UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 001-35610

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

Delaware	**26-4753208**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1616 Eastlake Ave. East, Suite 510 Seattle, WA (Address of principal executive offices)	**98102** (Zip Code)

Registrant's telephone number, including area code: (206) 325-6086

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ☐

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No þ

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding at August 12, 2014 was 24,564,058.

ATOSSA GENETICS INC.
FORM 10-Q
QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ATOSSA GENETICS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 14,298,491	$ 6,342,161
Accounts receivable, net	48,155	139,072
Prepaid expense	325,346	280,627
Inventory, net	1,910	-
Total current assets	14,673,902	6,761,860
Furniture and equipment, net	127,741	163,147
Intangible assets, net	4,454,185	4,395,633
Deferred financing costs	501,961	651,961
Security deposit	61,309	36,446
Total assets	$ 19,819,098	$ 12,009,047
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 790,184	$ 248,142
Accrued expenses	226,642	399,478
Deferred rent	21,372	48,157
Payroll liabilities	508,646	476,477
Product recall liabilities	12,028	211,493
Other current liabilities	4,622	23,649
Total current liabilities	1,563,494	1,407,396
Stockholders' Equity		
Preferred stock - $.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	-	-
Common stock - $.001 par value; 75,000,000 shares authorized, 24,444,058 and 18,574,334 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	24,444	18,574
Additional paid-in capital	44,347,281	31,099,691
Accumulated deficit	(26,116,121)	(20,516,614)
Total stockholders' equity	18,255,604	10,601,651
Total liabilities and stockholders' equity	$ 19,819,098	$ 12,009,047

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

ATOSSA GENETICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended June 30,		For The Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenue				
Diagnostic testing service	$ 9,875	$ 120,488	$ 33,999	$ 289,718
Product sales	-	205,590	-	219,030
Total Revenue	9,875	326,078	33,999	508,748
Cost of Revenue				
Diagnostic testing service	-	2,356	-	49,955
Product sales	-	219,804	-	238,669
Total Cost of Revenue	-	222,160	-	288,624
Gross Profit	9,875	103,918	33,999	220,124
Selling expenses	223,385	319,390	461,223	591,965
Research and development expenses	510,767	189,955	933,270	410,147
General and administrative expenses	2,462,256	2,177,920	4,236,964	3,742,792
Total operating expenses	3,196,408	2,687,265	5,631,457	4,744,904
Operating Loss	(3,186,533)	(2,583,347)	(5,597,458)	(4,524,780)
Interest income	-	-	143	-
Interest expense	1,443	352	2,192	359
Loss before Income Taxes	(3,187,976)	(2,583,699)	(5,599,507)	(4,525,139)
Income Taxes	-	-	-	-
Net Loss	$ (3,187,976)	$ (2,583,699)	$ (5,599,507)	$ (4,525,139)
Loss per common share - basic and diluted	$ (0.23)	$ (0.17)	$ (0.24)	$ (0.32)
Weighted average shares outstanding, basic & diluted	24,430,346	14,808,728	23,515,576	14,120,962

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

ATOSSA GENETICS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock				
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**
Balance at December 31, 2013	18,574,334	$ 18,574	$ 31,099,691	$ (20,516,614)	$ 10,601,651
Issuance of common shares for cash	5,834,234	5,834	13,996,328	-	14,002,162
Issuance of common shares for services	22,731	23	(23)	-	-
Financing fees from 2014 Public Offering	-	-	(1,078,417)	-	(1,078,417)
Amortization of deferred financing costs	-	-	(150,000)	-	(150,000)
Issuance of Common shares upon exercise of warrants	20,000	20	31,980	-	32,000
Employees option exercise and cancellation of restricted stock grants	(7,241)	(7)	50,007	-	50,000
Compensation cost for stock options granted to executives and employees	-	-	397,715	-	397,715
Net loss for the six months ended June 30, 2014	-	-	-	(5,599,507)	(5,599,507)
Balance at June 30, 2014	**24,444,058**	**$ 24,444**	**$ 44,347,281**	**$ (26,116,121)**	**$ 18,255,604**

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

ATOSSA GENETICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,599,507)	$ (4,525,139)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common shares issued for services	-	181,798
Compensation cost for stock options granted	397,715	1,011,820
Inventory Write-downs	-	20,323
Depreciation and amortization	252,924	226,643
Bad debt expense	64,759	-
Changes in operating assets and liabilities:		
Accounts receivable	26,158	(378,759)
Inventory	(1,910)	(20,323)
Prepaid expenses	(129,719)	(36,526)
Security deposits	(24,863)	(47,500)
Accounts payable	542,042	(16,822)
Payroll liabilities	32,169	(11,123)
Deferred rent	(26,785)	72,537
Accrued expenses	(172,836)	47,327
Product recall liabilities	(199,465)	-
Other current liabilities	(19,027)	31,654
Net cash used in operating activities	(4,858,345)	(3,444,090)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture & fixtures	(20,629)	(81,370)
Purchase of software	(170,441)	(8,500)
Net cash used in investing activities	(191,070)	(89,870)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common stock and warrants	13,005,745	4,248,275
Net cash provided by financing activities	13,005,745	4,248,275
NET INCREASE IN CASH & CASH EQUIVALENTS	7,956,330	714,315
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	6,342,161	1,725,197
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 14,298,491	$ 2,439,512
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 2,192	$ 359
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Reclassification of furniture and equipment to prepaid expenses	$ 15,000	$ -
Common stock issued as commitment fee under stock purchase agreement	$ -	$ 2,387,250

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

ATOSSA GENETICS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1: NATURE OF OPERATIONS

Atossa Genetics Inc. (the "Company") was incorporated on April 30, 2009 in the State of Delaware. The Company was initially formed to develop and market the Mammary Aspirate Specimen Cytology Test System, a modified breast pump, which is a medical device that collects specimens of nipple aspirate fluid (NAF). The current version of the medical device is called the ForeCYTE Breast Aspirator. The Company's fiscal year ends on December 31st.

In December 2011, the Company established The National Reference Laboratory for Breast Health, Inc., or NRLBH, as a wholly-owned subsidiary. NRLBH is the Company's CLIA-certified laboratory which performs our NAF cytology testing on NAF specimens including those collected with our breast aspirator. The NRLBH is developing other tests such as the ArgusCYTE test, NextCYTE test and FullCYTE test.

In September 2012, the Company acquired the assets of Acueity Healthcare, Inc. ("Acueity"). The purchased assets included intellectual property rights related to 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 by Atossa and Atossa assumed no future financial obligations. In consideration for the assets, Atossa provided the following consideration to the shareholders of Acueity: 862,500 shares of common stock, valued at $5.00 per share, and warrants to purchase up to 325,000 shares of common stock at an exercise price of $5.00 per share, valued at $2.3457 per warrant, using a Black-Scholes-Merton Valuation Technique. The acquired patents relate to intraductal diagnostic and therapeutic devices and methods of use. The Company did not, however, acquire an inventory of these diagnostic tools, manufacturing capabilities or any personnel to market and sell the tools. The Company cannot provide any assurance that it will be successful commercializing these tools.

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 condensed consolidated 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 condensed consolidated 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 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 ForeCYTE Breast Aspirator, (3) laboratory services, and (4) short-term or long-term borrowings from banks, stockholders or other party(ies) when needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of its plans.

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation:

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), have been condensed or omitted pursuant to those rules and regulations. The Company believes disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows with respect to the interim condensed consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire fiscal year. Reference is made to the Company's audited annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2013, which contain information useful to understanding the Company's business and financial statement presentations. The Condensed Consolidated Balance Sheet as of December 31, 2013 was derived from the Company's most recent audited financial statements, but does not include all disclosures required by GAAP for a yearend balance sheet. The Company's significant accounting policies and practices are presented as Note 3 to the consolidated financial statements included in the Annual Report. The accompanying condensed 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 condensed consolidated financial statements have been prepared in accordance with GAAP in the United States of America.

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 expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

The Company has adopted all recently issued accounting pronouncements that management believes to be applicable to the Company.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606* ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company in the first quarter of 2017 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its condensed consolidated financial statements.

In June 2014, FASB issued ASU 2014-10, *Elimination of Development Stage Entity Requirements.* This ASU eliminates the concept of Development Stage Entities (DSE's) from U.S. GAAP and is intended to result in cost-savings for certain entities, such as start-ups or research and development entities. As a result of these changes: the financial statements of developing entities no longer need to meet the inception-to-date income cash flow and equity information; developing companies do not have to label their financial statements as "development stage"; and certain disclosures related to the nature of the entity's development stage activities are no longer required. The Company adopted the provisions of this ASU beginning with the quarter ended June 30, 2014.

Reclassification:

The prior period deferred financing costs have been reclassified to conform to the current year presentation. The reclassification had no impact on previously reported net loss or accumulated deficit.

Certain prior period accrued expenses have been reclassified as accounts payable to conform to the current year presentation. The reclassification had no impact on previously reported net loss or accumulated deficit.

NOTE 4: PREPAID EXPENSES

Prepaid expenses consisted of the following:

	June 30, 2014	December 31, 2013
Tradeshow and other marketing events	$ 153,000	$ -
Prepaid insurance	89,970	112,517
Prepaid hardware and software	36,876	131,204
Retainer and security deposits	29,500	36,906
Other	16,000	-
	$ 325,346	$ 280,627

NOTE 5: FURNITURE AND EQUIPMENT

Property, plant furniture and equipment consisted of the following:

	June 30, 2014	December 31, 2013
Machinery and equipment	$ 347,453	$ 326,824
Leasehold improvements	93,665	93,665
Capitalized new product development costs	-	15,000
Less: Accumulated depreciation	(155,085)	(114,050)
Less: Allowance for loss on impairment	(158,292)	(158,292)
Furniture and equipment, net	$ 127,741	$ 163,147

Depreciation expense for the three months ended June 30, 2014 and 2013 were $19,864 and $30,668, respectively, and $41,035 and $35,536 for the six month periods then ended.

NOTE 6: INTANGIBLE ASSETS

Intangible assets consisted of the following:

	June 30, 2014	December 31, 2013
Patents	$ 4,794,853	$ 4,794,853
Capitalized license costs	200,000	-
Software	176,280	105,839
Less: Accumulated amortization	(716,948)	(505,059)
	$ 4,454,185	$ 4,395,633

Intangible assets amounted to $4,454,185 and $4,395,633 as of June 30, 2014 and December 31, 2013, respectively, and consisted of patents, capitalized license costs and software acquired. The acquired software mainly consisted of $58,000 in laboratory software, $31,500 in the newly developed Company website and $70,400 in internal use SAP Business One ERP system which is under development. The amortization period for the purchased software is three years. Amortization expense related to software for the three months ended June 30, 2014 and 2013 was $9,466 and $4,913, respectively, and $18,227 and $9,591 for the six month periods then ended.

Patents amounted to $4,794,853 as of June 30, 2014 and December 31, 2013, respectively, and mainly consisted of patents acquired from Acueity on September 30, 2012 in an asset purchase transaction. Patent assets are amortized based on their determined useful life, and tested annually for impairment. The amortization period is from 9 to 14 years. Amortization expenses related to patents was $93,498 and $186,995 for the three months and six months ended June 30, 2014. Amortization expenses for patents was $92,216 and $181,514 for the three months and six months ended June 30, 2013.

Capitalized license costs consist of fees paid to A5 Genetics KFT, Corporation, pursuant to which the Company received the world-wide (other than the European Union) exclusive license to use the software in the NextCYTE test. Amortization expense related to license costs were $4,999 and $6,667 for the three and six months ended June 30, 2014, respectively.

Future estimated amortization expenses as of June 30, 2014 for the five succeeding years is as follows:

For the Year Ending December 31,	**Amounts**
2014 (includes the remainder of the year)	$ 212,137
2015	435,692
2016	428,431
2017	411,600
2018	393,990
Thereafter	2,572,335
	$ 4,454,185

NOTE 7: PAYROLL LIABILITIES

Payroll liabilities consisted of the following:

	June 30, 2014	**December 31, 2013**
Accrued bonus payable	$ 410,449	$ 408,362
Accrued payroll liabilities	85,457	48,232
Accrued payroll tax liabilities	12,740	19,883
	$ 508,646	$ 476,477

NOTE 8: 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. The Company has designated 750,000 shares of Series A Junior Participating Preferred Stock, par value $0.001 per share through the filing of certificate of designation with the Delaware Secretary of State.

On May 19, 2014, the Company adopted a stockholder rights agreement which provides that all stockholders of record on May 26, 2014 received a non-taxable distribution of one preferred stock purchase right for each share of the Company's common stock held by such stockholder. Each right is attached to and trades with the associated share of common stock. The rights will become exercisable only if one of the following occurs: (1) a person becomes an "Acquiring Person" by acquiring beneficial ownership of 15% or more of the Company's common stock (or, in the case of a person who beneficially owned 15% or more of the Company's common stock on the date the stockholder rights agreement was executed, by acquiring beneficial ownership of additional shares representing 2.0% of the Company's common stock then outstanding (excluding compensatory arrangements) or (2) a person commences a tender offer that, if consummated, would result in such person becoming an Acquiring Person. If a person becomes an Acquiring Person, each right will entitle the holder, other than the Acquiring Person and certain related parties, to purchase a number of shares of the Company's common stock with a market value that equals twice the exercise price of the right. The initial exercise price of each right is $15.00, so each holder (other than the Acquiring Person and certain related parties) exercising a right would be entitled to receive $30.00 worth of the Company's common stock. If the Company is acquired in a merger or similar business combination transaction at any time after a person has become an Acquiring Person, each holder of a right (other than the Acquiring Person and certain related parties) will be entitled to purchase a similar amount of stock of the acquiring entity.

2014 Public Offering of Common Stock and Warrants

On January 29, 2014, the Company closed a public offering of 5,834,234 units at the price of $2.40 per unit for total gross proceeds of approximately $14.0 million (the "2014 Public Offering"). Each unit consists of one share of common stock and a warrant to purchase 0.20 of a share of common stock (the "2014 Investor Warrants"). The 2014 Investor Warrants are exercisable at $3.00 per share and callable by the Company if our stock trades above $6.00 per share if certain conditions are met.

Placement Agent Fees

In connection with the 2014 Public Offering, the Company paid Dawson James Securities, Inc. (the "Placement Agent"), a cash fee equal to 7% of the gross proceeds from sale of the units, which resulted in a payment to the Placement Agent of an aggregate of $980,151 (the "Placement Agent Fee"). In addition, the Company entered into Warrant Agreements with the Placement Agent pursuant to which the Placement Agent received a warrant to purchase 175,027 shares of common stock, or 3% of the aggregate number of shares sold in the offering (the "2014 Placement Agent Warrants" and together with the 2014 Investor Warrants, the "2014 Warrants"). The 2014 Placement Agent Warrant entitles the Placement Agent to purchase 175,027 shares of the Company's common stock at $3.00 per share. The cash payment of $980,151 for 2014 Placement Agent Fee and the $121,707 aggregated initial fair value of the 2014 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.

Warrants

The 2014 Warrants are exercisable at any time commencing after January 29, 2014 (the "Initial Exercise Date"). Subject to the call right described above, the 2014 Warrants shall expire and no longer be exercisable on the fifth anniversary of the Initial Exercise Date (the "Expiration Date"). The 2014 Warrants cannot be exercised on a cashless basis. There are no redemption features embodied in the 2014 Warrants and they have met the conditions for equity classification.

Fair Value Consideration

The Company's accounting for the issuance of the 2014 Warrants 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 2014 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 assess the fair value of these instruments.

The 2014 Investor Warrants and the 2014 Placement Agent Warrants were valued at $834,986 or $0.72 per warrant, and $121,707 or $0.70 per warrant, respectively. The following tables reflect assumptions used to determine the fair value of the 2014 Warrants:

	Fair Value Hierarchy Level	January 29, 2014	
		2014 Investor Warrants	Placement Agent Warrants
Indexed shares		1,166,849	175,027
Exercise price		$ 3.00	$ 3.00
Significant assumptions:			
Stock price	1	$ 2.50	$ 2.47
Remaining term	3	5 years	5 years
Risk free rate	2	1.45%	1.42%
Expected volatility	3	37.96%	37.95%

Outstanding Warrants

As of June 30, 2014, warrants to purchase 6,033,426 shares of common stock are outstanding including:

	Outstanding Warrants to purchase shares	Exercise price	Expiration date
2011 private placement	4,252,050	$ 1.25 - 1.60	June 23, 2016
Acueity warrants	325,000	5.00	September 30, 2017
2014 public offering	1,166,849	3.00	January 29, 2019
Placement agent fees for Company's offerings	242,027	2.12 – 12.43	March - November, 2018
Outside consulting	47,500	$ 4.24	January 14, 2018

NOTE 9 – NET LOSS PER SHARE

The Company accounts for and discloses net loss per common share in accordance with FASB ASC Topic 260, *Earnings Per Share*. Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares that would have been outstanding during the period assuming the issuance of common shares for all potential dilutive common shares outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants. Because the inclusion of potential common shares would be anti-dilutive for all periods presented, diluted net loss per common share is the same as basic net loss per common share.

The following table sets forth the number of potential common shares excluded from the calculation of net loss per diluted share for the three-month and six-month periods ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Options to purchase common stock	94,921	13,882	94,920	195,977
Warrants to purchase common stock	-	-	-	-
Restricted stock units	-	-	-	-
	94,921	13,882	94,920	195,977

NOTE 10: 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, 2014 and December 31, 2013, the Company had $14,048,491 and $6,092,161 in excess of the FDIC insured limit, respectively.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Lease Commitments

The future minimum lease payments due subsequent to June 30, 2014 under all non-cancelable operating leases are as follows:

Year Ending December 31,	Amount
2014 (remainder of the year)	$ 177,561
2015	480,007
2016	464,771
2017	105,894
Total minimum lease payments	**$ 1,228,233**

Affymetrix Purchase Commitment

In September 2013, the Company entered into an "OwnerChip Program Agreement" with Affymetrix, Inc, a manufacturer of GeneChip Systems, where Affymetrix has agreed to loan a GeneChip System 3000Dx v.2 ("instrument") to the Company if it purchases and takes delivery of a minimum thirty GeneChip Human Genome U133 Plus 2.0 (30-pack) arrays at $21,590 per 30 pack for the next three years for a total purchase obligation of $647,700 with a minimum purchase of ten 30-pack arrays per contract year. At the end of the three year contract, upon fulfillment of the purchase commitment, the instrument title and ownership transfer to the Company at no additional cost. In addition to the GeneChip Human Genome, the Company must purchase a two year service contract for $51,600 to cover maintenance of the instrument during the contract period. The Company placed an initial order for four 30-pack arrays during 2013 for $94,723. The Company is obligated to purchase 26 additional arrays during the next three year contract term.

A5 Software Development Commitment

On June 10, 2013 the Company entered into an irrevocable license and service agreement with A5 Genetics KFT, Corporation, pursuant to which the Company received the world-wide (other than the European Union) exclusive license to the software used in the NextCYTE test. The Company has the right to prosecute patents related to this software, two of which the Company has filed in the United States. The patent applications have been assigned to the Company. The Company paid a one-time fee of $100,000 to A5 Genetics in 2013 and in March 2014 the Company completed software validation and paid an additional $100,000 to A5 Genetics. The Company is obligated to pay up to an additional $1.2 million to A5 Genetics upon the achievement of future

milestones. The Company must also pay a royalty of $50 for each NextCYTE Test performed and $65 as a service fee for each NextCYTE Test performed. The agreement terminates on the later of the ten year anniversary of the agreement or the expiration of the latest to expire patent covering the software.

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 LLC) and the Company that was entered into in July 2010 in connection with his resignation from the Company as President and a director. 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.

On December 11, 2012, Mr. Kelly filed a complaint in the United States District Court, Western Division of Washington seeking compensatory damages, interest and attorneys' fees related to the termination of Mr. Kelly's consulting contract and the rescission of shares issued to him in July 2010 in connection with his resignation from the Company as President and a director. The specific amount of damages sought is to be proven at trial and is not specified. On July 8, 2013, the court granted the Company's motion to compel arbitration of these claims and therefore this action was stayed pending resolution of the arbitration of the claims; however, Mr. Kelly has not initiated arbitration of those claims.

On February 26, 2013, Mr. Victor Cononi filed a complaint in the United States District Court, Western Division of Washington seeking compensatory damages, interest and attorneys' fees related to the rescission of shares issued to him in July 2010 in connection with Mr. Kelly's resignation from the Company as President and a director. Mr. Cononi is the father of Mr. Kelly's paramour. The specific amount of damages sought is to be proven at trial and is not specified. In August 2013, the court granted the Company's motion to compel arbitration of these claims and therefore this action was stayed pending resolution of the arbitration of the claims; however, Mr. Cononi has not initiated arbitration of those claims.

A hearing in the arbitration has been held in abeyance to accommodate other third party civil and federal criminal proceedings alleging securities and wire fraud that have been brought against Mr. Kelly with respect to his prior employment and predating his service with the Company. On March 11, 2014 a press release was issued by the FBI stating that Mr. Kelly had pled guilty in Manhattan federal court to securities and wire fraud charges related to his employment as CEO of Wwebnet. Mr. Kelly also agreed to forfeit $2,111,600 and, separately, pay $2,111,600 in restitution. The sentencing hearing is scheduled for September 18, 2014.

The Company is reasonably confident in its defenses to Mr. Kelly's and Mr. Cononi's claims. Consequently, no provision or liability has been recorded for these claims as of June 30, 2014. However, it is at least reasonably possible that the Company's estimate of 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.

On October 10, 2013, a putative securities class action complaint, captioned Cook v. Atossa Genetics, Inc., et al., No. 2:13-cv-01836-RSM, was filed in the United States District Court for the Western District of Washington against us, certain of the Company's directors and officers and the underwriters of the Company November 2012 initial public offering. The complaint alleges that all defendants violated Sections 11 and 12(a)(2), and that the Company and certain of its directors and officers violated Section 15, of the Securities Act by making material false and misleading statements and omissions in the offering's registration statement, and that we and certain of our directors and officers violated Sections 10(b) and 20A of the Exchange Act and SEC Rule 10b-5 promulgated thereunder by making false and misleading statements and omissions in the registration statement and in certain of our subsequent press releases and SEC filings with respect to our NAF specimen collection process, our ForeCYTE Breast Health Test and our MASCT device. This action seeks, on behalf of persons who purchased our common stock between November 8, 2012 and October 4, 2013, inclusive, damages of an unspecific amount.

On February 14, 2014, the Court appointed plaintiffs Miko Levi, Bandar Almosa and Gregory Harrison (collectively, the "Levi Group") as lead plaintiffs, and approved their selection of co-lead counsel and liaison counsel. The Court also amended the caption of the case to read In re Atossa Genetics, Inc. Securities Litigation. No. 2:13-cv-01836-RSM. An amended complaint was filed on April 15, 2014. The Company and other defendants filed motions to dismiss the amended complaint on May 30, 2014. The plaintiffs filed briefs in opposition to these motions on July 11, 2014. The Company replied to the opposition brief on August 11, 2014.

The Company believes this lawsuit is without merit and plans to defend itself vigorously; however, failure by the Company to obtain a favorable resolution of the claims set forth in the complaint could have a material adverse effect on the Company's business, results of operations and financial condition. Currently, the amount of such material adverse effect cannot be reasonably estimated, and no provision or liability has been recorded for these claims as of June 30, 2014. The costs associated with defending and resolving the lawsuit and ultimate outcome cannot be predicted. These matters are subject to inherent uncertainties and the actual cost, as well as the distraction from the conduct of the Company's business, will depend upon many unknown factors and management's view of these may change in the future.

FDA Warning Letter

On February 21, 2013, the Company received a Warning Letter ("Warning Letter") from the FDA regarding its Mammary Aspirate Specimen Cytology Test (MASCT) System and MASCT System Collection Test (together, the "System"). The Warning Letter arises from certain FDA findings during a July 2012 inspection, to which the Company responded in August 2012. In that response, the Company explained why the Company believed it was in compliance with applicable regulations and/or was implementing changes responsive to the findings of the FDA inspection. The FDA alleges in the Warning Letter that following 510(k) clearance of the MASCT System, the Company changed the System in a manner that requires submission of an additional 510(k) notification to the FDA. Specifically, the FDA stated that the Instructions For Use (IFU) in the original 510(k) submission stated that the user must "Wash the collection membrane with fixative solution into the collection vial…" while the current IFU states "…apply one spray of Saccomanno's Fixative to the collection membrane…" and that "this change fixes the NAF specimen to the filter paper rather than washing it into a collection vial." At the time that the changes were made the Company determined and documented that the change could not significantly affect the safety or effectiveness of the MASCT System, and thus, that a new 510(k) was not required in accordance with the FDA's guidance document entitled, "Deciding When to Submit a 510(k) for a Change to an Existing Device." The Warning Letter also identified certain issues with respect to the Company's marketing of the System and the Company's compliance with FDA Good Manufacturing Practices (cGMP) regulations, among other matters. The Company responded to the Warning Letter on March 13, 2013, and identified the corrective actions that had been made, or were otherwise underway. The Company also filed a new 510(k) application for the MASCT System which was withdrawn in August 2013 after receiving feedback from the FDA.

On October 4, 2013, the Company initiated a voluntary recall of the system to address FDA's concerns regarding the modifications identified in the Warning Letter. As a result of this recall, this product is currently not being marketed or distributed in the U.S. The Company submitted a new premarket notification, or 510(k) application, with the FDA on December 23, 2013 that covers the collection, preparation, and processing of NAF specimens and includes the spray method of fixing specimens to the collection membrane. We received a request from the FDA on February 28, 2014 to submit additional information in support of the application. We have until August 20, 2014 to respond to the FDA. We cannot market or distribute the ForeCYTE Breast Aspirator within the United States until we receive clearance for this device from the FDA.

On March 14, 2014, the FDA completed a follow up inspection at the Company's Seattle facility. A Form 483 was provided to the Company at the conclusion of the inspection. In the FDA's most recent Form 483, five inspectional observations were identified regarding the Company's quality management system. The FDA inspector also orally identified five additional discussion points related to the Company's product labeling prior to the recall of the MASCT System; sufficiency of the content of the Company's pending 510(k) submission for the ForeCYTE Breast Aspirator; and other compliance issues. On March 26, 2014, the Company submitted a response to the FDA, which included its proposed corrective actions to address the FDA's observations and discussion points. Whether the FDA will accept the Company's response is uncertain, particularly in light of the similar nature of certain of the current inspectional observations to previous inspectional observations. If the FDA does not agree with the Company's proposed corrective actions, or accepts them but finds that the Company has not implemented them adequately, or if the Company otherwise is found to be out of compliance with applicable regulatory requirements at a later date, the FDA could initiate additional warning letters, or initiate without further notice an enforcement action, fines and penalties. The FDA also may not clear our pending 510(k) for the ForeCYTE Breast Aspirator or our other devices and services under development. Any of the foregoing would have a material adverse effect on our business.

The Company recorded a product recall liability of $211,493 on December 2013; as of June 30, 2014, the Company has $12,028 remaining in product recall liabilities and has incurred $390,812 in actual expenses related to the costs of the recall, including the estimated costs of pursuing the additional 510(k) clearance. The recall and 510(k) process may take longer than expected and the Company may incur costs that it has not anticipated. Accordingly, the actual amount of the loss contingency may be higher than the Company currently expects.

NOTE 12: STOCK BASED COMPENSATION

Compensation costs associated with the company's stock 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 stock based compensation expense of $167,534 and $397,715 for the three months and six months ended June 30, 2014, respectively. The stock based compensation for the three months and six months ended June 30, 2013 was $737,309 and $1,011,820, respectively.

The following table presents information concerning stock option grants for the six months ended June 30, 2014:

	Employees	**Executives & Officers**	**Directors**
Date of Grant	January 8, 2014	January – June 2014	January - June 2014
Fair value of common stock on date of grant	$ 2.20	$ 1.22 - 2.20	$ 1.22 - 2.20
Exercise price of the options	$ 2.20	$ 1.22- 2.20	$ 1.22-2.20
Expected life of the options (years)	6.06	6.06 - 6.11	5.09 – 5.31
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	41.70- 41.72%	40.98 - 41.70%	38.64 - 38.68%
Risk-free interest rate	2.11%	1.85 - 2.11%	1.53 – 1.75%
Expected forfeiture per year (%)	10.00%	10.00%	10.00%
Weighted average fair value of the options per unit	$ 0.95	$ 0.66	$ 0.53

Options issued and outstanding as of June 30, 2014 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**	**Aggregate Intrinsic Value**
Outstanding as of January 1, 2014	2,282,719	$ 4.43		$ 282,063
Granted	1,436,669	1.46		
Forfeited	(69,236)	4.64		450
Exercised	(40,000)	1.25		14,400
Outstanding as of June 30, 2014	3,610,152	3.28	8.32	561,650
Exercisable as of June 30, 2014	1,413,969	4.50	6.63	88,150
Vested and expected to vest (1)	3,326,450	$ 3.34	8.22	$ 508,716

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

At June 30, 2014, there were 2,196,183 unvested options outstanding that will vest over a weighted-average period of 3.07 years. The total estimated compensation expense to be recognized in connection with these options is $1,858,544.

Issuance of Restricted Common Stock for Directors' Compensation

On October 10, 2013, the Company issued 24,510 shares of restricted stock with a grant date value of $50,000 or $2.04 per share to a new board member. On March 1, 2014, the Company agreed to issue 22,728 shares of restricted stock with a grant date value of $50,000 or $2.20 per share to a new board member. These share issuances were canceled in May 2014 in connection with a new compensation plan adopted by the Board of Directors for independent members of the Board and the grants were each replaced with $35,000 in cash payment.

On May 6, 2014, options to purchase a total of 15,000 shares of common stock, with exercise prices of $1.22 per share which was the fair market value on the date of grant, were also granted under the 2010 Plan to each of our four non-employee directors for service on the Board during the year following our 2014 annual meeting of stockholders. On that date, options to purchase 665,000 shares of stock, exercisable at $1.22 per share, which was the fair market value on the date of grant, were granted to senior officers under the 2010 Plan. The options granted to non- employee directors vest quarterly over one year and options granted to the senior officers vest quarterly over four years.

In May 2014, 200,000 stock options were granted outside the 2010 Plan to the Vice President of Clinical Research and Development. The options have an exercise price of $1.25, which was the fair market value on the date of grant, and vest 25% at the end of the first year and vest quarterly thereafter over the following three years.

In June 2014, 200,000 stock options were granted outside the 2010 Plan to the Senior Vice President of Global Regulatory Affairs and Quality Assurance. The options have an exercise price of $1.41, which is the fair market value on the date of grant, and vest 25% at the end of the first year and vest quarterly thereafter over the following three years.

Stock Options 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, 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 were initially 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 January 1, 2012, 450,275 shares were added to the 2010 Plan and on January 1, 2013, 516,774 shares were added to the 2010 Plan, and on January 1, 2014, 742,973 shares were added to the 2010 plan as provided under the terms of the 2010 Plan.

The Company granted options to purchase 1,459,397 shares of common stock to employees and directors and issued 40,000 shares of common stock in connection with the exercise of directors stock options during the six months ended June 30, 2014. There are 267,870 options available for grant under the 2010 Plan as of June 30, 2014.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2014, the date which the condensed consolidated financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2014 have been incorporated into these condensed consolidated financial statements, there are no subsequent events that require disclosure in accordance with FASB ASC Topic 855, "Subsequent Events," except as follows:.

The Company entered into a new lease agreement in August 2014 for office space located in Seattle, Washington. The lease agreement provides for average monthly rent of $17,249 for a period of 31 months from the lease commencement of December 1, 2014. These lease payments are reflected in the lease commitments table in Note 11.

ITEM 2. 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 financial statements and the related notes included elsewhere in this report. 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 below for additional information regarding forward-looking statements.

Forward-Looking Statements

This report contains, in addition to historical information, certain information, assumptions and discussions that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have made these statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 report, we cannot assure you that the forward-looking statements set out in this report 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 report include, but are not limited to, statements about:

- Whether we will obtain in a timely manner clearance from the Food and Drug Administration to sell, market and distribute our ForeCYTE Breast Aspirator;
- our ability to successfully re-launch our ForeCYTE Breast Aspirator;
- the estimated costs associated with our product recall;
- 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 treatments currently in development and in the time frames currently expected;
- our ability to maintain our business relationships, including with our distributors, suppliers and customers, while we are undergoing the recall we commenced in October 2013 and while we seek additional regulatory clearance to market, sell and distribute our ForeCYTE Breast Aspirator and laboratory test;
- our ability to engage third-party suppliers to manufacture the ForeCYTE Breast Aspirator, Microcatheter System, other devices under development and their components at quantities and costs acceptable to us;
- our ability to satisfy ongoing FDA requirements for manufacturing, distributing, and promoting the ForeCYTE Breast Aspirator, NAF cytology test and Microcatheter System and to obtain regulatory approvals and/or clearances for our other products and services in development, including our ability to timely and adequately respond to and ultimately close-out the Warning Letter we received from the FDA on February 21, 2013, and the inspectional observations and discussion points we received March 14, 2014 and any issues resulting therefrom;
- our ability to successfully defend ongoing litigation, including the securities class action law suit filed against us on October 10, 2013, and other similar complaints that may be brought in the future, in a timely manner and within the coverage, scope and limits of our insurance policies;

- the benefits and clinical accuracy of the NAF cytology test and ArgusCYTE tests;
- 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, FedMed and HealthSmart networks, 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 our current and future distributors and their sub-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;
- our ability to attract and retain key personnel; and
- our ability to sell additional shares of our common stock to Aspire Capital under the terms of our purchase agreement with them.

These and other forward-looking statements made in this report are presented as of the date on which the statements are made. We have included important factors in the cautionary statements included in this report, particularly in the section titled "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 report. 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.

Company Overview

We are a healthcare company focused on improving breast health through the development of a suite of laboratory developed tests (LDTs), invitro diagnostics, medical devices and therapeutics. Our laboratory tests are being developed by our subsidiary, The National Reference Laboratory for Breast Health, Inc. (the NRLBH), and are intended to address each of the four stages of the breast health care path: the cytological analysis of nipple aspirate fluid (NAF); the cytological analysis of ductal lavage fluid collected from each individual breast duct with our proprietary microcatheters; the profiling of newly diagnosed breast cancers through the determination of gene expression profiles in breast cancer biopsy tissue; and the monitoring of breast cancer survivors for pre-clinical recurrence through a blood test for circulating tumor cells.

Our medical devices under development include the ForeCYTE Breast Aspirator (510(k) pending, not for sale in the United States) intended for the collection of NAF for cytological testing at a laboratory, intra ductal microcatheters for the collection of ductal lavage fluid and for the potential administration of a targeted therapeutic, and various tools for potential use by breast surgeons. Our ForeCYTE Breast Aspirator (previously called the MASCT System) was launched nationally in early 2013 and was recalled in October 2013. It will not be re-launched in the United States unless and until we receive additional regulatory clearance from the FDA. We submitted a new 510(k) for the ForeCYTE Breast Aspirator on December 23, 2013; we received questions from the FDA regarding this submission on February 28, 2014 and are in the process of addressing such questions as of the date of this report.

We plan to develop certain of our medical devices and laboratory tests so that they can be used in clinical laboratory settings, including potentially as companion diagnostics to pharmaceutical therapies. For example, we plan to develop our patented intra ductal microcatheters for the potential delivery of a pharmaceutical targeted to a condition called ductal carcinoma in-situ (DCIS). We also plan to develop our medical devices and laboratory tests as companion diagnostics to pharmaceutical therapies to treat women at high risk of breast cancer and for the treatment of proliferative epithelial disease (PED). These programs are in the early pre-clinical stage and will require testing and are likely to require approval and/or clearance from the FDA prior to commercialization in the United States.

Our strategy consists of the following:

(1) Re-launch ForeCYTE Breast Aspirator sales: We hope to obtain FDA clearance for the ForeCYTE Breast Aspirator, our lead medical device, and, if FDA clearance is obtained to re-launch it in the United States through a direct sales force and our distributors, including Fisher Healthcare and PSS McKesson. We also intend to introduce the ForeCYTE Breast Aspirator into one or more foreign markets following receipt of the CE mark.

(2) Introduce our other Laboratory Tests and other Medical Devices along the Care Path: We plan to make each of NRLBH's individual laboratory tests and medical devices available to healthcare providers by completing any necessary development and obtaining any necessary regulatory clearances and/or approvals.

(3) Develop Pharmaceutical Therapies supported by our Devices and Laboratory Services: We plan to develop our patented microcatheters to deliver pharmaceuticals to initially treat DCIS. We also plan to develop our devices and laboratory services for use as companion diagnostics. For example, we intend to use our devices to collect specimens of NAF, test the NAF specimens in our laboratory, provide pharmaceutical treatment options for the breast health conditions detected by our tests and then use our medical devices to monitor treatment response. We expect that these companion diagnostic systems will initially target PED and/or high risk women and will require lengthy and costly clinical trials that we will undertake only with input and direction from the FDA.

(4) Advance Partnering Opportunities: We plan to work with third parties and partners to develop our business. For example, we plan to work with Fisher Healthcare and PSS McKesson to distribute the ForeCYTE Breast Aspirator and we may partner with one or more laboratories to act as NAF collection sites using our ForeCYTE Breast Aspirator if and when it is cleared by the FDA. We plan to retain clinical research organizations (CROs) for clinical development of potential therapeutic programs and we intend to partner with pharmaceutical companies to develop companion diagnostic systems, which may include therapeutics to treat PED, DCIS and/or high risk women.

(5) Promote Physician and Patient Awareness: Our products and services are highly innovative and gaining adoption will require that physicians change the way they practice medicine. To facilitate adoption, we will continue to educate physicians and patients by engaging key opinion leaders, publishing in peer reviewed journals, and working with patient advocacy groups.

All of our medical devices and the NRLBH's laboratory tests, as well as the breast health companion diagnostic systems, are currently under development and, if required by FDA, we must receive additional regulatory clearances and/or approvals prior to marketing and commercialization.

Our leading device, the MASCT System (which we currently refer to as the ForeCYTE Breast Aspirator), and our NAF cytology test, were launched in a "field experience" trial in 2012 and nationally in the beginning of 2013. In October 2013, we voluntarily recalled the MASCT System to address concerns raised by the FDA in a Warning Letter we received in February 2013. In December 2013, we submitted a pre-market notification to the FDA for a 510(k) clearance for the ForeCYTE Breast Aspirator, and on February 28, 2014, we received questions from the FDA regarding this submission which we are in the process of addressing as of the date of this report. As a result of this recall, we are not currently marketing this device in the U.S. If we obtain clearance from the FDA, we intend to relaunch the ForeCYTE Breast Aspirator (the NRLBH is currently qualified to test NAF samples collected with devices other than the ForeCYTE Breast Aspirator). However, the regulatory pathway to obtaining a 510(k) clearance can be lengthy, expensive and unpredictable; we therefore cannot provide any assurances that we will receive a new 510(k) clearance for ForeCYTE Breast Aspirator or any of our other tests under development in a timely fashion or at all.

The NRLBH has been certified pursuant to the Clinical Laboratory Improvement Amendments, or CLIA. 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 NAF 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 NAF specimens by cytological analysis.

On April 30, 2013, we entered into a Distribution and Marketing Services Agreement with Millennium Medical Devices LLC, pursuant to which, once we receive any necessary FDA clearances, Millennium will market and distribute the ForeCYTE Breast Aspirator in New York City and Northern New Jersey. In May 2013, we entered into a distribution agreement with Fisher Healthcare, a division of Fisher Scientific Company, LLC, and in September 2013, we entered into a distribution agreement with McKesson Medical Surgical.

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; if cleared by the FDA, selling the ForeCYTE Breast Aspirator; generating laboratory service revenue from our tests performed by the NRLBH; and borrowing from stockholders or others 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 Voluntary Product Recall

On October 4, 2013, we initiated a voluntary recall to remove the MASCT device (which was also called the "ForeCYTE Test" prior to the recall) from the market. This voluntary recall includes the MASCT System Kit and Patient Sample Kit. The vast majority of these products (approximately ninety percent) were in inventory with our distributors and the remaining quantities were at customer sites across the United States. As of the date of this report, the recall has been substantially completed.

The purpose of this voluntary recall is to address concerns raised by the FDA in a Warning Letter received by Atossa in February 2013. In that Warning Letter, the FDA raised concerns about (1) the current instructions for use (IFU); (2) certain promotional claims used to market these devices; and (3) the need for FDA clearance for certain changes made to the NAF specimen collection process identified in the current IFU.

The MASCT device was originally cleared by the FDA for use as a sample collection device, with the provision that the fluid collected using this device can be used to determine and/or differentiate between normal, pre-malignant, and malignant cells. The MASCT device has not been cleared by the FDA for the screening or diagnosis of breast cancer. In addition, our NAF cytology test has not been cleared or approved by the FDA for any indication as the company considered this to be a Laboratory Developed Test – or within a class of tests that has historically not required a 510(k) application. Our NAF cytology test and the MASCT device are not intended to serve as a replacement for screening mammograms, diagnostic imaging tests, or biopsies. Patients are instructed to follow the recommendations and instructions of their physician with respect to breast cancer screening and diagnosis.

To date, we are unaware of any adverse incidents or injuries associated with the use of our NAF cytology test and the MASCT device or the processing method identified in the latest version of the IFU. However, there is a risk that these devices may produce false positive or false negative results. Although not cleared or intended for this use, if these devices are used as a substitute for recommended screening or diagnosis of breast cancer, the FDA has expressed a concern that patients may choose to forgo recommended mammograms and necessary biopsies.

We submitted a new 510(k) application to the FDA on December 23, 2013 for the ForeCYTE Breast Aspirator which is intended for use in the collection of nipple aspirate fluid for cytological testing. On February 28, 2014, we received a request from the FDA to submit additional information in support of the application. We have until August 20, 2014 to respond to the FDA. We cannot market or distribute the ForeCYTE Breast Aspirator within the United States until we receive clearance for this device from the FDA.

As of June 30, 2014, we have incurred cumulative actual recall expenses of $390,812 and have recorded $12,028 as a product recall liability related to the estimated remaining costs of the recall, including the estimated costs of pursuing the additional 510(k) clearance. The recall and 510(k) process may take longer than expected; for example the FDA may require additional actions that we have not anticipated. As a result, we may incur costs that we have not anticipated. Accordingly, the actual expenses for the recall may be higher than we currently expect. Prior to the commencement of the recall in October 2013, substantially all of our revenue was from sales of the MASCT System and patient collection kits and from testing services performed by our laboratory. As a result of the recall of the MASCT System and patient collection kits, we have ceased generating product revenue. Our laboratory services revenue has also virtually ceased as of October 2013.

If and when we re-launch our ForeCYTE Breast Aspirator, we will incur additional sales and marketing expenses. We will need to revise our sales and marketing tools and continue hiring direct sales employees in an effort to build a regional, and ultimately national, sales force. We also expect to continue to hire clinical consultants to assist in the sale of our NAF cytology tests. The indication for use that we are seeking from the FDA for the ForeCYTE Breast Aspirator may be more limited than the indication sought in our 510(k) pre-market notification and may be more limited that the indication for the MASCT System that we previously marketed. If so, our potential sales will be negatively impacted.

Follow-up FDA Inspection

On March 14, 2014, the FDA completed a follow up inspection at our Seattle facility. A Form 483 was provided to us at the conclusion of the inspection. In the FDA's most recent Form 483, five inspectional observations were identified. The FDA inspector also verbally identified five additional discussion points related to our product labeling prior to the recall of the MASCT System; sufficiency of the content of our pending 510(k) submission for the ForeCYTE Breast Aspirator; and other compliance issues. On March 26, 2014, we submitted a response to the FDA, which included our proposed corrective actions to address the FDA's observations and discussion points. Whether the FDA will accept our response is uncertain, particularly in light of the similar nature of certain of the current inspectional observations to previous inspectional observations. If the FDA does not agree with our proposed corrective actions, or accepts them but finds that we have not implemented them adequately, or if we otherwise are found to be out of compliance with applicable regulatory requirements at a later date, the FDA could initiate additional warning letter, or initiate without further notice an enforcement action, fines and penalties. The FDA also may not clear our pending 510(k) for the ForeCYTE Breast Aspirator or our other devices and services under development. Any of the foregoing would have a material adverse effect on our business.

Revenue Sources

If and when approved, the commercialization of the ForeCYTE Breast Aspirator for collection of NAF and the separate provision of cytology testing as a laboratory service have the potential to provide us with two revenue sources: (i) sales-based revenue from the sale of the ForeCYTE Breast Aspirator device and patient kits to distributors, physicians, breast health clinics, and mammography clinics and (ii) service, or use-based, revenue from the preparation and interpretation of the NAF samples sent to our laboratory for analysis. We do not anticipate generating revenue until and unless we receive an additional 510(k) clearance from the FDA for our ForeCYTE Breast Aspirator and re-launch the device. If and when ForeCYTE is re-launched, we plan to initially sell the ForeCYTE Breast Aspirator through regional and national specialty product distributors, with independent sales representatives specializing in women’s Health, and through our own direct sale force.

Commercial Lease Agreements

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 terminated on March 31, 2014 and provides for monthly rent of $1,100 and a security deposit of $1,500. On March 20, 2014, the Company entered into a new agreement with Sanders properties which extends the terms of the lease through March 31, 2015 with a monthly rent of $1,150.

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. In July 2013, the Company entered into an agreement with ARE LLC (Alexandria) to lease additional office spaces in our existing building under a separate lease agreement. The lease is from August 2013 through November 2014, and the gross rent is $ 4,800 per month. For the six months ended June 30, 2014, the Company incurred $160,631 of rent expense for the lease, which included leasing office management expenses and the new agreement with ARE LLC.

On March 24, 2014, the Company entered into another commercial lease agreement with ARE LLC (Alexandria) for the Company’s laboratory space which extends the term of the existing lease with Fred Hutchison Research Center which expires in November 2014 through November 30, 2016. The lease provides for monthly rent payments of $22,736 from December 2014 through November 2015 and $23,258 from December 2015 through November 2016. As of June 30, 2014, the Company incurred and recorded security deposits of $25,000.

On August 8, 2014, the Company entered into a new commercial lease agreement with the Legacy Group Inc., to lease office space in Seattle, WA in Conjunction with expiration of the current office space lease with Fred Hutchinson Research Center on November 29, 2014. The lease provides for monthly rent payments of $16,695 from December 1, 2014 through June 30, 2015, $17,172 from July 1, 2015 through June 30, 2016 and $17,649 from July 1, 2016 through June 30, 2017.

We expect that these new laboratory facilities will be sufficient to meet our needs for the foreseeable future and we do not expect to need additional laboratory space for at least the next 24 months. We may need to secure additional office space as we grow our sales and marketing force and add to our administrative staff. Additional office space is readily available in our local market and we believe we can rent when necessary additional office space on acceptable terms.

Critical Accounting Policies and Estimates

In our Annual Report on Form 10-K for the year ended December 31, 2013, we disclosed our critical accounting policies and estimates upon which our financial statements are derived. There have been no changes to these policies since December 31, 2013. Readers are encouraged to review these disclosures in conjunction with the review of this report.

Results of Operations

Three Months and Six Months Ended June 30, 2014 and 2013

Revenue and Cost of Goods Sold. For the three months and six months ended June 30, 2014, revenue totaled $9,875 and $33,999, consisting of additional cash collected in excess of the amounts we accrued previously at the Medicare rates. Total revenue for the three and six months ended June 30, 2013 was $326,078 and $508,748. Cost of revenue totaled $0 for the three months and six months ended June 30, 2014, compared to $222,160 and $288,624 in the same periods in 2013.

For the three months and six months ended June 30, 2014, gross profit totaled $9,875 and $33,999, compared to $103,918 and $220,124 in the same period in 2013. The Company has recognized virtually no revenue or cost of revenue since the voluntary recall in October 2013.

Operating Expenses. For the three months ended June 30, 2014, total operating expenses were $3,196,408 consisting of general and administrative (G&A) expenses of $2,462,256, research and development (R&D) expenses of $510,767, and selling expenses of $223,385, representing an increase of $509,143, or 19% from $2,687,265 in the same period in 2013, consisting of G&A expenses of $2,177,920, R&D expenses of $189,955, and selling expenses of $319,390. Operating expenses for the six months ended June 30, 2014 were $5,631,457 consisting of G&A expenses of $4,236,964, R&D expenses of $933,270, and selling expenses of $461,223. Operating expenses increased $886,553, or 19% from $4,744,904 for the same period in 2013 consisting of $3,742,792 in G&A expenses, $410,147 in R&D expenses, and $591,965 in selling expenses.

We expect that our G&A and selling expenses will continue to increase in the foreseeable future, and if we successfully relaunch the ForeCYTE Breast Aspirator and our related laboratory service offerings, we would also begin to incur additional sales and marketing expenses as we continue building a regional, and ultimately national, sales force.

Selling Expenses. Selling expenses for the three months ended June 30, 2014 were $223,385, a decrease of $96,005, or 30%, from $319,390 for the three months ended June 30, 2013. Selling expenses for the three months ended June 30, 2014 consisted primarily of $115,640 in selling and marketing professional fees and $106,985 in compensation expenses. Selling expenses for the six months ended June 30, 2014 were $461,223, a decrease of $130,742, or 22% from $591,965 for the same period in 2013. Selling expenses for the six months ended June 30, 2014 consisted of $192,989 in salaries and $267,474 in selling and marketing professional fees.

Selling expenses decreased as a result of the voluntary recall in October 2013. We expect selling expenses will increase when we receive the FDA clearance and prepare for and execute the relaunch of ForeCYTE Breast Aspirator. Selling expenses may also increase as we market and sell the services offered by the NRLBH, including NAF cytology tests and potentially other tests.

R&D Expenses. R&D expenses for the three months ended June 30, 2014 were $510,767, an increase of $320,812, or 169%, from $189,955 for the three months ended June 30, 2013. R&D expenses for the six months ended June 30, 2014 were $933,270, an increase of $523,123, or 128% from the same period in 2013.

The increase in R&D expenses in 2014 is attributed to additional R&D expenditures on the development of our new products and tests in the pipeline, including the NextCYTE Test and FullCYTE microcatheters. We expect that our R&D expenses will continue to increase as we add additional full time employees and incur additional costs to continue the development of our products and services under development throughout 2014.

G&A Expenses. G&A expenses for the three months ended June 30, 2014 were $2,462,256, an increase of $284,336, or 13%, from $2,177,920 in the same period in 2013. The G&A expenses for the three months ended June 30, 2014 consisted primarily of $818,906 in compensation expenses, $606,696 in legal and regulatory expenses, $330,992 in consulting and professional fees, $53,737 in travel expenses, $124,101 in insurance expenses, $127,827 in amortization and depreciation expenses, and $104,167 in Board of Directors fees. G&A expenses for the three months ended June 30, 2013 were $2,177,920 which primarily consisted of $457,165 in compensation expenses, $162,106 in legal expenses, $615,846 in consulting and professional fee expenses, $48,059 in travel expense, $96,588 in insurance expenses, and $391,029 in Board of Directors annual fees consisting of cash fees and the non-cash expense associated with fees paid in the form of options.

G&A expenses for the six months ended June 30, 2014 were $4,236,964, an increase of $494,172, or 13% from $3,742,792 for the same period in 2013. G&A expenses for the six months June 30, 2014 primarily consisted of $1,484,041 in compensation expenses, $816,459 in legal fees, $589,197 in consulting and professional fees, $97,763 in travel expenses, $256,893 in insurance expenses, $64,758 in bad debt expenses, $252,921 in amortization and depreciation expenses, and $123,167 in Board of Directors fees. G&A expenses for the six months ended June 30, 2013 mainly consisted of $964,025 in compensation expenses, $340,053 in legal expenses, $1,219,099 in consulting and professional fees, $68,545 in travel expenses, $159,510 in insurance expenses, $105,771 in marketing expenses, and $436,029 in Board of Directors fees.

The increase in 2014 G&A expenses over 2013 was primarily attributable to an increase in salaries and employees benefits as we grew headcount in our manufacturing and regulatory departments, travel expenses, cost of insurance, and legal and professional fees. We expect our G&A expenses to continue to grow as we hire additional administrative and manufacturing personnel as we prepare for and execute on the relaunch of the ForeCYTE Breast Aspirator, and our other products under development and as we incur additional costs associated with being a publicly traded company.

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 consolidated financial statements as of and for the years ended December 31, 2013 and 2012 expresses substantial doubt about our ability to continue as a going concern.

On March 27, 2013, we entered into a stock purchase agreement with Aspire Capital Fund, LLC, and pursuant to that agreement we sold common stock to Aspire from March 2013 through October 2013 for a total aggregate purchase price of $11,303,745. On November 8, 2013, we terminated this stock purchase agreement and entered into a new agreement with Aspire which provides that we may sell common stock to Aspire under the terms and subject to the conditions and limitations set forth therein. Under the new agreement, Aspire is committed to purchase up to an aggregate of $25 million of shares of our common stock over the 30 month term of the new agreement, subject to certain conditions set forth therein. On December 23, 2013, we sold $1 million of common stock to Aspire under this new agreement so that up to a total of $24 million remains available for sale to them as of the date of this report.

On January 29, 2014, we closed a public offering of 5,834,234 units at the price of $2.40 per unit, with each unit consisting of one share of common stock and a warrant to purchase 0.20 a share of common stock, for gross proceeds of approximately $14.0 million. The warrants are exercisable at $3.00 per share and are callable by us if and when the trading price of our common stock is $6.00 per share over a defined period and subject to a daily volume minimum.

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

As of June 30, 2014, we had cash and cash equivalents of $14,298,491, consisting of net cash used in operating activities of $4,858,345, net cash used in investing activities of $191,070 and net cash provided by financing activities of $13,005,745, compared to $2,439,512 at June 30, 2013. The $11.9M increase in cash is mainly attributed to the $14.0M raised in the 2014 Public Offerings, offset by $1.4M increase in net cash used in operating activities. For the six months ended June 30, 2014, we incurred a net loss of $5,599,507.

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 relaunch of the ForeCYTE Breast Aspirator, complete the development of and launch the ArgusCYTE test and NextCYTE tests, and other devices in the pipeline and start the development of our planned therapeutic programs. We expect our existing capital resources as of the date of this report to be sufficient to fund our planned operations for the remainder of 2014. If we are unable to raise additional capital when needed, 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 time and expense needed to relaunch the ForeCYTE Breast Aspirator;
- the expense associated with building a network of sales representatives to market the ForeCYTE Breast Aspirator, and NAF cytology tests, NextCYTE test, ArgusCYTE test and our planned therapeutic programs; and
- the degree and speed of patient and physician acceptance of our products and the degree to which third-party payors approve the tests for reimbursement.

We do not expect to generate revenue until we receive FDA clearance to market the ForeCYTE Breast Aspirator. We expect our continuing operating losses to result in increases in cash used in operations over at least the next year. Although we expect our existing resources as of the date of this report, to be sufficient to fund our planned operations through 2014, we may require additional funds earlier than we currently expect to successfully commercialize the ForeCYTE Breast Aspirator. Because of the numerous risks and uncertainties associated with the development and commercialization of the ForeCYTE Breast Aspirator and our other devices, tests and therapeutics in the pipeline, 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.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606* ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective in the first quarter of 2017 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of its pending adoption of ASU 2014-09 on our condensed consolidated financial statements.

In June 2014, FASB issued ASU 2014-10, *Elimination of Development Stage Entity Requirements.* This ASU eliminates the concept of Development Stage Entities (DSE's) from U.S. GAAP and is intended to result in cost-savings for certain entities, such as start-ups or research and development entities. As a result of these changes, the financial statements of developing entities no longer need to meet the inception-to-date income, cash flow and equity information; the requirement to label financial statements as those of a developing company was eliminated; and certain disclosures related to the nature of the entities development stage activities were eliminated. We adopted ASU 2014-10 for the reporting period ended June 30, 2014.

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our principal executive officer and principal financial officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 LLC) and the Company that was entered into in July 2010 in connection with his resignation from the Company as President and a director. 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.

On December 11, 2012, Mr. Kelly filed a complaint in the United States District Court, Western Division of Washington seeking compensatory damages, interest and attorneys' fees related to the termination of Mr. Kelly's consulting contract and the rescission of shares issued to him in July 2010 in connection with his resignation from the Company as President and a director. The specific amount of damages sought is to be proven at trial and is not specified. On July 8, 2013 the court granted the Company's motion to compel arbitration of these claims and therefore this action was stayed pending resolution of the arbitration of the claims; however, Mr. Kelly has not initiated arbitration of those claims.

On February 26, 2013, Mr. Victor Cononi filed a complaint in the United States District Court, Western Division of Washington seeking compensatory damages, interest and attorneys' fees related to the rescission of shares issued to him in July 2010 in connection with Mr. Kelly's resignation from the Company as President and a director. The specific amount of damages sought is to be proven at trial and is not specified. In August 2013, the court granted the Company's motion to compel arbitration of these claims and therefore this action was stayed pending resolution of the arbitration of the claims; however, Mr. Cononi has not initiated arbitration of those claims.

A hearing in the arbitration has been postponed pending certain procedures in the above Western Division action and may be delayed further to accommodate other third party civil and federal criminal proceedings alleging securities and wire fraud that have been brought against Mr. Kelly with respect to his prior employment and predating his service with the Company. On March 11, 2014 a press release was issued by the FBI stating that Mr. Kelly had pled guilty in Manhattan federal court to securities and wire fraud charges related to his employment as CEO of Wwebnet. Mr. Kelly also agreed to forfeit $2,111,600 and, separately, pay $2,111,600 in restitution. The sentencing hearing is scheduled for September 18, 2014.

The Company is reasonably confident in its defenses to Mr. Kelly's and Mr. Cononi's claims. Consequently, no provision or liability has been recorded for these claims as of June 30, 2014. However, it is at least reasonably possible that the Company's estimate of 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.

On October 10, 2013, a putative securities class action complaint, captioned Cook v. Atossa Genetics, Inc., et al., No. 2:13-cv-01836-RSM, was filed in the United States District Court for the Western District of Washington against us, certain of our directors and officers and the underwriters of our November 2012 initial public offering. The complaint alleges that all defendants violated Sections 11 and 12(a)(2), and that we and certain of our directors and officers violated Section 15, of the Securities Act by making material false and misleading statements and omissions in the offering's registration statement, and that we and certain of our directors and officers violated Sections 10(b) and 20A of the Exchange Act and SEC Rule 10b-5 promulgated thereunder by making false and misleading statements and omissions in the registration statement and in certain of our subsequent press releases and SEC filings with respect to our NAF specimen collection process, our ForeCYTE Breast Health Test and our MASCT device. This action seeks, on behalf of persons who purchased our common stock between November 8, 2012 and October 4, 2013, inclusive, damages of an unspecific amount.

On February 14, 2014, the Court appointed plaintiffs Miko Levi, Bandar Almosa and Gregory Harrison (collectively, the "Levi Group") as lead plaintiffs, and approved their selection of co-lead counsel and liaison counsel. The Court also amended the caption of the case to read In re Atossa Genetics, Inc. Securities Litigation. No. 2:13-cv-01836-RSM. An amended complaint was filed on April 15, 2014. The Company and other defendants filed motions to dismiss the amended complaint on May 30, 2014. The plaintiffs filed briefs in opposition to these motions on July 11, 2014. The Company replied to the opposition briefs on August 11, 2014.

We believe this complaint is without merit and plan to defend ourselves vigorously. Failure by us to obtain a favorable resolution of the claims set forth in the complaint could have a material adverse effect on our business, results of operations and financial condition. Currently, the amount of such material adverse effect cannot be reasonably estimated, and no provision or liability has been recorded for these claims as of June 30, 2014. The costs associated with defending and resolving the complaint and ultimate outcome cannot be predicted. These matters are subject to inherent uncertainties and the actual cost, as well as the distraction from the conduct of our business, will depend upon many unknown factors and management's view of these may change in the future.

ITEM 1A. RISK FACTORS

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 report, 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. Additional risks of which we are not presently aware or that we currently believe are immaterial may also harm our business and results of operations.

There has been no material changes to the risk factors described in the Company's Annual Report on Form 10-K, as filed with the SEC on March 27, 2014, and which are incorporated into this report by this reference, except for the following items which have been updated.

Anticipated liquidity issues beginning in 2015.

For the six months ended June 30, 2014, we generated no revenue and we incurred a net loss of $5,599,507. We expect that our existing resources will be sufficient to fund our planned operations through 2014. 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 may not receive FDA clearance to relaunch ForeCYTE Breast Aspirator and other sources of capital may not be available when we need them or on acceptable terms. For example, we may not be able to raise capital by selling Common Stock to Aspire because the Aspire registration statement may not remain effective. If we are unable to raise in a timely fashion the amount of capital we anticipate needing, from Aspire or otherwise, we would be forced to curtail or cease operations.

Potential Changes in FDA policies regarding FDA regulation of laboratory developed tests or "home brew" tests could adversely affect our business and results of operations.

The FDA has asserted that laboratory diagnostic tests developed and validated by a laboratory for its own use, also known as LDTs or "home brew" tests, are subject to regulation under the Federal Food, Drug and Cosmetic Act, or FDCA. 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 has not historically asserted authority with respect to most LDTs performed by high complexity laboratories certified under CLIA, which is the type of laboratory that we have established. However, on July 31, 2014, the FDA announced plans to formally regulate most LDTs. The announcement came in the form of letters to Congress attaching the preliminary drafts of guidance documents describing the FDA's proposed framework for regulatory oversight of LDTs. The documents were provided to Congress in order to satisfy Section 1143 of the Food and Drug Administration Safety and Innovation Act, which required the FDA to notify Congress at least 60 days prior to issuance of draft or final guidances on the regulation of LDTs. The FDA is expected to wait at least 60 days before issuing the regulatory framework in official draft form for public comment. The FDA expects to have a 90-day comment period for interested stakeholders prior to implementation of the proposed regulatory plan.

The documents were provided to Congress in order to satisfy Section 1143 of the Food and Drug Administration Safety and Innovation Act, which required the FDA to notify Congress at least 60 days prior to issuance of draft or final guidances on the regulation of LDTs. The FDA is expected to wait at least 60 days before issuing the regulatory framework in official draft form for public comment. The FDA expects to have a 90-day comment period for interested stakeholders prior to implementation of the proposed regulatory plan. Although we have not studied the potential impact of the proposed new regulations, we believe that if they become effective, the new FDA guidelines may require premarket notification or approval for LDTs that we are currently developing, potentially including our NAF test, as well as tests that we may develop and perform in the future. Additionally, the FDA has indicated to us that the manner in which our laboratory previously processed NAF samples combined with the manner in which they were marketed prior to our October 2013 recall constitutes an in-vitro diagnostic test service that is subject to their regulatory authority and we may therefore be required to obtain a 510(k) clearance covering our laboratory processing. The FDA may also choose to exercise regulatory authority over our laboratory because it is wholly-owned by us and as a medical device manufacturer we are subject to FDA regulation.

Any additional 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

10.1	Office Space Assignment and Assumption of Lease and Consent to Assignment dated August 8, 2014 between Legacy Group, Inc. and the Company.
31.1	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of Steven C. Quay
31.2	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of Kyle Guse
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Steven C. Quay
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Kyle Guse
101*	Interactive Data Files pursuant to Rule 405 of Regulation S-T

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 12, 2014

/s/ Steven C. Quay

President and Chief Executive Officer
(On behalf of the Registrant)

/s/ Kyle Guse

Kyle Guse
Chief Financial Officer, General Counsel and Secretary
(As Principal Financial and Accounting Officer)

Exhibit 10.1

ASSIGNMENT AND ASSUMPTION OF LEASE
AND CONSENT TO ASSIGNMENT

This Assignment and Assumption of Lease and Consent to Assignment (this "Agreement") is executed as of August 8, 2014, among 2345 Eastlake LLC ("Landlord"), Legacy Group, Inc. ("Assignor") and Atossa Genetics Inc., a Delaware corporation ("Assignee").

RECITALS:

A. Landlord and Assignor are parties to that certain Office Lease Agreement dated July 1, 2012 (as the same has been or may hereafter be amended, the "Lease") pursuant to which Assignor leases certain space in the 2345 Eastlake Avenue East Building, commonly known as Site 201. Capitalized terms used herein but not defined shall be given the meanings assigned to them in the Lease.

B. Assignor desires to assign the Lease to Assignee, and Assignee desires to assume all of Assignor's obligations under the Lease and Landlord will consent to the assignment on the terms and conditions set forth herein.

AGREEMENTS:

For good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, the parties hereto agree as follows:

1. Assignment and Assumption. Effective as of December 1, 2014 (the "Effective Date"), Assignor hereby grants, conveys and assigns to Assignee all of Assignor's right, title and interest as tenant under the Lease so that from and after the Effective Date Assignee shall be the "Tenant" under the Lease with all rights as the "Tenant." Assignor further unconditionally assigns to Assignee all of Assignor's right to any refund of the existing security deposit under the Lease. Assignee hereby accepts the foregoing assignment and agrees to assume, pay, perform and discharge, as and when due, all of the agreements and obligations of Assignor under the Lease. Assignee represents and warrants that it is in full compliance with the Lease and that there are no breaches of any representations, warranties or covenants under the Lease and that the Lease is in full force and effect and has not been modified, assigned or amended in any way.

2. Consent. Subject to all of the terms and conditions of this Agreement, Landlord hereby consents to the assignment and assumption of the Lease, provided that Landlord's consent shall not be construed as a waiver of any of the terms of the Lease nor as an agreement to amend or modify the Lease in any manner. Assignor and Assignee each acknowledge that Assignor has assigned to Assignee all of Assignor's rights under the Lease including the right to any prepaid rent or security. Assignee and Assignor acknowledge and agree that each of them have the full power and authority to enter into the Agreement, that no consents from or notices to any third-parties are necessary and that the terms and conditions of this Agreement are reasonable and agree that they, and their respective successors and assigns, shall be bound by the terms of this Agreement.

3. Further Assignment or Subletting. Landlord's consent under this Agreement shall apply only to this assignment and shall not be deemed to be a consent to any other assignment or sublease nor shall this Agreement constitute a waiver of any restriction in the Lease concerning further subletting or assignment.

4. Assumption of Liabilities. Assignor and Assignee shall be jointly and severally liable to Landlord for all of the obligations of the "Tenant" under the Lease; whether arising before or after the Effective Date and Landlord may enforce the same directly against either Assignor or Assignee. Landlord's consent under this Agreement is issued on the condition that nothing contained in this Agreement modifies, expands or enlarges Landlord's obligations under the Lease and Assignor is not released from any obligations under the Lease. Assignor shall remain primarily liable for all of the tenant's obligations under the Lease during the Initial Term of the Lease. Assignor's consent shall not be required for any amendments or modifications to the Lease. Notwithstanding anything to the contrary set forth herein, Assignor shall be released from liability under the Lease upon expiration of the Initial Term.

5. Conditions. Assignor and Assignee agree to reimburse Landlord on demand for the full amount of Landlord's attorneys' fees incurred in connection with this Agreement up to an amount not to exceed $2,000. Assignee shall provide Landlord with copies of certificate(s) of insurance satisfying all the requirements of the Lease.

6. Miscellaneous. This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed to be an original, but all of which, when taken together, shall constitute one agreement. In any suit, action or appeal therefrom, to enforce or interpret this Agreement or any term of provision hereof, the prevailing party shall be entitled to recover its costs incurred therein, including reasonable attorney's fees. This Agreement shall be governed by the laws of the State of Washington and any action with respect to this Agreement shall be brought in King County, Washington. This Agreement contains all of the agreements, understandings, representations and warranties of the parties with respect to the subject matter hereof and may not be amended or modified except by an instrument in writing signed by all the parties hereto.

EXECUTED as of the date first written above.

SIGNATURE PAGES TO FOLLOW

ASSIGNOR:

Legacy Group, Inc., a Washington corporation

By: /s/ Scott Rerucha
Name: Scott Rerucha
Title: CEO

ASSIGNEE:

Atossa Genetics, a Delaware corporation

By: /s/ Steven C. Quay
Name: Steven C. Quay
Title: CEO and President

LANDLORD: **2345 Eastlake LLC,** a Washington limited liability company

By: _____
Name: _____
Title: _____

2345 EASTLAKE LLC

LANDLORD

and

THE LEGACY GROUP, INC.,

TENANT

OFFICE LEASE AGREEMENT

OFFICE LEASE AGREEMENT

THIS OFFICE LEASE AGREEMENT (this "Lease") is dated as of the 1st day of July, 2012 and is entered into by and between 2345 EASTLAKE LLC, a Washington limited liability company ("Landlord"), and THE LEGACY GROUP, INC., a Washington Corporation ("Tenant").

Landlord and Tenant agree as follows:

1. Defined Terms; Lease Data; Exhibits.

1.1 Building and Premises. The "Building" means that certain office building known as the 2345 Eastlake Building with an address of 2345 Eastlake Avenue East, Seattle, Washington, situated on the real property (the "Property") more particularly described in Exhibit A attached hereto. The Building contains approximately Thirty-two Thousand Three Hundred Seventy-nine (32,379) rentable square feet. The "Premises" means that space consisting of Five Thousand Seven Hundred Twenty-four (5,724) rentable square feet on the second floor of the Building and known as Suite 201, as outlined on the floor plan attached hereto as Exhibit B. The rentable area of the Premises and Building has been determined in accordance with the "Standard Methods for Measuring Floor Area of Office Buildings" approved in 1996 by the American Standards Institute, Inc., and the Building Owners and Managers Association International (hereinafter "BOMA Standards").

1.2 Master Lease. "Master Lease" means that certain Ground Lease by and between Landlord, as tenant, and Hughes-Northwest, Inc. ("Master Landlord") dated March 1, 2001 pursuant to which Landlord leases the Property. The terms of the Master Lease are herein incorporated by reference, and this Lease is subject to all terms and conditions of the Master Lease as if set forth herein. In the event of a conflict between the Master Lease and the Lease, the terms of the Master Lease shall control. During the term of this Lease and for all periods subsequent for obligations which have arisen prior to the termination of this Lease, Tenant does hereby expressly assume and agree to perform and comply with for the benefit of Landlord and Master Landlord each and every obligation of Landlord as tenant under the Master Lease with respect to the Premises, except as modified in this Lease. Landlord represents and warrants that the terms and provisions of this Lease do not conflict with the Master Lease, that Landlord has the authority to enter into this Lease and that there are no rights of the Master Landlord to terminate this Lease early or relocate Tenant from the Premises.

1.3 Tenant's Pro Rata Share. "Tenant's Pro Rata Share" means seventeen and sixty-eight one hundredths percent (17.68%), calculated by dividing the total rentable square feet of the Premises by the total rentable square feet of the Building.

1.4 Term, Commencement Date. The term of this Lease shall be five (5) years (the "Initial Term"), unless earlier terminated or extended as provided herein. The Initial Term shall commence on the later of: (a) July 1, 2012, or (b) substantial completion of Tenant Improvements (the "Commencement Date"); and shall terminate at midnight on the fifth anniversary of the Commencement Date (the "Expiration Date"). Substantial Completion of Tenant Improvements shall not be contingent upon conference room door completion. Tenant shall have right to Early Occupancy per the terms described in Section 5 of this Lease.

Provided Tenant is not in default hereunder at the time of exercise of such option or at commencement of the Extension Term, Tenant shall have the option to extend the Initial Term for a period of five (5) years (the "Extension Term"). Tenant shall give Landlord written notice of its intent to exercise such option at least nine (9) months prior to the end of the Initial Term. Basic Rent for the Extension Term shall be determined as set forth in Section 3.3. As used herein, "Term" shall mean the Initial Term and any Extension Term. Notwithstanding anything herein to the contrary, in no event shall the Term of this Lease extend beyond the term of the Master Lease, and Landlord shall have no liability to Tenant for any termination or expiration of this Lease as a result of the termination or expiration of the Master Lease. Landlord confirms that the Master Lease currently terminates on February 28, 2021; Landlord shall provide Tenant with written notice of any extension or renewal of the Master Lease.

1.5 Rent. Tenant shall pay to Landlord basic rent of Thirty-three Dollars ($33.00) per rentable square foot per year, adjusted as provided in Section 3.2 ("Basic Rent"). Tenant also shall pay as additional rent all expenses incurred by or chargeable to Tenant under this Lease as set forth in Section 7 ("Additional Rent") (Basic Rent and Additional Rent are referred to herein as "Rent"). Tenant shall pay no Rent for months one through four (1-4) of the first lease year, which shall commencement on the Commencement Date. Tenant shall have an additional credit in the amount of Eight Thousand Nine Hundred Forty-Seven Dollars ($8,947.00) which shall be applied to Basic Rent for month five (5). Tenant has deposited with Landlord on the date hereof Six Thousand Seven Hundred Ninety-four Dollars ($6,794.00) to be applied to the balance of month five (5) of Basic Rent first coming due under this Lease.

1.6 Security Deposit. Tenant has deposited with Landlord on the date hereof Seventeen Thousand Six Hundred Forty-nine Dollars ($17,649.00) as a security deposit (the "Security Deposit") to be held and disbursed by Landlord in accordance with Section 31.

1.7 Exhibits. Landlord and Tenant agree that this Lease is further subject to the provisions of the attached exhibits, which are listed below. The provisions of the exhibits are incorporated herein by this reference and made a part of this Lease.

Exhibit A	Legal Description
Exhibit B	Floor Plan

2. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord upon the terms and conditions set forth herein the Premises, together with nonexclusive rights of ingress and egress over common areas in the Building. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or the Building, or with respect to the suitability or fitness of either for the conduct of Tenant's business or for any other purpose. The taking of possession or use of the Premises by Tenant for any purpose shall conclusively establish that the Premises and the Building were at such time in satisfactory condition.

3. Rent.

3.1 Tenant Payment. Basic Rent for each year shall be payable in twelve (12) equal consecutive monthly installments. Tenant shall pay Landlord without notice Basic Rent, Additional Rent, and any other payments due hereunder (collectively, "Rent"), from and after the Commencement Date, without deduction or offset, in lawful money of the United States of America in advance on or before the first day of each month (or at other dates specified in this Lease) during the Term at Landlord's address set forth on the signature page of this Lease, or to such other party or at such other place as Landlord may hereafter from time to time designate to Tenant in writing. Rent for any partial month at the beginning or end of the Term shall be prorated.

3.2 Basic Rent Adjustment Schedule. Basic Rent shall be adjusted annually on the anniversary of the Commencement Date as follows:

Lease Year	Basic Rent per square foot per Year	Monthly Installment	Annual Installment
1 Months 1 - 4	Free	$ 00.00	$ 00.00
1 Month 5	33.00	6,794.00	6,794.00
1 Months 6-12	33.00	15,741.00	110,187.00
2	34.00	16,218.00	194,616.00
3	35.00	16,695.00	200,340.00
4	36.00	17,172.00	206,064.00
5	37.00	17,649.00	211,788.00

3.3 Extension Term Rent. On the first day of the Extension Term, Basic Rent shall be adjusted to an amount equal to the Fair Market Rent for the Premises (the "Extension Term Adjustment"). As used herein, "Fair Market Rent" shall mean the greater of (a) the Basic Rent during the final year of the Initial Term or the first Extension Term, as applicable, or (b) rent obtained for comparable space in comparable buildings and facilities in the City of Seattle as of the date such determination is made, and comparable space shall mean similar sized space as the Premises, with similar tenant improvements installed (including mechanical and electrical, improvements and systems, but excluding Tenant's trade fixtures) and with suitable adjustments for (i) length of lease terms, (ii) credit quality of tenants, and (iii) other relevant factors affecting comparability of various rental rates. If Landlord and Tenant are unable to agree upon the Fair Market Rent for the Premises within thirty (30) days following delivery of Tenant's notice of exercise of its option for the Extension Term, then each party shall select its own Appraiser (as defined below) and each Appraiser shall prepare and deliver to Landlord and Tenant within thirty (30) days thereafter such Appraiser's written opinion of the Fair Market Rent as defined herein. If the two Appraisers' opinions of Fair Market Rent differ by five percent (5%) or less, then they shall be added together, divided by two, and the product thereof shall be the Fair Market Rent for the purposes of this Section 3.3. If the two Appraisers' opinions of Fair Market Rent differ by more than five percent (5%), then within fifteen (15) days after the delivery of the last of the Appraisers' decisions, the two Appraisers shall mutually select a third Appraiser who shall determine the Fair Market Rent as defined herein. Within thirty (30) days after the appointment of the third Appraiser, the third Appraiser shall make its determination of Fair Market Rent in a written report delivered to Landlord and Tenant and such determination shall be final and binding on the parties. If either Landlord or Tenant shall fail to timely select its initial Appraiser, then Fair Market Rent shall be determined by the Appraiser timely selected by the other party. If the two (2) Appraisers selected by Landlord and Tenant should fail to timely select the third Appraiser, if required, either Landlord or Tenant shall have the right to petition for the appointment of such Appraiser by the Presiding Judge of the Superior Court of King County. Each party shall pay all expenses of its own Appraiser and the cost of the third Appraiser shall be split equally between Landlord and Tenant. As used herein, the term "Appraiser" shall mean an appraiser who is a designated member of the Appraisal Institute (or its successor), with at least ten (10) years experience in appraising commercial office properties in the Puget Sound region

4. Parking. Unless Tenant is in default hereunder, for the initial term Tenant shall be entitled to parking stickers and/or cards equal to eleven (11) parking spaces (the "Parking Passes"). Each Parking Pass shall entitle the vehicle on which the Parking Pass is presented to park in the parking garage located beneath the Building (the "Garage") during Normal Office Hours in a non-preferential and non-exclusive basis Tenant shall pay a monthly fee per Parking Pass in the amount of One Hundred Thirty-five Dollars ($135.00), plus any tax or assessment imposed by any governmental authority in connection with such parking privileges (the "Parking Fee") The Parking Fee shall be adjusted annually on the anniversary of the Commencement Date to the prevailing market rate for such parking, as determined by Landlord. Landlord shall provide thirty (30) days' written notice of the adjusted Parking Fee. The amount Tenant pays for each Parking Pass is not intended to cover the costs of repairing, maintaining and operating the Garage, which costs shall be included in Operating Expenses (as defined in Article 7). Landlord shall have exclusive control over the day-to-day operations of the Garage. Landlord may make, modify and enforce reasonable rules and regulations relating to the parking of vehicles in the Garage, and Tenant shall abide by such rules and regulations and shall cause its employees and invitees to abide by such rules and regulations. In lieu of providing parking stickers or cards. Landlord may use any reasonable alternative means of identifying and controlling vehicles authorized to be parked in the Garage. Landlord may designate the Garage for long term or employee parking only and Landlord may change such designations from time to time. Landlord may direct Tenant's invitees and customers to other parking structures or lots within a reasonable distance from the Premises with space available on a first-come, first served non-exclusive basis in common with the general public. Landlord reserves the right to alter the size of the Garage and the configuration of parking spaces and driveways therein. Landlord may assign any unreserved and unassigned parking spaces and/or make all or a portion of such spaces reserved or institute any other measures, including but not limited to valet, assisted or tandem parking, that Landlord determines are necessary or desirable for tenant requirements or orderly and efficient parking. With the exception of the eleven (11) designated parking spaces referenced in this Section 4, Landlord at any time may substitute for Tenant's Parking Passes an equivalent number of parking passes or spaces in a parking structure or subterranean parking facility or within a surface parking area located a reasonable distance from the Premises.

Pending availability, Landlord shall provide additional Parking Passes in the Garage on a month-to-month basis, subject to the same terms and conditions as Tenants allotted Parking Passes. In the event Landlord is unable to provide Parking Passes in the Garage, Landlord shall provide an equivalent number of parking passes or spaces in a parking structure within the 2300 block of Eastlake at the then current rates.

5. Construction of Tenant Improvements. Landlord, at Landlord's sole costs and expense, shall provide Tenant Improvements based on the Build out Specification letter submitted by Rerucha Studio and dated May 7, 2012 with the exception of the carpet selection which shall be modified to J+J Invision, Problem Solved (6572), 1201 super glue. Tenant's Improvements shall be constructed and installed in a good and workmanlike manner and all materials used shall be of a quality comparable to those in the Building. Any additional Tenant Improvements beyond the scope of specifications noted in the May 7, 2012 letter and the modification noted in this Section 5 shall be at the sole cost and expense of the Tenant. All Tenant Improvements shall be and remain the property of Landlord upon termination of this Lease; except as set forth in Section 13.

To the extent that there are any additional Tenant's Improvements to be completed by Tenant, such Tenant's Improvements shall be constructed and installed in a good and workmanlike manner and all materials used shall be of a quality comparable to those in the Building. Tenant shall maintain a safe working environment, including the continuation of all fire and security protection devices, if any, previously installed in the Premises by Landlord. All damages or injury done to the Premises or the Building by Tenant or by any persons who may be in or upon the Premises or the Building with the express or implied consent of Tenant, including but not limited to the cracking or breaking of any glass of windows and doors, shall be paid for by Tenant and Tenant shall pay for all damage to the Building caused by acts or omissions of Tenant or Tenant's officers, contractors, subcontractors, agents, invitees, licensees, employees, successors or assigns. Landlord's consent to or oversight of any work by Tenant, shall not be deemed a warranty as to the adequacy of the design, workmanship or quality of materials, and Landlord hereby expressly disclaims any responsibility or liability for the same, except with respect to Landlord's intentional misconduct. Landlord shall under no circumstances have any obligation to repair, maintain or replace any portion of any Tenant Improvements.

Tenant has previously submitted the Plans and Specifications for Tenant Improvements (the "Plans") to Landlord which are approved by Landlord. Tenant will promptly notify Landlord of any changes to the Final Plans that are required by the City of Seattle, in connection with any required permit approval, the costs of any such change shall be the sole responsibility of Tenant. Landlord will approve or reasonably disapprove the required changes in writing within five days after receiving notice of the same. If Landlord reasonably disapproves the changes required by the City of Seattle, Landlord and Tenant will cooperate to develop changes to the Final Plans that are approved by both Landlord and the City of Seattle.

Tenant shall have right to access the Premises two (2) weeks prior to the Commencement Date in order to install Tenant's furniture, fixtures and equipment subject to the substantial completion of Tenant Improvements and must comply with and observe all terms and conditions of this Lease and any site rules imposed by Landlord's contractor.

6. Uses.

6.1 General Use. The Premises shall be used only for a general administrative office use ("Permitted Use") and for no other business or other purpose without the prior written consent of Landlord, which will not be unreasonably withheld, conditioned or delayed. No act shall be done in or about the Premises that is unlawful nor shall Tenant do any act or install or operate any equipment in the Premises that will increase the then existing rate of insurance on the Building unless Tenant shall pay any increased cost of insurance as a component of Rent. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing in or about the Premises that disturbs the quiet enjoyment of any other tenant in the Building. Tenant shall not, without the prior written consent of Landlord, which may be withheld in its sole discretion, use, operate or maintain any apparatus, machinery, equipment or device in or about the Premises that will cause any significant noise, vibration or fumes or disturb the quiet enjoyment of any other tenant in the Building. If any of Tenant's office machines or equipment should disturb the quiet enjoyment of any other tenants in the Building, then Tenant shall cease operating such equipment until it has provided adequate insulation or taken such other action as Landlord shall require to eliminate the disturbance. Tenant shall comply with all laws and regulations relating to its use or occupancy of the Premises, or to its Tenant Improvements or any alteration or improvement constructed by Tenant or at Tenant's request in the Premises, or to the common areas of the Building and shall observe such reasonable rules and regulations concerning Tenant's use or occupancy of the Premises or related to the common areas of the Building as may be adopted by Landlord from time to time and made available to Tenant.

6.2 Hazardous Materials. Tenant shall not use, dispose of or otherwise allow the release of any Hazardous Materials in, on or under the Premises, the Building, the Property, or any adjacent property, or in any improvements thereto, thereon or therein, except that the use of Hazardous Materials associated with ordinary and general office supplies, such as copier toner, liquid paper, glue, ink and common household cleaning materials are permitted if used in accordance with applicable law. As used herein, the term "Hazardous Materials" includes any substance, waste or material defined or designated as hazardous, toxic or dangerous (or any similar term) by any federal, state or local statute, regulation, rule or ordinance now or hereafter in effect. Tenant shall promptly comply with all statutes, regulations and ordinances, and with all orders, decrees or judgments of governmental authorities or courts having jurisdiction, relating to Tenant's, its agents', employees', or contractors' use, collection, treatment, disposal, storage, control, removal or cleanup of Hazardous Materials in, on or under the Premises, the Building, the Property or any adjacent property, or incorporated in any improvements thereto, thereon or therein, at Tenant's expense.

After notice to Tenant and a reasonable opportunity for Tenant to effect such compliance, Landlord may, but shall not be obligated to, enter upon the Premises and take such actions and incur such costs and expenses to effect such compliance as it deems advisable to protect its interest in the Premises. However, Landlord shall not be obligated to give Tenant notice and an opportunity to effect compliance if (i) such delay might result in material adverse harm to Landlord, the Premises, the Building or the Property; (ii) Tenant has already had actual knowledge of the situation and a reasonable opportunity to effect compliance, or (iii) Landlord reasonably believes that an emergency exists. Whether or not Tenant has actual knowledge of the release of Hazardous Materials on the Premises, the Building, the Property or any adjacent property as the result of Tenant's use of the Premises, the Building or the Property, Tenant shall reimburse Landlord for the reasonable amount of all costs and expenses incurred by Landlord relating to such Hazardous Materials or in connection with such compliance activities. Tenant shall notify Landlord immediately of any release of any Hazardous Materials on the Premises of which Tenant is aware.

Tenant agrees to indemnify and hold harmless Landlord against any and all losses, liabilities, suits, obligations, fines, damages, judgments, penalties, claims, charges, cleanup costs, remedial actions, costs and expenses (including, without limitation, attorneys' and other professional fees and disbursements) that may be imposed on, incurred or paid by, or asserted against Landlord, the Premises, the Building, or the Property by reason of, or in connection with (i) any misrepresentation, breach of warranty or other default by Tenant under this Section 6.2; (ii) the acts or omissions of Tenant, its officers, contractors, subcontractors, licensees, agents, servants, employees, guests, invitees or visitors, or any assignee or sublessee or other person for whom Tenant would otherwise be liable, resulting in the release of any Hazardous Materials; or (iii) the use, disposal or storage of any Hazardous Materials on the Premises, Property or Building by Tenant, its agents, employees, or contractors. All of Tenant's obligations and liabilities under this Section 6.2 shall survive expiration or other termination of this Lease and shall be separately enforceable by Landlord.

7. Additional Rent.

7.1 Tenant Payment.

In addition to Basic Rent, Tenant shall pay to Landlord as "Additional Rent", from and after the Commencement Date in the manner described below, an amount equal to Tenant's Pro Rata Share any increase in Real Property Taxes over the tax base figure included in Basic Rent for the Base Year, as provided in Section 7.2.2 and Section 7.2.5.

7.2 Definitions.

7.2.1 INTENTIONALLY DELETED

7.2.2 "Real Property Taxes" shall mean real and personal property taxes, assessments (including local improvement or special benefit districts), and all other governmental impositions and charges of every kind and nature, including surcharges, now or hereafter imposed with respect to the Property and the Building, or any portion thereof, including, without limitation, all tenant improvements, and all improvements, fixtures, and equipment to, on or in the Building, and/or the use, occupancy or possession thereof; taxes on Property of Tenant (as defined in Section 8), which have not been paid by Tenant directly to the taxing authority; and any taxes levied or assessed in addition to, in lieu of, or as a substitute for, in whole or part, taxes now levied or assessed or any other tax upon owning, leasing or rents receivable by Landlord from the Building, but excluding any federal, state or local income tax or inheritance, gift, succession or franchise taxes imposed on Landlord.

7.2.3 "Lease Year" shall mean each 12-month period commencing January 1 and ending December 31, or any portion thereof, during the Term.

7.2.4 INTENTIONALLY DELETED "

7.2.5 "Base Year" shall mean the calendar year 2013.

7.3 Manner of Payment. Tenant's payment of Additional Rent shall be made as follows:

7.3.1 Prior to or within a reasonable time after the commencement of each Lease Year (but in no event later than one hundred twenty (120) days after commencement), Landlord shall furnish Tenant a written statement of the Estimated Payment for such Lease Year and a calculation of Tenant's monthly Additional Rent which shall be one-twelfth (1/12) of the amount of Estimated Payment. Additional Rent shall be payable by Tenant for each month during such Lease Year at the same time and in the same manner as Basic Rent. If at any time or times during such Lease Year it reasonably appears to Landlord that Tenant's Pro Rata Share of Operating Expenses and Real Property Taxes shall vary from the Estimated Payment, then Landlord by written notice to Tenant may revise the Estimated Payment for such Lease Year and Additional Rent payments by Tenant for such Lease Year shall thereafter be equal to one-twelfth (1/12) of the amount of such revised Estimated Payment.

7.3.2 Within one hundred twenty (120) days after the end of each Lease Year, Landlord shall provide a statement (the "Statement") to Tenant showing: (a) the amount of Tenant's Pro Rata Share of and the Real Property Taxes for the prior Lease Year, with a listing of amounts for Real Property Taxes; (b) any amount paid by Tenant as Additional Rent during such prior Lease Year; and (c) any revision to the Estimated Payment for the current Lease Year.

7.3.3 If the Statement shows Tenant's payments were less than Tenant's Pro Rata Share the Real Property Taxes for the prior Lease Year, then Tenant shall promptly pay to Landlord the difference. If the Statement shows an increase in the Estimated Payment for the current Lease Year, then Tenant's Additional Rent payments for the balance of the Lease Year shall be equal to one-twelfth (1/12) of the amount of such increased Estimated Payment, and Tenant shall pay the difference between the new and former estimates for the period from January 1 of the current Lease Year through the month in which the Statement is sent. Tenant shall pay any such difference within thirty (30) days after Landlord sends the Statement.

7.3.4 If the Statement shows that Tenant's payments exceeded the amount of Tenant's Pro Rata Share of Operating Expenses and Real Property Taxes, then Tenant shall receive a credit in the amount of the difference against payments of Additional Rent next due. If the Lease Term shall have expired and no further Rent shall be due, Tenant shall receive a refund in the amount of such difference within thirty (30) days after Landlord sends the Statement.

7.3.5 So long as Tenant's obligations hereunder are not materially adversely affected thereby, Landlord reserves the right to reasonably change, from time to time, the manner or timing of the foregoing payments. No delay by Landlord in providing the Statement (or separate statements) shall be deemed a default by Landlord or a waiver of Landlord's right to require payment of Tenant's obligations for actual or estimated Operating Expenses and Real Property Taxes.

7.4 Proration. If the Term commences or terminates on a date other than the first or last day of a month then Additional Rent for such first or final month shall be prorated to reflect the portion of such month(s) included in the Term. Such proration shall be made by multiplying Tenant's Pro Rata Share for such calendar month(s) by a fraction the numerator of which is the number of days of the Term during such calendar month and the denominator of which is the number of days in such calendar month.

7.5 Landlord's Records. The determination of Additional Rent shall be made by Landlord. All billings by Landlord to Tenant for Additional Rent shall be accompanied by reasonable back-up documentation or invoices evidencing expenditures made by Landlord.

8. Personal Property Taxes. Tenant shall pay, prior to delinquency, all Personal Property Taxes (as defined below) payable with respect to all Property of Tenant (as defined below) located on the Premises or in the Building and promptly upon request of Landlord shall provide written proof of such payment. As used herein, "Property of Tenant" shall mean and include, without limitation, all personal property of Tenant including inventory, equipment, floor, ceiling and wall coverings, furniture and trade fixtures kept or used on or installed in the Premises and any Tenant Improvements and other improvements to the Premises that are owned by and separately assessed to Tenant. "Personal Property Taxes" shall include all property taxes assessed against the Property of Tenant, whether assessed as real or personal property.

9. Taxes on Rent. The Rent provided for in this Lease is exclusive of any sales or other tax or charge upon, based upon or measured by rents payable to Landlord hereunder, or any tax or other charge based upon or measured by the number of employees of Tenant, or any other tax that is not currently in effect. If during the Term any such tax or other charge becomes payable by Landlord to any governmental authority, the Rent hereunder shall be deemed increased by such amount upon thirty (30) days' written notice by Landlord to Tenant. The foregoing does not apply to federal, state or local income, gross receipts, inheritance, gift, succession or franchise taxes payable by Landlord.

10. Services by Landlord. Elevator service, Building and parking garage access through the security system, electricity, the cooling, heating and ventilation system (HVAC), water and sewer shall be available at all times, subject to an after hours charge as set forth below. The Building shall be open to the general public during Normal Business Hours. "Normal Business Hours" shall be from 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding legal holidays. Electricity and HVAC shall be available to the Premises outside of Normal Business Hours at a rate of thirty dollars ($30.00) per hour ("After Hours Charge"). The After Hours Charge shall be paid by Tenant with the installment of Basic Rent next coming due following Tenant's use of such after hours services. Landlord also shall provide daily *(i.e.*, five days per week) janitorial service, lamp replacement for Landlord-furnished lighting, toilet room supplies and perimeter window washing, all with reasonable frequency. Landlord shall provide security cards, keys or other appropriate access devices that will allow Tenant access to the Premises at all times. The number of cards and/or keys issued shall be proportionate to the total number of square feet in the Premises, up to a maximum of one (1) per two hundred (200) rental square feet. Additional, duplicate or replacement cards and/or keys shall be the sole expense of Tenant and must be ordered from Landlord. Unless charged to individual tenants (including Tenant) as hereinafter provided, the costs of such Landlord services described in this Section 10 shall be included as Operating Expenses and shall be paid as Additional Rent pursuant to Section 7. Landlord shall not be liable for any loss or damage caused by or resulting from any variation, interruption or failure of such services due to any cause whatsoever, and no temporary interruption or failure of such services incident to the making of repairs, alterations or improvements or due to accident or strike conditions shall be deemed an eviction of Tenant or relieve Tenant from any of Tenant's obligations hereunder.

If Tenant requires electrical, mechanical, cooling, heating, ventilation, or other requirements beyond the usage by a typical tenant, in Landlord's reasonable judgment, then the cost of furnishing, installing, operating and maintaining the equipment and appurtenances (including separate meters if requested by Landlord to satisfy these requirements) shall be borne by Tenant, with Tenant cither paying directly to the utility if separately metered or paying to Landlord, as Rent, the reasonable cost of providing such additional services, as determined by Landlord.

The Building standard mechanical system is designed to accommodate heating loads generated by lights and equipment using up to 3.5 watts per square foot which costs are incorporated into the Basic Rent. Before installing lights or equipment in the Premises, which in the aggregate exceed such amount, Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant shall agree to pay Landlord's costs to install supplementary air conditioning capacity or electrical systems as necessitated by such equipment or lights or if the equipment or lights requested by Tenant will, in Landlord's reasonable judgment, overburden the Building's structure or mechanical system(s) even if supplemented at Tenant's expense.

11. Assignment and Subletting.

11.1 Transfers Requiring Consent. Tenant shall not cause or permit, directly or indirectly, voluntarily or involuntarily, any of the following events (individually and collectively, a "Transfer") (or any amendment to the instrument affecting the same) without in each case first obtaining Landlord's written consent, which consent will not be unreasonably withheld, conditioned or delayed: (1) a sale, assignment, hypothecation, mortgage, encumbrance, conveyance or other transfer of this Lease (or any interest therein); (2) a sublease of the Premises or any portion thereof; or (3) the use or occupancy of the Premises or any portion thereof by anyone other than Tenant. If Tenant is a corporation, any transfer of this Lease by merger, consolidation or liquidation, or change in the ownership of, or power to vote, its outstanding voting stock (including redemption thereof), separately or in the aggregate, majority voting control, shall constitute a Transfer. If Tenant is a partnership or limited liability company, any transfer of this Lease by merger, consolidation, liquidation or dissolution of the partnership or limited liability company, or any change in the ownership of a majority of the partnership or membership interests shall constitute a Transfer. As a condition to Landlord's approval, any potential assignee otherwise approved by Landlord shall assume and shall be jointly and severally liable with Tenant for all obligations of Tenant under this Lease and any sublessee shall assume and shall be jointly and severally liable with Tenant for all obligations of Tenant under this Lease with respect to the portion of the Premises that is subleased to such sublessee. This Lease shall not be assigned by operation of law. Notwithstanding the provisions of this Section 11.1 to the contrary, Tenant may assign this Lease or sublet the Premises or any portion thereof without Landlord's consent to any entity that controls, is controlled by or is under common control with Tenant, or to any entity resulting from a merger or consolidation with Tenant, or to any person or entity which acquires all the assets of Tenant's business as a going concern and the requirements of Section 11.2 shall not apply.

11.2 Procedures. Tenant shall request Landlord's consent to any Transfer by written notice to Landlord at least sixty (60) days prior to the proposed effective date of the Transfer. Tenant's notice shall include the following information: (a) the identity of the transferee, (b) the use of the Premises contemplated by the proposed transferee, (c) the proposed effective date of the Transfer; and shall be accompanied by (x) financial information regarding the proposed transferee and (y) a copy of the proposed transfer agreement containing the terms of the agreement between the parties. Tenant shall promptly provide Landlord with any additional information concerning the proposed transferee (including financial information and detailed information regarding the proposed use of the Premises) reasonably requested by Landlord. In addition to exercising its right to disapprove of the Transfer, Landlord may elect at any time during such sixty (60) day period, (i) in the case of a Transfer for the balance of the Term, to terminate this Lease as it relates to such space proposed to be subleased by Tenant, or (ii) in the case of a Transfer for less than the balance of the Term, to temporarily delete such space from this Lease for the period of the proposed Transfer term only, in which either event Basic Rent and Tenant's Pro Rata Share shall be adjusted as appropriate. In the event Landlord chooses not to exercise its rights under the preceding sentence and approves the Transfer under Section 11.1, then Tenant may proceed to enter into such Transfer. If Tenant transfers this Lease for more than the Rent then payable under this Lease, Tenant shall pay to Landlord the excess amount of rent or other consideration over the Rent reserved herein, as and when received by Tenant, as Rent hereunder. Landlord may charge Tenant a reasonable sum, to reimburse Landlord for legal and administrative costs incurred in connection with reviewing any proposed Transfer and Tenant shall provide Landlord with a copy of the assignment or sublease agreement. No Transfer shall relieve Tenant of any liability under this Lease. Landlord's consent to any Transfer shall not operate as a waiver of the necessity for consent to any subsequent Transfer.

11.3 Bankruptcy. If this Lease is assigned pursuant to the provisions of the Revised Bankruptcy Act, 11 U.S.C., Section 101, et seq., any and all consideration paid or payable in connection with such assignment shall be Landlord's exclusive property and paid or delivered to Landlord, and shall not constitute the property of Tenant or Tenant's estate in bankruptcy. Any person or entity to whom the Lease is assigned pursuant to the Revised Bankruptcy Act shall be deemed automatically to have assumed all of Tenant's obligations under this Lease.

12. Care of Premises. Tenant shall keep the Premises in a neat, clean and sanitary condition and shall at all times preserve them in good condition and repair, ordinary wear and tear or damage due to casualty or condemnation that are not the obligation of Tenant to repair under Section 16 excepted. If Tenant shall fail to do so, Landlord may at its option place the Premises into said condition and state of repair, and in such case Tenant on demand shall pay or reimburse Landlord for the costs thereof. Tenant shall reimburse Landlord for the cost of replacing all broken glass in the Premises (or the Common Areas if damage is the result of the negligence or intentional acts of Tenant, its agents, employees, contractors or invitees) with glass of same or similar quality.

Tenant shall comply with all laws, rules and regulations, including without limitation any laws, rules, or regulations related to handicapped accessibility requirements, applicable to the Premises as a direct or indirect result of (a) Tenant's use or occupancy of the Premises; and (b) any modifications, alterations or improvements constructed on the Premises or the Building by Tenant or at Tenant's request, whether or not such modifications, alterations or improvements are approved by Landlord. Tenant shall observe such reasonable rules and regulations concerning Tenant's use or occupancy of the Premises or related to the Common Areas as may be adopted by Landlord from time to time and made available to Tenant.

13. Surrender of Premises; Removal of Property. Subject to the terms of Section 16 relating to damage and destruction, upon expiration or termination of the Term, whether by lapse of time or otherwise (including any holdover period), Tenant at its expense shall: (1) remove Tenant's goods and effects and those of all persons claiming under Tenant, (2) repair and restore the Premises to a condition as good as received by Tenant from Landlord or as thereafter improved, reasonable wear and tear excepted, and (3) promptly and peacefully surrender the Premises (including surrender of all Tenant Improvements and/or other alterations, additions or improvements installed in the Premises by Landlord or Tenant, except Tenant's trade fixtures that do not become part of the Building and the Required Removals as hereinafter defined) (the requirements of this sentence referred to as the "Restoration Obligation"). On or before the ninetieth (90^{th}) day preceding the Expiration Date, Tenant shall notify Landlord in writing of the precise date upon which Tenant plans to surrender the premises to Landlord. On expiration of the Term, Tenant shall remove all of Tenant's moveable equipment, furniture, trade fixtures and other personal property, all telecommunications and computer networking wiring and cabling serving the Premises from the Building, unless Landlord requires such materials to be surrendered to Landlord, and any alteration or Tenant Improvement identified by Landlord at least thirty (30) days prior to the Expiration Date (or within 30 days following the early termination of this Lease) (collectively the Required Removals"). Any property of Tenant not removed from the Premises shall be deemed, at Landlord's option, to be abandoned by Tenant and Landlord may store such property in Tenant's name at Tenant's expense, and/or dispose of the same in any manner permitted by law at Tenant's expense. Tenant shall repair at its sole cost and expense, all damage caused to the Premises or the Building by removal of the Required Removals, Improvements and Alterations as Tenant shall be allowed or required to remove from the Premises by Landlord. If the Premises are not surrendered as of the end of the Term in the manner and condition herein specified, Tenant shall indemnify, defend, protect and hold Landlord, its employees, agents and contractors harmless from and against any and all damages resulting from or caused by Tenant's delay or failure in so surrendering the Premises, including, without limitation, any claims made by any succeeding tenant due to such delay or failure. Tenant acknowledges that Landlord shall be attempting to lease the Premises with any such lease to be effective upon expiration of the Term, and failure to surrender the Premises could cause Landlord to incur liability to such successor tenant for which Tenant shall be responsible. Tenant hereby waives all claims for damages that may be reasonably caused by Landlord's reentering and taking possession of the Premises or removing and storing Tenant's property as herein provided, and Tenant shall indemnify and hold harmless Landlord therefrom. No such reentry shall be considered or construed to be a forcible entry.

14. Alterations. Subject to installation of Tenant Improvements pursuant to Section 5, Tenant shall make no additions, changes, alterations or improvements ("Work") to the Premises or any electrical, mechanical or fire protection facilities pertaining to the Premises without the prior written consent of Landlord. All Work shall be at Tenant's sole cost and shall be performed in a good and workmanlike manner and all materials used shall be of a quality comparable to those in the Premises and the Building and shall be in accordance with plans and specifications approved in writing by Landlord. Landlord may require that all Work be performed under Landlord's supervision, and Tenant shall reimburse Landlord for any actual costs reasonably incurred as a result of such supervision which shall not be charged for the installation of the Tenant Improvements noted in Section 5. Tenant shall maintain a safe working environment, including the continuation of all fire and security protection devices, if any, previously installed in the Premises by Landlord. All damages or injury done to the Premises or the Building by Tenant or by any persons who may be in or upon the Premises or the Building with the express or implied consent of Tenant, including but not limited to the cracking or breaking of any glass of windows and doors, shall be paid for by Tenant and Tenant shall pay for all damage to the Building caused by acts or omissions of Tenant or Tenant's officers, contractors, subcontractors, agents, invitees, licensees, employees, successors or assigns. If Landlord consents to or supervises any Work by Tenant, the same shall not be deemed a warranty as to the adequacy of the design, workmanship or quality of materials, and Landlord hereby expressly disclaims any responsibility or liability for the same, except with respect to Landlord's intentional misconduct. Landlord shall under no circumstances have any obligation to repair, maintain or replace any portion of any Work. All alterations, additions and improvements except Tenant's trade fixtures that do not become a part of the Building shall remain in and be surrendered with the Premises as a part thereof at the expiration or sooner termination of this Lease; provided, however, that Landlord may identify Required Removals on Tenant's plans. Tenant shall comply with all applicable laws, codes and regulations in connection with all Work.

15. Entry and Inspection. Landlord at all reasonable times and upon one day's prior notice (except in the and at any time in case of emergency) may enter the Premises for the purpose of inspection, cleaning, repairing, altering or improving the Premises or the Building subject to Tenant's reasonable security requirements. Nothing in this Section 15 shall impose upon Landlord any obligation not expressly imposed elsewhere in this Lease. Landlord shall have the right at reasonable times to enter the Premises for the purpose of showing the Premises to any fee owners, ground lessors, holders of encumbrances on the interest of Landlord and any prospective purchasers, mortgagees, ground lessors or tenants of the Building or a portion thereof. If during the last month of the Term Tenant shall have removed substantially all of Tenant's property and personnel from the Premises, Landlord may enter the Premises and repair, alter and redecorate the same without abatement of Rent and without liability to Tenant, and such acts shall have no effect on this Lease.

16. Damage or Destruction.

16.1 Damage and Repair. In case of damage to the Premises or the Building by fire or other casualty, Tenant immediately shall notify Landlord. If the Building is damaged by fire or any other cause to such extent that the cost of restoration, as reasonably estimated by Landlord, will equal or exceed thirty percent (30%) of the replacement value of the Building (exclusive of foundations) just prior to the occurrence of the damage, if insurance proceeds sufficient for full restoration are unavailable for any reason, or if termination is required under the Master Lease or elected by the Master Landlord, then Landlord no later than the sixtieth (60th) day following the damage may give Tenant a notice of election to terminate this Lease. In the event of such election this Lease shall be deemed to terminate on the third (3rd) day after the giving of such notice, and Tenant shall surrender possession of the Premises within thirty (30) days thereafter, and the Rent shall be apportioned as of the date of Tenant's surrender and any Rent paid for any period beyond such date shall be repaid to Tenant. If the cost of restoration as estimated by Landlord shall amount to less than thirty percent (30%) of said replacement value of the Building and insurance proceeds sufficient for restoration are available, or if Landlord does not elect to terminate this Lease under the second sentence of this Section 16.1. then Landlord shall restore the Building and the Premises (to the extent of the Tenant Improvements originally provided by Landlord hereunder) with reasonable promptness, subject to delays beyond Landlord's control and delays in the making of insurance adjustments by Landlord, and Tenant shall have no right to terminate this Lease. To the extent that the Premises are rendered untenantable, Rent shall proportionally abate during the period of such untenantability, unless such damage resulted from or was contributed to directly or indirectly by the act, fault or neglect of Tenant, Tenant's officers, contractors, subcontractors, agents, employees, invitees or licensees, in which case Rent shall abate only to the extent Landlord receives proceeds from any rental income insurance policy to compensate Landlord for a loss of Rent hereunder.

16.2 Business Interruption. No damages, compensation or claims shall be payable by Landlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or the Building. Landlord shall use reasonable efforts to effect any such repairs promptly.

16.3 Property of Tenant. Landlord shall not carry insurance of any kind on any property of Tenant, including inventory, equipment, floor, ceiling and wall coverings, furniture and trade fixtures, and any Tenant Improvements and other improvements to the Premises or Work in the Premises that are paid for or performed by Tenant and Landlord shall not be obligated to repair any damage thereto or replace the same. Tenant shall repair or restore such Tenant Improvements, Work and other Tenant property promptly following Landlord's restoration of the Premises.

17. Indemnification. Tenant shall indemnify, hold harmless and defend Landlord, its agents, and employees from and against all liabilities, damages, suits, obligations, fines, losses, claims, actions, judgments, penalties, charges, costs, or expenses, including, without limitation, attorneys' and other professional fees and disbursements (collectively, "Liabilities"), in conjunction with any loss of life, personal injury and/or property damage arising out of or relating to the occupancy or use by Tenant, its assignee, sublessee, agents, servants, employees, licensees, contractors, subcontractors, guests, visitors, or invitees of any part of the Premises or the Building, except to the extent caused or contributed to by Landlord's own willful acts or Landlord's breach of its obligations under this Lease. Landlord shall indemnify, hold harmless and defend Tenant, its agents, and employees from and against all liabilities, damages, suits, obligations, fines, losses, claims, actions, judgments, penalties, charges, costs, or expenses, including, without limitation, attorneys' and other professional fees and disbursements (collectively, "Liabilities"), in conjunction with any loss of life, personal injury and/or property damage arising out of or relating to the negligence of Landlord, its agents, servants, employees, licensees, contractors, subcontractors, except to the extent caused or contributed to by Tenant's own willful acts or Landlord's breach of its obligations under this Lease. Landlord shall not be liable for any loss or damage to persons or property sustained by Tenant or other persons, which may be caused by theft, or by any act or neglect of any tenant or occupant of the Building or any other third parties.

LANDLORD'S INITIALS:  *TENANT'S INITIALS:* EB

18. Insurance.

18.1 Liability Insurance. Throughout the Term Tenant, at its own expense, shall keep and maintain in full force and effect policies of commercial general liability insurance including a contractual liability endorsement covering Tenant's obligations under Section 17, and automobile liability insurance, insuring Tenant's activities upon, in and about the Premises and the Building against claims of bodily injury or death or property damage or loss with a limit of not less than Two Million Dollars ($2,000,000) combined single limit per occurrence and in the aggregate (per policy year), and One Million Dollars ($1,000,000) each accident as respects automobile liability. In no event shall the liability deductible under such policies be in excess of Five Thousand Dollars ($5,000).

18.2 Property Insurance. Throughout the Term Tenant, at its own expense, shall keep and maintain in full force and effect what is commonly referred to as "all risk" coverage insurance or its equivalent (but excluding earthquake and flood) on all property of Tenant, including inventory, equipment, floor, ceiling and wall coverings, furniture and trade fixtures, and any Tenant Improvements and other improvements or Work to the Premises that are paid for or performed by Tenant in an amount not less than the then current One Hundred Percent (100%) replacement value thereof.

18.3 Workers' Compensation Insurance. Throughout the Term Tenant, at its own expense, shall keep and maintain in full force and effect workers' compensation insurance in an amount equal to at least the minimum statutory amount then currently required in the State of Washington.

18.4 Insurance Policy Requirements. All insurance required under this Section 18 shall be with companies rated A- or better in Best's Insurance Guide (or equivalent rating if such rating system is modified) and who are qualified to do business in the State of Washington. Tenant may, with the prior written consent of Landlord, elect to have reasonable deductibles in connection with the policy required pursuant to Section 18.2 above. No insurance policy required under this Section 18 shall be cancelled or reduced in coverage and each insurance policy shall provide that it is not subject to cancellation or material alteration except after thirty (30) days prior written notice to Landlord. Tenant shall deliver to Landlord prior to the Commencement Date and from time to time thereafter, copies of policies of such insurance or certificates evidencing the existence and amounts of same and, with the exception of the policy required under Section 18.3, naming Master Landlord and Landlord as an additional insured thereunder, and each policy or certificate shall expressly provide that the interest of Master Landlord and Landlord therein shall not be affected by any breach by Tenant of any provision of such policy or the policy for which such certificate evidences coverage. Further, all certificates shall expressly provide that the coverage evidenced thereby shall be primary and that any policies carried by Master Landlord and Landlord shall be excess and noncontributory with such primary insurance. The limits of any required insurance policy shall not limit the liability of Tenant under this Lease.

18.5 Waiver of Subrogation. Notwithstanding any other provision to the contrary herein, Landlord and Tenant release each other, their agents and employees from liability and waive all right of recovery against each other for any loss from perils insured against under their respective policies for damage caused by fire or other perils (including those covered by all risk extended coverage) that are covered by insurance, regardless of any fault or negligence. Each party shall use reasonable efforts to cause its insurance carriers to consent to the foregoing waiver of rights of subrogation against the other party. The waiver of subrogation provided herein shall apply to the full extent, but only to the extent, that the same shall be valid and enforceable without impairment of insurance coverage.

19. Signs. Tenant shall have right to exterior building signage with prior written consent. Landlord shall provide building standard interior signage. Tenant shall not place on any exterior door or wall or the exterior or interior of any window thereof, or on any part of the interior of the Premises visible from the exterior thereof, any sign or advertising matter and shall not place any decoration, letter or other thing of any kind on the glass of any window or door of the Premises, without the prior written consent of Landlord, which may be withheld in Landlord's sole reasonable discretion. Notwithstanding anything to the contrary herein. Tenant shall be granted the right to install signage on the exterior of the building in accordance with applicable codes but subject to the Landlord's approval which will not be unreasonably withheld. With respect to any sign or advertising matter or decoration approved by Landlord, Tenant at its sole cost and expense shall maintain the same in good condition and repair at all times. Landlord reserves the right to remove temporarily Tenant's sign during any period when Landlord repairs, restores, constructs or renovates the Premises or the Building. Upon the expiration or sooner termination of this Lease, Tenant at Landlord's request shall remove all signs, advertising matters or decorations at its sole cost and expense and repair any resulting damage to the Premises and the Building.

20. Insolvency and Liens.

20.1 Insolvency. If Tenant becomes insolvent or voluntarily or involuntarily bankrupt, or if a receiver, trustee or other liquidating officer is appointed for the business of Tenant, Landlord at its option may terminate this Lease and Tenant's right of possession under this Lease and in no event shall this Lease or any rights or privileges hereunder be an asset of Tenant in any bankruptcy, insolvency or reorganization proceeding, or Landlord may treat such insolvency as a default under Section 22 of this Lease and invoke any and all remedies available thereunder. In the event of an assumption or assignment by operation of law under the Federal Bankruptcy Code or any state bankruptcy or insolvency law and Landlord elects not to terminate this Lease (or is otherwise prevented from electing to terminate this Lease), the trustee in assuming this Lease or any assignee thereof shall: (a) remedy Tenant's prior default under this Lease, (b) be bound by and assume all of the terms and conditions of this Lease, and (c) provide adequate assurances of future performance of all the terms, conditions and covenants of this Lease, which shall include making the following express covenants to the Landlord: (1) there is sufficient capital to pay all Rent due under the Lease for the entire Term, (2) assumption of the Lease by any assignee will not cause Landlord to be in violation or breach of any provision of any other lease, finance agreement, security instrument or operating agreement concerning the Building or the Property, and (3) such assumption or assignment by the assignee will not substantially disrupt or impair any existing tenant mix or development plans for the Building or the Property.

20.2 Liens. Tenant shall not permit any lien to be filed against the Premises, the Building or the Property by reason of obligations incurred by or on behalf of Tenant. Tenant hereby indemnifies and holds Landlord harmless from any liability from any such lien. If any lien is filed against the Premises, the Building or the Property by any person claiming by, through or under Tenant, Tenant shall, at Tenant's expense, promptly cause such lien to be released, or, furnish to Landlord a bond in form and amount and issued by a surety reasonably satisfactory to Landlord, indemnifying Landlord, the Building and the Property against all liability, costs and expenses, including attorneys' fees, which Landlord may incur as a result thereof. Provided that such bond has been furnished to Landlord, Tenant, at its sole cost and expense and after written notice to Landlord, may contest, by appropriate proceedings conducted in good faith and with due diligence, any lien, encumbrance or charge against the Premises arising from work done or materials provided to and for Tenant, if, and only if, such proceedings suspend the collection thereof from Landlord, Tenant and the Premises, and neither the Premises, the Building, the Property nor any part thereof or interest therein is or will be in any danger of being sold, forfeited or lost.

21. Condemnation.

21.1 Entire Taking. If all of the Premises or the Building or such portions of the Building as may be required for the reasonable use of the Premises in Landlord's reasonable opinion, are taken by eminent domain or conveyance in lieu thereof, this Lease shall automatically terminate as of the date title vests in the condemning authority and all Rent shall be paid to that date.

21.2 Partial Taking. In the event of a taking of a part of the Building other than the Premises or of a portion of the Property, and if Landlord determines that the Building should be restored in such a way as to alter the Premises materially, or if the Master Lease so requires, Landlord may terminate this Lease and the term and estate hereby granted by notifying Tenant of such termination within sixty (60) days following the date of vesting of title; and this Lease and the term and estate hereby granted shall expire on the date specified in the notice of termination, not less than sixty (60) days after the giving of such notice, as fully and completely as if such date were the date hereinbefore set forth for the expiration of the Term, and the Rent hereunder shall be apportioned as of such date. Subject to the foregoing provisions of this Section 21.2, in case of taking of a part of the Premises, or a portion of the Building or the Property not required for the reasonable use of the Premises, then this Lease shall continue in full force and effect and the Rent shall be equitably reduced based on the proportion by which the net rentable area of the Premises is reduced (or if none of the Premises is taken, based on the proportion by which the use of the Premises is materially reduced), such Rent reduction to be effective as of the date title to such portion vests in the condemning authority.

21.3 Awards and Damages. Landlord reserves all rights to damages to the Premises for any partial or entire taking by eminent domain, and Tenant hereby assigns to Landlord any right Tenant may have to such damages or award (except for Property of Tenant as defined in Section 8), and Tenant shall make no claim against Landlord or the condemning authority for damages for termination of the leasehold interest. Tenant shall have the right however, to claim and recover from the condemning authority compensation for any loss to which Tenant may be put for Tenant's moving expenses, business interruption or taking of Property of Tenant (not including Tenant's leasehold interest) and other damages, but only to the extent that such loss is awarded separately in the eminent domain proceeding and not out of or as part of the damages recoverable by Landlord.

22. Default; Remedies.

22.1 Events of Default. Each of the following shall be deemed a default by Tenant and a material breach of this Lease:

22.1.1 Failure by Tenant to pay when due any Rent hereunder after three (3) days notice from Landlord of Teant's faiure to pay; or

22.1.2 Failure by Tenant to perform or observe any of the other terms, covenants, conditions, agreements or provisions of this Lease if such failure shall continue for a period of fifteen (15) days after written notice thereof has been given to Tenant; provided, however, that if any such failure cannot reasonably be cured within such fifteen (15) day period, then Tenant shall not be deemed to be in default if Tenant commences to cure such failure within such fifteen (15) day period for as long as Tenant is diligently prosecuting the cure thereof up to a total of forty-five (45) days after the notice from Landlord has been given; or

22.1.3 Any misrepresentation or material omission of information made by Tenant orally to Landlord or in any documents or other materials provided by Tenant to Landlord in connection with this Lease;

22.1.4 Any vacation or abandonment by Tenant of the Premises. As used herein "vacation" shall mean a prolonged absence from the Premises, and "abandonment" shall mean an absence from the Premises of five (5) days or more while Tenant is in default; and

22.1.5 Tenant's failure to restore the Security Deposit to the amount required hereunder within the time required under Section 31.

22.2 Landlord Remedies for Tenant Default. If any default occurs hereunder. Landlord may, at any time thereafter and without waiving any other rights hereunder, do one or more of the following:

22.2.1 Landlord's Reentry. At its option, Landlord may enter the Premises or any part thereof, either with or without process of law, and expel, remove or put out Tenant or any other persons who may be thereon, together with all personal property found therein; and Landlord may terminate this Lease, or it may from time to time, without terminating this Lease and as agent of Tenant, relet the Premises or any part thereof for such term or terms (which may be for a term less than or extending beyond the term hereof), and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable, with the right to repair, renovate, remodel, redecorate, alter and change the Premises, Tenant remaining liable for any deficiency computed as hereinafter set forth. In the case of any default reentry and/or disposition by summary proceedings or otherwise, all Rent shall become due thereupon and be paid up to the time of such reentry or dispossession together with such expenses as Landlord may incur for attorneys' fees, advertising expenses, brokerage fees and/or putting the Premises in good order or preparing the same for rerental, together with interest thereon as provided in Section 22.5 hereof, accruing from the date of any such expenditure by Landlord. No such reentry or taking possession of the Premises shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention is given to Tenant.

22.2.2 Reletting of Premises. At the option of Landlord, any rents received by Landlord from any reletting as described in Section 22.2.1 shall be applied first to the payment of any indebtedness from Tenant to Landlord other than Rent; second, to the payment of any costs and expenses of such reletting and including, but not limited to, attorneys' fees, advertising fees and brokerage fees, and to the payment of any repairs, renovations, remodeling, redecoration, alterations and changes in the Premises; third, to the payment of Rent due and to become due hereunder, and, if after so applying said rents there is any deficiency in the Rent to be paid by Tenant under this Lease, Tenant shall pay any deficiency to Landlord monthly on the dates specified herein and any payment made or suits brought to collect the amount of the deficiency for any months shall not prejudice in any way the right of Landlord to collect the deficiency for any subsequent month. The failure or refusal of Landlord to relet the Premises or any part or parts thereof shall not release or affect Tenant's liability hereunder, nor shall Landlord be liable for failure to relet, or in the event of reletting, for failure to collect the rent thereof, but Landlord shall attempt to mitigate its damages to the extent required by law (including the use of good faith efforts to relet the Premises), and in no event shall Tenant be entitled to receive any excess of net rents collected over sums payable by Tenant to Landlord hereunder.

22.2.3 Termination. Notwithstanding any reletting without termination as described in Section 22.2.1, Landlord may at any time elect to terminate this Lease for such previous breach and default. Should Landlord at any time terminate this Lease by reason of any default, in addition to any other remedies it may have, Landlord may recover from Tenant the present value of the entire amount of Rent reserved by this Lease for the balance of the Term, as it may have been extended, over the then fair market rental value of the Premises for the same period, plus all reasonable expenses, including court costs and attorneys' fees, incurred by Landlord in the collection of the same.

22.3 Cumulative Remedies. All rights and remedies of Landlord herein enumerated shall be cumulative, and none shall exclude any other right or remedy allowed by law.

22.4 Right to Perform. If Tenant shall fail to pay any sum of money, required to be paid by Tenant to a person or entity other than Landlord or shall fail to perform any other act to be performed by Tenant hereunder, and such failure shall continue for twenty (20) days after notice thereof by Landlord, Landlord may, but shall not be obligated so to do, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed as provided in this Lease. Notwithstanding any other provision hereof, Landlord may undertake repairs in an emergency or to prevent further damage to the Building or the Premises without delivery of notice and expiration of the cure period. Tenant shall promptly on demand reimburse Landlord for any such payment or the cost of performing any such act, and shall pay Landlord interest thereon at the rate provided in Section 22.5.

22.5 Late Payments. All Rent not paid within three (3) days of the due date hereunder shall bear interest from the date due at the rate of twelve percent (12%) per annum or the maximum permitted by law, whichever is less. In addition to any interest that may be charged hereunder, if Tenant has been late in any payment more than once in any twelve (12) month period, then Landlord, at its option, may collect from Tenant a service charge for the collection of any subsequent payment during that twelve (12) month period that is not made within three (3) days of the due date in the amount equal to four percent (4%) of the amount due.

22.6 Waiver of Redemption Rights. Tenant, for itself and on behalf of any and all persons claiming through or under it, including creditors of all kinds, does hereby waive and surrender all right and privilege, which they or any of them may have under or by reason of any present or future law, to redeem the Premises or have a continuance of this Lease for the term hereof, as it may have been extended, after having been dispossessed or ejected therefrom by process of law or under the terms of this Lease or after the termination of this Lease as herein provided.

23. Subordination to Mortgage. This Lease is and shall be subordinate to any mortgage or deed of trust placed at any time on the Building or the Property by Landlord and to any and all advances to be made thereunder and to interest thereon and all modifications, renewals and replacements or extensions thereof ("Landlord's Mortgage"), and Tenant shall attorn to the holder of any Landlord's Mortgage or any person or persons purchasing or otherwise acquiring the Building, the Property or the Premises at any sale or other proceeding under any Landlord's Mortgage; provided, however, that so long as Tenant is not in default hereunder, Tenant's possession of the Premises shall not be disturbed and all other rights of Tenant under this Lease shall be recognized; provided, further, that Tenant's attornment shall be deemed to occur automatically without further agreement of Tenant. If the holder or prospective holder of any Landlord's Mortgage wishes to have this Lease as a prior lien to the Landlord's Mortgage, it shall be so deemed upon the holder thereof so notifying Tenant. Tenant shall properly execute and deliver within ten (10) business days after written notice any documents Landlord or the holder of any Landlord's Mortgage may require to carry out the provisions of this section. If, in connection with obtaining financing for the Property or the Building, any holder of a Landlord's Mortgage shall request modifications in this Lease as a condition to such financing, Tenant shall not withhold, delay or defer its consent thereto, provided that such modifications do not materially increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created.

24. Holdover. If Tenant shall, with the written consent of Landlord, hold over beyond the expiration of the Term, which hold over shall include Tenant's failure to complete its Restoration Obligation, or if Landlord shall so notify Tenant at any time upon or after the expiration of the Term, such tenancy shall be deemed a month-to-month tenancy that may be terminated as provided by applicable state law. During such tenancy Tenant shall be bound by all the terms, covenants and conditions as herein specified as far as applicable, except rental, which shall be One Hundred Fifty Percent (150%) of the Rent due prior to the expiration of the Term.

25. Notices. All notices under this Lease shall be in writing and delivered in person or sent by registered or certified mail, return receipt requested, postage prepaid, or sent by overnight courier to Landlord and to Tenant at the addresses set forth on the signature page of this Lease (except that, after the Lease commences, any such notice may be so mailed or delivered by hand to Tenant at the Premises), and to the holder of any Landlord's Mortgage at such place as such holder shall specify to Tenant in writing; or to such other addresses as may from time to time be designated by any such party in writing. Notices mailed as aforesaid shall be deemed given at the earlier of three (3) days after the date of such mailing or upon the date of receipt.

26. Costs and Attorneys' Fees. If Landlord employs attorneys in connection with the enforcement of this Lease, then Tenant shall promptly reimburse Landlord for all reasonable attorneys' fees (including court costs and disbursements) so incurred, regardless of whether suit is commenced. If Tenant or Landlord shall bring any action arising out of this Lease, the losing party shall reimburse the prevailing party for all reasonable attorneys' fees (including court costs and disbursements) incurred in such suit, at trial and on appeal, and such attorneys' fees shall be deemed to have accrued on the commencement of such action.

27. Estoppel Certificates. Tenant, shall, from time to time, upon written request of Landlord, execute, acknowledge and deliver to Landlord or its designee a written statement stating: the date this Lease was executed and the date it expires; the Commencement Date and the date Tenant accepted the Premises; the amount of Basic Rent and any then applicable Additional Rent and any other sums payable under the Lease and date to which such rent and/or other sums have been paid; and certifying to the best of its knowledge: that this Lease is in full force and effect and has not been assigned, ratified, supplemented or amended in any way (or specifying the date and terms of any agreement so affecting this Lease); that this Lease represents the entire agreement between the parties as to this tenancy (or specifying the date and terms of any other agreements as to this tenancy); that all conditions under this Lease to be performed by the Landlord have been satisfied (or specifying any such unsatisfied conditions and the extent to which such conditions are unsatisfied); that all required contributions by Landlord to Tenant on account of the Tenant Improvements have been received (or specifying the nature and amount of any such contributions that have not been received); that on this date there are no existing claims, defenses or offsets that the Tenant has against the enforcement of this Lease by the Landlord (or specifying the nature and amount of any such claims, defenses or offsets); that no Rent has been paid more than one month in advance (or specifying the amount and payment dates of any Rent that has been so paid); the amount of the Security Deposit held by Landlord (if any); and any other information or items reasonably requested by Landlord. It is intended that any such statement delivered pursuant to this Section 27 may be relied upon by Landlord and any prospective purchaser of or prospective holder of any mortgage upon Landlord's interest in the Building and/or the Property. If Tenant shall fail to provide such estoppel certificate within ten (10) business days of receipt by Tenant of a written request by Landlord as herein provided, Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of any information supplied by Landlord to any prospective purchaser or mortgagee and to have certified that this Lease is in full force and effect, that there are no uncured defaults in Landlord's performance, that the Security Deposit is as stated in the Lease, and that not more than one month's Rent has been paid in advance.

28. Transfer of Landlord's Interest; Limitation of Liability. In the event of any transfer or transfers of Landlord's interest in the Premises or in the Building, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer. Tenant agrees to attorn to the transferee, such attornment shall be deemed to occur automatically without further agreement of Tenant. Notwithstanding any other Lease provision, all covenants, undertakings and agreements herein made on the part of Landlord are made and intended not as personal covenants, undertakings and agreements for the purpose of binding Landlord personally or the assets of Landlord except Landlord's interest in the Building and the Property, but are made and intended for the purpose of binding only the Landlord's interest in the Building and the Property, as the same may from time to time be encumbered. No personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforceable against Landlord or its partners, members, shareholders, directors and officers or their respective heirs, legal representatives, successors or assigns on account of this Lease or on account of any covenant, undertaking or agreement of Landlord contained in this Lease.

29. Nonwaiver. Waiver by Landlord of any term, covenant or condition herein contained or any breach thereof shall not be deemed to be a waiver of such term, covenant, or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of any Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent.

30. Quiet Possession. Landlord warrants that so long as Tenant is not in default under this Lease beyond any applicable cure period and so long as this Lease has not been terminated, Tenant's quiet possession of the Premises during the Term shall not be disturbed by Landlord or others claiming through Landlord.

31. Application of Security Deposit. As security for the full and faithful performance of every covenant and condition of this Lease to be performed by Tenant, Tenant has paid to Landlord the Security Deposit specified in Section 1.6, receipt of which is hereby acknowledged. If Tenant shall default with respect to any covenant or condition of this Lease, including but not limited to the payment of Rent, then Landlord may apply all or any part of the Security Deposit to the payment of any sum in default or any sum which Landlord may be required to spend or incur by reason of Tenant's default or any other sum which Landlord may in its reasonable discretion deem necessary to spend or incur by reason of Tenant's default. In such event, Tenant within five (5) days of written demand therefor by Landlord shall deposit with Landlord the amount so applied. If Tenant shall have fully complied with all covenants and conditions of this Lease, but not otherwise, the amount of the Security Deposit then held by Landlord shall be repaid to Tenant (or at Landlord's option, to the last assignee of Tenant's interest hereunder) within thirty (30) days after the expiration or sooner termination of this Lease. In the event of Tenant's default, Landlord's rights to retain the Security Deposit shall be deemed to be in addition to any and all other rights and remedies at law or in equity available to Landlord for Tenant's default under this Lease. Landlord shall not be required to keep any Security Deposit separate from its general funds and Tenant shall not be entitled to any interest thereon.

32. General.

32.1 Headings. Titles or captions to sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

32.2 Successors and Assigns. All of the covenants, agreements, terms and conditions contained in this Lease shall inure to and be binding upon Landlord and Tenant and their respective heirs, executors, administrators, successors and permitted assigns.

32.3 No Brokers. Tenant represents and warrants to Landlord that it has not engaged any broker, finder or other person who would be entitled to any commission or fees from Landlord in respect of the negotiation, execution or delivery of this Lease, except for Cushman & Wakefield Commerce, and Tenant shall indemnify and hold Landlord harmless from and against any loss, cost, liability or expense incurred by Landlord as a result of any claim asserted by any other broker, finder or other person based on any arrangements or agreements made or alleged to have been made by or on behalf of Tenant. The provisions of this Section 32.3 shall not apply to brokers with whom Landlord has an express written brokerage agreement.

32.4 Entire Agreement. This Lease contains all covenants and agreements between Landlord and Tenant relating in any manner to the leasing, use and occupancy of the Premises and Tenant's use of the Building and the Property and other matters set forth in this Lease. No prior agreements or understandings pertaining to the same shall be valid or of any force or effect and the covenants and agreements of this Lease shall not be altered, modified or added to except in writing signed by Landlord and Tenant.

32.5 Severability. Any provision of this Lease that shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof and the remaining provisions hereof shall remain in full force and effect.

32.6 Patriot Act Compliance. Tenant certifies to Landlord, with the understanding that Landlord intends to and will rely upon this certification, that:

(i) Tenant is not acting for or on behalf of, directly or indirectly, any person, entity, group or nation named or identified by any Executive Order or United State Department of the Treasury as a terrorist, "Specially Designated National and Blocker Person," or any other banned or blocked person, entity, group or nation pursuant to any law, order, rule or regulation enforced or administered by the Office of Foreign Assets Control;

(ii) Tenant is not instigating, facilitating or engaging in this transaction, directly or indirectly, for or on behalf of, any such person, entity, group or nation; and

(iii) Tenant is acting for and on behalf of itself only, and not for any undisclosed principal(s).

Tenant shall indemnify, hold harmless and defend Landlord from and against any and all civil, criminal and administrative claims, damages, losses, risks, liabilities and expenses (including attorney's fees and costs) arising from, or otherwise related to, any breach of this certification.

32.7 Force Majeure. Time periods for Landlord's performance under any provisions of this Lease shall be extended for periods of time during which Landlord's performance is prevented due to circumstances beyond Landlord's control, including without limitation, strikes, embargoes, shortages of labor or materials, governmental regulations, acts of God, war or other strife.

32.8 Changes to Building. Landlord may at its option make any repairs, alterations, additions or improvements that Landlord may deem necessary or advisable for the preservation, safety or improvement of the Building, so long as Tenant has reasonable access to the Premises. Landlord shall have the right from time to time without thereby creating an actual or constructive eviction or incurring any liability to Tenant, to renovate, repair, replace, and/or change the arrangement or location of any of the following: sidewalks, terraces, landscaping, loading and/or delivery areas, parking areas, lobbies, entrances, passageways, doors and doorways, corridors, stairs, toilets and other common areas of the Building, mechanical, cooling, heating, ventilation, security, electrical, lighting, plumbing and other systems servicing the Building, and other similar common service portions of the Building. Landlord may change the name of the Building at any time.

32.9 Building Directory. Landlord shall maintain in the Building or on the Property a directory that shall include the name of the Tenant.

32.10 Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of Washington. Venue shall be in King County Superior Court.

32.11 Authority. If Tenant is a corporation, the individual executing this Lease on behalf of Tenant represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of the Tenant in accordance with a duly adopted resolution of the board of directors of Tenant and in accordance with Tenant's bylaws, and that this Lease is binding upon Tenant in accordance with its terms. At Landlord's request, Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord a certified copy of a resolution of the board of directors of Tenant authorizing or ratifying the execution of this Lease or provide other evidence of Tenant's authority reasonably satisfactory to Landlord.

32.12 Waiver of Jury Trial. The parties hereto waive any right to a trial by jury in any action or proceeding based upon, or related to, the subject matter of this Lease. This waiver is knowingly, intentionally and voluntarily made by Tenant, and Tenant acknowledges that neither Landlord nor any person acting on behalf of Landlord has made any representations of fact to induce this waiver of trial by jury or in any way to modify or nullify its effect. Tenant further acknowledges that Tenant has been represented (or has had the opportunity to be represented) in the signing of this Lease and in the making of this waiver by independent legal counsel, selected of Tenant's own free will, and that Tenant has had the opportunity to discuss this waiver with counsel. Tenant further acknowledges that Tenant has read and understands the meaning and ramifications of this waiver provision, and, as evidence of this fact, signs his initials.

TENANT'S INITIALS: EB

32.13 Time of Essence. Time is of the essence of this Lease.

32.14 Execution in Counterparts. This Lease may be executed in two or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

32.15 No Recording. Neither this Lease nor any memorandum hereof shall be recorded in the real property records of the county wherein the Property is located.

32.16 Computation of Time. The word "day" means "calendar day" herein and the computation of time shall include all Saturdays, Sundays and holidays for purposes of determining time periods specified herein.

32.17 Joint and Several Liability. If more than one person executes this Lease as Tenant, then (i) each of them is jointly and severally liable for the keeping, observing and performing of all of the terms, covenants, conditions, provisions and agreements of this Lease to be kept, observed and performed by Tenant, and (ii) the term "Tenant" as used in this Lease shall mean and include each of them jointly and severally and any act of or notice from, or notice or refund to, or signature of, any one or more of them, with respect to the tenancy of this Lease, including without limitation any renewal, extension, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

IN WITNESS WHEREOF, the Landlord and the Tenant have signed their name and affixed their seals the day and year first above written.

LANDLORD:

2345 EASTLAKE LLC
a Washington limited liability company

Address: 2323 Eastlake Avenue East, 4th Floor
Seattle, WA 98102-3305

/s/ Christopher R. Hughes
Christopher R. Hughes, Manager

TENANT:

THE LEGACY GROUP, INC.
a Washington Corporation

Address: 10500 NE 8th Street, Suite 1125
Bellevue, WA 98004

By
Its CFO

EXHIBITS:

A LEGAL DESCRIPTION
B FLOOR PLAN

Landlord's Acknowledgement

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this 22nd day of June, 2012, before me, a Notary Public in and for the State of Washington, personally appeared Christopher R. Hughes, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons who executed this instrument, on oath stated that he/she was authorized to execute the instrument, and acknowledged it as the Lease Agreement of 2345 EASTLAKE LLC, a Washington limited liability company, to be the free and voluntary act and deed of said company for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of Washington, residing at Kirkland, WA

My appointment expires 8-26-12

Tenant's Acknowledgement

STATE OF WASHINGTON)
) ss.
COUNTY OF King)

On this 20th day of June, 2012, before me, a Notary Public in and for the State of Washington, personally appeared Ed Baehtdd, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument, on oath stated that he/she was authorized to execute the instrument, and acknowledged it as the Lease agreement of the Legacy Group Inc., to be the free and voluntary act and deed of said Company for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Jeanette M. Wuebel

NOTARY PUBLIC in and for the State of Washington, residing at Bothell, WA

My appointment expires 01-09-2015

MASTER LANDLORD CONSENT

The undersigned, Landlord under the Master Lease, hereby consents to the subleasing of the Premises described herein. This consent shall apply only to this Sublease and shall not be deemed to be a consent to any other assignment or sublease.

MASTER LANDLORD:

Hughes-Northwest, Inc.,
a Washington corporation

/s/ Christopher R. Hughes
Christopher R. Hughes, President

Master Landlord Acknowledgement

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this 22nd day of June, 2012, before me, a Notary Public in and for the State of Washington, personally appeared Christopher R. Hughes, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons who executed this instrument, on oath stated that he/she was authorized to execute the instrument, and acknowledged it as the Lease Agreement of HUGHES-NORTHWEST, INC., a Washington corporation, to be the free and voluntary act and deed of said company for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of
Washington, residing at Kirkland, WA
My appointment expires 8-26-12

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven C. Quay, certify that:

1. I have reviewed this Report of Atossa Genetics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2014

/s/ Steven C. Quay
Steven C. Quay
Chief Executive Officer and President
(Principal executive officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kyle Guse, certify that:

1. I have reviewed this Report of Atossa Genetics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2014

/s/ Kyle Guse
Kyle Guse
Chief Financial Officer, General Counsel and Secretary
(Principal financial and accounting officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atossa Genetics Inc. (the "Company") on Form 10-Q for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven C. Quay, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12 , 2014

/s/ Steven C. Quay
Steven C. Quay
Chief Executive Officer and President
(Principal executive officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atossa Genetics Inc. (the "Company") on Form 10-Q for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kyle Guse, Chief Financial Officer, General Counsel and Secretary of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2014

/s/ Kyle Guse
Kyle Guse
Chief Financial Officer, General Counsel and Secretary
(Principal financial and accounting officer)