012, $19,923 for the period from September 1, 2012 to August 31, 2013, and $20,548 for the period from September 1, 2013 to November 29, 2014. The security deposit of $32,789 was paid in March 2012 and recorded as Rental Deposit in the consolidated balance sheet as of June 30, 2012.

The future minimum lease payments due subsequent to December 31, 2011 under all non-cancelable operating leases for the next five years are as follows:

As of December 31,	Amounts
2012	$ 204,576
2013	244,872
2014	226,027
2015	—
2016	—
Thereafter	—
Total minimum lease payments	$ 675,476

Contingencies

On June 30, 2011, Robert Kelly, the Company's former President, filed a counterclaim against the Company in an arbitration proceeding, alleging breach of contract in connection with the termination of a consulting agreement between Mr. Kelly (dba Pitslayer) and the Company. The consulting agreement was terminated by the Company in September 2010. Mr. Kelly seeks $450,000 in compensatory damages, which is the amount he claims would have been earned had the consulting agreement been fulfilled to completion. The Company is in arbitration with Mr. Kelly and is reasonably confident in its defenses to Mr. Kelly's claims. Consequently, no provision or liability has been recorded for Mr. Kelly's claims as of December 31, 2011. However, it is at least reasonably possible that the Company's estimate of its liability may change in the near term. Any payments by reason of an adverse determination in this matter will be charged to earnings in the period of determination.

NOTE 14: RELATED PARTY TRANSACTIONS

Loans from Officer

On May 26, 2009, the Company borrowed $5,000 from its Chairman of the Board and Chief Executive Officer 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. This note was repaid in full on May 16, 2011 including approximately $439 of accrued interest.

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 loan under the note was funded to the Company on July 12, 2010. The note bears a 10% interest rate per annum and carries a $4,000 loan origination fee which is accreted to the loan balance throughout the life of the loan. The $4,000 loan origination fee was fully accreted to the loan balance as of March 31, 2011 and December 31, 2010, and recorded as interest expense for the year ended December 31, 2010. This note (including the $4,000 origination fee) was repaid in full on May 19, 2011 including approximately $8,959 in accrued interest.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

On November 3, 2010, the Company entered into a line of credit agreement for borrowing up to $500,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The note bears a 10% interest rate per annum. An aggregate of $140,000 was funded to the Company under the line of credit as of March 31, 2011 which was repaid on May 31, 2011, including approximately $6,093 in accrued interest. As of December 31, 2011, the unpaid principal balance drawn from the line of credit was $5,078.

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 Technology 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 revenue, 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. From inception through December 31, 2010, the Company had incurred $16,250 in patent-related expenses under the license agreement with Ensisheim.

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 reversed through royalty expense 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 until April 1, 2011 when the commercial lease agreement the Company entered into with Sanders Properties, LLC became effective (see Note 13).

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 Technology 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.

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 consulting expense had been paid.

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

On July 22, 2010, the Company restated and amended the employment agreements with its CEO and CTO. 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 $391,071 and $278,571 as of March 31, 2011 and December 31, 2010 and paid in full in April 2011. For the twelve-month periods ended December 31, 2011 and 2010, salaries and bonuses of the CEO and CTO amounted to $693,048 and $377,620 of which $492,095 and $0 was recorded to research and development expense, respectively.

Share-Based Compensation

The amended employment agreement with the CEO, entered into on July 22, 2010, granted options to purchase 250,000 shares (or 565,830 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share, in consideration of his service to the Company. Of these options, 25% (or 62,500 shares) vested on December 31, 2010 with the remaining 75% (or 187,500 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

The amended employment agreement with the CTO, entered into on July 22, 2010, granted options to purchase 100,000 shares (or 226,332 shares prior to the reverse stock-split on September 28, 2010) at a price of $5.00 per share in consideration of her service to the Company. Of these options, 25% (or 25,000 shares) vested on December 31, 2010 with the remaining 75% (or 75,000 shares) to vest in equal quarterly installments over the next three years so long as the executive remains employed with the company. These options have five-year contractual terms.

On April 4, 2011, 45,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to Dr. Tim Hunkapiller for being a member of the Company's Scientific Advisory Board and consulting services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest as follows:

(i) 11,250 option shares shall vest ninety (90) days after the date of grant;

(ii) 11,000 option shares shall vest one hundred and eighty (180) days after the date of grant;

(iii) 11,500 option shares shall vest two hundred and seventy (270) days after the date of grant;

(iv) 11,250 option shares shall vest three hundred and sixty (360) days after the date of grant.

On September 1, 2011, 219,000 incentive stock options were granted under the 2010 Stock Option and Incentive Plan to employees and officers as part of their employment agreements, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) twenty-five percent (25%) of the underlying shares on the first anniversary of the date of grant; and

(ii) one-forty eighth (1/48) of the underlying shares monthly thereafter.

On September 1, 2011, 200,000 non-qualified stock options were granted under the 2010 Stock Option and Incentive Plan to non-employee directors for services to be provided to the Company, at an exercise price of $1.25 per share. These options have a ten-year contractual term and shall vest and become exercisable as follows:

(i) 80,000 option shares shall vest on September 1, 2011;

(ii) 30,000 options shares shall vest on December 1, 2011;

(iii) 30,000 options shares shall vest on March 1, 2012;

(iv) 30,000 options shares shall vest on June 1, 2012;

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

(v) 30,000 options shares shall vest on September 1, 2012.

In accordance with the guidance provided in ASC Topic 718, Stock Compensation (formerly SFAS 123R), the compensation costs associated with these options are recognized, based on the grant-date fair values of these options, over the requisite service period, or vesting period. Accordingly, the Company recognized a compensation expense of $140,056 and $30,396 for the years ended December 31, 2011 and 2010, respectively.

The Company estimated the fair value of these options using the Black-Scholes-Merton option pricing model based on the following weighted-average assumptions:

	CEO & CTO	Dr. Hunkapiller	Employees & Officers	Non-employee Directors
Date of grant	22-Jul-10	4-Apr-11	1-Sep-11	1-Sep-11
Fair value of common stock on date of grant	$ 2.756 (B)	$ 0.906 (C)	$ 0.906 (C)	$ 0.906 (C)
Exercise price of the options	$ 5.00	$ 1.25	$ 1.25	$ 1.25
Expected life of the options (years)	3.33	5.31	5.65	5.65
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	58.59%	54.12%	53.90%	53.90%
Risk-free interest rate	1.03%	2.26%	1.08%	1.08%
Expected forfeiture per year (%)	0.00%	0.00%	(A)	0.00%
Weighted-average fair value of the options (per unit)	$ 0.6744	$ 0.3729	$ 0.3579	$ 0.3579

(A) 0.00% for the first year after the grant date, and 2.50% for every three months thereafter.

(B) The fair value of the Company's common stock derived implicitly from the public offering filed in March 2010 at $3.00 per share and from the terms of an underwritten offering contemplated in July 2010 at $6.00 per Unit that was filed in October 2010, with $2.756 per share being allocated to common stock using an iterative approach in order for the combined fair value of the common stock and warrants to equal the amount of consideration to be received in the offering.

(C) The fair value of the Company's common stock derived implicitly from the Private Placement during April through June 2011 at $1.25 per Unit, wherein one Unit was comprised of one share of common stock and one warrant to purchase one share of common stock at an exercise price of $1.60 per share.

In October 2010, the Company filed a Registration Statement on Form S-1 with the SEC. However, the market for early stage investments in medical technology transactions had deteriorated between mid-2010 and early 2011. In addition, the Company’s ability to negotiate with potential investors was limited. The Company’s cash position had also diminished since the summer of 2010 and the founders of the Company were unable to finance the Company at the level needed for growth. The withdrawal of the Registration Statement in February 2011 further weakened the impression of the Company in the market. The fair value of the Company’s common stock decreased from $2.756 in 2010 to $0.906 in 2011 primarily because the grants in 2011 relied on the arm’s-length negotiation of the private placement financing (for illiquid stock) as opposed to relying on an anticipated initial public offering (of publicly-traded stock), as was the case in 2010. The private placement transactions were between the company and over 200 accredited investors and ascribed a value of $0.906 to the Company’s common stock.

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

Fair value hierarchy of the above assumptions can be categorized as follows:

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

- Risk-free rate — The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the options.

(3) Level 3 inputs include:

- Expected lives — The expected lives of options granted were derived from the output of the option valuation model and represented the period of time that options granted are expected to be outstanding.
- Expected forfeitures per year — The expected forfeitures are estimated at the dates of grant and will be revised in subsequent periods pursuant to actual forfeitures, if significantly different from the previous estimates.
- Expected volatility — We did not have a historical trading history sufficient to develop an internal volatility rate for use in the model. As a result, as required by ASC 718-10-30, the Company has accounted for the options using the calculated value method. The Company identified seven public entities in the similar industry for which share price information was available, and considered the historical volatilities of those public entities' share prices in calculating the expected volatility appropriate to the Company.

The estimates of fair value from the model are theoretical values of stock options and changes in the assumptions used in the model could result in materially different fair value estimates. The actual value of the stock options will depend on the market value of the Company's common stock when the stock options are exercised.

Notwithstanding that the fair market value of the Company's common stock in September 2011 was $0.906 per share, the Company filed a Registration Statement on Form S-1 in February 2012 to offer shares of its common stock at $5.00 to $7.00 per share. This increase in share value is justified by the accomplishments achieved by the Company between September 2011 and February 2012. Specifically, the MASCT System manufacturing had been completed, supplies for the Field Experience Trial were completed and the Company had established an FDA-compliant inventory and warehousing facility. Further, the National Reference Laboratory for Breast Health, the Company's wholly-owned subsidiary, was established as a Delaware corporation, was equipped and staffed, and the protocols and procedures needed to be a CLIA-registered facility were put in place. Moreover, the ForeCYTE test, which involves cytopathology and five biomarkers of hyperplasia and one biomarker of sample integrity, was completed, tested, and validated to CLIA standards. Computer hardware and software was acquired, set up, made operational, and the ForeCYTE report template, with unique reporting information for the requesting physician and a patient letter template, were created. The company explored and identified a technology for the ArgusCYTE test (which is the technology that the Company is currently using for the ArgusCYTE test), negotiated a supply agreement with the supplier, and tested and validated the test. An ArgusCYTE report template was also established and a new reporting scheme invented and a patent application filed.

Further, the Company acquired the FullCYTE Microcatheter System from Hologics, reestablished the supply chain and began preparing for a commercial launch later in 2012 or early 2013. In doing so, the Company increased its U.S. patent portfolio from 5 to 31 and its total portfolio of patents and applications to over 120. The Hologic patent estate also contains the key patents that permit microcatheter-based intraductal treatment of cancer and pre-cancer. The Company also prepared marketing documents for the launch of the ForeCYTE and ArgusCYTE tests, which occurred in December 2011. The Company studied the use of the

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NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

FullCYTE microcatheter in six patients to establish the feasibility of performing next-generation tests on samples taken with the microcatheters. Additionally, the Company's scientists invented and filed a patent application to the NextCYTE technology and the Company has negotiated a one-year option to acquire commercial rights to additional NextCYTE-related technology to augment its existing position and has started researching the utility of the technology in providing superior information in the setting of cancer diagnosis and treatment selection.

The Company also established third-party relationships to perform the reimbursement billing in anticipation of the commercial launch and to permit electronic remittance of testing revenue. The Company launched a Field Test Experience limited launch of both the ForeCYTE and ArgusCYTE tests on schedule in December 2011 and has seen significant market acceptance of both tests from the doctors and clinics using the tests. The Company passed a CLIA inspection and became CLIA-certified, has obtained several state licenses and has pending applications in all remaining states where licensure is required. Finally, the Board of Directors and scientific advisory board were each strengthened with the addition of key new executives and scientists.

The Board of Directors considered each of the foregoing achievements, and considered input from the Company's investment bankers, in determining that the value of the Company supported a valuation of $5.00 to $7.00 per share of the Company's common stock when the Company filed its initial Registration Statement on Form S-1 in February 2012.

Options issued and outstanding as of December 31, 2011 and 2010 and their activities during the years are as follows:

	Number of Underlying Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life Remaining in Years
Outstanding as of January 1, 2011	350,000	$ 5.00	
Granted	464,000	1.25	
Expired	—	—	
Forfeited	(206,000)	—	
Outstanding as of December 31, 2011	608,000	3.41	6.12
Exercisable as of December 31, 2011	318,750	3.31	6.27
Vested and expected to vest[1]	608,000	3.41	6.12

	Number of Underlying Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life Remaining in Years
Outstanding as of January 1, 2010	—	—	
Granted	350,000	$ 5.00	
Expired	—	—	
Forfeited	—	—	
Outstanding as of December 31, 2010	350,000	5.00	4.56
Exercisable as of December 31, 2010	87,500	5.00	4.56
Vested and expected to vest[1]	350,000	5.00	4.56

(1) Includes vested shares and unvested shares after a forfeiture rate is applied.

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS – (continued)

As of December 31, 2011 and 2010, the aggregate intrinsic value of options outstanding, exercisable, and vested and expected to vest was $329,053 and $236,040, respectively.

A summary of the status of the Company's unvested shares as of December 31, 2011 and 2010, and changes during the years ended December 31, 2011 and 2010, are presented below:

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2011	262,500	$ 176,963
Granted	464,000	166,741
Vested	(228,250)	(110,964)
Forfeited	(209,000)	(73,727)
Unvested as of December 31, 2011	289,250	$ 159,013

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2010	—	$ —
Granted	350,000	236,040
Vested	(87,500)	(59,077)
Forfeited	—	—
Unvested as of December 31, 2010	262,500	$ 176,963

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2012, the date which the audited consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2011 have been incorporated into these consolidated financial statements and there are no subsequent events that require disclosure in accordance with FASB ASC Topic 855, "Subsequent Events".

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1,200,000 Shares

PROSPECTUS

DAWSON JAMES SECURITIES, INC.

, 2012

Until 2012 (25 days after the commencement of this offering), 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	$ 949
Financial Industry Regulatory Authority, Inc. fee	$ 1,340
NASDAQ listing fee	$ 50,000
Accountants' fees and expenses	$ 15,000
Legal fees and expenses	$ 250,000
Transfer Agent's fees and expenses	$ 25,000
Printing and engraving expenses	$ 60,000
Miscellaneous	$ 97,711
Total Expenses	$ 500,000

All expenses are estimated except for the SEC registration fee, the Financial Industry Regulatory Authority, Inc. fee and the NASDAQ listing 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 have entered 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 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 4,899,888 shares of its common stock as follows:

	Shares	Date	Consideration
Steven Quay	883,662	April 30, 2009	$ 12,000
Ensisheim Partners LLC	1,767,316	April 30, 2009	(1)
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

(1) The 1,767,316 shares of common stock issued to Ensisheim Partners LLC at the Company's inception were issued in consideration for $24,000 in cash and this entity's contribution to the Company of intellectual property rights and FDA marketing authorization for the MASCT System.

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.

Between April 2011 and July 2011, the Company issued a total of 5,256,800 shares of the Company's common stock and warrants to purchase up to an additional 5,256,800 shares of common stock at a price of $1.60 per share, for aggregate gross proceeds of $6,571,000 (the "Private Placement"). All purchasers in the Private Placement were accredited investors, as defined under Regulation D under the Securities Act, and this offering was exempt from registration under Rule 506 under the Securities Act. In connection with the completion of the Private Placement, the Company issued common stock warrants to Dawson James Securities ("Dawson James"), the placement agent for the Private Placement, representing the right to purchase up to 788,520 shares of common stock at a price of $1.25 per share, plus the right to purchase up to 788,520 additional shares of common stock at a price of $1.60 per share. The issuance of the warrants to Dawson James was exempt from registration under Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering.

On September 30, 2012, in connection with its acquisition of substantially all of the assets of Acueity Healthcare, Inc. ("Acueity"), the Company issued to the stockholders of Acueity 862,500 shares of common stock (the "Shares") and warrants to purchase up to 325,000 shares of common stock at an exercise price of $5.00 per share, subject to a six-month lock up agreement (the "Warrants"). The Warrants, which have a five-year term, do not have a cashless exercise provision. The Shares and Warrants were issued as consideration for the assets acquired from Acueity: 35 issued patents (18 issued in the U.S. and 17 issued in foreign countries) and 41 patent applications (32 in the U.S. and 9 in foreign countries), and six 510(k) FDA marketing authorizations related to the manufacturing, use, and sale of the Viaduct Miniscope and accessories, the Manoa Breast Biopsy system, the Excisor Bioptome, the Acueity Medical Light Source, the Viaduct Microendoscope and accessories, and cash in the amount of $400,000. The issuance of the Shares and the Warrants was exempt from registration under Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering. As of the date of this prospectus, the Company is in the process of completing the valuation of the common stock and warrants issued.

Item 16. Exhibits and Financial Statement Schedules.

EXHIBITS

1.1**	Form of Underwriting Agreement
2.1	Agreement and Plan of Reorganization, dated September 30, 2012, by and among the Company, Acueity Healthcare, Inc., and Ted Lachowicz, as Stockholder Representative††
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 from 2011 private placement
4.3	Form of Placement Agent Warrant from 2011 private placement
4.4	Form of Warrant dated September 30, 2012
5.1**	Opinion of Ropes & Gray LLP
10.1**	Exclusive Patent License Agreement with Ensisheim Partners, LLC, dated July 27, 2009
10.2**	Termination of Exclusive Patent License Agreement, dated June 17, 2010
10.3**#	Restated and Amended Employment Agreement with Steven Quay
10.4**#	Restated and Amended Employment Agreement with Shu-Chih Chen
10.5**	Form of Indemnification Agreement
10.6**#	2010 Stock Option and Incentive Plan, as amended
10.7**#	Form of Incentive Stock Option Agreement
10.8**#	Form of Non-Qualified Stock Option Agreement for Employees
10.9**#	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors
10.10**	Form of Subscription Agreement
10.11**	Sublease Agreement with CompleGen, Inc. dated September 29, 2010
10.12**	Patent Assignment Agreement by and between the Company and Ensisheim Partners, LLC
10.13**#	Form of Restricted Stock Award Agreement
10.14**	Form of Lock-Up Agreement
10.15**	Agreement with Christopher Benjamin
10.16**	Business Consultant Agreement with Edward Sauter
10.17**	Prototype Development Proposal and Terms and Conditions, between the Company and HLB, LLC.
10.18**	Commercial Lease Agreement with Ensisheim Partners LLC, dated December 24, 2009
10.19**	Termination of Lease Obligation with Ensisheim Partners LLC, dated July 21, 2010
10.20**	Office Lease with Sander Properties, LLC, dated March 4, 2011
10.21**	Office Lease with Sander Properties, LLC, dated July 8, 2011
10.22**	Office Lease with Sander Properties, LLC, dated September 20, 2011
10.23**	Sublease with Fred Hutchinson Cancer Research Center, dated December 9, 2011
10.24**	Promissory Note — Line of Credit, effective November 3, 2010, by and between the Company and Steven C. Quay
10.25**†	Term Sheet for License Agreement between the Company and Inven2 AS
10.26**†	Agreement between the Company and Accellent Inc., dated August 8, 2011
10.27**†	Supply Agreement between the Company and Biomarker LLC, dated June 24, 2011
10.28**†	Purchase Agreement between the Company and Hologic Inc., dated May 11, 2011
10.29**	Agreement between the Company and Biomarker LLC, dated June 22, 2012
10.30**	Form of Investor Lock-Up Agreement
10.31	Supply and Distribution Agreement, dated as of September 21, 2012, between the Company and Diagnostics Test Group LLC†
21.1	List of Subsidiaries.

23.1	Consent of KCCW Accountancy Corp.
23.2**	Consent of Ropes & Gray LLP (filed as part of Exhibit 5.1)
24.1**	Power of Attorney

** Previously filed.

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

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from the Registration Statement and submitted separately to the Securities and Exchange Commission.

†† Schedules and exhibits omitted pursuant to Item 601 of Regulation S-K.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser. The undersigned registrant hereby undertakes:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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

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 Amendment No. 9 to 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 October 3, 2012.

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 9 to 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)	October 3, 2012
/s/ Christopher Benjamin Christopher Benjamin	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	October 3, 2012
* John Barnhart	Director	October 3, 2012
* Alexander Cross, Ph.D.	Director	October 3, 2012
* Shu-Chih Chen, Ph.D.	Director	October 3, 2012
* Stephen J. Galli, M.D.	Director	October 3, 2012
* H. Lawrence Remmel	Director	October 3, 2012
*By: /s/ Steven C. Quay Attorney-in-Fact		

EXECUTION COPY

AGREEMENT AND PLAN OF REORGANIZATION

BY AND AMONG

ATOSSA GENETICS INC.,

ACUEITY HEALTHCARE, INC.

AND

TED LACHOWICZ, AS THE STOCKHOLDER REPRESENTATIVE
(for the limited purposes described)

DATED AS OF SEPTEMBER 30, 2012

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (this "Agreement") is made as of September 30, 2012 by and among Acueity Healthcare, Inc., a Delaware corporation (the "Company"), Atossa Genetics Inc., a Delaware corporation ("Buyer"), and Ted Lachowicz, solely in the capacity as stockholders' representative and only for the express purposes provided for herein (the "Stockholder Representative").

WHEREAS, the Board of Directors of Buyer has determined that it is advisable and in the best interests of its stockholders that Buyer purchase from the Company substantially all of the assets of the Company in exchange for capital stock of the Buyer (the "Asset Purchase") on the terms set forth herein, and, in furtherance thereof, has approved this Agreement and the transactions contemplated herein;

WHEREAS, the Board of Directors of the Company has determined that it is advisable and in the best interests of its stockholders that Buyer purchase from the Company substantially all of the assets of the Company in exchange for the capital stock of the Buyer on the terms set forth herein, and, in furtherance thereof, has approved this Agreement and the transactions contemplated herein;

WHEREAS, the Company Stockholders (as defined below) have approved this Agreement and the other transactions contemplated by this Agreement in accordance with Delaware Law (as defined below);

WHEREAS, in connection with the Asset Purchase, the Company shall liquidate and distribute to its stockholders all of its right, title and interest in and to the Stock Consideration (as defined below) received in exchange for the Purchased Assets (as defined below) and Assumed Liabilities (as defined below); and

WHEREAS, the Company and Buyer intend for the Asset Purchase followed by the liquidation of the Company (together, the "Reorganization") to constitute a "reorganization" within the meaning of Section 368(a)(1)(C) of the Code (a "Tax-Free Reorganization") and for this Agreement to constitute a "plan of reorganization" within the meaning of Treasury Regulations Sections 1.368-2(g) and 1.368-3.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

SECTION 1. Definitions.

1.1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

"Actions or Proceedings" means any action, suit, proceeding, arbitration, Order, inquiry, hearing, or other litigation (whether civil, criminal, administrative or investigative) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental or Regulatory Authority.

"Affiliate" means, with respect to any Person, (i) any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person and (ii) with respect to any natural person or individual, such Person's immediate family members and any trust or family partnership for the benefit of such Person or such Person's immediate family members.

"Ancillary Agreements" means the Bill of Sale and Assignment, the Assumption Agreement, the Consulting Agreement, the Board Observer Agreement, the General Release of Claims and Investment Representation Letter.

"Assets and Properties" and "Assets or Properties" of any Person each means all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including, without limitation, cash, cash equivalents, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property.

"Assumption Agreement" means the Assumption Agreement to be executed by Buyer and the Company at the Closing, substantially in the form of Exhibit A.

"Babcock Note Purchase Agreement" means that certain Note Purchase Agreement dated as of September 28, 2012 by and between the Company and James Babcock.

"Babcock Note" means that certain convertible promissory note in the aggregate principal amount of $50,000 issued pursuant to the Babcock Note Purchase Agreement.

"Benefit Plan" means any Plan established, arranged, maintained or contributed to by the Company, existing prior to or at the date hereof, and under which Employees or former Employees of the Company or beneficiaries thereof are covered, are eligible for coverage or have benefit rights.

"Bill of Sale and Assignment" means the Bill of Sale and Assignment to be executed by the Company at the Closing, substantially in the form of Exhibit B.

"Board Observer Agreement" means the Board Observer Agreement to be executed by the Buyer and Ted Lachowicz at Closing, substantially in the form of Exhibit C.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

"Buyer Common Stock" means shares of the common stock, par value $0.001 per share, of Buyer.

"Buyer Disclosure Schedule" means the disclosure schedule attached hereto that sets forth the exceptions to the representations and warranties contained in Section 4 hereof and certain other information called for by Section 4.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Company Disclosure Schedule" means the disclosure schedule attached hereto that sets forth the exceptions to the representations and warranties contained in Section 3 hereof and certain other information called for by Section 3.

"Company Financial Statements" means (i) the unaudited balance sheets of the Company as of June 30, 2012 and December 31, 2011 and the related statements of operations, stockholders' equity and cash flows for the six-month period ended June 30, 2012 and for the years ended December 31, 2011 and December 31, 2010, and (ii) the Interim Financial Statements.

"Company Indebtedness" means all obligations and liabilities created, issued, or incurred by the Company for borrowed money, including, without limitation, bank loans, mortgages, notes payable, capital lease obligations, guarantees of indebtedness of others and all principal, interest, fees, prepayment penalties or amounts due or owing with respect thereto.

"Company Noteholder" means a holder of Convertible Bridge Notes as of immediately prior to the date hereof.

"Company Stock" means all shares of Company Common Stock issued and outstanding immediately prior to the date hereof.

"Company Stockholders" means holders of Company Common Stock immediately prior to the date hereof.

"Consulting Agreement" means the Consulting Agreement to be executed by Buyer and Roberta Lee at the Closing, substantially in the form of Exhibit D.

"Contract" means any contract, license, sublicense, mortgage, purchase order, indenture, loan agreement, lease, sublease, agreement or instrument or any binding commitment to enter into any of the foregoing (in each case, whether written or oral) to which the Company is a party or by which any of the Company's assets are bound.

"Convertible Bridge Notes" means the Primary Bridge Notes, the Babcock Note and the TCDT Note.

"Copyrights" has the meaning set forth in the definition of "Intellectual Property."

"Defined Benefit Plan" means a Plan that is subject to Part 3 of Title I of ERISA, Section 412 of the Code or Title IV of ERISA.

"Delaware Law" means the Delaware General Corporation Law.

"Device Regulations" means any Law relating to any Regulated Product in the United States, the European Union or any other country or jurisdiction.

"Directive" means the European Union Directive, 93/42/EEC (OJ No L 169/1, 12 July 1993), as amended.

"Employee" means any Person designated as, or deemed to be, an employee of the Company or its Affiliates, whether such status arises by contract or applicable Law, and whether such employment is part-time, full-time, temporary, permanent, or otherwise.

"Encumbrances" means any mortgage, pledge, assessment, security interest, deed of trust, lien, adverse claim, levy, charge or other encumbrance of any kind, or any conditional sale or title retention agreement or other agreement to give any of the foregoing in the future, except for Permitted Encumbrances.

"Environmental Liabilities" means any and all liabilities arising in connection with or in any way relating to the past or current operation of the business of the Company, whether contingent or fixed, actual or potential, known or unknown, that (i) arise under or relate to matters governed by Environmental Requirements or arise in connection with or relate to any matter disclosed or required to be disclosed in Schedule 3.19
. and (ii) arise from or relate in any way to actions occurring or conditions existing on or prior to the date hereof.

"Environmental Requirements" means all Laws and any judicial or administrative interpretation thereof, including all judicial and administrative orders and determinations, and all contractual obligations, in each case concerning public health and pollution or protection of the environment, including all those relating to the presence, use, production, generation, handling, transport, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, Release, threatened Release, control or cleanup of any hazardous or otherwise regulated materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation, as the foregoing are enacted and in effect prior to or on the date hereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the Department of Treasury and Department of Labor regulations promulgated thereunder.

"Excluded Taxes" means (i) all Taxes of the Company or any of their Affiliates, or for which the Company or any of their Affiliates is liable, for any taxable period other than Taxes relating to the Purchased Assets or the Assumed Liabilities; (ii) all Taxes relating to the Excluded Assets or Excluded Liabilities for any taxable period; and (iii) all Taxes relating to the Purchased Assets or the Assumed Liabilities for any taxable period ending on or prior to the date hereof and, with respect to any taxable period beginning before and ending after the date hereof, for the portion of such taxable period ending on the date hereof, except as provided in Section 6.4(b).

"Fair Market Value" means the price of the Buyer Common Stock determined by the first of the following clauses that applies: (a) if the Buyer Common Stock is then listed or quoted on a national securities exchange, then the closing price of the Buyer Common Stock for such date (or the nearest preceding date), (b) if the Buyer Common Stock is then quoted on the OTC Bulletin Board, then the average of the closing bid and ask price of the Buyer Common Stock for such date (or the nearest preceding date), (c) if the Common Stock is not then quoted for trading on the OTC Bulletin Board, and if prices for the Common Stock are then reported in the "Pink Sheets" published by Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), then the average of the closing bid and ask price of the Buyer Common Stock for such date, or (d) in all other cases, the fair market value of a share of Common Stock as determined in good faith by Buyer's Board of Directors.

"FDA" means the United States Food and Drug Administration.

"FDCA" means the United States Federal Food, Drug and Cosmetic Act of 1938, as amended (21 U.S.C. §§ 301 et. seq.) and all regulations promulgated thereunder.

"GAAP" means United States generally accepted accounting principles as in effect on the date of this Agreement.

"General Release of Claims" means the General Release of Claims to be executed by and between the Company and each individual and entity set forth on Schedule 2.6 at Closing, substantially in the form of Exhibit E.

"Governmental or Regulatory Authority" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States or other country, any state, county, city or other political subdivision.

"Holdback Shares" means 75,000 shares of Buyer Common Stock.

"Insider" means any officer, director, employee, stockholder or other Affiliate of the Company or any individual related by blood, marriage or adoption to any such Person or any entity in which any such Person owns any beneficial interest.

"Intellectual Property" means (i) inventions (whether patentable or unpatentable and whether or not reduced to practice), and all improvements thereto; (ii) all patents, patent applications and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions and reexaminations thereof (collectively, "Patents"); (iii) trademarks, service marks, trade dress, logos, trade names and corporate names, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith (collectively, "Trademarks"), (iv) copyrightable works, all copyrights and all registrations, registration applications and renewals in connection therewith and mask works and all registrations, registration applications and renewals in connection therewith (collectively, "Copyrights"); (v) trade secrets and confidential business information (including, without limitation, product and manufacturing specifications, data, know-how, inventions and ideas, past and current development and current and anticipated customer requirements and market studies); (vi) proprietary computer software and programs (including object code and source code) and other proprietary rights and copies of tangible embodiments thereof (in whatever form or medium); (vii) database technologies, systems, structures and architectures (and related processes, formulae, compositions, improvements, devices, know-how, inventions, discoveries, concepts, ideas, designs, methods and information) and any other related information, however documented; (viii) all industrial designs and any registrations and applications therefor; (ix) any and all notes, analyses, compilations, studies, summaries, and other material prepared by or for a Person containing or based, in whole or in part, on any information included in the foregoing, however documented; (x) all databases and data collections and all rights therein (items (v)-(x) shall, to the extent not patented or copyrighted, be referred to as "Trade Secrets and Other Proprietary Information"); and (xi) any similar or equivalent rights to any of the foregoing anywhere in the world.

"Interim Financial Statements" means the unaudited balance sheet and the related statement of operations and stockholders' equity for the Company for the eight-month period ended August 31, 2012.

"Investor Representation Letter" means the Investor Representation Letter to be executed by each individual and entity set forth on Schedule 2.6 at Closing, substantially in the form of Exhibit F.

"IP Assignment Agreement" means the IP Assignment Agreement to be executed by the Company and Buyer at the Closing, substantially in the form of Exhibit G.

"Knowledge Group" means each of the directors and officers of Buyer or the Company, as the case may be.

"Knowledge of Buyer" or "Known to Buyer" means such matters as may be actually known or reasonably should have been known by any member of the Knowledge Group of Buyer after reasonable investigation and shall not refer to the knowledge of any other Person.

"Knowledge of the Company" or "Known to the Company" means such matters as may be actually known or reasonably should have been known by any member of the Knowledge Group of the Company and shall not refer to the knowledge of any other Person.

"Law" means any federal, state or local, domestic or foreign, statute, law, code, ordinance, rule or regulation of any Governmental or Regulatory Authority.

"Leased Real Property" means the real property leased, subleased or licensed by the Company, in each case, as tenant, subtenant, licensee or other similar party, together with, to the extent leased, licensed or owned by the Company, all buildings and other structures, facilities or leasehold improvements, currently or hereafter located thereon, all fixtures, systems, equipment and items of personal property and other assets of every kind, nature and description of the Company located at or attached or appurtenant thereto and all easements, licenses, rights, options, privileges and appurtenances relating to any of the foregoing.

"Liabilities" means any liability, debt, obligation (including any Tax), commitment, cause of action, or other loss or expense of any kind, whether known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured, or otherwise.

"Limitation Date" means, with respect to the Buyer, the expiration of the applicable statute of limitations for claims that may be asserted under Section 8 and, with respect to the Company, the Holdback Delivery Date.

"Material Adverse Effect" means with respect to Buyer or the Company, as the case may be, a material adverse effect whether individually or in the aggregate (a) on the business, operations, financial condition, assets or prospects of such party (and its subsidiaries if any) taken as a whole, or (b) on the ability of such party to consummate the transactions contemplated hereby; *provided, however*, that the term "Material Adverse Effect" shall not include any effect attributable to general economic changes or general changes in the industry in which the Person is engaged to the extent they do not materially disproportionately affect the Person in relation to other companies in the industry in which the Person is engaged.

"Order" means any writ, judgment, decree, injunction or similar order of any Governmental or Regulatory Authority (in each such case whether preliminary or final).

"Ordinary Course of Business" means the action of a Person that is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person.

"Parties" (collectively) or "Party" (individually) shall refer to the Company, the Company Stockholders and/or the Buyer.

"Patents" has the meaning set forth in the definition of "Intellectual Property."

"Permits" means all licenses, permits, certificates of authority, authorizations, approvals, registrations and similar consents granted or issued by any Governmental or Regulatory Authority.

"Permitted Encumbrance" means (i) any Encumbrance for Taxes not yet due or delinquent, (ii) any Encumbrance for Taxes, assessments and other charges or claims with respect to Taxes, the validity of which are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, (iii) any minor imperfection of title or similar Encumbrance which individually or in the aggregate with other such Encumbrances does not impair the value of the property subject to such Encumbrance or the use of such property in the Ordinary Course of Business of the Company, (iv) mechanic's and materialmen's liens for construction or alterations in progress and for like obligations not yet due and payable, (v) statutory liens of landlords and workmen's, repairmen's warehousemen's and carrier's liens arising in the Ordinary Course of Business and for like obligations not yet due and payable, and (vi) requirements incurred or other Encumbrances relating to deposits made in the Ordinary Course of Business in connection with workers' compensation, unemployment insurance and other similar statutory requirements.

"Person" means any natural person, corporation, general partnership, limited partnership, limited liability company, proprietorship, other business organization, trust, union, or association.

"Plan" means any bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation right, phantom stock, cafeteria, life, health, accident, disability, workers' compensation or other insurance, severance, separation or other employee benefit plan, agreement or arrangement, whether written or unwritten, including, but not limited to, any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

"Primary Bridge Note Purchase Agreement" means that certain Note Purchase Agreement dated as of September 28, 2012 by and among the Company and the persons and entities listed on the signature page thereto.

"Primary Bridge Notes" means those certain convertible promissory notes in the aggregate principal amount of $415,000 issued pursuant to the Primary Bridge Note Purchase Agreement.

"Purchase Price" has the meaning set forth in Section 2.4;

"Regulatory Applications" means all investigational device applications, 510(k) pre-market notifications, pre-market approval applications, supplemental pre-market approval applications, Notified Body dossiers, master files, and any other permits, approvals, registrations, licenses, grants, authorizations, exemptions, orders, certifications, conformity assessments, declarations or consents relevant to any Regulated Product or required under any device regulation (including all CE marks and any applications or assessments to obtain marking authorization outside of the United States), whether pending or approved or cleared by a relevant Governmental or Regulatory Authority, including all supplements or amendments thereto and all information submitted with or incorporated by reference therein.

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Shares" has the meaning set forth in Section 2.4;

"Tax" (and, with correlative meaning, "Taxes," "Taxable" and "Taxing") means (i) any federal, state, local or foreign income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any Governmental or Regulatory Authority responsible for the imposition of any such tax (domestic or foreign), (ii) any liability for payment of any amounts of the type described in (i) as a result of being a member of an affiliated, consolidated, combined, unitary or other group for any Taxable period and (iii) any liability for the payment of any amounts of the type described in (i) or (ii) as a result of any express or implied obligation to indemnify any other Person.

"TCDT Note Purchase Agreement" means that certain Note Purchase Agreement dated as of September 28, 2012 by and between the Company and TCDT, LLC.

"TCDT Note" means that certain convertible promissory note in the aggregate principal amount of $100,000 issued pursuant to the TCDT Note Purchase Agreement.

"Tax Return" means any return, report, information return, schedule or other document (including any related or supporting information) filed or required to be filed with respect to any Taxing authority with respect to Taxes.

"Trademarks" has the meaning set forth in the definition of "Intellectual Property."

"Trade Secrets and Other Proprietary Information" has the meaning set forth in the definition of "Intellectual Property."

"Warrant" means the Warrant to purchase shares of the Buyer's Common Stock substantially in the form of Exhibit H.

"Warrant Shares" means shares of Buyer Common Stock issuable upon the exercise of the Warrants.

1.2. Construction of Certain Terms and Phrases. Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (d) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; (e) the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or;" and (f) "including" means "including without limitation." Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP.

Section 2. Purchase and Sale of Assets.

2.1. Purchase of Assets.

(a) Purchased Assets. On the terms and subject to the conditions contained in this Agreement, at the Closing, Buyer shall purchase, and the Company shall sell, convey, assign, transfer and deliver to Buyer, all of the assets, properties, rights, titles and interests, other than the Excluded Assets, of every kind or nature owned, leased, licensed or otherwise held by the Company (including indirect and other forms of beneficial ownership) as of the date hereof, whether tangible, intangible, real, personal or mixed and wherever located, including all of the following assets (collectively, the "Purchased Assets"):

(i) all cash and cash equivalents, consisting of at least $400,000 (the "Cash Assets");

(ii) all accounts receivable, notes receivable and other amounts receivable from third parties, including customers and employees, and all correspondence with respect thereto;

(iii) subject to Section 2.3, all rights existing under all Contracts to which the Company is a party, including each Contract set forth on Schedule 3.13, Schedule 3.14 and Schedule 3.18 (collectively, the "Assumed Contracts");

(iv) all claims, deposits, prepayments, prepaid expenses, warranties, guarantees, refunds, causes of action, rights of recovery, rights of set-off and rights of recoupment of every kind and nature (including rights to insurance proceeds), except for any of the foregoing to the extent they relate to Excluded Assets or Excluded Liabilities;

(v) all inventory, samples, equipment, molds, tools, spare parts and accessories relating to the Company's Viaduct Miniscope, Excisor Bioptome, Acueity Medical Light Source, and Viaduct Microendoscope;

(vi) all Intellectual Property, including all Regulated Products;

(vii) all Permits;

(viii) all insurance, warranty and condemnation net proceeds received after the date hereof with respect to damage, non conformance of or loss to the Purchased Assets;

(ix) all books and records, including ledgers, correspondence, lists, studies and reports and other printed or written materials, including, without limitation, all lists and records pertaining to customers, personnel, agents, suppliers, distributors and pricing, purchase and sale records, quality control records, research and development files, files and data, company manuals and other business related documents and materials, whether written, electronic or otherwise, all telephone and facsimile numbers and internet access (including email) accounts, and all information relating to Taxes; provided, that the Company may retain copies of any records as may be required by applicable Law; and

(x) all other assets of any kind or nature of the Company.

(b) Excluded Assets. Notwithstanding the foregoing, the following assets of the Company are expressly excluded from the purchase and sale contemplated hereby (the "Excluded Assets") and, as such, are not included in the assets to be conveyed as contemplated hereby :

(i) the general ledgers, accounting records, minute books, statutory books and corporate seals; provided that Buyer shall be given copies of the general ledgers and accounting records as such documents exist as of the date hereof;

(ii) the personnel records and any other records that the Company is required by Law to retain in its possession

(iii) all tangible personal property, excluding the assets set forth in Section 2.1(a)(v); and

(iv) all bank accounts.

2.2. Assumption of Liabilities.

(a) Assumed Liabilities. At the Closing, Buyer shall assume and shall agree to pay, defend, discharge and perform as and when due and performable the following specific Liabilities of the Company (the "Assumed Liabilities"):

(i) all Liabilities arising under each Assumed Contract from and after the Closing (other than Liabilities attributable to any failure by the Company to comply with the terms thereof).

(b) Excluded Liabilities. Notwithstanding anything to the contrary contained herein, Buyer is assuming only the Assumed Liabilities and is not assuming any other Liability of the Company or Affiliate thereof (or any predecessor owner of all or part of the Company's business or assets) of whatever nature whether currently in existence or arising or asserted hereafter. All such other Liabilities shall be retained by and remain Liabilities of the Company or its Affiliates (all such Liabilities not being assumed are herein referred to as the "Excluded Liabilities"). Without limiting the foregoing, none of the following shall be Assumed Liabilities for purposes of this Agreement:

(i) those amounts listed under the headings "accounts payable" and "accrued expenses" in the Company Financial Statements;

(ii) those amounts incurred in the Ordinary Course of Business since the date of the Company Financial Statements which would have been listed under the headings "accounts payable" and "accrued expenses" if the Company Financial Statements had been prepared as of the date hereof;

(iii) all Excluded Taxes;

(iv) all Company Indebtedness;

(v) all litigation;

(vi) all Liabilities relating to or arising out of the Excluded Assets;

(vii) all Liabilities relating to or arising out of any warranty obligation of the Company in respect of products sold or services rendered prior to the date hereof; and

(viii) all Environmental Liabilities.

2.3. Assignment of Contracts and Rights. Notwithstanding anything to the contrary contained in this Agreement, this Agreement shall not constitute an agreement to assign any Contract if an attempted assignment thereof, without consent of a third party thereto, would constitute a breach or other contravention thereof or in any way adversely affect the rights of Buyer or the Company thereunder. The Company will use its reasonable best efforts to obtain the consent of the other parties to any such Contract for the assignment thereof to Buyer or its designated Affiliate as Buyer may request. Unless and until such consent is obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of Buyer or the Company thereunder so that Buyer would not in fact receive all rights under such Contract, the Company and Buyer will cooperate in an arrangement under which Buyer would obtain the benefits and assume the obligations thereunder in accordance with this Agreement, including subcontracting, sub-licensing, or subleasing to Buyer, or under which the Company would enforce, at Buyer's expense, for the benefit of Buyer, with Buyer assuming at Buyer's expense the Company's obligations, any and all rights of the Company against a third party thereto. The Company will promptly pay to Buyer when received all monies received by the Company under any such Contracts, and Buyer shall pay, defend, discharge and perform all Liabilities under such Contracts.

2.4. Consideration. The consideration for the Purchased Assets (the "Purchase Price") shall be 862,500 shares of Buyer Common Stock (the "Shares") and warrants, in the form attached hereto as Exhibit H, to purchase 325,000 shares of Buyer Common Stock (the "Warrants" and, together with the Shares, the "Stock Consideration"), payable as set forth below, plus the aggregate amount of any Assumed Liabilities, which shall be payable in accordance with Section 2.6 below. Buyer shall be entitled to deduct from the Purchase Price any amounts required to be withheld and deducted under the Code or other applicable Tax Law. Any amount so deducted shall be remitted by Buyer to the appropriate Governmental or Regulatory Authority. To the extent such amounts are withheld by Buyer, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Company as part of the Purchase Price.

2.5. Closing. Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated by this Agreement (the "Closing") shall take place on the date hereof "virtually" by means of the electronic exchange of signature pages by fax or e-mail (with originals to follow promptly thereafter). All transactions shall be deemed to occur at 11:58 p.m. on the date hereof, and the Closing shall be effective as of 11:59 p.m. on the date hereof. The Closing need not occur on a Business Day and, in the event that the Closing occurs on a day that is not a Business Day, the parties shall be permitted up to two additional Business Days after the Closing to deliver, or cause to be delivered, any such property, rights or assets as may be required under this Section 2.

2.6. Payment of the Purchase Price. Buyer shall deliver or cause to be delivered to the Company the Stock Consideration in accordance with this Section 2.6

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(a) At the Closing, and subject to the last sentence of Section 2.5, Buyer shall (i) deliver to the registrar and transfer agent for Buyer Common Stock irrevocable instructions to cause the shares of Buyer Common Stock, minus the Holdback Shares issuable to the individuals and entities set forth on Schedule 2.6, (the "Closing Shares"), and in the amounts set forth beside such individuals' and entities' names, to be issued in book entry form, with such issuance to be as of the Closing, and (ii) issue certificates for the Holdback Shares issuable to the individuals and entities set forth on Schedule 2.6 in the amounts set forth beside such individuals' and entities' names (the "Holdback Share Certificates"), which such Holdback Share Certificates (and the Holdback Shares represented thereby) shall be issued as of the Closing and retained by Buyer to be held in escrow in accordance with Section 2.6(b) below. Promptly following the Closing, Buyer shall deliver to the individuals and entities set forth on Schedule 2.6 , and in the amounts set forth beside such individuals' and entities' names, the Warrants to which they are entitled. Following payment of the Stock Consideration to the individuals and entities set forth on Schedule 2.6, the fair market value of the assets of the Company will exceed the sum of its liabilities (including any liabilities to which its assets are subject).

(b) From and after the Closing and subject to this Section 2.6(b), Buyer shall hold the Holdback Share Certificates in escrow for the benefit of the owners thereof to satisfy the indemnification obligations under Section 8.3 of this Agreement. On the date that is six months from the Closing (the "Holdback Delivery Date"), all Holdback Share Certificates (and the Holdback Shares evidenced thereunder) shall automatically and without any further action by any party be released from the escrow provided for in this Section 2.6(b) free and clear of all Encumbrances, and Buyer shall promptly deliver to the owner thereof or cause to be promptly delivered to the owner thereof all of the Holdback Share Certificates (and the Holdback Shares evidenced thereunder) to such individuals and/or entities set forth on Schedule 2.6; *provided*, *however*, that the number of Holdback Shares that are to be delivered pursuant to this Section 2.6(b) shall be reduced by any Damages that may be recovered by any Buyer Indemnified Party pursuant to Section 8 (including any claims for indemnification that remain pending as of the Holdback Delivery Date). In reducing the number of Holdback Shares that are to be delivered on the Holdback Delivery Date, the Buyer shall value the Holdback Shares with reference to the Fair Market Value of the Buyer Common Stock at the time that such claim for indemnification is first submitted to the Stockholder Representative, provided that in no event shall the value be less than $4.00 per share (as may be adjusted for any stock splits or recapitalization events). In the event that the number of Holdback Shares is reduced as a result of indemnification claims that remain pending as of the Holdback Delivery Date (which, for the avoidance of doubt, shall remain in escrow for the benefit of the owners thereof pending final resolution of such claims), such Holdback Shares shall be withheld on a Pro Rata (as defined below) basis from each entity and individual, and certificates for the remaining Holdback Shares (after such Pro Rata reduction) shall be delivered to the owners thereof as set forth on Schedule 2.6. For the avoidance of doubt, all Holdback Shares shall be deemed owned of record by each such Company Stockholder and Company Noteholder as of the Closing. The term "Pro Rata" as used herein with respect to each owner of Holdback Shares means a fraction, the numerator of which is the number of Holdback Shares owned by such individual or entity as of the Closing and the denominator of which is 75,000.

2.7. Restricted Stock. The transactions contemplated by this Agreement shall qualify as a private placement under Section 4(2) of the Securities Act and the Stock Consideration issued in connection with this Agreement (and the Warrant Shares issuable upon exercise of the Warrant) shall constitute "restricted securities" under the Securities Act. Except as set forth herein, Buyer shall have no obligation to register such securities under the Securities Act. The Stock Consideration issued in connection with this Agreement (and the Warrant Shares issuable upon exercise of the Warrant) may not be offered, sold, assigned, pledged or otherwise transferred, except following registration of such securities under the Securities Act or in reliance on an exemption from registration under the Securities Act. Any certificates that may be issued representing the Stock Consideration (and the Warrant Shares issuable upon exercise of the Warrant) shall bear the following restrictive legend, in addition to any other applicable legends required under state "blue sky" laws:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), OR ANY STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED, SOLD, ASSIGNED, PLEDGED, OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED PURSUANT TO THE PROVISIONS OF THE ACT AND APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BUYER IS OBTAINED BY THE HOLDER OF THIS CERTIFICATE STATING THAT SUCH OFFER, SALE, ASSIGNMENT, PLEDGE OR TRANSFER IS EXEMPT FROM SUCH REGISTRATION OR QUALIFICATION.

2.8. Tax-Free Reorganization Treatment. Each of the Company and the Buyer (i) shall cause the Reorganization to qualify as a Tax-Free Reorganization and (ii) hereby adopt this Agreement as a "plan of reorganization" within the meaning of Treasury Regulations Sections 1.368-2(g) and 1.368-3. Neither the Company nor the Buyer has taken or will take, either before or after consummation of the Reorganization, any action which, to the knowledge of such party, would cause, nor will either party fail to perform, or otherwise breach, this Agreement in any way which would cause the Reorganization to fail, or result in the Reorganization failing, to constitute a Tax-Free Reorganization. Each of the Company and the Buyer shall (i) report the Reorganization on all Tax Returns and filings as a Tax-Free Reorganization, and (ii) not take any position or action that is inconsistent with the characteristics of the Reorganization as a Tax-Free Reorganization in any audit, administrative proceeding, litigation or otherwise.

Section 3. Representations and Warranties of the Company.

As a material inducement to Buyer entering into this Agreement, the Company hereby represents and warrants to Buyer, except as expressly set forth in the Company Disclosure Schedule (which exceptions shall be deemed to be representations and warranties as if made hereunder), that:

3.1. Organization of the Company. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware. The Company is duly authorized to conduct business and is in good standing in each jurisdiction where such qualification is required except for any jurisdiction where failure so to qualify would not have a Material Adverse Effect upon the Company. The Company has full power and authority, and holds all Permits necessary to carry on its business and to own and use the Assets and Properties owned and used by the Company, except where the failure to have such power and authority or to hold such Permit would not have a Material Adverse Effect on the Company's business. The Company has delivered or made available to Buyer correct and complete copies of its certificate of incorporation and bylaws, each as amended to date.

3.2. Capital Stock of the Company.

(a) The authorized capital stock of the Company consists of (i) 10,000,000 shares of common stock, par value $0.001 per share (the "Company Common Stock"), of which 1,135,570 shares are issued and outstanding; and (ii) no shares of capital stock of the Company are held in treasury.

(b) Schedule 3.2(b) of the Company Disclosure Schedule sets forth a list and description of all Convertible Bridge Notes, including the holder thereof and the aggregate principal and accrued interest due thereunder. Except for the Convertible Bridge Notes, there are no options, warrants, convertible notes or other rights of any kind for the purchase or acquisition of, or any securities convertible or exchangeable for, any capital stock of the Company granted by the Company and currently outstanding. Each Convertible Bridge Note has been granted in compliance with all applicable laws, statutes and regulations, whether federal or state.

3.3. Authority.

(a) Authority of the Company. The Company has all necessary corporate power and corporate authority and has taken all action necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and, assuming due authorization, execution and delivery by the other parties to this Agreement, constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies. Without limiting the generality of the foregoing, the Board of Directors of the Company has unanimously: (i) approved and adopted this Agreement and the Ancillary Agreements and the consummation of transactions contemplated hereby and thereby, and (ii) recommended to the Company's stockholders the approval of this Agreement and the transactions contemplated hereby requiring approval of the Company's stockholders.

(b) Approval by Company Stockholders. The Company Stockholders have approved this Agreement in accordance with the applicable provisions of the Delaware Law.

3.4. No Subsidiaries. Since formation, the Company has never had any record or beneficial ownership in the capital stock of another corporation, limited liability company, partnership or other entity.

3.5. No Conflicts. The execution and delivery by the Company of this Agreement does not, and the performance by the Company of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the certificate of incorporation or bylaws of the Company;

(b) to the Knowledge of the Company, conflict with or result in a violation or breach of any material term or provision of any law, Order, Permit, statute, rule or regulation of a Governmental or Regulatory Authority applicable to the Company, the business or Assets or Properties of the Company or the capital stock of the Company;

(c) result in a material breach of, or material default under (or give rise to right of termination, cancellation or acceleration) any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, or any license, agreement or lease to which the Company or any of its Assets and Properties may be bound; or

(d) result in an imposition or creation of any Encumbrance (other than a Permitted Encumbrance) on the business or Assets or Properties of the Company.

3.6. Consents and Governmental Approvals and Filings; Third-Party Consents.

(a) To the Knowledge of the Company, no consent, approval or other action of, filing with or notice to any Governmental or Regulatory Authority on the part of the Company is required in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby.

(b) No consent, approval or authorization of any third party (other than a Governmental or Regulatory Authority) is required in connection with the consummation of the transactions contemplated hereunder except as otherwise obtained prior to the execution of this Agreement or explicitly provided for in this Agreement.

3.7. Books and Records. The minute books and other material corporate records of the Company within the Company's possession have been made available to Buyer prior to the date of this Agreement.

3.8. Company Financial Statements. The Company has previously delivered or made available to Buyer the Company Financial Statements. Such Company Financial Statements have been prepared in conformity with GAAP, and present fairly, in all material respects, the financial position and results of operations of the Company as of the respective dates thereof and for the periods covered thereby; provided that the Interim Financial Statements are subject to normal year-end adjustments and lack footnotes and certain other presentation items.

3.9. Absence of Changes. Since June 30, 2012, except for the execution and delivery of this Agreement and the transactions to take place pursuant hereto, the Company has been operated in the Ordinary Course of Business and there has not been:

(a) any adverse event, occurrence, development or state of related circumstances or facts, not otherwise reflected in the Company Financial Statements, that would be required to appear on financial statements of the Company prepared in accordance with GAAP and that individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect;

(b) any creation or other incurrence of any Encumbrance on the Assets or Properties of the Company other than Permitted Encumbrances;

(c) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting any of the Assets or Properties of the Company which, individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect;

(d) the modification, amendment, cancellation, termination, receipt of notice of termination or failure to renew (other than in the Ordinary Course of Business) of any of the contracts material to the Company (or any contract that, but for such modification, amendment, cancellation, termination or failure to renew, would have been a material contract hereunder);

(e) any sale, assignment, lease or other transfer or disposition of any of the Assets or Properties (or any assets or property that, but for such sale, assignment, lease or other transfer or disposition, would have been an Asset or Property hereunder), other than in the Ordinary Course of Business;

(f) other than transactions and commitments in the Ordinary Course of Business or those contemplated by this Agreement, any transaction or commitment made by the Company (including the acquisition of any Asset or Property), or any relinquishment by the Company of any material contract or other material right;

(g) any forgiveness by the Company of any indebtedness for borrowed money or advances payable to the Company;

(h) any change in any method of accounting or accounting practice by the Company except for any such change after the date hereof required by reason of a concurrent change in GAAP;

(i) any change in any of the assumptions underlying, or methods of calculating, any bad debt, contingency or other reserve of the Company; or

(j) any issuance of any stock, bonds or other corporate securities or any right, options or warrants with respect thereto.

3.10. No Undisclosed Liabilities. Except as disclosed in the Company Financial Statements, and except for liabilities incurred since the date of the Interim Financial Statements in the Ordinary Course of Business which have not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, the Company has no material liabilities (whether absolute, contingent, accrued or otherwise) (including but not limited to any liability for Taxes) that would be required to be disclosed on a balance sheet prepared in accordance with GAAP, nor, to the Knowledge of the Company, is there any basis for any claim against the Company for any such liabilities relating to or affecting the Company or any of its Assets and Properties.

3.11. Tangible Personal Property. The Company is in possession of and has good and marketable title to, or has valid leasehold interests in or valid rights under written agreements to use, all tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties (for greater certainty excluding Intellectual Property) used in or reasonably necessary for the conduct of its business, including all tangible personal property reflected on the Company Financial Statements and any tangible personal property acquired since the date of the Interim Financial Statements other than property disposed of since such date in the Ordinary Course of Business. All such tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties of the Company are free and clear of Encumbrances, other than Permitted Encumbrances.

3.12. Benefits Plans; ERISA.

(a) Since inception, the Company has never maintained, contributed to, or been obligated to contribute to any Benefit Plan, including (without limitation) any Defined Benefit Plan or multiemployer plan (as defined in Section (3)(37) or 4001(a)(3) of ERISA).

(b) The consummation of the transactions contemplated by this Agreement will not, either immediately or upon the occurrence of any related event thereafter, (i) entitle any current or former Employee or officer or director of the Company or any ERISA Affiliate to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation otherwise due any such individual.

3.13. Real Property. Since inception, the Company has never owned any real property. The Company is currently not a party to any documents or agreements relating to Leased Real Property.

3.14. Intellectual Property Rights.

(a) Generally. Section 3.14(a) of the Company Disclosure Schedule sets forth, for the Patents owned by the Company, in whole or in part, including jointly with others, a complete and accurate list of all United States and foreign Patents and Patent applications, indicating for each, the applicable jurisdiction, registration number (or application number) and date issued (or date filed). The Company does not own any registered Trademarks or registered Copyrights, or have pending any applications for the same.

(b) Registrations.

(i) The Company is in compliance with all requirements (including payment of filing, examination, and maintenance fees and proofs of working or use) relating to the maintenance of registrations of the Company's registered Patents other than any requirement that, if not satisfied, would not result in a revocation or lapse or otherwise affect the enforceability of the registered Patents in question.

(ii) None of the Company's registered Patents has been or is now involved in any interference, reissue, reexamination or opposition proceeding in the United States Patent and Trademark Office and no such action has been threatened in writing to the Company or its counsel.

(iii) To the Knowledge of the Company, there is no Patent of any Person that infringes any Patent of the Company.

(c) Trade Secrets and Other Proprietary Information. The Company has taken all reasonable steps necessary to protect the Intellectual Property of the Company. Except under confidentiality obligations, to the Knowledge of the Company, there has been no unauthorized disclosure by the Company of confidential information or Trade Secrets and Other Proprietary Information. The Company has taken all reasonable steps necessary to enforce the agreements that have been entered into by its Employees, consultants, contractors and other entities for the protection of the Company's Intellectual Property.

(d) License Agreements. Schedule 3.14 (d)(1) of the Company Disclosure Schedule sets forth a complete and accurate list of all material license agreements currently in force granting to the Company any right to use or practice any rights under any Intellectual Property (other than over-the-counter "shrink wrap" software, "click-through" licenses, or other commercially available software programs, including software programs utilized for operational and administrative purposes, and software programs embedded in equipment used by the Company) (collectively, the "Inbound License Agreements"), indicating for each the title and the parties thereto. Schedule 3.14(d)(2) of the Company Disclosure Schedule also sets forth a complete and accurate list of all license agreements under which the Company grants licenses or other rights in or to use or practice any rights under any Intellectual Property, other than pursuant to the sales of products in the Ordinary Course of Business (collectively, the "Outbound License Agreements"), indicating for each the title and the parties thereto. To the Knowledge of the Company, there is no outstanding or threatened material dispute or disagreement with respect to any Inbound License Agreement or any Outbound License Agreement.

(e) Ownership and Other Rights; Sufficiency of Intellectual Property Assets. The Company owns or possesses adequate licenses, re-marketing or sublicensing rights, or other rights to use, free and clear of Encumbrances (other than Permitted Encumbrances), Orders and arbitration awards, all of its Intellectual Property used in the conduct of the Company's business as presently conducted. The Intellectual Property of the Company, including the Company's Trade Secrets and Other Proprietary Information and rights granted to the Company under the Inbound License Agreements, constitute all the Intellectual Property rights and Inbound License Agreements material to the conduct of the Company's business as presently conducted and are all such Intellectual Property rights and Inbound License Agreements necessary to operate such business after the Closing in substantially the same manner as such business has been operated by the Company prior thereto.

(f) No Infringement by the Company. The products used, manufactured, marketed, sold or licensed by the Company, and all Intellectual Property material to the conduct of the Company's business as currently conducted, to the Knowledge of the Company, do not infringe upon, violate or constitute the unauthorized use of any rights owned or controlled by any third party, including any Intellectual Property of any third party.

(g) No Pending or Threatened Infringement Claims. No litigation is now or, to the Knowledge of the Company, has ever been threatened in writing or pending and no notice or other claim in writing has been received by the Company, (A) alleging that the Company has engaged in any activity or conduct that infringes upon, violates or constitutes the unauthorized use of the Intellectual Property rights of any third party or (B) challenging the ownership, use, validity or enforceability of any Intellectual Property owned or exclusively licensed by or to the Company. No Intellectual Property that is owned or licensed by the Company is subject to any outstanding Order, stipulation or agreement to which the Company is a party, except as disclosed in the Inbound License Agreements and Outbound License Agreements, restricting the use thereof by the Company or, in the case of Intellectual Property licensed by the Company to others, restricting the sale, transfer, assignment or licensing thereof by the Company to any Person.

(h) No Infringement by Third Parties. To the Knowledge of the Company, no third party is misappropriating, infringing, or violating any Intellectual Property owned or exclusively licensed by the Company, and no such claims have been brought against any third party by the Company.

(i) Software. The Software (as defined below) owned by the Company was either (i) developed by Employees of the Company within the scope of their employment; (ii) developed by independent contractors who have assigned their rights to the Company pursuant to written agreements; or (iii) otherwise acquired by the Company from a third party. Such Software does not contain any programming code, documentation or other materials that embody Intellectual Property rights of any person other than the Company, except for such materials obtained by the Company from other persons who make such materials generally available to all interested purchasers or end-users on standard commercial terms. For purposes of this Section 3.14 (i), "Software" means any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) descriptions, schematics, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, and (iv) all documentation, including user manuals and training materials, relating to any of the foregoing.

3.15. Proprietary Information of Third Parties. No third party has claimed to any member of the Knowledge Group of the Company, or to the Knowledge of the Company, has reason to claim, that any person employed by the Company or retained by the Company as a consultant or contractor in connection with and during the Company's ownership and operation of its business has (i) violated or may be violating any of the terms or conditions of such person's employment, non-competition or non-disclosure agreement with such third party, (ii) disclosed or may be disclosing or utilized or may be utilizing any Trade Secrets and Other Proprietary Information or documentation of such third party, or (iii) interfered or may be interfering in the employment relationship between such third party and any of its present or former Employees. No third party has asserted in writing any such claim against the Company or requested in writing information from the Company that relates to such a claim.

3.16. Litigation. There are no Actions or Proceedings pending or, to the Knowledge of the Company, threatened against the Company, relating to or affecting (i) the Company, its Assets and Properties or the Company's business, or (ii) the transactions contemplated by this Agreement, and, to the Knowledge of the Company, there is no basis for any such Action or Proceeding. The Company is not in default with respect to any written Order to which it is a party, and there are no unsatisfied judgments against the Company.

3.17. Compliance with Law. The Company is, and since January 1, 2010 has been, in compliance with all applicable laws, statutes, Orders, ordinances and regulations, whether federal, state, local or foreign except where the failure to be in compliance would not have a Material Adverse Effect on the Company's business. The Company has not received any written notice to the effect that, and no member of the Knowledge Group has been advised in writing that, the Company is not in compliance with any of such laws, statutes, Orders, ordinances or regulations.

3.18. Contracts.

(a) Schedule 3.18 of the Company Disclosure Schedule sets forth a true and complete list of each of the following contracts, agreements or other arrangements to which the Company is currently a party or by which any of its Assets and Properties is currently bound (and, to the extent oral, accurately describes the terms of such contracts, agreements and arrangements):

(i) all loan agreements, indentures, debentures, notes or letters of credit relating to the borrowing of money or to mortgaging, pledging or otherwise placing a lien on any material asset or material group of assets of the Company;

(ii) all guarantees of the obligations of third parties;

(iii) except for contracts and legally binding commitments which have been disclosed anywhere in the Company Disclosure Schedule and for which a true and complete copy has been provided to Buyer, all contracts and legally binding commitments which require the Company to pay more than $5,000 in the aggregate;

(iv) except for contracts and legally binding commitments which have been disclosed anywhere in the Company Disclosure Schedule and for which a true and complete copy has been provided to Buyer, all contracts or legally binding commitments that in any way materially restrict the Company from carrying on its business anywhere in the world as it is currently conducted;

(v) all Inbound License Agreements, Outbound License Agreements, collaboration, research and development, co-promotion, marketing or other similar agreements; and

(vi) all contracts or legally binding commitments that in any way grant a third party a right of first refusal for the purchase of the Company or any of its Assets or Properties.

(b) A correct and complete copy of each contract or agreement disclosed in the Company Disclosure Schedule has been previously provided to Buyer. Each contract or agreement disclosed in the Company Disclosure Schedule is in full force and effect and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms, of the Company, and to the Knowledge of the Company, the other parties thereto; and the Company has performed in all material respects all of its required material obligations under, and is not in violation or material breach of or default under, any such contract or agreement. To the Knowledge of the Company, the other parties to any such contract or agreement are not in violation or breach of or default under any such contract or agreement.

3.19. Environmental Matters. To the Knowledge of the Company, the Company has, at all times since January 1, 2010, been in compliance in all material respects with all applicable Environmental Laws (as defined below). No Permits, registrations or other governmental authorizations need to be held by the Company pursuant to Environmental Laws (collectively, "Environmental Permits") for the conduct of the Company's business as currently conducted, except where the failure to obtain such Environmental Permits would not have a Material Adverse Effect on the Company. "Environmental Laws" means all national, state and local laws, codes, regulations, common law, requirements, directives, Orders, and judicial interpretations thereof, all as in effect on the date hereof or on the date hereof, that may be enforced by any Governmental or Regulatory Authority, relating to pollution, the protection of the Environment or the emission, discharge, disposal, release or threatened release of any pollutants, contaminants or chemical, industrial, hazardous or toxic materials or wastes, in or into the environment.

3.20. Insurance. Except as set forth in Schedule 3.20 of the Company Disclosure Schedule, the Company does not currently maintain any insurance providing insurance coverage to the Company or the Assets and Properties of the Company (or any of the Company's directors, officers, salespersons, agents or Employees).

3.21. Tax Matters.

(a) All Tax Returns of the Company required to be filed on or prior to the date hereof have been timely filed. All such Tax Returns were correct and complete in all material respects when filed. All Taxes owed by the Company or for which the Company may be held liable (whether or not shown on any Tax Return) have been paid in full.

(b) No audit is currently pending with respect to any Tax Return of the Company, nor are the Company or its officers or directors aware of any information which has caused or should cause them to believe that an audit by any Tax authority may be forthcoming. The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time for the assessment of any Tax or agreed to any extension of time with respect to a Tax assessment or deficiency, nor is any request to so waive or extend currently outstanding.

(c) There are no liens for Taxes upon any property or assets of the Company, except for Permitted Encumbrances or for taxes not yet due or for which adequate reserves have been established in accordance with GAAP.

(d) The Company has delivered or made available to Buyer complete and accurate copies of all non-income Tax Returns which reflect a material Tax liability.

(e) The Reorganization will be consummated in compliance with the material terms of the Agreement and the Company has no plan or intention to waive or modify further any such material condition.

(f) The Purchase Price was negotiated through arm's length bargaining. Accordingly, the fair market value of the Stock Consideration will be approximately equal to the fair market value of the Purchased Assets.

(g) As a result of the Reorganization, the Company will transfer to Buyer at least ninety percent (90%) of the fair market value of the net assets and at least seventy percent (70%) of the fair market value of the gross assets of Company held by it immediately prior to the Reorganization. For this purpose, amounts used to pay dissenters or to pay Reorganization expenses, and all redemptions and distributions (except for regular, normal dividends) made by the Company immediately prior to the Reorganization will be considered as assets held by the Company immediately prior to the Reorganization. The Company has not redeemed any of the Company's stock, made any distribution with respect to any of the Company stock, or disposed of any of its assets in anticipation of or as a part of a plan for the acquisition of the Company's assets by Buyer.

(h) The assumption by Buyer of the Assumed Liabilities pursuant to the Agreement is for a bona fide business purpose and the principal purpose of such assumption is not the avoidance of federal income tax on the transfer of the Purchased Assets by the Company to the Buyer pursuant to the Reorganization.

(i) The Assumed Liabilities were incurred by the Company in the Ordinary Course of Business. No liabilities of any person other than the Company will be assumed by the Buyer in the Reorganization.

(j) The Company and Buyer will pay their respective expenses, if any, incurred in connection with the Reorganization. None of the Company or Buyer will pay any of the expenses of the stockholders of the Company incurred in connection with the Reorganization.

(k) There is no intercorporate indebtedness existing between the Company and the Buyer that was issued, acquired, or will be settled at a discount.

(l) The Company is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Code.

(m) The Company is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

(n) On the date of the Reorganization, including after payment of the Stock Consideration to the individuals and entities set forth on Schedule 2.6, the fair market value of the assets of the Company will exceed the sum of its liabilities (including any liabilities to which its assets are subject).

3.22. Labor and Employment Relations. At no time since January 1, 2010 has the Company had any Employees. To the Knowledge of the Company, the classification of any consultants or contractors as "independent contractors" and not as Employees has, at all times since January 1, 2010, been consistent with the standards set forth by applicable Law.

3.23. Permits. Section 3.23 of the Company Disclosure Schedule contains a true and complete list of all Permits used in and material, individually or in the aggregate, to the Company's business as currently conducted, except where the failure to obtain such Permit would not have a Material Adverse Effect on the Company. All such Permits are currently effective and valid and have been validly issued. No additional Permits are necessary to enable the Company to conduct its business as presently conducted in material compliance with all applicable federal, state and local laws, except where the failure to obtain such Permit would not have a Material Adverse Effect on the Company. There is no pending Action or Proceeding by any Governmental or Regulatory Authority that could affect such Permits in any material respect or their sufficiency for the current conduct of the Company's business. The Company has provided or made available to Buyer true and complete copies of such Permits.

3.24. Regulatory Compliance.

(a) The Company has timely filed or otherwise provided all registrations, authorizations, licenses, reports, data, and other information and applications with respect to its biologic, pharmaceutical, consumer, health care, and other governmentally regulated products (the "Regulated Products") required to be filed with or otherwise provided by it to the FDA or any other Governmental or Regulatory Authority with jurisdiction over the manufacture, use, or sale of the Regulated Products, has complied with all applicable requirements of the FDA or other Governmental or Regulatory Authority with respect to the Regulated Products, and all regulatory exemptions, licenses or approvals in respect thereof are in full force and effect.

(b) All documentation, correspondence, reports, data, analyses and certifications relating to or regarding any Regulated Product of the Company filed with or delivered by or on behalf of the Company to any Governmental or Regulatory Authority were in all material respects true and accurate when so filed or delivered.

(c) Without limiting the generality of Section 3.17 , the Company has conducted and has used the Regulated Products in compliance in all material respects with all applicable Laws, including, without limitation, the FDCA, the Directive, all other Device Regulations, and the applicable national legislation of the member states of the European Union. To the Knowledge of the Company, each Registered Product has been developed, manufactured, tested, packaged, labeled, distributed, marketed, commercialized and sold in compliance in all material respects with applicable Laws.

(d) The Company has not received written notice of any adverse inspectional finding, Form 483, warning letter, finding of deficiency, finding of non-compliance, compelled or voluntary recall, data integrity review, investigation, penalty, fine, sanction, assessment, request for corrective or remedial action, or other compliance or enforcement action by the FDA or other Governmental or Regulatory Authority relating to any Regulated Product, any Regulated Product-related marketing or promotional materials, or any of the facilities in which any Regulated Products are manufactured, tested, packaged, labeled, stored or handled.

(e) Neither the Company nor, to the Knowledge of the Company, any of its service providers have made an untrue or fraudulent statement to the FDA or any other applicable Governmental or Regulatory Authority, or in any records and documentation prepared or maintained to comply with the applicable Laws, with respect to any Regulated Product. The Company complied in all material respects with testing requirements and study protocols in connection with the work relied upon by the Company in any submission or documentation for the FDA or other Governmental or Regulatory Authority.

(f) The Company has not, with respect to the manufacture, distribution or sale of any of its products: (i) been debarred, excluded or received notice of action or threat of action with respect to debarment, exclusion or other action under the provisions of 21 U.S.C. §§ 335a, 335b, or 335c, 42 U.S.C. § 1320a-7, 45 C.F.R. Part 76, 2 C.F.R. Parts 180 or 376 or any equivalent provisions in any other applicable jurisdiction; or (ii) received written notice of or been subject to any other material enforcement action involving the FDA or any other similar Governmental or Regulatory Authority, including any suspension, consent decree, notice of criminal investigation, indictment, sentencing memorandum, plea agreement, Order or target or no-target letter, and none of the foregoing are pending or, to the Knowledge of the Company, threatened in writing against same. The Company has not made or offered any payment, gratuity or other thing of value that is prohibited by any Law to personnel of the FDA or any other Governmental or Regulatory Authority.

(g) There are not presently pending, nor, to the Knowledge of the Company, threatened in writing, any civil, criminal or administrative actions, suits, demands, claims, hearings, notices of violation, investigations, proceedings, demand letters or other communications relating to any alleged hazard or alleged defect in design, manufacture, materials or workmanship, including any failure to warn or alleged breach of express or implied warranty or representation, relating to any Regulated Product, or alleging that any Regulated Product is otherwise unsafe or ineffective for its intended use. The Company has not made any modification to any Regulated Product because of warranty, product liability, regulatory or other claims or communications concerning alleged hazards or defects in such product.

(h) The Company is conducting the business and using its products, and has always conducted the business and used its products, in compliance with the Anti-Kickback Statute (42 U.S.C. § 1320a-7b), Civil Monetary Penalty Statute (42 U.S.C. § 1320a-7a), the Stark Law (42 U.S.C. § 1395nn), the False Claims Act (31 U.S.C. § 3729 et seq.) and all of the regulations promulgated under all such statutes.

3.25. Amount and Sufficiency of Assets. The Purchased Assets and the Excluded Assets constitute all of the assets used by the Company in operating its business as it is currently operated by the Company. The Cash Assets shall be an amount of at least $400,000. The Purchased Assets will enable Buyer and its Affiliates to operate such business after the Closing in the same manner as operated by the Company prior to the Closing.

3.26. Brokers. The Company has not retained any broker in connection with the transactions contemplated hereunder. Buyer does not have, and will not have, any obligation to pay any broker's, finder's, investment banker's, financial advisor's or similar fee in connection with this Agreement or the transactions contemplated hereby by reason of any action taken by or on behalf of the Company, the Company Stockholders or the Company Noteholders.

3.27. No General Solicitation or Advertising. The Company acknowledges that it is not acquiring the Stock Consideration as a result of any "*general solicitation*" or "*general advertising*," as such terms are used in Regulation D under the Securities Act, including Buyer's Registration Statement on Form S-1, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

Section 4. Representations and Warranties of Buyer.

As a material inducement to the Company to enter into this Agreement, Buyer hereby represents and warrants, except as expressly set forth in the Buyer Disclosure Schedule or as set forth in Buyer's filings with the SEC on EDGAR (the "SEC Filings") (which exceptions shall be deemed to be representations and warranties as if made hereunder) to the Company, the Company Stockholders and Company Noteholders that:

4.1. Organization. The Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware. The Buyer is duly authorized to conduct business and is in good standing in each jurisdiction where such qualification is required except for any jurisdiction where failure to so qualify would not have a Material Adverse Effect upon the Buyer. The Buyer has full power and authority, and holds all Permits necessary to carry on its business and to own and use the Assets and Properties owned and used by the Buyer, except where the failure to have such power and authority or to hold such Permit would not have a Material Adverse Effect on the Buyer's business.

4.2. Authority. The Buyer has all necessary corporate power and corporate authority and has taken all action necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other corporate proceedings on the part of the Buyer are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Buyer and, assuming due authorization, execution and delivery by the other parties to this Agreement, constitutes a legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies. Without limiting the generality of the foregoing, the Board of Directors of the Company has unanimously approved and adopted this Agreement and the consummation of transactions contemplated hereby and thereby. The approval of this Agreement and the transactions contemplated hereby does not require approval of the Buyer's stockholders.

4.3. Litigation. There are no Actions or Proceedings pending or threatened against the Buyer relating to or affecting (i) the Buyer, its Assets and Properties or the Buyer's business, or (ii) the transactions contemplated by this Agreement, and, to the Knowledge of the Buyer, there is no basis for any such Action or Proceeding. The Buyer is not in default with respect to any Order, and there are no unsatisfied judgments against the Company.

4.4. Consents.

(a) No consent, approval or other action of, filing with or notice to any Governmental or Regulatory Authority on the part of the Buyer is required in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby other than filings required pursuant to federal and state securities laws, which have been made or will be made in a timely manner.

(b) There are no consents, waivers or approvals required by Buyer to be obtained from third parties in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby, except for such consents, authorizations, filings, registrations, waivers and approvals which if not obtained or made would not have a Material Adverse Effect.

4.5. Financial Statements. The financial statements of the Buyer set forth in the SEC Filings (the "Buyer Financial Statements") are based upon the books and records of the Buyer, have been prepared in accordance with GAAP consistently applied during the periods indicated and fairly present in all material respects the financial position, results of operations and cash flows of the Buyer at the respective dates and for the respective periods indicated therein.

4.6. Changes. Since June 30, 2012, except for the execution and delivery of this Agreement and the transactions to take place pursuant hereto, the Buyer has been operated in the Ordinary Course of Business and there has not been:

(a) any adverse event, occurrence, development or state of related circumstances or facts, not otherwise reflected in the financial statements of Buyer, that would be required to appear on financial statements of Buyer prepared in accordance with GAAP and that individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect on Buyer

(b) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting any of the Assets or Properties of the Buyer which, individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect;

(c) any modification, amendment, cancellation, termination, receipt of notice of termination or failure to renew (other than in the Ordinary Course of Business) of any of the contracts material to the Buyer (or any contract that, but for such modification, amendment, cancellation, termination or failure to renew, would have been a material contract hereunder);

(d) any sale, assignment, lease or other transfer or disposition of any of the Assets or Properties, other than in the Ordinary Course of Business;

(e) any change in any method of accounting or accounting practice by the Company except for any such change after the date hereof required by reason of a concurrent change in GAAP; or

(f) any change in any of the assumptions underlying, or methods of calculating, any bad debt, contingency or other reserve of the Company;

4.7. Capitalization. The authorized capital stock of Buyer consists of (i) 75,000,000 shares of Buyer Common Stock, of which 11,256,867 shares are issued and outstanding; (ii) 10,000,000 shares of Preferred Stock, of which no shares are issued and outstanding, and (iii) no shares held by Buyer in treasury. The SEC Filings set forth the number of all outstanding options, warrants and other rights of any kind for the purchase or acquisition of, and any securities convertible or exchangeable for, any capital stock of Buyer granted by Buyer (collectively, the "Convertible Buyer Securities"). Each of such Convertible Buyer Securities has been granted in compliance with all applicable laws, statutes and regulations, whether federal or state. Each share of the issued and outstanding capital stock of the Buyer is duly authorized, validly issued, fully paid and non-assessable.

4.8. No Undisclosed Liabilities. Except for liabilities incurred in the Ordinary Course of Business since June 30, 2012 which liabilities have not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Buyer, Buyer has no material liabilities (whether absolute, contingent, accrued or otherwise) (including but not limited to any liability for Taxes) that would be required to be disclosed on a balance sheet prepared in accordance with GAAP, nor, to the Knowledge of Buyer, is there any basis for any claim against Buyer for any such liabilities relating to or affecting Buyer or any of its Assets and Properties.

4.9. Tangible Personal Property. The Buyer is in possession of and has good and marketable title to, or has valid leasehold interests in or valid rights under written agreements to use, all tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties (for greater certainty excluding Intellectual Property) used in or reasonably necessary for the conduct of its business, including all tangible personal property reflected in the Buyer Financial Statements and any tangible personal property acquired since June 30, 2012 other than property disposed of since such date in the Ordinary Course of Business. All such tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties of the Buyer are free and clear of Encumbrances, other than Permitted Encumbrances.

4.10. Intellectual Property Rights.

(a) Registrations.

(i) The Buyer is in compliance with all requirements (including payment of filing, examination, and maintenance fees and proofs of working or use) relating to the maintenance of registrations of the Buyer's registered Patent, Trademarks and Copyrights other than any requirement that, if not satisfied, would not result in a revocation or lapse or otherwise affect the enforceability of the registered Patents, Trademarks or Copyrights in question.

(ii) None of the Buyer's registered Patents, Trademarks or Copyrights has been or is now involved in any interference, reissue, reexamination or opposition proceeding in the United States Patent and Trademark Office or the office of the United States Registrar of Copyrights any equivalent foreign patent office and no such action has been threatened in writing to the Buyer or its counsel.

(iii) To the Knowledge of the Buyer, there is no Patent of any Person that claims the same subject matter as any Patent of the Buyer or invalidates any claim of any Patent of the Buyer.

(b) Trade Secrets and Other Proprietary Information. Each of the current and former Employees and consultants of the Buyer has executed an agreement substantially in the Buyer's standard form that protects the Intellectual Property of the Buyer. Except under confidentiality obligations, to the Knowledge of the Buyer, there has been no disclosure by the Buyer of confidential information or Trade Secrets and Other Proprietary Information. The Buyer has taken all reasonable steps necessary to enforce the agreements that have been entered into by its Employees, consultants, contractors and other entities for the protection of the Buyer's Intellectual Property.

(c) License Agreements. The Buyer Disclosure Schedule sets forth a complete and accurate list of all material license agreements currently in force granting to the Buyer any right to use or practice any rights under any Intellectual Property (other than over-the-counter "shrink wrap" software, "click-through" licenses, or other commercially available software programs, including software programs utilized for operational and administrative purposes, and software programs embedded in equipment used by the Company) (collectively, the "Buyer Inbound License Agreements") other than those filed as exhibits to the SEC Filings, indicating for each the title and the parties thereto. The Buyer Disclosure Schedule also sets forth a complete and accurate list of all license agreements under which the Buyer grants licenses or other rights in or to use or practice any rights under any Intellectual Property, other than pursuant to the sales of products in the Ordinary Course of Business (collectively, the "Buyer Outbound License Agreements") other than those filed as exhibits to the SEC Filings, indicating for each the title and the parties thereto. There is no outstanding or threatened material dispute or disagreement with respect to any Buyer Inbound License Agreement or any Buyer Outbound License Agreement.

(d) Ownership and Other Rights; Sufficiency of Intellectual Property Assets. The Buyer owns or possesses adequate licenses, re-marketing or sublicensing rights, or other rights to use, free and clear of Encumbrances (other than Permitted Encumbrances), Orders and arbitration awards, all of its Intellectual Property used in the conduct of the Buyer's business as presently conducted, or as currently proposed to be used. The Intellectual Property of the Buyer, including the Buyer's Trade Secrets and Other Proprietary Information and the Buyer's unregistered Copyrights and rights granted to the Buyer under the Buyer Inbound License Agreements, constitute all the Intellectual Property rights and Buyer Inbound License Agreements material to the conduct of the Buyer's business as presently conducted and are all such Intellectual Property rights and Buyer Inbound License Agreements necessary to operate such business.

(e) No Infringement by Buyer. The products used, manufactured, marketed, sold or licensed by the Buyer, and all Intellectual Property material to the conduct of the Buyer's business as currently conducted and as currently proposed to be conducted, do not infringe upon, violate or constitute the unauthorized use of any rights owned or controlled by any third party, including any Intellectual Property of any third party.

(f) No Pending or Threatened Infringement Claims. No litigation is now or has ever been threatened or pending and no notice or other claim in writing has been received by the Buyer, (i) alleging that the Buyer has engaged in any activity or conduct that infringes upon, violates or constitutes the unauthorized use of the Intellectual Property rights of any third party or (ii) challenging the ownership, use, validity or enforceability of any Intellectual Property owned or exclusively licensed by or to the Buyer. No Intellectual Property that is owned or licensed by the Buyer is subject to any outstanding Order, stipulation or agreement to which the Buyer is a party, except as disclosed in the Buyer Inbound License Agreements and Buyer Outbound License Agreements, restricting the use thereof by the Buyer or, in the case of Intellectual Property licensed by the Buyer to others, restricting the sale, transfer, assignment or licensing thereof by the Buyer to any Person.

(g) No Infringement by Third Parties. To the Knowledge of Buyer, no third party is misappropriating, infringing, or violating any Intellectual Property owned or exclusively licensed by the Buyer, and no such claims have been brought against any third party by the Buyer.

(h) Software. The Software (as defined below) owned or purported to be owned by the Buyer, was either (i) developed by Employees of the Buyer within the scope of their employment; (ii) developed by independent contractors who have assigned their rights to the Buyer pursuant to written agreements; or (iii) otherwise acquired by the Buyer from a third party. Such Software does not contain any programming code, documentation or other materials that embody Intellectual Property rights of any person other than the Buyer, except for such materials obtained by the Buyer from other persons who make such materials generally available to all interested purchasers or end-users on standard commercial terms.

4.11. Proprietary Information of Third Parties. No third party has claimed to any member of the Knowledge Group of the Buyer, or to the Knowledge of the Buyer, has reason to claim, that any person employed by the Buyer or retained by the Buyer as a consultant or contractor in connection with and during the Buyer's ownership and operation of its business has (i) violated or may be violating any of the terms or conditions of such person's employment, non-competition or non-disclosure agreement with such third party, (ii) disclosed or may be disclosing or utilized or may be utilizing any Trade Secrets and Other Proprietary Information or documentation of such third party, or (iii) interfered or may be interfering in the employment relationship between such third party and any of its present or former Employees. No third party has asserted any such claim against the Buyer or requested information from the Company that relates to such a claim.

4.12. Compliance with Laws. Buyer is in compliance with all applicable laws, statutes, Orders, ordinances and regulations, whether federal, state, local or foreign, except where the failure to be in compliance would not have a Material Adverse Effect. Buyer has not received any written notice to the effect that, and no officer or director of Buyer has been advised that Buyer is not in compliance with any of such laws, statutes, Orders, ordinances or regulations.

4.13. Environmental Matters. The Buyer has at all times been in compliance in all material respects with all applicable Environmental Laws. No Environmental Permits are required for the conduct of the Buyer's business as currently conducted and proposed to be conducted, except where the failure to obtain such Environmental Permits would not have a Material Adverse Effect on the Buyer.

4.14. Validity of Shares and Offering. The Stock Consideration will, when issued be duly authorized, validly issued, fully paid and non-assessable. Assuming the accuracy of the representations and warranties of the Company herein, the offer, sale and issuance of the Stock Consideration will be exempt from the registration requirements of the Securities Act.

4.15. No Conflicts. The execution and delivery by Buyer of this Agreement does not, and the performance by Buyer of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the certificate of incorporation or bylaws of Buyer;

(b) conflict with or result in a violation or breach of any term or provision of any law, Order, Permit, statute, rule or regulation of a Governmental or Regulatory Authority applicable to Buyer, the business or Assets or Properties of Buyer or the capital stock of Buyer;

(c) result in a material breach of, or constitute a material default under (or give rise to right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, license, agreement, lease or other similar instrument or obligation to which Buyer or any of its Assets and Properties may be bound; or

(d) result in an imposition or creation of any Encumbrance on the business or Assets or Properties of the Buyer.

4.16. Tax Matters.

(a) The Reorganization will be consummated in compliance with the material terms of the Agreement, and Buyer has no plan or intention to waive or modify further any such material condition.

(b) The Purchase Price was negotiated through arm's length bargaining. Accordingly, the fair market value of the Stock Consideration will be approximately equal to the fair market value of the Purchased Assets.

(c) To the Knowledge of Buyer, the Company has not redeemed any of the Company's stock, made any distribution with respect to any of the Company stock, or disposed of any of its assets in anticipation of or as a part of a plan for the acquisition of the Company's assets by Buyer.

(d) Buyer has no plan or intention to reacquire any of its stock issued in the Reorganization.

(e) Buyer has no plan or intention after the Reorganization to sell or otherwise dispose of any of the assets of Company acquired in the Reorganization, except for dispositions made in the Ordinary Course of Business or transfers described in Section 368(a)(2)(C) of the Code.

(f) The assumption by Buyer of the Assumed Liabilities pursuant to the Agreement is for a bona fide business purpose and the principal purpose of such assumption is not the avoidance of federal income tax on the transfer of the Purchased Assets by the Company to the Buyer of pursuant to the Reorganization.

(g) The Company and Buyer will pay their respective expenses, if any, incurred in connection with the Reorganization. None of the Company or Buyer will pay any of the expenses of the stockholders of the Company incurred in connection with the Reorganization.

(h) Immediately after the Reorganization, Buyer intends to cause members of Buyer's "qualified group" (as defined in Treasury Regulations section 1.368-1(d)(4)) to continue the historic business of Company or use a significant portion of the historic business assets of Company in a business.

(i) There is no intercorporate indebtedness existing between the Company and the Buyer that was issued, acquired, or will be settled at a discount.

(j) The Buyer is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Code.

(k) The Buyer is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

Section 5. Appointment of Stockholder Representative

5.1. Appointment of Stockholder Representative. For purposes of Section 8, Ted Lachowicz shall be appointed to serve on behalf of the Company, Company Stockholders and Company Noteholders as the Stockholder Representative. Such appointment by the Company, Company Stockholders and Company Noteholders shall constitute the following actions binding upon the Company and such Company Stockholders and Company Noteholders:

(a) The irrevocable authorization, direction and appointment of the Stockholder Representative as the sole and exclusive agent, attorney-in-fact and representative of each Company Stockholder, Company Noteholder and such Person's heirs, representatives and successors.

(b) The approval and authorization for all of the arrangements relating thereto, including the Stockholder Representative's performance of its obligations under this Agreement including, without limitation, taking any and all actions, incurring any costs and expenses for the account of the Company Stockholders and Company Noteholders and making any and all determinations that may be required or permitted to be taken by the Stockholder Representative or the Company Stockholders and Company Noteholders and the exercise of such rights, power and authority as are incidental to the foregoing.

(c) The approval and authorization for all of the arrangements relating thereto, including the Stockholder Representative's performance of its obligations under this Agreement including, without limitation, taking any and all actions, incurring any costs and expenses for the account of the Company under Section 8.3, and making any and all determinations that may be required or permitted to be taken by the Company thereunder and the exercise of such rights, power and authority as are incidental to the foregoing.

(d) The irrevocable relinquishment of the right of such Company Stockholder and Company Noteholder to act independently and other than through the Stockholder Representative with respect to the foregoing, any such rights being irrevocably and exclusively delegated to the Stockholder Representative. Without limiting the generality of the foregoing, any notice hereunder delivered to Buyer, other than through the Stockholder Representative, shall be of no effect, and each notice delivered by Buyer to the Stockholder Representative shall be effective as against each Company Stockholder and Company Noteholder.

(e) The original Stockholder Representative shall indicate by execution of this Agreement his acceptance of such appointment and his agreement to be bound by the terms of this Agreement as they relate to the Stockholder Representative and the duties and responsibilities thereof by executing this Agreement for such limited purpose in the space provided on the signature pages hereof.

(f) Any actions, exercises of rights, power or authority and any decisions or determinations made by the Stockholder Representative shall be absolutely and irrevocably binding on each Company Stockholder and Company Noteholder as if each such Person personally had taken such action, exercised such rights, power or authority or made such decision or determination in such Person's individual capacity.

5.2. Authority of Stockholder Representative; Successors and Assigns.

(a) The Stockholder Representative shall have full power and authority to represent the Company Stockholders and Company Noteholders, and their successors and assigns, within the scope of his appointment pursuant to this Agreement, and all action taken by the Stockholder Representative hereunder shall be binding upon the Company Stockholders and Company Noteholders, and their successors and assigns, as if expressly confirmed and ratified in writing by each of them. The appointment of the Stockholder Representative under this Agreement shall survive the death, incapacity or any assignment of rights or assets of any such Company Stockholder and/or Company Noteholder. Without limiting the generality of the foregoing, the Stockholder Representative shall have full power and authority on behalf of the Company Stockholders and Company Noteholders to (i) interpret all of the terms and provisions of this Agreement (ii) compromise or settle any claims asserted under this Agreement that the parties may assert; and (iii) pursue and settle any claims for indemnification pursuant to Section 8 of this Agreement.

(b) The Stockholder Representative may resign at any time by submitting a written resignation to Buyer and the Company Stockholders and Company Noteholders. In the event of the death, physical or mental incapacity or resignation of the Stockholder Representative, a successor Stockholder Representative shall be elected by a vote of the Company Stockholders and Company Noteholders holding a majority of the Stock Consideration on an as-converted basis. The Company Stockholders and Company Noteholders shall then deliver to Buyer prompt written notice of such election of a successor Stockholder Representative. Pending the election of a successor Stockholder Representative, such holder holding the largest number of Stock Consideration on an as-converted basis (excluding the former Stockholder Representative) shall act as the interim Stockholder Representative. Each interim and successor Stockholder Representative shall have all the power, authority, rights and privileges conferred by this Agreement upon the original Stockholder Representative, and the term "Stockholder Representative" as used herein shall be deemed to include any interim or successor Stockholder Representative. Any successor Stockholder Representative shall indicate in writing his/her acceptance of such appointment and his agreement to be bound by the terms of this Agreement applicable to the Stockholder Representative.

5.3. Duties of Stockholder Representative. In consideration of the acceptance by the Stockholder Representative of his, her or its duties hereunder, it is agreed by all parties that:

(a) The Stockholder Representative's duties and responsibilities shall be limited to those expressly set forth in this Agreement, and it shall not be subject to, or obliged to recognize, any other agreement between the parties hereto even though reference thereto may be made herein.

(b) The Stockholder Representative is authorized, in his, her or its reasonable discretion, to disregard any and all notices or instructions given by any of the Company Stockholders or Company Noteholders or by any other person, firm or corporation, except only (i) such notices or instructions as are herein specifically provided for, and (ii) orders or process of any court with jurisdiction.

(c) The Stockholder Representative shall not be personally liable for any act taken or omitted hereunder if taken or omitted by it in good faith. In taking any action whatsoever hereunder, the Stockholder Representative shall be fully protected in relying upon any written notice, paper, demand, certificate or other document reasonably believed by him, her or it in good faith to be genuine, or upon any evidence reasonably deemed by him, her or it to be sufficient. The Stockholder Representative may consult with counsel in connection with its duties hereunder and shall be fully protected in any act taken, suffered or permitted by it in good faith in accordance with the advice of counsel. The Stockholder Representative may perform any of his, her or its duties hereunder either directly or by or through agents or attorneys. The Stockholder Representative shall not be responsible for the sufficiency or accuracy of the form, execution, validity or genuineness of documents now or hereafter deposited hereunder, nor shall it be responsible or liable in any respect on account of the identity, authority or rights of the persons executing and delivering or purporting to execute or deliver any such document. In no event shall the Stockholder Representative be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Stockholder Representative has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) If the Stockholder Representative believes it to be reasonably necessary to consult with counsel or other advisors concerning any of its duties in connection with this Agreement, or in case it becomes involved in litigation on account of being the Stockholder Representative hereunder, then the Stockholder Representative's costs, expenses, and reasonable attorneys' fees shall be reimbursed by the Company Stockholders and Company Noteholders (on a proportionate basis).

Section 6. Additional Agreements.

6.1. Trademarks; Tradenames; Domain Names. As soon as practicable after the Closing, the Company shall eliminate the use of all of the trademarks, tradenames, service marks and service names included in the Purchased Assets, in any of their forms or spellings, on all advertising, stationery, business cards, checks, purchase orders and acknowledgments, customer agreements and other contracts and business documents; *provided*, *however*, that the Company shall be entitled to use such trademarks, tradenames, service marks and service names to the extent reasonably necessary to wind down and liquidate its business or to deal with Excluded Assets and Excluded Liabilities.

6.2. Payments With Respect to Purchased Assets. The Company shall promptly remit to Buyer all monies received by the Company or any of its Affiliates following the date hereof in payment for any Purchased Assets acquired by Buyer pursuant to this Agreement. Payments remitted to Buyer pursuant to this Section 6.2 shall be in the form received by the Company or any of its Affiliates.

6.3. Confidentiality. The Company agrees to, and shall cause its respective agents, representatives, Affiliates, employees, officers and directors to, treat and hold as confidential all confidential documents and information relating to the business and affairs of the Company, including any notes, analyses, compilations, studies, forecasts, interpretations or other documents that are derived from, contain, reflect or are based upon any such information (the "Confidential Information") and refrain from using any Confidential Information except in connection with this Agreement, and deliver promptly to Buyer, at Buyer's request, all Confidential Information (and all copies thereof in whatever form or medium) in its possession or under its control. Notwithstanding the foregoing, Confidential Information shall not include information that, at the time of disclosure, is available publicly and was not disclosed in breach of this Agreement. In the event that the Company or any Company Stockholder or any of their respective agents, representatives, Affiliates, employees, officers or directors becomes legally compelled to disclose any Confidential Information, such Person shall provide Buyer with prompt written notice of such requirement so that Buyer may seek a protective order or other remedy or waive compliance with the provisions of this Section 6.3. In the event that a protective order or other remedy is not obtained or if Buyer waives compliance with this Section 6.3, such Person shall furnish only that portion of such Confidential Information that is legally required to be provided and exercise its reasonable best efforts to obtain assurances that confidential treatment will be accorded such information.

6.4. Tax Matters.

(a) Transfer Taxes. The Buyer shall be liable for and shall hold the Company harmless against any transfer, documentary, sales, use, value added, excise, stock transfer, stamp, recording, registration and any similar Taxes and fees, including any penalties and interest thereon, that become payable in connection with the transactions contemplated by this Agreement ("Transfer Taxes"). The applicable Parties shall cooperate in filing such forms and documents as may be necessary to permit any such Transfer Tax to be assessed and paid on or prior to the date hereof in accordance with any available pre sale filing procedure, and to obtain any exemption or refund of any such Transfer Tax.

(b) Apportioned Taxes. Subject to Section 6.4(a), all real property Taxes, personal property Taxes and similar ad valorem obligations levied with respect to the Purchased Assets for a taxable period which includes (but does not end on) the date hereof (collectively, the "Apportioned Obligations") shall be apportioned between the Company and Buyer as of the date hereof based on the number of days of such taxable period ending on and including the date hereof ("Pre-Closing Apportioned Period") and the number of days of such taxable period beginning from the day after the date hereof through the end of such taxable period (the "Post-Closing Apportioned Period"). The Company shall be liable for the proportionate amount of Apportioned Obligations that is attributable to the Pre-Closing Apportioned Period. Buyer shall be liable for the proportionate amount of the Apportioned Obligations that is attributable to the Post-Closing Apportioned Period. Within 90 days after the Closing, the Company and Buyer shall present a statement to the other setting forth the amount of reimbursement to which each is entitled under this Section 6.4(b) (which shall take into account, any Taxes previously overpaid by a party) together with such supporting evidence as is reasonably necessary to calculate such amount to be reimbursed. Such amount shall be paid by the Party owing it to the other Party within 10 Business Days after delivery of such statement. Thereafter, Buyer shall notify Company upon receipt of any bill for real property Taxes, personal property Taxes or similar ad valorem obligations relating to the Purchased Assets, part or all of which are attributable to the Pre-Closing Apportioned Period, and shall promptly deliver such bill to Company who shall pay the same to the appropriate Governmental or Regulatory Authority; provided that if such bill also relates to the Post-Closing Apportioned Period, the Company shall remit, prior to the due date of assessment, to Buyer payment only for the proportionate amount of such bill that is attributable to the Pre-Closing Apportioned Period. If either the Company or Buyer shall make a payment for which it is entitled to reimbursement under this Section 6.4(b), the party that is liable for such payment pursuant to this Section 6.4(b) shall make such reimbursement promptly but in no event later than 10 Business Days after the presentation of a statement setting forth the amount of reimbursement to which the presenting party is entitled along with such supporting evidence as is reasonably necessary to calculate the amount of reimbursement. Any Tax refunds, credits or overpayments attributable to real property Taxes, personal property Taxes and similar ad valorem obligations levied with respect to the Purchased Assets shall be apportioned between Buyer and the Company in accordance with the apportionment provided in this Section 6.4(b).

(c) Cooperation on Tax Matters. The Parties shall cooperate fully, as and to the extent reasonably requested by any other Party, in connection with the filing of Tax Returns, and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Each Party shall provide to the others, within 10 Business Days of the receipt thereof, any tax related communications and notices it receives which may impact the other Party's Tax Liability or filing responsibilities.

6.5. Taking of Necessary Action; Further Action. If at any time after the date hereof any further action is necessary or desirable to carry out the purposes of this Agreement, Buyer and the Company, and the officers and directors of Buyer and the Company are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and necessary action.

6.6. Observer Rights. At all times that Ted Lachowicz ("Observer") or his Affiliates collectively own at least 50,000 shares of Buyer Common Stock, he shall have the right to attend all meetings of the Board of Directors of Buyer (the "Board"), participate in all deliberations of the Board and receive copies of all materials provided to the Board, and if requested, copies of all materials provided to the Board of Directors (or similar governing body) of Buyer's subsidiaries; provided that: (a) Observer shall have no voting rights with respect to actions taken or elected not to be taken by the Board; (b) Observer agrees to enter into the Board Observer Agreement, (c) Observer agrees to be bound by Buyer's policy against insider trading and tipping, as it may be approved and amended from time to time by the Board, and (d) Buyer may withhold any information and exclude Observer from any meeting or portion thereof if access to such information or attendance at such meeting: (i) could adversely affect the attorney-client privilege between Buyer and its counsel, (ii) could result in disclosure of trade secrets or a conflict of interest, (iii) would contravene a Buyer non-disclosure obligation to a third party or (iv) if Observer is, or is affiliated with, a competitor of Buyer.

6.7. Registration Rights. If, within five years from the Closing, Buyer shall complete an underwritten offering of the Buyer Common Stock registered under the Securities Act (an "IPO") then, within 180 days from the closing of the IPO, Buyer shall prepare and file a resale registration statement (the "Registration Statement"), registering the Stock Consideration (including the shares of Buyer Common Stock issuable upon exercise of the Warrants) for resale under the Securities Act. Buyer shall use commercially reasonable best efforts to cause the Registration Statement (and any post-effective amendments to the Registration Statement that Buyer may file) to be declared effective by the SEC within 90 days from filing, subject to review of the Registration Statement by the SEC, and thereafter to maintain the effectiveness of the Registration Statement, as it may have been amended, until the earlier of (i) the sale of all of the Stock Consideration (including the shares of Buyer Common Stock issuable upon exercise of the Warrants), or (ii) such time as when the Stock Consideration (including the shares of Buyer Common Stock issuable upon exercise of the Warrants) can be sold without restriction under Rule 144 under the Securities Act, *provided*, *however*, that Buyer shall be entitled to suspend the use of the Registration Statement from time to time as needed where such suspension may be necessary to prevent the Registration Statement from being used where there would otherwise be a material misstatement or omission contained in the prospectus in the Registration Statement.

Section 7. Conditions to Closing.

7.1. Conditions to Buyer's Obligations. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the fulfillment or waiver (in accordance with Section 9.2), on or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall be true and correct at and as of the date hereof except (i) to the extent such representations specifically relate to an earlier date, in which case such representations shall be true and correct as of such earlier date (ii) subject to and qualified by the transactions contemplated herein and (iii) where the failure of the representations and warranties to be true and correct, in the aggregate, does not and would not be reasonably expected to have a Material Adverse Effect;

(b) Obligations. The Company shall have performed and complied in all material respects with all of the obligations required to be performed by them under this Agreement;

(c) Consulting Agreement. Roberta Lee shall have executed and delivered to Buyer the Consulting Agreement;

(d) Board Observer Agreement. Ted Lachowicz shall have executed and delivered to Buyer the Board Observer Agreement;

(e) Investor Representation Letter. Each individual and entity set forth on Schedule 2.6 shall have executed and delivered to Buyer the Investor Representation Letter with respect to the Stock Consideration received;

(f) Release. Each individual and entity set forth on Schedule 2.6 shall have executed and delivered to Buyer the General Release of Claims;

(g) No Litigation. No action, suit or proceeding shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, provincial, local or foreign jurisdiction or before any arbitrator wherein an unfavorable judgment, decree, injunction, order or ruling would prevent the performance of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated hereby, cause such transactions to be rescinded or materially and adversely affect the right of Buyer to own or operate the Company, and no judgment, decree, injunction, order or ruling shall have been entered that has any of the foregoing effects; and

(h) Closing Deliveries. At the Closing (subject to Section 2.6 of this Agreement), the Company shall deliver or cause to be delivered to Buyer:

(i) the Purchased Assets;

(ii) an executed counterpart to the Assumption Agreement;

(iii) an executed counterpart to the Bill of Sale;

(iv) an executed counterpart to the IP Assignment Agreement;

(v) a certificate of the Secretary of the Company certifying as of the date hereof (A) a true and complete copy of the organizational documents of the Company certified by the Secretary of State of Delaware, dated as of a date not earlier than five Business Days prior to the Closing, (B) certificates of the Secretary of State of the State of Delaware and the Secretary of State of California, certifying the good standing of the Company in the State of Delaware and the State of California, respectively, dated as of a date not earlier than five Business Days prior to the Closing, (C) a true and complete copy of the resolutions of the Board of Directors of the Company and the resolutions of the stockholders of the Company, each authorizing the execution, delivery and performance of this Agreement and the Ancillary Agreements by the Company and the consummation of the transactions contemplated hereby, and (D) incumbency matters; and

(vi) such other documents or instruments as Buyer may reasonably request to effect the transactions contemplated hereby.

7.2. Conditions to the Company's Obligations. The obligation of the Company to consummate the transactions contemplated by this Agreement is subject to the fulfillment or waiver (in accordance with Section 9.2), on or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true and correct at and as of the date hereof except (i) to the extent such representations specifically relate to an earlier date, in which case such representations shall be true and correct as of such earlier date (ii) subject to and qualified by the transactions contemplated herein and (iii) where the failure of the representations and warranties to be true and correct, in the aggregate, does not and would not be reasonably expected to have a Material Adverse Effect;

(b) Obligations. Buyer shall have performed and complied in all material respects with all of the obligations required to be performed by it under this Agreement;

(c) No Litigation. No action, suit or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction or before any arbitrator wherein an unfavorable judgment, decree, injunction, order or ruling would prevent the performance of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded, and no judgment, decree, injunction, order or ruling shall have been entered that has any of the foregoing effects;

(d) Release. Each individual and entity set forth on Schedule 2.6 shall have executed and delivered to the Company the General Release of Claims;

(e) Consulting Agreement. Buyer shall have executed and delivered to Roberta Lee the Consulting Agreement;

(f) Board Observer Agreement. Buyer shall have executed and delivered to Ted Lachowicz the Board Observer Agreement;

(g) Closing Deliveries. At the Closing (subject to Section 2.6 of this Agreement), Buyer shall deliver or cause to be delivered to the Company:

(i) an executed counterpart to the Assumption Agreement;

(ii) an executed counterpart to the Bill of Sale;

(iii) an executed counterpart to the IP Assignment Agreement;

(iv) certificates representing the Warrants in accordance with the provisions of Section 2.6;

(v) a certificate of the Secretary of Buyer certifying as of the date hereof (A) a true and complete copy of the organizational documents of Buyer; (B) a true and complete copy of the resolutions of the Board of Directors of Buyer, authorizing the execution, delivery and performance of this Agreement by Buyer, and the consummation of the transactions contemplated hereby; (C) certificates of the Secretaries of State of the States of Delaware and Washington certifying the good standing of Buyer in Delaware, Florida and Washington; and (D) incumbency matters; and

(vi) such other documents or instruments as the Company may reasonably request to effect the transactions contemplated hereby.

Section 8. Indemnification and Related Matters.

8.1. Survival. All representations, warranties, covenants and agreements set forth in this Agreement, the Disclosure Schedules or in any certificate or instrument delivered in connection herewith shall survive the Closing for the applicable statute of limitations; *provided*, that solely in the case of representations and warranties, no Company Indemnified Parties (as defined below) shall be entitled to recover for any Damages (as defined below) unless written notice of a claim is made pursuant to this Agreement and delivered to the Buyer prior to the Limitation Date.

8.2. Buyer Indemnification. Subject to the limitations set forth in this Section 8, from and after the Closing, Buyer shall indemnify and hold harmless the Company, the Company Stockholders, the Company Noteholders and each of their respective officers, managers, directors, employees, stockholders, members, agents, representatives, successors, permitted assigns and heirs (collectively, the "Company Indemnified Parties") from and against any and all actual claims, liabilities, losses, damages, Taxes, costs and expenses (including, without limitation, reasonable attorneys', accountants', investigators' and experts' fees and expenses, sustained or incurred in connection with the defense or investigation of any claim) (collectively, "Damages") which a Company Indemnified Party suffers, sustains or becomes subject to as the result of or in connection with:

(i) a breach of any representation or warranty made by Buyer contained in this Agreement;

(ii) a breach of any covenant or agreement by Buyer contained in this Agreement;

(iii) the assertion against any Company Indemnified Party of any Assumed Liability; or

(iv) a breach by Buyer of its covenants and obligations pursuant to Section 2.8 or the failure of the Reorganization to qualify as a Tax Free Reorganization under the Code resulting from any action (or inaction) required hereunder to be taken by Buyer or its Affiliates.

Solely for purposes of determining the amount of Damages incurred in connection with any indemnification claims made under this Section 8.2 or Section 8.3 below (but not for purposes of determining whether or not a breach of representation or warranty has first occurred), all representations and warranties set forth herein or in the Disclosure Schedules that are qualified by reference to "material," "materially," "Material Adverse Effect" or any similar term (collectively, "Materiality Qualifiers") shall be deemed to have been made without giving effect to such Materiality Qualifiers.

8.3. Company Indemnification. Subject to the limitations set forth in this Section 8, from and after the Closing, the Company shall indemnify and hold harmless the Buyer, and its officers, managers, directors, employees, stockholders, members, agents, representatives, successors, permitted assigns and heirs (collectively, the "Buyer Indemnified Parties") from and against any and all actual Damages which a Buyer Indemnified Party suffers, sustains or becomes subject to as the result of or in connection with:

(i) a breach of any representation or warranty made by the Company contained in this Agreement;

(ii) a breach of any covenant or agreement by the Company contained in this Agreement; or

(iii) the assertion against any Buyer Indemnified Party of any Excluded Liability.

8.4. Limitations on Indemnity.

(a) The indemnification provided for in Section 8.2 is subject to the following limitations:

(i) Buyer shall have no indemnification obligations in respect of claims made pursuant to Section 8.2 unless the Company Indemnified Party gives written notice of the claim to Buyer in accordance with the procedures set forth in this Agreement on or before the Limitation Date. If the Company Indemnified Party delivers such written notice of a claim on or prior to the Limitation Date, then Buyer's indemnification obligation, if any, in respect of the claims described in the notice shall survive the Limitation Date, notwithstanding that the representations and warranties on which such claim is based have expired.

(ii) Buyer shall have no indemnification obligation in respect of claims made pursuant to Section 8.2 unless and until the aggregate amount of all Damages incurred by all Company Indemnified Parties exceeds $25,000 (the "Threshold"), at which time all Damages shall be recoverable (except as limited by the other provisions of this Agreement).

(iii) Buyer shall have no indemnification obligation in respect of claims made pursuant to Section 8.2 to the extent that the aggregate amount of Damages incurred by the Company Indemnified Party exceeds $3,450,000.

(b) The indemnification provided for in Section 8.3 is subject to the following limitations:

(i) The Company shall have no indemnification obligations in respect of claims made pursuant to Section 8.3 unless the Buyer Indemnified Party gives written notice of the claim to the Stockholder Representative in accordance with the procedures set forth in this Agreement on or before the Limitation Date. If the Buyer Indemnified Party delivers such written notice of a claim on or prior to the Limitation Date, then Company's indemnification obligation, if any, in respect of the claims described in the notice shall survive the Limitation Date, notwithstanding that the representations and warranties on which such claim is based have expired.

(ii) The Company shall have no indemnification obligation in respect of claims made pursuant to Section 8.3 unless and until the aggregate amount of all Damages incurred by all Buyer Indemnified Parties exceeds the Threshold, at which time all Damages shall be recoverable (except as limited by the other provisions of this Agreement).

(iii) The Company shall have no indemnification obligation in respect of claims made pursuant to Section 8.3 to the extent that the aggregate amount of Damages incurred by the Buyer Indemnified Party exceeds the value of the Holdback Shares, as determined in accordance with Section 2.6(b).

8.5. Procedures.

(a) Buyer Indemnification. With respect to indemnification claims that may be asserted under Section 8.2:

(i) If a Company Indemnified Party wishes to seek indemnification under this Section 8, the Stockholder Representative shall give written notice thereof to the Buyer; *provided*, that in the case of any action or lawsuit brought or asserted by a third party (a "Third Party Claim") that would entitle the Company Indemnified Party to indemnity hereunder, the Stockholder Representative shall promptly notify the Buyer of the same in writing; *provided further*, that the failure to so notify the Buyer promptly shall not relieve the Buyer of its indemnification obligation hereunder except to the extent that the Buyer has been materially prejudiced thereby. Any request for indemnification made by a Company Indemnified Party shall be in writing, shall specify in reasonable detail the basis for such claim, the facts pertaining thereto and, if known and quantifiable, the amount thereof.

(ii) In the case of any Third Party Claim, if within 30 Business Days after receiving the notice described in Section 8.5(a)(i) above the Buyer gives written notice to the Stockholder Representative stating (i) that the Buyer disputes and intends to defend against such claim and (ii) that the Buyer will be solely responsible for all costs, expenses and liabilities incurred in connection with or otherwise relating to such claim, then counsel for the defense shall be selected by the Buyer (subject to the consent of the Stockholders Representative, which consent shall not be unreasonably withheld), whereupon the Buyer shall not be required to make any payment to the Company Indemnified Party for the costs of its defense counsel in respect of such Third Party Claim as long as the Buyer is conducting a good faith and diligent defense; *provided*, that the Company Indemnified Party and Stockholder Representative shall at all times have the right to fully participate in such defense at its own expense directly or through counsel. If the Buyer assumes the defense in accordance with the preceding sentence, it shall have the right, with the consent of the Stockholder Representative, which consent shall not be unreasonably withheld, to settle the portion of such Third Party Claim that is subject to indemnification; *provided*, that the settlement (i) does not involve the imposition of an injunction or other equitable relief on the Company Indemnified Party, and (ii) expressly and unconditionally releases the Company Indemnified Party from all Liabilities with respect to such Third Party Claim (and all other claims arising out of the same or similar facts and circumstances), with prejudice. The Buyer shall keep the Stockholder Representative apprised of the status of any Third Party Claim for which it has assumed the defense, shall furnish the Stockholder Representative with all documents and information that such Company Indemnified Party reasonably requests, and shall consult with the Stockholder Representative prior to acting on major matters, including settlement discussions. Notwithstanding any of the foregoing, the Buyer shall not have the right to assume control of the defense, and shall pay the reasonable fees and expenses of counsel retained by the Company Indemnified Party, if the Third Party Claim which the Buyer seeks to assume control of: (1) seeks non-monetary relief; (2) involves criminal or quasi-criminal allegations; (3) is one in which Buyer and the Company Indemnified Party are both named in the complaint, and joint representation by the same counsel would be inappropriate under applicable standards of ethical conduct; (4) could reasonably be expected to adversely affect the Taxes of the Company Indemnified Party for a taxable period (or portion thereof) beginning after the date hereof; or (5) involves a claim for which an adverse determination would have a material and adverse effect on the Company Indemnified Party's reputation or future business prospects. If notice of intent to dispute and defend is not given by the Buyer within the time period referenced above, or if such diligent good faith defense is not being or ceases to be conducted, then the Company Indemnified Party may undertake the defense of (with counsel selected by such Company Indemnified Party), and shall have the right to compromise or settle, such Third Party Claim (exercising reasonable business judgment) in its discretion. If such Third Party Claim is one that, by its nature, cannot be defended solely by the Buyer, then the Company Indemnified Party shall make available all information and assistance that the Buyer shall reasonably request, and shall cooperate with the Buyer in such defense.

(b) Company Indemnification. With respect to indemnification claims that may be asserted under Section 8.3:

(i) If a Buyer Indemnified Party wishes to seek indemnification under this Section 8, the Buyer Indemnified Party shall give written notice thereof to the Stockholder Representative; *provided*, that in the case of any Third Party Claim that would entitle the Buyer Indemnified Party to indemnity hereunder, the Buyer Indemnified Party shall promptly notify the Stockholder Representative of the same in writing; *provided further*, that the failure to so notify the Stockholder Representative promptly shall not relieve the Company of its indemnification obligation hereunder except to the extent that the Company has been materially prejudiced thereby. Any request for indemnification made by a Buyer Indemnified Party shall be in writing, shall specify in reasonable detail the basis for such claim, the facts pertaining thereto and, if known and quantifiable, the amount thereof.

(ii) In the case of any Third Party Claim, if within 30 Business Days after receiving the notice described in Section 8.5(b)(i) above the Stockholder Representative gives written notice to the Buyer Indemnified Party stating (i) that the Stockholder Representative disputes and intends to defend against such claim and (ii) that the Company will be solely responsible for all costs, expenses and liabilities incurred in connection with or otherwise relating to such claim, then counsel for the defense shall be selected by the Stockholder Representative (subject to the consent of the Buyer Indemnified Party, which consent shall not be unreasonably withheld), whereupon the Company shall not be required to make any payment to the Buyer Indemnified Party for the costs of its defense counsel in respect of such Third Party Claim as long as the Company is conducting a good faith and diligent defense; *provided*, that the Buyer Indemnified Party shall at all times have the right to fully participate in such defense at its own expense directly or through counsel. If the Company assumes the defense in accordance with the preceding sentence, it shall have the right, with the consent of the Buyer Indemnified Party, which consent shall not be unreasonably withheld, to settle the portion of such Third Party Claim that is subject to indemnification; *provided*, that the settlement (i) does not involve the imposition of an injunction or other equitable relief on the Buyer Indemnified Party, and (ii) expressly and unconditionally releases the Buyer Indemnified Party from all Liabilities with respect to such Third Party Claim (and all other claims arising out of the same or similar facts and circumstances), with prejudice. The Stockholder Representative shall keep the Buyer Indemnified Party apprised of the status of any Third Party Claim for which it has assumed the defense, shall furnish the Buyer Indemnified Party with all documents and information that such Stockholder Representative reasonably requests, and shall consult with the Buyer Indemnified Party prior to acting on major matters, including settlement discussions. Notwithstanding any of the foregoing, the Company shall not have the right to assume control of the defense, and shall pay the reasonable fees and expenses of counsel retained by the Buyer Indemnified Party, if the Third Party Claim which the Company seeks to assume control of: (1) seeks non-monetary relief; (2) involves criminal or quasi-criminal allegations; (3) is one in which Buyer Indemnified Party and the Company are both named in the complaint, and joint representation by the same counsel would be inappropriate under applicable standards of ethical conduct; (4) could reasonably be expected to adversely affect the Taxes of the Buyer Indemnified Party for a taxable period (or portion thereof) beginning after the date hereof; or (5) involves a claim for which an adverse determination would have a material and adverse effect on the Buyer Indemnified Party's reputation or future business prospects. If notice of intent to dispute and defend is not given by the Company within the time period referenced above, or if such diligent good faith defense is not being or ceases to be conducted, then the Buyer Indemnified Party may undertake the defense of (with counsel selected by such Buyer Indemnified Party), and shall have the right to compromise or settle, such Third Party Claim (exercising reasonable business judgment) in its discretion. If such Third Party Claim is one that, by its nature, cannot be defended solely by the Company, then the Buyer Indemnified Party shall make available all information and assistance that the Company shall reasonably request, and shall cooperate with the Company in such defense.

8.6. Exclusive Remedy; Fraud. From and after the Closing, the indemnification provided pursuant to this Section 8 shall be the sole and exclusive remedy for any Damages resulting from or arising out of any breach or claim in connection with this Agreement, the Disclosure Schedules or any certificate delivered in connection with this Agreement, regardless of the cause of action; *provided*, *however*, that neither the foregoing nor anything else contained in this Agreement shall limit a Party's remedies in the case of fraud or in respect of the pursuit of equitable remedies, including injunctive relief and specific performance. In the event any Party to this Agreement perpetrates a fraud on another Party hereto, the Party that suffers Damages by reason thereof shall be entitled to seek recovery therefor against the Person or Persons who perpetrated such fraud without regard to any limitations set forth in this Agreement (whether a temporal limitation, a dollar limitation or otherwise).

Section 9. Miscellaneous.

9.1. Amendment. This Agreement may not be amended or modified except (a) by an instrument in writing signed by or on behalf of Buyer, the Company and the Stockholder Representative or (b) by a waiver in accordance with Section 9.2.

9.2. Waiver. Any Party to this Agreement may waive compliance or performance of any provision of this Agreement that is intended for the benefit of such waiving Party. Any such extension or waiver shall be valid only if set forth in a writing executed by the Party to be bound thereby. Any waiver of any term or condition shall not be construed as a wavier of any subsequent breach or waiver of the same term or condition or as a waiver of any other term or condition of this Agreement. The failure of any Party to assert any of its rights under this Section 9.2 shall not constitute a waiver of any of such rights. No course of dealing between or among any persons having any interest in this Agreement shall be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any Party under or by reason of this Agreement. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

9.3. Specific Performance. The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

9.4. Fees and Expenses. Except as otherwise expressly provided herein, each of the Parties hereto shall pay all of its own fees, costs and expenses (including fees, costs and expenses of legal counsel, investment bankers, brokers or other representatives and consultants and appraisal fees, costs and expenses) incurred in connection with the negotiation of this Agreement and the Ancillary.

9.5. Notices. All notices, claims, demands and other communications given or delivered under this Agreement shall be in writing and shall be deemed to have been duly made or given when personally delivered, mailed by first class mail, return receipt requested, or delivered by express courier service or via facsimile (with original copy to follow) to the respective Parties at the following addresses (or such other address for a Party as shall be specified in a notice given in accordance with this Section 9.5):

If to the Company:

Acueity Healthcare, Inc.
c/o Adrian Rich of Dorsey & Whitney LLP
305 Lytton Avenue
Palo Alto, CA 94301
Facsimile: (650) 857-1288
Attention: Roberta Lee

with a copy (which shall not constitute notice) to:

Dorsey & Whitney LLP
305 Lytton Avenue
Palo Alto, CA 94301
Facsimile: (650) 857-1288
Attention: Adrian Rich

If to the Stockholder Representative:

Ted Lachowicz
38 Grand Corniche Drive
Henderson, NV 89011
Facsimile: (702) 566-9651

If to Buyer:

Atossa Genetics Inc.
4105 E. Madison Street, Suite 320
Seattle, WA 98112
Facsimile: (206) 325-6087
Attention: Chief Executive Officer

with a copy (which shall not constitute notice) to:

Ropes & Gray LLP
Three Embarcadero Center, 3rd Floor
San Francisco, CA 94111
Facsimile: (415) 315-6026
Attention: Ryan A. Murr

9.6. Binding Agreement; Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns; *provided* that neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by operation of law or otherwise without the prior written consent of the Company, the Stockholder Representative and Buyer; *provided, however*, that notwithstanding the foregoing, Buyer may at any time in its sole discretion and without the consent of any other Party assign, in whole or in part, (a) its right to purchase the Purchased Assets and assume the Assumed Liabilities to one or more of its Affiliates (provided that no such assignment shall release Buyer from its obligations hereunder); (b) its rights under this Agreement and the Ancillary Agreements for collateral security purposes to any lender providing financing to Buyer, such permitted assign or any of their Affiliates, and any such lender may exercise all of the rights and remedies of such assignee hereunder and thereunder; and (c) its rights under this Agreement and the Ancillary Agreements to any subsequent purchaser of Buyer or any of its divisions or any material portion of its assets (whether such sale is structured as a sale of stock, sale of assets, merger, recapitalization or otherwise).

9.7. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law or public policy, such provision shall be ineffective only to the extent of such prohibition or invalidity, and all other terms of this Agreement shall remain in full force and effect for so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party.

9.8. Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement and the other agreements, documents and instruments executed and delivered in connection herewith with sophisticated counsel. In the event an ambiguity or question of intent or interpretation arises, this Agreement and the agreements, documents and instruments executed and delivered in connection herewith shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Agreement and the agreements, documents and instruments executed and delivered in connection herewith. The Parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) that the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty or covenant.

9.9. Captions. The captions used in this Agreement are for convenience of reference only and do not constitute a part of this Agreement and shall not be deemed to limit, characterize or in any way affect any provision of this Agreement, and all provisions of this Agreement shall be enforced and construed as if no caption had been used in this Agreement.

9.10. Entire Agreement. This Agreement, the Schedules identified in this Agreement and the other documents referred to herein contain the entire agreement between the Parties and supersede any prior understandings, agreements or representations by or between the Parties, written or oral, which may have related to the subject matter hereof in any way.

9.11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

9.12. Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of California without reference to such state's principles of conflicts of law. Each of the parties hereto irrevocably and unconditionally consents hereby to submit to the exclusive jurisdiction of the California Superior Court for the County of San Francisco, or of any federal court of the United States, located in San Francisco County, California (the "California Courts") for any litigation arising out of or relating to this Agreement, or the negotiation, validity or performance of this Agreement, or the transactions contemplated hereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation in the California Courts and agrees not to plead or claim in any California Court that such litigation brought therein has been brought in any inconvenient forum. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any California Court.

9.13. Parties in Interest; Third-Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer on any person other than the Parties and their respective successors and assigns any rights or remedies under or by virtue of this Agreement, except that any Person that is a Company Indemnified Party shall have the right to enforce the obligations contained in Section 8. herein. Notwithstanding the foregoing, each individual and entity set forth on Schedule 2.6, together with each of their respective Affiliates, successors and assigns (each, a "Registrable Holder"), shall be deemed to be a third-party beneficiary under this Agreement with respect to the Buyer's obligations pursuant to Section 6.7 with respect to all Stock Consideration owned or held of record by such Registrable Holder, and such Registrable Holder shall the right to enforce such agreement against Buyer in accordance with the terms of this Agreement for so long as such Registrable Holder owns or holds of record any Stock Consideration.

9.14. Press Releases and Announcements; Confidentiality. At and after the Closing, no press release or public statement related to this Agreement or the transactions contemplated hereby, or other announcement to the employees or customers of the Company, shall be issued without the prior written consent of the Buyer and the Stockholder Representative, except as required by applicable law (in which case the Party required to make a public disclosure agrees to inform the other Parties prior to any disclosure and such disclosure shall be prepared jointly by the Company and Buyer).

* * * *

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement as of the day and year first above written.

COMPANY:

By: /s/ Roberta Lee
Name: Roberta Lee
Title:

BUYER:

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

STOCKHOLDER REPRESENTATIVE:

By: /s/ Ted Lachowicz
Name: Ted Lachowicz

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

WARRANT TO PURCHASE COMMON STOCK

OF

ATOSSA GENETICS, INC.

ATOS -

THIS WARRANT (the "Warrant") certifies that, for value received, (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time commencing after the earliest of the following to occur (the "Initial Exercise Date"): (a) six months from the closing of the Company Initial Public Offering (defined below) (b) the closing of a "fundamental transaction" (defined below), or (c) closing of a "significant private financing" (defined below). This Warrant shall expire and no longer be exercisable as of 5:00 p.m. (New York City time) on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"), but not thereafter, and shall entitle the Holder to subscribe for and purchase from Atossa Genetics, Inc., a Delaware corporation (the "Company"), up to [CALCULATED AS 100 % OF THE COMMON STOCK ISSUED TO THE INVESTOR PURSUANT TO THE PURCHASE AGREEMENT] shares of the Common Stock of the Company (the "Warrant Shares") at a purchase price equal to $1.60 per share (the "Exercise Price"). This Warrant is one of a series of similar warrants to purchase Common Stock issued pursuant to that certain Securities Purchase Agreement, dated of even date herewith, by and between the Company and the purchasers signatory thereto (the "Purchase Agreement"). All such warrants are referred to herein, collectively, as the "Warrants."

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Purchase Agreement.

(a) A "significant private financing" means a sale of the Company's securities primarily for capital raising purposes in a transaction or series of related transactions that is exempt from registration under the Securities Act and in which the Company issues securities representing at least 20% of the then outstanding capital stock of the Company, calculated assuming the conversion or exercise of all outstanding options, warrants and other securities convertible into or exercisable for capital stock of the Company.

(b) The term "Company Initial Public Offering" means the initial public offering of the Company's Common Stock, registered under the Securities Act.

Section 2. Exercise.

(a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made at any time or times on or after the Initial Exercise Date and on or before the Expiration Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto as Exhibit A and the payment of the Exercise Price for the Warrant Shares so purchased by wire transfer or cashier's check drawn on a United States bank. Upon exercise of the Warrant, the Company shall issue and deliver to the person or person entitled to receive the same, a certificate or certificates for the number of Warrant Shares issuable upon such exercise. The Company will provide written notice to the Holder of the date of closing of the Company Initial Public Offering and the resulting Initial Exercise Date and Expiration Date.

(b) Cashless Exercise. In the event that the Company's common stock is then traded on a securities exchange, and a Registration Statement covering the resale of the Warrant Shares as contemplated by the Purchase Agreement (a "Registration Statement"), has not been filed by the Company and declared effective by the SEC, or such Registration Statement has been filed but is no longer effective, then the Holder may exchange this Warrant on a cashless basis, in whole or in part (a "Cashless Exercise"), for the number of Warrant Shares determined in accordance with this Section 2(b) by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto indicating the Holder's intent to effect such exchange, provided, however, that the right of a Holder to effect a Cashless Exercise pursuant to this Section 2(b) shall terminate at such time as a Registration Statement is first declared effective by the SEC. In connection with any Cashless Exercise, the Company shall issue to the Holder the number of Warrant Shares equal to the quotient obtained by dividing
[(A-B) (X)] by (A), where:

(A)	=	the average closing stock price of the Company's common stock on its principal stock exchange for the five Trading Days immediately preceding the date of such election;
(B)	=	the Exercise Price; and
(X)	=	the number of shares covered by the Warrant which the Holder has elected to exchange pursuant to this Section 2(b).

(c) Mechanics of Exercise.

i. Authorization of Common Stock. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of all of the shares of Common Stock issuable upon the exercise of the Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company covenants that the Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company will take all such reasonable action as may be necessary to assure that the Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

ii. Delivery of Certificates Upon Exercise. Certificates for the Warrant Shares purchased hereunder shall be delivered to the Holder within three (3) Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the Exercise Price as set forth above ("Warrant Delivery Date"). This Warrant shall be deemed to have been exercised on the date the payment of the principal amount is received by the Company. The Warrant Shares shall be deemed to have been issued, and the Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such security for all purposes, as of the date the Warrant has been exercised by payment to the Company of the principal amount and all taxes required to be paid by the Holder, if any, pursuant to Section 2(c)(ii) prior to the issuance of such security, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of such Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 2(c)(ii) by the Warrant Delivery Date, then the Holder will have the right to rescind such exercise.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issuable by the Company pursuant to the Warrants), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) Fundamental Transaction. In case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock (other than as a result of a subdivision, combination, stock dividend or reclassification provided for in Section 3(a) hereof), or in case of any consolidation or merger of the Company with or into another corporation or entity (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification or capital reorganization or change of the outstanding Common Stock) or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company, then the Company shall, as a condition precedent to such transaction, cause lawful and effective provisions to be made (and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder) so that the Holder shall have the right thereafter upon exercise of this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock which might have been received upon conversion of this Warrant immediately prior to such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance, and in any such event, such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition described above, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or otherwise acquiring such assets shall assume, by written instrument executed and mailed or delivered to the Holder of this Warrant at the last address of the Holder appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities, cash or properties as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. The above provisions of this paragraph shall similarly apply to successive reorganizations, reclassifications, exchanges, liquidations, recapitalizations, changes, consolidations, mergers, sales, transfers or other dispositions, if any.

(c) Calculations. All calculations and adjustments to the Exercise Price under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) outstanding.

(d) Notice to Holders. The Company shall promptly give written notice of any adjustment under this Section 3 to each Holder, which notice shall include a brief statement of the facts requiring such adjustment.

(e) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

Section 4. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

(a) Title to the Warrant. Prior to the Expiration Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or certificate, if mutilated, the Company will make and deliver a new Warrant or certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) No Impairment. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant or the Warrant Shares, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant and the Warrant Shares against impairment. Without limiting the generality of the foregoing, the Company will (a) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and (b) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant and the Warrant Shares. Before taking any action which would result in an adjustment in the Warrant Shares for which this Warrant is exercisable, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not then registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Non-waiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Expiration Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder.

(m) Modification. The provisions of the Warrants may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Company and holders of at lease a majority of the outstanding Warrants (based on the number of Warrant Shares underlying the Warrants). Any such amendment, modification or wavier shall be binding upon the Holder of this Warrant regardless of whether the Holder consented to such amendment, modification or wavier; provided that nothing shall prevent the Company and the Holder from consenting to amendments, modifications or waivers to this Warrant that affect or are applicable to the Holder only.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

* * *

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2011

ATOSSA GENETICS, INC.

By: _____

Name: Steven C. Quay
Title: Chairman and Chief Executive Officer

[Signature Page to Warrant to Purchase Common Stock]

Exhibit A

NOTICE OF EXERCISE

TO: ATOSSA GENETICS, INC.

(1) The undersigned hereby elects to purchase shares of Common Stock of Atossa Genetics, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment in full, together with all applicable transfer tax;

(2) Payment shall take the form of (check applicable box):

£ lawful money of the United States; or

£ if Cashless Exercise is permitted in accordance with Section 2(b), the cancellation of Warrant Shares, in accordance with the formula set forth in subsection 2(b).

(3) Please issue a certificate or certificates representing said Common Stock in the name of the undersigned or in such other name as is specified below (please include social security or other tax identification number):

_____

_____

_____

(4) The Common Stock shall be delivered to the following:

_____

_____

_____

(5) The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity or Individual: _____

Signature of Authorized Signatory of Investing Entity or Individual: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute

this form and supply required information.

Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____

whose address is

_____

_____

.

_____

_____

_____

Dated:

Holder's
Signature:

Holder's
Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

WARRANT TO PURCHASE COMMON STOCK

OF

ATOSSA GENETICS, INC.

ATOS -

THIS WARRANT (the "Warrant") certifies that, for value received, [●] (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time commencing after the earliest of the following to occur (the "Initial Exercise Date"): (a) six months from the closing of the Company Initial Public Offering (defined below) (b) the closing of a "fundamental transaction" (defined below), or (c) closing of a "significant private financing" (defined below). This Warrant shall expire and no longer be exercisable as of 5:00 p.m. (New York City time) on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"), but not thereafter, and shall entitle the Holder to subscribe for and purchase from Atossa Genetics, Inc., a Delaware corporation (the "Company"), up to [●] shares of the Common Stock of the Company (the "Warrant Shares") at a purchase price equal to $1.25 per share (the "Exercise Price"). This Warrant has been issued pursuant to Section 3.c of that certain engagement letter, dated February 25, 2011, (the "Engagement Letter") by and between the Company and Dawson James Securities, Inc. ("Dawson James"). This Warrant is similar in kind to the series of warrants to purchase Common Stock issued by the Company pursuant to that certain Securities Purchase Agreement, by and between the Company and the purchasers signatory thereto, wherein Dawson James acted as the placement agent (the "Purchase Agreement"). This Warrant, together with the warrants issued pursuant to the Purchase Agreement, are referred to herein, collectively, as the "Warrants."

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Purchase Agreement.

(a) A "significant private financing" means a sale of the Company's securities primarily for capital raising purposes in a transaction or series of related transactions that is exempt from registration under the Securities Act and in which the Company issues securities representing at least 20% of the then outstanding capital stock of the Company, calculated assuming the conversion or exercise of all outstanding options, warrants and other securities convertible into or exercisable for capital stock of the Company.

(b) The term "Company Initial Public Offering" means the initial public offering of the Company's Common Stock, registered under the Securities Act.

Section 2. Exercise.

(a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made at any time or times on or after the Initial Exercise Date and on or before the Expiration Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto as Exhibit A and the payment of the Exercise Price for the Warrant Shares so purchased by wire transfer or cashier's check drawn on a United States bank. Upon exercise of the Warrant, the Company shall issue and deliver to the person entitled to receive the same, a certificate or certificates for the number of Warrant Shares issuable upon such exercise. The Company will provide written notice to the Holder of the date of closing of the Company Initial Public Offering and the resulting Initial Exercise Date and Expiration Date.

(b) Cashless Exercise. In the event that the Company's common stock is then traded on a securities exchange, and a Registration Statement covering the resale of the Warrant Shares as contemplated by the Purchase Agreement (a "Registration Statement"), has not been filed by the Company and declared effective by the SEC, or such Registration Statement has been filed but is no longer effective, then the Holder may exchange this Warrant on a cashless basis, in whole or in part (a "Cashless Exercise"), for the number of Warrant Shares determined in accordance with this Section 2(b) by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto indicating the Holder's intent to effect such exchange, provided, however, that the right of a Holder to effect a Cashless Exercise pursuant to this Section 2(b) shall terminate at such time as a Registration Statement is first declared effective by the SEC. In connection with any Cashless Exercise, the Company shall issue to the Holder the number of Warrant Shares equal to the quotient obtained by dividing
[(A-B) (X)] by (A), where:

(A) = the average closing stock price of the Company's common stock on its principal stock exchange for the five trading days immediately preceding the date of such election;

(B) = the Exercise Price; and

(X) = the number of shares covered by the Warrant which the Holder has elected to exchange pursuant to this Section 2(b).

(c) Mechanics of Exercise.

i. Authorization of Common Stock. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of all of the shares of Common Stock issuable upon the exercise of the Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company covenants that the Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company will take all such reasonable action as may be necessary to assure that the Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the trading market upon which the Common Stock may be listed.

ii. Delivery of Certificates Upon Exercise. Certificates for the Warrant Shares purchased hereunder shall be delivered to the Holder within three (3) trading days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the Exercise Price as set forth above ("Warrant Delivery Date"). This Warrant shall be deemed to have been exercised on the date the payment of the principal amount is received by the Company. The Warrant Shares shall be deemed to have been issued, and the Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such security for all purposes, as of the date the Warrant has been exercised by payment to the Company of the principal amount and all taxes required to be paid by the Holder, if any, pursuant to Section 2(c)(ii) prior to the issuance of such security, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of such Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 2(c)(ii) by the Warrant Delivery Date, then the Holder will have the right to rescind such exercise.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issuable by the Company pursuant to the Warrants), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) Fundamental Transaction. In case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock (other than as a result of a subdivision, combination, stock dividend or reclassification provided for in Section 3(a) hereof), or in case of any consolidation or merger of the Company with or into another corporation or entity (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification or capital reorganization or change of the outstanding Common Stock) or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company, then the Company shall, as a condition precedent to such transaction, cause lawful and effective provisions to be made (and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder) so that the Holder shall have the right thereafter upon exercise of this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock which might have been received upon conversion of this Warrant immediately prior to such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance, and in any such event, such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition described above, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or otherwise acquiring such assets shall assume, by written instrument executed and mailed or delivered to the Holder of this Warrant at the last address of the Holder appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities, cash or properties as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. The above provisions of this paragraph shall similarly apply to successive reorganizations, reclassifications, exchanges, liquidations, recapitalizations, changes, consolidations, mergers, sales, transfers or other dispositions, if any.

(c) Calculations. All calculations and adjustments to the Exercise Price under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) outstanding.

(d) Notice to Holders. The Company shall promptly give written notice of any adjustment under this Section 3 to each Holder, which notice shall include a brief statement of the facts requiring such adjustment.

(e) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the board of directors of the Company.

Section 4. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

(a) Title to the Warrant. Prior to the Expiration Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or certificate, if mutilated, the Company will make and deliver a new Warrant or certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) No Impairment. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant or the Warrant Shares, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant and the Warrant Shares against impairment. Without limiting the generality of the foregoing, the Company will (a) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and (b) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant and the Warrant Shares. Before taking any action which would result in an adjustment in the Warrant Shares for which this Warrant is exercisable, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not then registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Non-waiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Expiration Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement and Engagement Letter.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder.

(m) Modification. The provisions of this Warrant may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Company and holders of at least a majority of the outstanding Warrants issued pursuant to the Purchase Agreement and Engagement Letter (based on the number of Warrant Shares underlying the Warrants). Any such amendment, modification or wavier shall be binding upon the Holder of this Warrant regardless of whether the Holder consented to such amendment, modification or wavier; provided that nothing shall prevent the Company and the Holder from consenting to amendments, modifications or waivers to this Warrant that affect or are applicable to the Holder only.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

* * *

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2011

ATOSSA GENETICS, INC.

By: _____

Name: Steven C. Quay
Title: Chairman and Chief Executive Officer

[Signature Page to Warrant to Purchase Common Stock]

Exhibit A

NOTICE OF EXERCISE

TO: ATOSSA GENETICS, INC.

(1) The undersigned hereby elects to purchase shares of Common Stock of Atossa Genetics, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment in full, together with all applicable transfer tax;

(2) Payment shall take the form of (check applicable box):

☐ lawful money of the United States; or

☐ if Cashless Exercise is permitted in accordance with Section 2(b), the cancellation of Warrant Shares, in accordance with the formula set forth in subsection 2(b).

(3) Please issue a certificate or certificates representing said Common Stock in the name of the undersigned or in such other name as is specified below (please include social security or other tax identification number):

_____

_____

_____

(4) The Common Stock shall be delivered to the following:

_____

_____

_____

(5) The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Holder: _____

Signature of Authorized Signatory of Holder: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute

this form and supply required information.

Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____

whose address is

_____

_____

.

_____

_____

_____

Dated:

Holder's
Signature:

Holder's
Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

WARRANT TO PURCHASE COMMON STOCK

OF

ATOSSA GENETICS, INC.

ATOS -

THIS WARRANT (the "Warrant") certifies that, for value received, [●] (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time commencing after the earliest of the following to occur (the "Initial Exercise Date"): (a) six months from the closing of the Company Initial Public Offering (defined below) (b) the closing of a "fundamental transaction" (defined below), or (c) closing of a "significant private financing" (defined below). This Warrant shall expire and no longer be exercisable as of 5:00 p.m. (New York City time) on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"), but not thereafter, and shall entitle the Holder to subscribe for and purchase from Atossa Genetics, Inc., a Delaware corporation (the "Company"), up to [●] shares of the Common Stock of the Company (the "Warrant Shares") at a purchase price equal to $1.60 per share (the "Exercise Price"). This Warrant has been issued pursuant to Section 3.c of that certain engagement letter, dated February 25, 2011, (the "Engagement Letter") by and between the Company and Dawson James Securities, Inc. ("Dawson James"). This Warrant is similar in kind to the series of warrants to purchase Common Stock issued by the Company pursuant to that certain Securities Purchase Agreement, by and between the Company and the purchasers signatory thereto, wherein Dawson James acted as the placement agent (the "Purchase Agreement"). This Warrant, together with the warrants issued pursuant to the Purchase Agreement, are referred to herein, collectively, as the "Warrants."

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Purchase Agreement.

(a) A "significant private financing" means a sale of the Company's securities primarily for capital raising purposes in a transaction or series of related transactions that is exempt from registration under the Securities Act and in which the Company issues securities representing at least 20% of the then outstanding capital stock of the Company, calculated assuming the conversion or exercise of all outstanding options, warrants and other securities convertible into or exercisable for capital stock of the Company.

(b) The term "Company Initial Public Offering" means the initial public offering of the Company's Common Stock, registered under the Securities Act.

Section 2. Exercise.

(a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made at any time or times on or after the Initial Exercise Date and on or before the Expiration Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto as Exhibit A and the payment of the Exercise Price for the Warrant Shares so purchased by wire transfer or cashier's check drawn on a United States bank. Upon exercise of the Warrant, the Company shall issue and deliver to the person entitled to receive the same, a certificate or certificates for the number of Warrant Shares issuable upon such exercise. The Company will provide written notice to the Holder of the date of closing of the Company Initial Public Offering and the resulting Initial Exercise Date and Expiration Date.

(b) Cashless Exercise. In the event that the Company's common stock is then traded on a securities exchange, and a Registration Statement covering the resale of the Warrant Shares as contemplated by the Purchase Agreement (a "Registration Statement"), has not been filed by the Company and declared effective by the SEC, or such Registration Statement has been filed but is no longer effective, then the Holder may exchange this Warrant on a cashless basis, in whole or in part (a "Cashless Exercise"), for the number of Warrant Shares determined in accordance with this Section 2(b) by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto indicating the Holder's intent to effect such exchange, provided, however, that the right of a Holder to effect a Cashless Exercise pursuant to this Section 2(b) shall terminate at such time as a Registration Statement is first declared effective by the SEC. In connection with any Cashless Exercise, the Company shall issue to the Holder the number of Warrant Shares equal to the quotient obtained by dividing
[(A-B) (X)] by (A), where:

(A) = the average closing stock price of the Company's common stock on its principal stock exchange for the five trading days immediately preceding the date of such election;

(B) = the Exercise Price; and

(X) = the number of shares covered by the Warrant which the Holder has elected to exchange pursuant to this Section 2(b).

(c) Mechanics of Exercise.

i. Authorization of Common Stock. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of all of the shares of Common Stock issuable upon the exercise of the Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company covenants that the Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company will take all such reasonable action as may be necessary to assure that the Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the trading market upon which the Common Stock may be listed.

ii. Delivery of Certificates Upon Exercise. Certificates for the Warrant Shares purchased hereunder shall be delivered to the Holder within three (3) trading days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the Exercise Price as set forth above ("Warrant Delivery Date"). This Warrant shall be deemed to have been exercised on the date the payment of the principal amount is received by the Company. The Warrant Shares shall be deemed to have been issued, and the Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such security for all purposes, as of the date the Warrant has been exercised by payment to the Company of the principal amount and all taxes required to be paid by the Holder, if any, pursuant to Section 2(c)(ii) prior to the issuance of such security, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of such Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 2(c)(ii) by the Warrant Delivery Date, then the Holder will have the right to rescind such exercise.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issuable by the Company pursuant to the Warrants), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) Fundamental Transaction. In case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock (other than as a result of a subdivision, combination, stock dividend or reclassification provided for in Section 3(a) hereof), or in case of any consolidation or merger of the Company with or into another corporation or entity (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification or capital reorganization or change of the outstanding Common Stock) or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company, then the Company shall, as a condition precedent to such transaction, cause lawful and effective provisions to be made (and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder) so that the Holder shall have the right thereafter upon exercise of this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock which might have been received upon conversion of this Warrant immediately prior to such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance, and in any such event, such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition described above, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or otherwise acquiring such assets shall assume, by written instrument executed and mailed or delivered to the Holder of this Warrant at the last address of the Holder appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities, cash or properties as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. The above provisions of this paragraph shall similarly apply to successive reorganizations, reclassifications, exchanges, liquidations, recapitalizations, changes, consolidations, mergers, sales, transfers or other dispositions, if any.

(c) Calculations. All calculations and adjustments to the Exercise Price under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) outstanding.

(d) Notice to Holders. The Company shall promptly give written notice of any adjustment under this Section 3 to each Holder, which notice shall include a brief statement of the facts requiring such adjustment.

(e) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the board of directors of the Company.

Section 4. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

(a) Title to the Warrant. Prior to the Expiration Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or certificate, if mutilated, the Company will make and deliver a new Warrant or certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) No Impairment. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant or the Warrant Shares, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant and the Warrant Shares against impairment. Without limiting the generality of the foregoing, the Company will (a) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and (b) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant and the Warrant Shares. Before taking any action which would result in an adjustment in the Warrant Shares for which this Warrant is exercisable, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not then registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Non-waiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Expiration Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement and Engagement Letter.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder.

(m) Modification. The provisions of this Warrant may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Company and holders of at least a majority of the outstanding Warrants issued pursuant to the Purchase Agreement and Engagement Letter (based on the number of Warrant Shares underlying the Warrants). Any such amendment, modification or wavier shall be binding upon the Holder of this Warrant regardless of whether the Holder consented to such amendment, modification or wavier; provided that nothing shall prevent the Company and the Holder from consenting to amendments, modifications or waivers to this Warrant that affect or are applicable to the Holder only.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

* * *

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2011

ATOSSA GENETICS, INC.

By: _____

Name: Steven C. Quay
Title: Chairman and Chief Executive Officer

[Signature Page to Warrant to Purchase Common Stock]

Exhibit A

NOTICE OF EXERCISE

TO: ATOSSA GENETICS, INC.

(1) The undersigned hereby elects to purchase shares of Common Stock of Atossa Genetics, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment in full, together with all applicable transfer tax;

(2) Payment shall take the form of (check applicable box):

£ lawful money of the United States; or

£ if Cashless Exercise is permitted in accordance with Section 2(b), the cancellation of Warrant Shares, in accordance with the formula set forth in subsection 2(b).

(3) Please issue a certificate or certificates representing said Common Stock in the name of the undersigned or in such other name as is specified below (please include social security or other tax identification number):

_____

_____

_____

(4) The Common Stock shall be delivered to the following:

_____

_____

_____

(5) The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Holder: _____

Signature of Authorized Signatory of Holder: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute

this form and supply required information.

Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____

whose address is

_____

_____

_____

_____

_____

.

Dated:

Holder's
Signature:

Holder's
Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

NEITHER THIS WARRANT NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

WARRANT TO PURCHASE COMMON STOCK

OF

ATOSSA GENETICS INC.

ATOS –[#]

THIS WARRANT (the "Warrant") certifies that, for value received, [**NAME**] (the "Holder"), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time commencing after the date hereof (the "Issuance Date") through 5:00 p.m. (New York City time) on the fifth anniversary of the Issuance Date (the "Expiration Date"), but not thereafter, and shall entitle the Holder to subscribe for and purchase from Atossa Genetics Inc., a Delaware corporation (the "Company"), up to [**NUMBER**] shares of the Common Stock of the Company (the "Warrant Shares") at a purchase price equal to $5.00 per share (the "Exercise Price"). This Warrant is one of a series of similar warrants to purchase Common Stock issued pursuant to that certain Agreement and Plan of Reorganization, dated of even date herewith, by and between the Company, Acueity Healthcare, Inc., and Ted Lachowicz, as the Stockholder Representative (the "Acquisition Agreement"). All such warrants are referred to herein, collectively, as the "Warrants."

Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Acquisition Agreement.

Section 1. Exercise.

(a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made at any time or times on or after the Issuance Date and on or before the Expiration Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto as Exhibit A and the payment of the Exercise Price for the Warrant Shares so purchased by wire transfer or cashier's check drawn on a United States bank. Upon exercise of the Warrant, the Company shall issue and deliver to the person or person entitled to receive the same, a certificate or certificates for the number of Warrant Shares issuable upon such exercise.

(b) Mechanics of Exercise.

i. Authorization of Common Stock. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued shares of common stock, par value $0.001 per share (the "Common Stock"), a sufficient number of shares to provide for the issuance of all of the shares of Common Stock issuable upon the exercise of the Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company covenants that the Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company will take all such reasonable action as may be necessary to assure that the Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the trading market upon which the Common Stock may be listed.

ii. Delivery of Certificates Upon Exercise. Certificates for the Warrant Shares purchased hereunder shall be delivered promptly to the Holder, but in no event later than five Business Days, from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the Exercise Price as set forth above ("Warrant Delivery Date"). This Warrant shall be deemed to have been exercised on the date the payment of the aggregate Exercise Price for the Warrant Shares purchased is received by the Company. The Warrant Shares shall be deemed to have been issued, and the Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such security for all purposes, as of the date the Warrant has been exercised by payment to the Company of the aggregate Exercise Price for the Warrant Shares purchased and all taxes required to be paid by the Holder, if any, prior to the issuance of such security, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of such Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 1(b)(ii) by the Warrant Delivery Date, then the Holder will have the right to rescind such exercise.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 2. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issuable by the Company pursuant to the Warrants), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 2(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

(b) Fundamental Transaction. In case of any reclassification, capital reorganization, exchange of shares, liquidation, recapitalization or change of the Common Stock (other than as a result of a subdivision, combination, stock dividend or reclassification provided for in Section 2(a) hereof), or in case of any consolidation or merger of the Company with or into another corporation or entity (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification or capital reorganization or change of the outstanding Common Stock) or in case of any sale, lease or conveyance to another corporation or entity of all or substantially all of the assets of the Company, then the Company shall, as a condition precedent to such transaction, cause lawful and effective provisions to be made (and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder) so that the Holder shall have the right thereafter upon exercise of this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock which might have been received upon conversion of this Warrant immediately prior to such reclassification, capital reorganization, exchange of shares, liquidation, recapitalization, change, consolidation, merger, sale or conveyance, and in any such event, such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition described above, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or otherwise acquiring such assets shall assume, by written instrument executed and mailed or delivered to the Holder of this Warrant at the last address of the Holder appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities, cash or properties as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. The above provisions of this paragraph shall similarly apply to successive reorganizations, reclassifications, exchanges, liquidations, recapitalizations, changes, consolidations, mergers, sales, transfers or other dispositions, if any.

(c) Calculations. All calculations and adjustments to the Exercise Price under this Section 2 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 2, the number of shares of Common Stock outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) outstanding.

(d) Notice to Holders. The Company shall promptly give written notice of any adjustment under this Section 2 to each Holder, which notice shall include a brief statement of the facts requiring such adjustment.

(e) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

Section 3. Transfer of Warrant.

(a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 4(a) and 3(d) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary

(d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

Section 4. Miscellaneous.

(a) Title to the Warrant. Prior to the Expiration Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

(b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

(c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or certificate, if mutilated, the Company will make and deliver a new Warrant or certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or certificate.

(d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

(e) No Impairment. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant or the Warrant Shares, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant and the Warrant Shares against impairment. Without limiting the generality of the foregoing, the Company will (a) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and (b) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant and the Warrant Shares. Before taking any action which would result in an adjustment in the Warrant Shares for which this Warrant is exercisable, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Acquisition Agreement.

(g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not then registered, will have restrictions upon resale imposed by state and federal securities laws.

(h) Non-waiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder’s rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Expiration Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys’ fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Acquisition Agreement.

(j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder.

(m) Modification. The provisions of the Warrants may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Company and holders of at least a majority of the outstanding Warrants (based on the number of Warrant Shares underlying the Warrants). Any such amendment, modification or wavier shall be binding upon the Holder of this Warrant regardless of whether the Holder consented to such amendment, modification or wavier; provided that nothing shall prevent the Company and the Holder from consenting to amendments, modifications or waivers to this Warrant that affect or are applicable to the Holder only.

(n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: _____, 2012

ATOSSA GENETICS INC.

By: _____
Name: Steven C. Quay
Title: Chairman and Chief Executive Officer

[Signature Page to Warrant to Purchase Common Stock]

Exhibit A

NOTICE OF EXERCISE

TO: ATOSSA GENETICS INC.

(1) The undersigned hereby elects to purchase shares of Common Stock of Atossa Genetics Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment in full, together with all applicable transfer tax;

(2) Payment shall take the form of lawful money of the United States.

(3) Please issue a certificate or certificates representing said Common Stock in the name of the undersigned or in such other name as is specified below (please include social security or other tax identification number):

_____

_____

_____

(4) The Common Stock shall be delivered to the following:

_____

_____

_____

(5) The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity or Individual: _____

Signature of Authorized Signatory of Investing Entity or Individual: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute

this form and supply required information.

Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____

whose address is

_____

_____

.

_____

_____

_____

Dated:

Holder's
Signature:

Holder's
Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

CONFIDENTIAL TREATMENT REQUESTED

Redacted Portions are indicated by [****]

SUPPLY AND DISTRIBUTION AGREEMENT

This Agreement made and entered into this 21st day of September, 2012 by Atossa Genetics Inc.("Atossa"), a Delaware Corporation, having its principal place of business at 4105 E. Madison Street, Suite 320, Seattle, WA, 98112, its successors and/or assigns and **Diagnostics Test Group LLC ("DTG"), a Delaware Corporation** having its principal place of business at 33 SE 8th Street, Boca Raton, FL 33432, its successors and/or assigns.

WITNESSETH:

WHEREAS, Atossa is the creator and patent holder of the MASCT breast health test system and the ForeCYTE Breast Health Test;

WHEREAS, Atossa has agreed to supply its MASCT breast health system to DTG on a co-exclusive basis for distribution in the United States, Puerto Rico and Canada; and

WHEREAS, **DTG** desires to purchase the MASCT breast health system exclusively from Atossa and to sell such Product(s) upon the terms and conditions set forth herein.

IT IS MUTUALLY AGREED AS FOLLOWS:

1. Definitions

1.1 **"Affiliate"** shall mean, with respect to any Party or any entity, which, directly or indirectly, controls, is controlled by or is under common control by either of the Parties. "***Control***," including the terms "***controls***," "***controlled***" and "***under common control***" means possession, directly or indirectly, of the power to direct or to cause the direction of the management policies of the entity whether by the ownership of voting securities or interests, control, agreement or otherwise.

1.2 **"Market"** shall mean OBGYN's, Internists, primary care physicians, hospitals, student health centers, surgery centers, Breast Centers of Excellence, alternate care, acute care, continuum of care, and mammogram centers.

1.3 **"Effective Date"** shall mean the date on which this Agreement is executed by the last Party herein.

1.4 **"Party"** shall mean each of DTG and Atossa individually and **"Parties"** shall mean DTG and Atossa Genetics, Inc.

1.5 **"Products"** shall mean MASCT breast health system (test).

1.6 "**Specifications**" shall mean the technical, scientific and packaging specifications required by DTG for the Products as indicated herein and any modifications thereto published by Atossa from time to time.

1.7 **"Best Efforts"** shall mean the level of endeavor, which a prudent business person would ordinarily expend in the normal course of business to accomplish an important objective.

1.8 "**Confidential Information**" shall mean the Information and any other information relating to the business or affairs of either of Parties hereto including, but not limited to, formulas, Products information, financial records, marketing plans and studies, packaging and business strategies.

1.9 "**Good Faith Efforts**" shall mean commercially reasonable and diligent efforts to act without taking unfair advantage of the other Party.

1. 10 "**F.O.B**" shall mean "Free On Board," and refers to the risk of loss of and/or damage to the goods being transferred from Atossa to DTG.

1.11 "**Force Majeure**" shall mean an event that is beyond the reasonable control of the applicable Party including an act of war (whether declared or not) or terrorism, the mobilization of armed forces, civil commotion or riot, natural disaster, industrial action or labor disturbance, currency restriction, embargo, action or inaction by a government agency, or unavoidable delay, failure of a supplier, public utility or common carrier.

1.12 "**Marketing**" shall mean promoting, advertising and selling finished Products to DTG's Market.

1.14 "**Test Period"** shall mean the seven month period during which the Product will be launched and market tested.

1.15 "**Territory**" shall mean the United States, Puerto Rico and Canada. Other markets, countries and territories may be added to the Territory by advanced written consent of the Parties and on terms and conditions mutually agreeable to the Parties.

1.16 "**Closing Date**" shall mean the Effective Date of the Agreement.

2. Co-Exclusive Grant and Supply

a) Atossa hereby grants to DTG the co-exclusive right to sell and distribute its MASCT breast health test ("Products") in the Territory, with Atossa retaining co-exclusive rights to sell and distribute the Products in the Territory under the terms of this agreement.DTG shall receive its marketing and sales fees as outlined in paragraph 7 hereafter for any sales made by Atossa. In addition, DTG shall have the non-exclusive right to sell the Product(s) with Atossa's prior written approval anywhere outside of DTG's assigned Territory. All Products and packaging licensed hereunder shall be private labeled under DTG's brand per its specifications. In addition, DTG shall have the right of first refusal for the co-exclusive right to sell any of the other related breast cancer tests and products currently being developed by Atossa (the "Additional Products") on such terms and conditions as are hereinafter negotiated by the Parties. This right must be exercised within thirty (30) days after Atossa notifies DTG of the availability of any of said Additional Products.

b) In turn, DTG agrees during the term of this Agreement that it will purchase breast health tests only from Atossa and, further that it will not sell or distribute any other breast cancer tests than those manufactured by Atossa. In the event DTG fails to reach its minimum annual required sales goal, Atossa shall retain the right to market its own brand of MASCT in DTG's Territory. If Atossa so elects, DTG shall have the right to terminate this Agreement in its entirety by providing sixty days prior written notice thereof.

c) In order to avoid any unnecessary confusion in the marketplace, Atossa will assign its existing client base to DTG. DTG shall thereafter be responsible for and derive the economic benefits from all future sales to such customer base.

d) The Effective Date of this Agreement shall be on the Closing Date, which for purposes hereof shall be concurrent with the Effective Date, or such other date as may be mutually agreed upon by the parties. Between the date that this Agreement is executed and the Closing Date, DTG shall have the right to begin its preparations for the marketing and sales process including, but not limited to preparation of the artwork, package design, product brochure, product slicks, and package inserts.

3. Term and Termination

The term of this agreement shall be a rolling six year period beginning on the Closing Date. After the completion of each year of the contract this Agreement shall automatically be extended for an additional term of one year so long as DTG has achieved the minimum annual sales required by this Agreement. If DTG fails to reach its minimum annual sales requirements for two consecutive years during the initial term or any extension thereof, Atossa shall have the right to terminate the Agreement by providing sixty days prior written notice thereof to DTG. For both such purposes, ********, 2013 (unless DTG's initial Product launch occurs after ********, 2012, in which case the first year commencement date will be delayed until seven months after such date) shall begin the first year during which DTG shall be held accountable for reaching minimum annual required sales goals and annual performance shall be measured as of June 1 of each subsequent year. The goal for the first year is hereby set at ******** tests. Future sales goals (requirements) shall be set by mutual agreement of the Parties at the end of the first year, after taking into account actual sales results achieved by DTG the first year and the capabilities of Atossa to fulfill its obligations under this Agreement. In the event that the Parties fails to agree in any year on the sales goals in future years, then they shall be set at ******** of the previous year's Product sales. Atossa shall have the right to conduct semi-annual reviews of DTG's performance and to offer its advice and counsel on how to improve sales.

4. Price

Atossa agrees to sell and supply DTG its Products to sell to its customers in its Territory at such prices that reflect a mark-up not greater than ********. Recognizing DTG's contractual restrictions with it distributors, Atossa will sell and supply these Products for the duration of this Agreement at the price and terms stated hereafter unless Atossa's cost of these Products increases by more than ******** in any calendar year. In such event, after Atossa supplies DTG with reasonable evidence of said cost increase, Atossa may increase the cost of these Products by no more than ******** in any one calendar year, but in no event more often than twice in any six year period. In the event that Atossa's cost increases by more than ******** in any calendar year, the Parties agree to re-examine the pricing for the Product(s) in a good faith effort to reach a mutually agreeable solution.

5. DTG's Marketing and Other Obligations

a) *Best Efforts*. DTG shall exert its Best Efforts to develop and to promote maximum sales and wide distribution of the Products and Additional Products. DTG shall also provide such assistance to Atossa as is reasonably requested in the final design and composition of the Products (and Additional Products, if applicable) and if applicable its software.

b) *Goodwill*. DTG shall promote the goodwill and good name of Atossa and otherwise do everything in its capacity to further the best interest of Atossa and to establish and maintain the good reputation of Atossa.

c) *Minimum Annual Order.* After completion of the test period for the Product(s) ending on ********, 2013, DTG shall commit to purchase for all twelve month periods thereafter a certain minimum annual volume of the Product(s), the amount of which shall be determined hereafter by the mutual agreement of the Parties. DTG herby commits to purchase in the first year (twelve month period) starting ********, 2013, a minimum of ******** breast cancer tests from Atossa. For each year thereafter, ******** said minimums shall be mutually determined by the Parties using the actual results of the previous years as a basis for their collective determination. If the launch of the Product occurs after ********, 2012, then the commencement of the first year (and for all years thereafter) shall be delayed by the number of days the launch is late; by way of example only, if the Product launch is delayed until ********, 2012 (i.e., 14 days after ********, 2012), then the commencement of each annual period shall be similarly delayed by 15 days to ********. In the event that the Parties fails to agree in any year on the required annual minimum, it shall be set at ******** of the previous year's number of Clarity breast cancer tests processed by Atossa Labs.

d) *Compliance with Government Regulations*. Each of the Parties hereto shall comply with all rules and regulations of every governmental authority having jurisdiction over the handling, use, marketing, or sale of the Products.

e) *Training.* DTG shall be primarily responsible for the training and supervision of its sales reps and those of the various distributors for the Product(s). Atossa shall provide such assistance in the ongoing training process as is reasonably necessary and beneficial to ensure the commercial acceptance of the Product(s).

f) *Call coverage*. During normal business hours, DTG shall provide call coverage for end users that may experience problems with performance of the Products or questions regarding the use thereof. It is DTG's responsibility to report to Atossa any problems regarding the performance of the Products.

g) *Forecasts*. On or about the first day of each month during the term hereof, DTG shall provide Atossa with 90 day rolling forecasts, the first 60 days of which shall be treated as a binding order. Atossa shall have the right to periodically (no more frequently than twice a year) review and comment on DTG's forecasts and their actual sales results.

h) *Distribution*. DTG shall use its Best Efforts to establish product codes and contracted agreements, if such are deemed necessary by DTG, for the sale and placement of the Clarity branded MASCT product line with at least the following distributors: Henry Schein, McKesson, PSS World Medical, Cardinal Health, VWR, Vaxserve, Mercedes Medical, Fisher, NDC members, Imco members, B&H Surgical, Marshall Medical and Cascade HealthCare Products. DTG shall submit to Atossa for its approval its plan designed to achieve such results prior to the formal launch of the Products.

5. Representations of Atossa

a) Atossa, its Affiliates and related companies warrant and represent that during the existence of this Agreement, it will not license to any third party the rights to sell or consign directly or indirectly MASCT breast health tests and Products to any person, firm or corporation for resale to any of DTG's customers in the Territory; and

b) That all MASCT breast health tests and Products supplied hereunder will be of the same or comparable quality as those samples previously supplied to DTG by Atossa; and

c) That its MASCT test is 510(k) FDA-cleared and that the ForeCYTE test performed on MASCT samples is categorized as a CLIA High Complexity test and is performed exclusively at Atossa's CLIA-certified laboratory ; and

d) That DTG shall have the right to return all dated Products referred to above (i) which have less than 15 months dating remaining when shipped by Atossa,(ii) for which production has ceased, (iii) which are subject to recall, (iv) which have been determined by Atossa or the FDA to be unsafe, (v) which are defective and under warranty, (vi) which are non-conforming, or (vii) which are remaining in Atossa's inventory following Termination. Credit issued for returned Products shall be based upon the net price paid by DTG, less any prior credits granted by Atossa. The cost of shipping returned Products shall be borne by DTG.

e) The provisions of this agreement and any amendments thereto shall be automatically extended to any Additional Product that is later added to this Agreement by the mutual agreement of the parties.

f) That Atossa shall always maintain at least one additional month of DTG Products in its inventory based on the rolling 90 day forecasts supplied by DTG. If Atossa so desires, DTG will maintain said inventory at its warehouse facilities in Boca Raton at no cost to Atossa, provided that DTG will insure the contents of such warehouse facility, naming Atossa an additional insured, with policy limits covering the replacement cost of such contents.

6. Pricing/Products

The price for the Products shall be as follows:

a) For all MASCT breast health system Products purchased under this Agreement, the prices are listed on Exhibit "A", attached hereto and made a part hereof, subject to price changes as outlined above. All prices include packaging.
b) **Private Labelling:** All Products being purchased hereunder shall be private labelled under the Clarity brand, as approved by Atossa. DTG shall be responsible for all costs associated with regulatory compliance for labelling. All product labels shall recognize Atossa Genetics, its patents, FDA clearances, trademarks and trade names. Atossa shall supply, prepare and store at its cost all private labelling and packaging materials as designed and approved by DTG. By private labelling DTG will be directly responsible for end-user customer and tech support calls.
c) **Tooling Fees and Start-up Costs:** Atossa shall be responsible for any and all costs associated with the creation of the Products including the tooling and set-up fees associated with the private labelling of the Product for DTG up to a maximum of $5,000.00.
d) All prices are USD. Prices do not include shipping and handling and are F.O.B.Origin. DTG at its option may arrange and pay for shipping on its own account.

7. **Marketing and Sales Fees**

In order to reimburse DTG for the services it will be rendering hereunder including its internal sales and marketing costs and unreimbursed expenses and to encourage maximum sales efforts, Atossa shall pay DTG a fee of ******** for each test performed by Atossa on MASCT samples sold by DTG. Said fees shall be paid as follows: ******** on the 30th day after the date the test was performed, ******** on the 60th day after the test was performed, with the balance due on the 90th day after the test was performed.

8. **Co-Marketing Expenses**

Atossa and DTG shall jointly create and approve a marketing plan which shall include an annual budget for public relations, print media and/ or electronic advertisements, promotions, distributor marketing programs, spiffs, national industry shows, sales meetings and conferences, travel and entertainment connected therewith. Atossa shall either pay directly for all such approved expenses as and where appropriate or reimburse DTG on a monthly basis for any such amounts expended by DTG for such purposes. DTG shall submit monthly statements to Atossa complete with available back-up detailing each such expenditure. The plan as well as the underlying budget shall be subject to periodic review and adjustment based on customer responses and sales results.

9**. Sale of Products**

9.1 **Purchases by DTG.** During the term of this Agreement, Atossa shall sell and DTG shall purchase such quantities of the Products as may be ordered by DTG in accordance with this Agreement.

9.2 **Conditions of Resale**.

a) Products shall be advertised, marketed and sold by DTG only under its own trademarks or those of its distributors or end-users, but will use Atossa's FDA number. Atossa will add DTG to its FDA 510(k) registration. DTG has registered all of the trademarks that Atossa will be asked to use so as to permit Atossa to manufacture the Products bearing such trademarks there.

b) DTG shall conduct its business in a manner that reflects favorably at all times on the Products and the good name, goodwill and reputation of Atossa. Without limiting the generality of the foregoing, DTG shall (i) avoid deception, misleading or unethical practices that are or might be detrimental to Atossa or the public, including but not limited to disparaging Atossa or its Products; (ii) not publish or employ, or cooperate in the publication or employment of any misleading or deceptive advertising material; (iii) make no representations, warranties or guarantees to third Parties with respect to the specifications, features or capabilities of Products that are inconsistent with the specifications describing the Products provided by Atossa; and (iv) use marketing and advertising efforts of high quality and good taste, and preserve the professional image and reputation of Atossa and the Products.

c) DTG shall comply with any and all governmental laws, regulations, and orders that may be applicable to DTG by reason of its execution of this Agreement including without limitation any and all laws, regulations, or orders that govern or affect the ordering, export, shipment, import, marketing, sale (including government procurement), delivery, or redelivery of Products in the Territory. Failure to comply with this Section will result in the material breach of this Agreement.

9.3 **DTG Inquiries and any Official Third Party's Inquiries. Atossa** will make commercially reasonable efforts to assist DTG, at its reasonable request, with any inquiries DTG may receive from its customers concerning the Products and which DTG is unable to satisfactorily answer itself without assistance from Atossa.

9.4 **Products Registrations**. DTG shall, at its own expense: (i) obtain any registration, license, permit, governmental approval (collectively, "Registration") that may be necessary to permit the purchase, distribution and resale by DTG of Products in the Territory; and (ii) comply with all registration requirements for the Territory. All Registrations shall be made in the name of DTG and shall remain the property of DTG during the term of this Agreement, provided, however, that Atossa shall have co-exclusive rights to use any such Registrations, to the extent necessary. Atossa shall be provided with a copy of all Registrations and applications.

9.5 **Traceability.** DTG shall ensure that an effective system of lot traceability is implemented.

9.6 **Examination of Products.** DTG shall examine the goods within seven business days from the receipt thereof and report to Atossa any identifiable defects within ten business days in writing, stating the invoice number and the defect. In the event that a later defect or problem is discovered by the end user, DTG will immediately notify Atossa of said complaint including any attempts made by DTG to rectify the problem. If at all possible the Products will be returned to Atossa for analysis. DTG shall receive full credit for all returned defective Products.

10. **Terms of Payment**

Payment terms on all orders shall be Net 45 days from the date that DTG receives delivery of the order.

11. **Delivery of Products**

Atossa represents that the lead time for the delivery of all orders of the Products is expected to be approximately **** weeks. The Parties shall work together with Manufacturer once the required raw materials are in stock to reduce the lead time to no more than **** weeks. In support thereof, the manufacturer has agreed to maintain **** kits and **** breast pumps in inventory at all times. DTG shall notify Atossa in advance how each order is to be shipped.

12. **Order Size**

The Parties hereto acknowledge and understand that Atossa is not currently in production of the Products and will require several months to ramp up to full production. At such time as Atossa reaches full production, DTG shall order in minimum case quantities.

13. **Representations, Warranties and Covenants**

13.1 Atossa represents and warrants as follows:

a) That the execution, delivery and performance of this Agreement do not conflict with, violate or breach any agreement to which Atossa is a Party.
b) That at the time of delivery, all Products being sold to DTG are free from any and all encumbrances.
c) That Atossa shall maintain throughout the term of this agreement or any extension thereof **** of Products Liability Insurance naming DTG as an additional insured on the policy.

13.2 DTG represents and warrants as follows:

a) That DTG has full power and authority to enter into and perform its obligations under this Agreement.
b) That the execution, delivery and performance of this Agreement do not conflict with, violate or breach any agreement to which DTG is a Party.
c) That DTG has and will maintain over the course of this Agreement or any extension thereof **** of Products Liability Insurance. Atossa shall be named as an additional insured on said policy.

14. Termination, Cancellation and Force Majeure

14.1 Either Party may terminate this Agreement by giving notice in writing to the other Party if:

a). The other Party breaches a material provision of this Agreement and, if such breach is capable of being remedied, fails to remedy the breach within ninety (90) days of receipt of written notice requiring it to do so;

b). If any proceedings are commenced or any other action is taken against a Party in bankruptcy or seeking reorganization, arrangement, readjustment of its debts, dissolution, liquidation, winding-up, composition or any other relief under the United States Bankruptcy Act, as amended, or under any other insolvency, reorganization, liquidation, dissolution, arrangement, composition, readjustment of debt or any other similar act or law, of any jurisdiction, domestic or foreign, now or hereafter existing; or a receiver, conservator, trustee or similar person for the Party or for all or substantially all of its assets and properties is appointed; and in each such case, such event continues for ninety (90) days without dismissal, cancellation of the bond and discharge; or

c). the other Party ceases to carry on the whole, or a substantial part, of its business; or

d). DTG challenges any issued patent or trademark in the Territory; or

e). DTG fails to purchase the minimum required volume of Product as defined above in any two consecutive years of this Agreement.

14.2 Either Party may terminate this Agreement if any event of Force Majeure (that continues for longer than 60 days) claimed by a Party prevents performance by the other Party of its obligations under this Agreement.

14.3 The rights of either Party to terminate this Agreement shall not be affected in any way by its waiver of, or failure to take action with respect to, any prior default.

14.4 In the event of the sale or merger of either of the Parties hereto, this Agreement shall remain in full force and effect unless both Parties agree to jointly terminate the Agreement. Both Parties shall co-operate with each in the event of a sale or merger and shall use their best Good Faith Efforts to protect the interests of the other Party.

15. Results of Termination

15.1 Upon termination of this Agreement by either Party:

a) Each of the Parties hereto shall return all information and records provided by the other Party and shall do whatever may be reasonably necessary to protect each Party’s rights, title and interest in the Information.

b) DTG shall be liable for the purchase price, less any prepayments made of all Products that DTG has ordered and that have been completed prior to the date of termination.
c) DTG shall be entitled to sell any DTG branded Products that remains in stock (in either Company) until such supplies are exhausted.

16. Non-Piracy

Atossa agrees that it will not directly or indirectly sell or permit any of its customers to sell any of the Products listed hereunder to any customer of DTG during the term of this Agreement or for a period of one year thereafter. However, in the event DTG unilaterally terminates this Agreement, the one year extension shall not apply.

17. Confidential Information

17.1 Each of the Parties hereto agrees to hold in confidence, and to use only for the purpose of this Agreement, any and all Confidential Information disclosed by the other Party under this Agreement. Each Party shall limit disclosure of the other's Confidential Information to those employees who are required to have access to it for the performance of their duties, which such employees shall be required to hold such Confidential Information in strict confidence. Each Party acknowledges that all Confidential Information disclosed to it by the other Party prior to the execution of this Agreement is deemed to have been disclosed to it pursuant to the provisions of this clause.

17.2 The provisions of clause 17.1 shall not apply to any Confidential Information which:

a) Was in fact known by either Party prior to its disclosure;
b) Is obtained from a third Party in lawful possession of such information that is not under a confidential obligation to the disclosing Party;
c) at the time of its disclosure was in the public domain or subsequently comes into the public domain, other than reason of any unauthorised disclosure by the disclosing Party; or
d) Is required by law to be disclosed; provided however, the disclosing Party has provided written notice to the other Party promptly upon receiving notice of such requirement in order to enable the other Party to seek a protective order or otherwise prevent disclosure of such Confidential Information.

17.3 The Parties shall not disclose the terms of this Agreement to others, except by mutual written agreement and as required by law and various regulatory agencies or as may be necessary to enforce the terms of this Agreement.

17.4 The Information shall remain the sole property of Atossa and nothing in this Agreement shall operate to transfer to DTG any rights, title or interest in the Information. DTG agrees not to challenge, oppose, or petition to cancel or otherwise attack the Information and Atossa's ownership rights thereof anywhere, including in the United States. DTG also agrees, subject to the terms and conditions of this Agreement, that any and all rights that may be acquired by the use of the Information shall inure to the sole benefit of Atossa. Except as provided in this Agreement, DTG shall not use the Information as all or part of any corporate name, trade name, trademark, service mark or certification mark or any other designation. DTG shall reimburse Atossa for all costs and expenses, including but not limit to reasonable attorneys' fees, for Atossa's valid opposition or related legal proceeding to protect its rights or value in the Information for any prohibited use of the Information by or caused by DTG.

17.5 It is expressly agreed that should DTG alter any formula or Products supplied by Atossa without its prior written consent, it shall conclusively be deemed a material breach of this Agreement, and any and all indemnities of Atossa in this Agreement shall be null and void.

18. Indemnities

18.1 Atossa shall indemnify and hold DTG harmless against any and all actions, claims, demands, liabilities or damages (collectively referred to as the "Claims") and the costs associated with the Claims arising out of or related to the sale and/or use of the Products, including but not limited to personal injury, property damage, and patent infringement of any kind.

16.2 DTG shall indemnify, defend and hold Atossa harmless from and against all actions, claims, demands or proceedings against Atossa or its directors, officers, employees or agents howsoever arising (including by DTG's negligence) from or related in any way to (i) DTG's breach of this Agreement or any warranty contained in this Agreement, (ii) the alteration, or improper storage, transportation, marketing, training, or handling of the Products by DTG or its employees, distributors, Affiliates or agents, or (iii) any false or misleading statement made or published by or on behalf of DTG including on any packaging materials or in any advertising or promotion of the Products.

17. Survival of Provisions on Termination

The rights and obligations of the Parties as they pertain to representations and warranties will survive termination of this Agreement.

18. Notices

18.1 All notices provided for in this Agreement shall be given in writing and addressed as shown below:

a) Atossa Genetics Inc.
4104 E. Madison Street, Suite 320
Seattle, WA 98112
Attention: Dr. Steven Quay, CEO

b) DIAGNOSTIC TEST GROUP LLC (DTG)
33 SE 8th Street
Boca Raton, FL 33432
Attn: Mr. Gregory J. Lustig, COO

18.2 A notice shall be considered delivered and effective either:

a) When served by personal delivery; or
b) Ten days after being delivered via any commercial service with a proof of delivery which includes the accepting Parties signature; or
c) When transmitted via facsimile or email with a separate original notice mailed on the same day as the above-mentioned transmittal.

19. Entire Agreement

This Agreement supersedes all prior agreements, arrangements and understandings between the Parties and constitutes the entire agreement between the Parties hereto.

20. Applicable Law

This Agreement shall be governed by Delaware and US law, without application, of its conflict of laws principles.

21. Assignment

The benefit of this Agreement is personal to the Parties and neither Party may assign the benefit of or any of its rights under, this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld. No subsequent assignment shall relieve or release the Parties of their obligations under this Agreement.

22. Waiver

The failure of either Party at any time to enforce any of the terms of this Agreement must not be construed to be a waiver of such provision, or of the right of that Party thereafter to enforce such provision.

23. Severability

In the event that any part of this Agreement shall be held to be unenforceable as in violation of any applicable law or regulation, the validity and enforceability of the remaining provisions shall not be affected.

24. Dispute Resolution

24.1 In the event of any unresolved disputes arising between the Parties relating to, arising out of, or in any way connected with this Agreement or any term or condition hereof, or the performance by either Partner of its obligations hereunder, whether before or after termination of this Agreement (the “Dispute”), the Parties will attempt to settle any Dispute through consultation and negotiation in good faith and a spirit of mutual cooperation. Either Party to this Agreement (each a "Party") may commence proceedings hereunder by delivery of written notice providing a reasonable description of the Dispute to the other, including a reference to this Clause 24.1 (the "Dispute Notice"). The Parties shall first attempt in good faith to resolve promptly any Dispute by negotiations between executives, and who have authority to settle it (as to each Party, an "Executive"). Not later than twenty (20) days after delivery of the Dispute Notice, each Party shall designate an Executive to meet with the other Party's Executive at a reasonably acceptable place in the United States within thirty (30) days after the Dispute Notice, and thereafter as such Executives deem reasonably necessary. The Executives shall exchange relevant information and endeavor to resolve the Dispute. Prior to any such meeting, each Party's Executive shall advise the other as to any other individuals who will attend such meeting. All negotiations pursuant to this clause shall be confidential and shall be treated as settlement and compromise negotiations.

24.2 **Arbitration.**
Any controversy, dispute or claim between the Parties arising from this Agreement shall be finally settled by three (3) arbitrators appointed and acting in accordance with the rules of arbitration established by the American Arbitration Association. The location of the arbitration shall be in the county and state of the opposing Party. The language of the arbitration shall be English. Any award shall be binding and non appealable by any Party thereto and shall include among other things, an award of reasonable attorneys fees and costs of suit.

25. Non-Circumvent

DTG agrees that it will not directly or indirectly attempt to deal in any manner whatsoever with any of Atossa’s suppliers for any elements or components of any of the Products purchased hereunder during the Term of this Agreement and for a period of one year thereafter.

26. Warrant Plan

Once Atossa has received ******** Clarity branded (and sold) MASCT tests for processing, Atossa shall issue to DTG warrants for ******** shares of its common stock at a price per share equal to the last price of the underlying Atossa common stock on the date the warrants are granted. In addition, for each year that DTG achieves its minimum annual sales goals (as hereinafter set by agreement of the Parties) Atossa shall grant DTG a number of warrants equal to ******** of the number of Clarity branded tests received by Atossa Labs for processing up to a maximum amount of warrants equal to one million (common) shares total over the term of their contractual relationship. The price of said warrants in each year they are so granted shall be equal to the last price of Atossa’s common stock on the date the warrants are granted. All warrants shall have a five year term. The warrants may be exercised in whole or in part at any time after the third anniversary date of this Agreement. DTG shall assign its voting rights to any Atossa common stock it purchases under this warrant plan back to Atossa. Upon the sale of either Party, this assignment shall terminate and all future voting rights shall revert to DTG or its buyer as the case maybe.

If Atossa is sold to a third Party who wants to keep this Agreement in place the Warrant Plan shall cease as of the date of their acquisition. This termination event, however, shall not affect any warrants already earned by DTG under this Warrant Plan.

27. License

Atossa hereby grants to DTG the right to use its trade name “Forecyte” in its packaging and for the marketing and sale of its breast cancer test in its Territory for the duration of this Agreement.

EXECUTED as of this 21st day of September 2012 by and between:

ATOSSA

By: /s/ Steven C. Quay

Its: President and Chief Executive Officer

DIAGNOSTIC TEST GROUP, LLC

By: /s/ Richard S. Simpson

Its. Chief Executive Officer

Exhibit A:

Product Pricing

****

Exhibit 21.1

List of Subsidiaries

Name	Jurisdiction of Incorporation
National Reference Laboratory for Breast Health Inc.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No.9 to the Registration Statement on Form S-1 of Atossa Genetics Inc. (a development stage company) of our report dated March 22, 2012 relating to the consolidated financial statements as of and for the years ended December 31, 2011 and 2010 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.

/s/ KCCW Accountancy Corp.

Diamond Bar, California
October 3, 2012