WINMARK CORP
Form 4
January 18, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MORGAN JOHN L
(Last) (First) (Middle)
4200 DAHLBERG DRIVE SUITE 100
(Street)
GOLDEN VALLEY, MN 55422
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WINMARK CORP [WINA]

3. Date of Earliest Transaction (Month/Day/Year)
01/17/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/17/2007		P		3,000	A	$ 18.59	1,262,271	D	
Common Stock								22,000	I	By Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MORGAN JOHN L 4200 DAHLBERG DRIVE SUITE 100 GOLDEN VALLEY, MN 55422	X	X	Chairman & CEO	

Signatures

John L. Morgan	01/18/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. o another commercial lease agreement with Fred Hutchinson Research Center for lab and office space located in Seattle, WA. The lease provides for monthly rent of $16,395 for the period from February 24, 2012 to August 31, 2012, $19,923 for the period from September 1, 2012 to August 31, 2013, and $20,548 for the period from September 1, 2013 to November 29, 2014. The security deposit of $32,789 was paid in March 2012 and recorded as Security Deposit on the consolidated balance sheet as of March 31, 2012. For the three months ended March 31, 2012, we incurred $19,674 of rent expense for the lease.

The future minimum lease payments due subsequent to March 31, 2012 under all non-cancelable operating leases for the next five years are as follows:

As of March 31,	Amount
2013	$ 235,959
2014	243,448

2015	164,384
2016	
2017	
Thereafter	
Total minimum lease payments	**$ 643,791**

Contingencies

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

NOTE 14: RELATED PARTY TRANSACTIONS

Loans from Officer

On May 26, 2009, the Company borrowed $5,000 from its Chairman of the Board and Chief Executive Officer as a short-term, unsecured loan via verbal agreement and did not bear any interest. Commencing June 30, 2010, the loan was converted into a written Promissory Note bearing an annual interest rate of 10%, with a maturity date of December 31, 2010. This note was repaid in full on May 16, 2011 including approximately $439 of accrued interest.

On June 30, 2010, the Company borrowed an additional $100,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The loan under the note was funded to the Company on July 12, 2010. The note bears a 10% interest rate per annum and carries a $4,000 loan origination fee which is accreted to the loan balance throughout the life of the loan. The $4,000 loan origination fee was fully

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

accreted to the loan balance as of March 31, 2011 and December 31, 2010, and recorded as interest expense for the year ended December 31, 2010. This note (including the $4,000 origination fee) was repaid in full on May 19, 2011 including approximately $8,959 in accrued interest.

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

Exclusive License Agreement

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

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

Commercial Lease Agreement

On December 24, 2009, the Company entered into a commercial lease agreement with Ensisheim for office space located in Seattle, Washington. The lease provided for annual rent of $13,200, plus applicable sales tax. From inception through December 31, 2009, the Company incurred $248 of rent expense for the lease with security deposit of $1,100. For the period of January 1, 2010 through June 30, 2010, the Company incurred $6,600 of rent expense for the lease. On July 15, 2010 the Company and Ensisheim terminated the lease, effective July 1, 2010 and the Company commenced use of the facility rent free until April 1, 2011 when the commercial lease agreement the Company entered into with Sanders Properties, LLC became effective (see Note 13). The $1,100 security deposit paid to Ensisheim remained outstanding and was recorded as Due from Related Party as of March 31, 2012.

Executive Compensation

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

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

On July 22, 2010, the Company restated and amended the employment agreements with its CEO and CTO. The agreements modified the base annual salary amounts to $250,000 and $200,000, respectively, effective retroactively to May 19, 2010. These salaries were accrued and amounted to $391,071 and $278,571 as of March 31, 2011 and December 31, 2010 and paid in full in April 2011. For the twelve-month periods ended December 31, 2011 and 2010, salaries and bonuses of the CEO and CTO amounted to $693,048 and $377,620, of which $492,095 and $0 was recorded to research and development expense, respectively. For the three months ended March 31, 2012, salaries and bonuses of the CEO and CTO amounted to $66,850 and $89,811, of which $51,850 and $32,406 was recorded to research and development expense, respectively.

Share-Based Compensation

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

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

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

(i) 11,250 option shares shall vest ninety (90) days after the date of grant;
(ii) 11,000 option shares shall vest one hundred and eighty (180) days after the date of grant;
(iii) 11,500 option shares shall vest two hundred and seventy (270) days after the date of grant;

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

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

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

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

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

(i) 80,000 option shares shall vest on September 1, 2011;
(ii) 30,000 options shares shall vest on December 1, 2011;
(iii) 30,000 options shares shall vest on March 1, 2012;
(iv) 30,000 options shares shall vest on June 1, 2012;
(v) 30,000 options shares shall vest on September 1, 2012.

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

In accordance with the guidance provided in ASC Topic 718, Stock Compensation (formerly SFAS 123R), the compensation costs associated with these options are recognized, based on the grant-date fair values of these options, over the requisite service period, or vesting period. Accordingly, the Company recognized a compensation expense of $44,882 for the three months ended March 31, 2012.

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

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

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

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

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

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

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

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

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

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

(3) Level 3 inputs include:

Expected lives The expected lives of options granted were derived from the output of the option valuation model and represented the period of time that options granted are expected to be outstanding.

Expected forfeitures per year The expected forfeitures are estimated at the dates of grant and will be revised in subsequent periods pursuant to actual forfeitures, if significantly different from the previous estimates.

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

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

Notwithstanding that the fair market value of the Company s common stock in September 2011 was $0.906 per share, the Company filed a Registration Statement on Form S-1 in February 2012 to offer shares of its common stock at $5.00 to $7.00 per share. This increase in share value is justified by the accomplishments achieved by the Company between September 2011 and February 2012. Specifically, the MASCT System manufacturing had been completed, supplies for the Field Experience Trial were completed and the Company had established an FDA-compliant inventory and warehousing facility. Further, the National Reference Laboratory for Breast Health, the Company s wholly-owned subsidiary, was established as a Delaware corporation, was equipped and staffed, and the protocols and procedures needed to be a CLIA-registered facility were put in place. Moreover, the ForeCYTE test, which involves cytopathology and five biomarkers of hyperplasia and one biomarker of sample integrity, was completed, tested, and validated to CLIA standards. Computer hardware and software was acquired, set up, made operational, and the ForeCYTE report template,

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

with unique reporting information for the requesting physician and a patient letter template, were created. The company explored and identified a technology for the ArgusCYTE test (which is the technology that the Company is currently using for the ArgusCYTE test), negotiated a supply agreement with the supplier, and tested and validated the test. An ArgusCYTE report template was also established and a new reporting scheme invented and a patent application filed.

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

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

The Board of Directors considered each of the foregoing achievements, and considered input from the Company s investment bankers, in determining that the value of the Company supports a valuation of $5.00 to $7.00 per share of the Company s common stock.

Options issued and outstanding as of March 31, 2012 and their activities during the three months then ended are as follows:

	Number of Underlying Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life Remaining in Years

Outstanding as of January 1, 2012	608,000	$ 3.41	
Granted			
Expired			
Forfeited			
Outstanding as of March 31, 2012	608,000	3.41	5.88
Exercisable as of March 31, 2012	381,875	3.18	6.22
Vested and expected to vest (1)	608,000	3.41	5.88

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

As of March 31, 2012 and December 31, 2011, the aggregate intrinsic value of options outstanding, exercisable, and vested and expected to vest was $389,049 and $329,053, respectively.

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ATOSSA GENETICS INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

A summary of the status of the Company s unvested shares as of March 31, 2012 and changes during the period then ended is presented below:

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of January 1, 2012	289,250	$ 159,013
Granted		
Vested	(63,125)	(29,685)
Forfeited		
Unvested as of March 31, 2012	226,125	$ 129,328

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 11, 2012, the date which the consolidated financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2012 have been incorporated into these consolidated financial statements and there are no subsequent events that require disclosure in accordance with FASB ASC Topic 855, Subsequent Events .

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Audit Tax Consulting Financial Advisory

Registered with Public Company Accounting Oversight Board (PCAOB)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Atossa Genetics Inc. (a development stage company) (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for the years then ended and since inception (April 30, 2009). These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atossa Genetics, Inc. (a development stage company) as of December 31, 2011 and 2010 and the consolidated results of its operations and its cash flows for the years then ended and since inception (April 30, 2009) in conformity with accounting principles generally accepted in the United States of America.

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

/s/ KCCW Accountancy Corp.

Diamond Bar, California
March 22, 2012

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

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

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

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AUDITED)

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

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	1,900,568	(74,111)	1,910,821
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	10,253	84,364	
CASH & CASH EQUIVALENTS, ENDING BALANCE	$1,910,821	$10,253	$1,910,821
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$17,992	$	$17,992
Income taxes paid	$	$250	$250

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount			
Balance at April 30, 2009, Founders' shares issued at $0.014 per share for cash	3,976,465	$3,976	$50,024	$	$54,000
Issuance of shares for cash at $0.014 per share, July 28, 2009	39,765	40	500		540
Issuance of shares for cash at $0.11 per share, December 21, 2009	883,658	884	99,116		100,000
Net loss for the period ended December 31, 2009				(122,857)	(122,857)
Balance at December 31, 2009	4,899,888	$4,900	$149,640	$(122,857)	$31,683
Issuance of common shares for cash at $0.11 per share, January 21, 2010	866,007	866	97,134		98,000
Issuance of common shares for services at $0.11 per share, January 21, 2010	185,569	186	20,814		21,000
Issuance of common shares for cash at $0.11 per share, January 23, 2010	35,347	35	3,965		4,000
Issuance of common shares on April 27, 2010 for services for $50,000 or 13,256 shares (30,000 shares post-split) as agreed upon in December 2009	13,256	13	49,987		50,000
Compensation cost for stock options granted to executives			30,396		30,396
Net loss for the year ended December 31, 2010				(1,086,930)	(1,086,930)
Balance at December 31, 2010	6,000,067	$6,000	$351,936	$(1,209,787)	$(851,851)
Issuance of common shares and warrants for cash at $1.25 per share, April 29, 2011	1,612,000	1,612	1,748,438		1,750,050
Issuance of common shares and warrants for cash at $1.25 per share, June 1, 2011	1,376,000	1,376	1,495,024		1,496,400
Issuance of common shares and warrants for cash at $1.25 per share, June 10, 2011	682,000	682	741,008		741,690
Issuance of common shares and warrants for cash at $1.25 per share, June 24, 2011	1,586,800	1,587	1,724,058		1,725,645
Compensation cost for stock options to executives, directors and employees			140,056		140,056

Net loss for the year ended December 31, 2011				(3,442,269)	(3,442,269)
Balance at December 31, 2011	11,256,867	$11,257	$6,200,520	$(4,652,056)	$1,559,721

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS

The Company s operations began in December 2008 with the negotiations for the acquisition of the Mammary Aspirate Specimen Cytology Test System, or the MASCT System, patent rights and assignments and the FDA clearance for marketing, which acquisition was completed in January 2009. Atossa Genetics Inc. (the Company) was incorporated on April 30, 2009 in the State of Delaware. The Company was formed to develop and market the MASCT System, a cellular and molecular diagnostic risk assessment product for the detection of pre-cancerous changes that could lead to breast cancer. The Company s fiscal year ends on December 31st.

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

Development Stage Risk

To date, the Company has earned $1,500 in revenue from the sale of its MASCT System. Accordingly, the Company s activities have been accounted for as those of a Development Stage Enterprise as set forth in Accounting Standards Codification (ASC) 915 Development Stage Entities , which was previously Statement of Financial Accounting Standards No. 7 (SFAS 7). Among the disclosures required by ASC 915 are that the Company s financial statements be identified as those of a development stage company, and that the statements of operations, stockholders equity and cash flows disclose activity since the date of the Company s inception.

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

NOTE 2: GOING CONCERN

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

Management s Plan to Continue as a Going Concern

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: GOING CONCERN (continued)

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation:

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

Revenue Recognition:

Overview

The Company will recognize product and service revenue in accordance with GAAP when the following overall fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the service has been performed, (iii) the Company s price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured.

Product Revenue

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

Service Revenue

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

Cash and Cash Equivalents:

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

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SUMMARY OF ACCOUNTING POLICIES (continued)

Use of Estimates:

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

Accounts Receivable:

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

Inventories:

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

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

Property, plant, and equipment:

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SUMMARY OF ACCOUNTING POLICIES (continued)

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

	Useful Life (in years)
Machinery and equipment	5

Intangible assets:

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

Research and Development Expenses:

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

Share Based Payments:

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

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

Recently Issued Accounting Pronouncements:

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: PREPAID EXPENSES

Prepaid expenses consisted of the following:

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

NOTE 5: OTHER CURRENT ASSETS

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

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment consisted of the following:

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

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

NOTE 7: INTANGIBLE ASSET

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

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

As of December 31,	Amounts
2013	$ 16,822
2014	16,822
2015	7,197
2016	
2017	
	$ 40,841

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: LINE OF CREDIT

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

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

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

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

NOTE 9: ACCRUED EXPENSES

Accrued expenses consisted of the following:

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

NOTE 10: STOCKHOLDERS EQUITY

The Company is authorized to issue a total of 85,000,000 shares of stock consisting of 75,000,000 shares of Common Stock, par value $0.001 per share, and 10,000,000 shares of Preferred Stock, par value $0.001 per share.

Reverse Stock-Split

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

Prior Issuances of Common Stock

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

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

ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: STOCKHOLDERS EQUITY (continued)

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

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

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

On January 21, 2010, the Company issued an additional 53,020 shares (or 120,000 shares prior to the reverse stock-split on September 28, 2010) to a shareholder who acquired 13,255 shares (or 30,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date as one of the forty-four (44) investors. Those shares were issued to the shareholder for services to be performed, including investor relations, media relations, and corporate communications. Those shares were issued at a value of $6,000, or $0.11 per share (or $0.05 per share prior to the reverse stock-split on September 28, 2010), the same price as the issuance of the 866,007 shares (or 1,960,000 shares prior to the reverse stock-split on September 28, 2010) for cash on the same date.

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

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

Private Placements and Warrants

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

Placement Agent Fees

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

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ATOSSA GENETICS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: STOCKHOLDERS EQUITY (continued)

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

Warrants

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

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

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

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

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

Fair Value Considerations

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

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ATOSSA GENETICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: STOCKHOLDERS EQUITY (continued)

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

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

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

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

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

(3) Level 3 inputs include:

Stock price The Company s common stock was not publicly traded at the time the Warrants were issued. Therefore, the stock price was determined by taking the $1.25 price per Unit (one Unit consisted of one share of common stock and one warrant) issued in the Private Placement and subtracting from $1.25 the fair value of the Warrant, which was determined by the Black-Scholes method. The difference remaining after subtracting the fair value of the Warrant ($0.344) from the price per Unit ($1.25) is the fair value of the common stock ($0.906).

Remaining term The Company does not have a history to develop the expected term for its warrants. Accordingly, the Company expected that the Initial Exercise Date to occur within one year from the date of issuance plus the contractual term in the calculations.

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

Stock Option and Incentive Plan

On September 28, 2010, the Board of Directors approved the adoption of the 2010 Stock Option and Incentive Plan, or the 2010 Plan, subject to stockholder approval, to provide for the grant of equity-based awards to employees, officers, non-employee directors and other key persons providing services to the Company. Awards of incentive options may be granted under the 2010 Plan until September 2020. No other awards may be granted under the 2010 Plan after the date that is 10 years from the date of stockholder approval. An aggregate of 1,000,000 shares (or 2,263,320 shares prior to the reverse stock-split on

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(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: STOCKHOLDERS EQUITY (continued)

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

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

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

NOTE 11: INCOME TAXES

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

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

NOTE 12: CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2011 and 2010, the Company had $2,660,821 and $0 in excess of the FDIC insured limit.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

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

Contingencies

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

NOTE 14: RELATED PARTY TRANSACTIONS

Loans from Officer

On May 26, 2009, the Company borrowed $5,000 from its Chairman of the Board and Chief Executive Officer as a short-term, unsecured loan via verbal agreement and did not bear any interest. Commencing June 30, 2010, the loan was converted into a written Promissory Note bearing an annual interest rate of 10%, with a maturity date of December 31, 2010. This note was repaid in full on May 16, 2011 including approximately $439 of accrued interest.

On June 30, 2010, the Company borrowed an additional $100,000 from its Chairman of the Board and Chief Executive Officer pursuant to a promissory note. The loan under the note was funded to the Company on July 12, 2010. The note bears a 10% interest rate per annum and carries a $4,000 loan origination fee which is accreted to the loan balance throughout the life of the loan. The $4,000 loan origination fee was fully accreted to the loan balance as of March 31, 2011 and December 31, 2010, and recorded as interest expense for the year ended December 31, 2010. This note (including the $4,000 origination fee) was repaid in full on May 19, 2011 including approximately $8,959 in accrued interest.

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NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

Exclusive License Agreement

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

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

Commercial Lease Agreement

On December 24, 2009, the Company entered into a commercial lease agreement with Ensisheim for office space located in Seattle, Washington. The lease provided for annual rent of $13,200, plus applicable sales tax. From inception through December 31, 2009, the Company incurred $248 of rent expense for the lease. As of December 31, 2009, security deposit for the lease amounted to $1,100. For the period of January 1, 2010 through June 30, 2010, the Company incurred $6,600 of rent expense for the lease. On July 15, 2010 the Company and Ensisheim terminated the lease, effective July 1, 2010 and the Company commenced use of the facility rent free until April 1, 2011 when the commercial lease agreement the Company entered into with Sanders Properties, LLC became effective (see Note 13).

Executive Compensation

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

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

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NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

Share-Based Compensation

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

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

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

(i) 11,250 option shares shall vest ninety (90) days after the date of grant;
(ii) 11,000 option shares shall vest one hundred and eighty (180) days after the date of grant;
(iii) 11,500 option shares shall vest two hundred and seventy (270) days after the date of grant;
(iv) 11,250 option shares shall vest three hundred and sixty (360) days after the date of grant.

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

(i) twenty-five percent (25%) of the underlying shares on the first anniversary of the date of grant; and
(ii) one-forty eighth (1/48) of the underlying shares monthly thereafter.

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

(i) 80,000 option shares shall vest on September 1, 2011;
(ii) 30,000 options shares shall vest on December 1, 2011;
(iii) 30,000 options shares shall vest on March 1, 2012;
(iv) 30,000 options shares shall vest on June 1, 2012;

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NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

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

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

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

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NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

(1) There were no Level 1 inputs.

(2) Level 2 inputs include:

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

(3) Level 3 inputs include:

Expected lives The expected lives of options granted were derived from the output of the option valuation model and represented the period of time that options granted are expected to be outstanding.

Expected forfeitures per year The expected forfeitures are estimated at the dates of grant and will be revised in subsequent periods pursuant to actual forfeitures, if significantly different from the previous estimates.

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

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

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

Further, the Company negotiated the option to acquire the FullCYTE Microcatheter System from Hologics, reestablished the supply chain and began preparing for a commercial launch later in 2012 or early 2013. In doing so, the Company increased its U.S. patent portfolio from 5 to 31 and its total portfolio of patents and applications to over 120. The Company also prepared marketing documents for the launch of the ForeCYTE and ArgusCYTE tests, which occurred in December 2011. The Company studied the use of the FullCYTE microcatheter in six patients to establish the feasibility of performing next-generation tests on

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

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

The Board of Directors considered each of the foregoing achievements, and considered input from the Company s investment bankers, in determining that the value of the Company supports a valuation of $5.00 to $7.00 per share of the Company s common stock.

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

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

	Number of Underlying	Weighted-Average	Weighted-Average

	Shares	Exercise Price Per Share	Contractual Life Remaining in Years
Outstanding as of January 1, 2010			
Granted	350,000	$ 5.00	
Expired			
Forfeited			
Outstanding as of December 31, 2010	350,000	5.00	4.56
Exercisable as of December 31, 2010	87,500	5.00	4.56
Vested and expected to vest(1)	350,000	5.00	4.56

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

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

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NOTE 14: RELATED PARTY TRANSACTIONS (continued)

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

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

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

NOTE 15: SUBSEQUENT EVENTS

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

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Up to 1,000,000 Shares

PROSPECTUS

, 2012

Until 2012 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PART II

Item 13. Other Expenses of Issuance and Distribution

The expenses (other than placement agent fees) payable by us in connection with this offering are as follows:

	Amount
SEC registration fee	$ 923
Financial Industry Regulatory Authority, Inc. fee	$ 1,305
NASDAQ listing fee	$ 50,000
Accountants fees and expenses	$ 15,000
Legal fees and expenses	$ 250,000
Transfer Agent s fees and expenses	$ 25,000
Printing and engraving expenses	$ 60,000
Miscellaneous	$ 122,772
Total Expenses	$ 500,000

* to be completed by amendment

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

Item 14. Indemnification of Directors and Officers

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

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

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

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

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

- we will indemnify our directors, officers and, in the discretion of our Board of Directors, certain employees to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended; and
- we will advance reasonable expenses, including attorneys fees, to our directors and, in the discretion of our Board of Directors, to our officers and certain employees, in connection with legal proceedings relating to their service for or on behalf of us, subject to limited exceptions.

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

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

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

Item 15. Recent Sales of Unregistered Securities

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

Pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving any public offering as founder shares in connection with the formation of the Company, the Company issued 4,899,888 shares of its common stock as follows:

	Shares	Date	Consideration
Steven Quay	883,662	April 30, 2009	$ 12,000
Ensisheim Partners LLC	1,767,316	April 30, 2009	(1)
Ensisheim Partners LLC	883,658	December 28, 2009	$ 100,000
Manistee Ventures, Inc.	1,325,487	April 30, 2009	$ 18,000
John Barnhart	39,765	July 28, 2009	$ 540

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

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

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

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

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

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Item 16. Exhibits and Financial Statement Schedules.

EXHIBITS

1.1**	Form of Placement Agent Agreement
3.1**	Certificate of Incorporation, as currently in effect
3.2**	Certificate of Incorporation (to be effective immediately prior to completion of this offering)
3.3**	By-laws, as currently in effect
3.4**	By-laws (to be effective immediately prior to completion of this offering)
4.1**	Specimen common stock certificate
5.1**	Opinion of Ropes & Gray LLP
10.1**	Exclusive Patent License Agreement with Ensisheim Partners, LLC, dated July 27, 2009
10.2**	Termination of Exclusive Patent License Agreement, dated June 17, 2010
10.3**#	Restated and Amended Employment Agreement with Steven Quay
10.4**#	Restated and Amended Employment Agreement with Shu-Chih Chen
10.5**	Form of Indemnification Agreement
10.6**#	2010 Stock Option and Incentive Plan, as amended
10.7**#	Form of Incentive Stock Option Agreement
10.8**#	Form of Non-Qualified Stock Option Agreement for Employees
10.9**#	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors
10.10**	Form of Subscription Agreement
10.11**	Sublease Agreement with CompleGen, Inc. dated September 29, 2010
10.12**	Patent Assignment Agreement by and between the Company and Ensisheim Partners, LLC
10.13**#	Form of Restricted Stock Award Agreement
10.14**	Form of Lock-Up Agreement
10.15**	Agreement with Christopher Benjamin
10.16**	Business Consultant Agreement with Edward Sauter
10.17**	Prototype Development Proposal and Terms and Conditions, between the Company and HLB, LLC.
10.18**	Commercial Lease Agreement with Ensisheim Partners LLC, dated December 24, 2009
10.19**	Termination of Lease Obligation with Ensisheim Partners LLC, dated July 21, 2010
10.20**	Office Lease with Sander Properties, LLC, dated March 4, 2011
10.21**	Office Lease with Sander Properties, LLC, dated July 8, 2011
10.22**	Office Lease with Sander Properties, LLC, dated September 20, 2011
10.23**	Sublease with Fred Hutchinson Cancer Research Center, dated December 9, 2011
10.24**	Promissory Note Line of Credit, effective November 3, 2010, by and between the Company and Steven C. Quay
10.25	Term Sheet for License Agreement between the Company and Inven2 AS
10.26	Agreement between the Company and Accellent Inc., dated August 8, 2011
10.27**	Supply Agreement between the Company and Biomarker LLC, dated June 24, 2011
10.28	Purchase Agreement between the Company and Hologic Inc., dated May 11, 2011
10.29	Agreement between the Company and Biomarker LLC, dated June 22, 2012
23.1	Consent of KCCW Accountancy Corp.
23.2**	Consent of Ropes & Gray LLP (filed as part of Exhibit 5.1)
24.1**	Power of Attorney

** Previously filed.

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

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

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Item 17. Undertakings

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

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 5 to this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seattle, State of Washington, on June 25, 2012.

ATOSSA GENETICS INC.
By:

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

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 5 to this Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Steven C. Quay Steven C. Quay, M.D., Ph.D.	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	June 25, 2012
/s/ Christopher Benjamin Christopher Benjamin	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 25, 2012
* John Barnhart	Director	June 25, 2012
* Alexander Cross, Ph.D.	Director	June 25, 2012
* Shu-Chih Chen, Ph.D.	Director	June 25, 2012
* Stephen J. Galli, M.D.	Director	June 25, 2012
* H. Lawrence Remmel	Director	June 25, 2012

*By:

/s/ Steven C. Quay
Attorney-in-Fact

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