

ATOSSA GENETICS INC
Form 10-Q
May 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number: 001-35610

ATOSSA GENETICS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

26-4753208

(I.R.S. Employer
Identification No.)

2345 Eastlake Ave. East, Suite 201

Seattle, WA

(Address of principal executive offices)

98102

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding at May 11, 2015 was 27,217,257.

ATOSSA GENETICS INC.

FORM 10-Q

QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****ATOSSA GENETICS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$9,728,369	\$8,500,718
Accounts receivable, net	1,280,209	297,958
Prepaid expense	263,763	247,207
Inventory, net	94,628	39,788
Total current assets	11,366,969	9,085,671
Furniture and equipment, net	381,590	357,532
Intangible assets, net	1,877,755	1,920,645
Deferred financing costs	-	351,961
Other assets	176,551	48,193
Total assets	\$13,802,865	\$11,764,002
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$966,208	\$594,357
Accrued expenses	1,117,932	444,861
Payroll liabilities	1,279,528	1,056,705
Short-term lease obligations	79,974	76,025
Other current liabilities	42,914	42,228
Total current liabilities	3,486,556	2,214,176
Deferred rent, net of current portion	7,227	2,483
Long-term lease obligations	25,230	49,216
Total liabilities	3,519,013	2,265,875
Commitments and contingencies (note 13)		

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Stockholders' equity		
Preferred stock - \$.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock - \$.001 par value; 75,000,000 shares authorized, 27,217,257 and 24,564,058 shares issued and outstanding	27,217	24,564
Additional paid-in capital	48,766,466	44,648,103
Accumulated deficit	(38,509,831)	(35,174,540)
Total stockholders' equity	10,283,852	9,498,127
Total liabilities and stockholders' equity	\$ 13,802,865	\$ 11,764,002

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

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

	For the Three Months Ended	
	March 31 ,	
	2015	2014
Revenue		
Diagnostic testing services	\$ 1,872,798	\$ 24,124
Product sales	470	-
Total revenue	1,873,268	24,124
Cost of revenue		
Diagnostic testing services	1,206,312	-
Product sales	1,642	-
Total cost of revenue	1,207,954	-
Gross profit	665,314	24,124
Selling expenses	546,854	237,838
Research and development expenses	797,225	422,503
General and administrative expenses	2,605,111	1,774,708
Total operating expenses	3,949,190	2,435,049
Operating loss	(3,283,876)	(2,410,925)
Interest income	279	143
Interest expense	1,784	749
Other losses	49,910	-
Loss before income taxes	(3,335,291)	(2,411,531)
Income taxes	-	-
Net loss	\$(3,335,291)	\$(2,411,531)
Loss per common share - basic and diluted	\$(0.13)	\$(0.10)
Weighted average shares outstanding, basic and diluted	24,916,867	24,419,060

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

ATOSSA GENETICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2014	24,564,058	\$24,564	\$44,648,103	\$(35,174,540)	\$9,498,127
Issuance of common shares for cash	2,653,199	2,653	4,289,696	-	4,292,349
Amortization of deferred financing costs	-	-	(351,961)	-	(351,961)
Compensation cost for stock options granted to executives and employees	-	-	180,628	-	180,628
Net loss for the three months ended March 30, 2015	-	-	-	(3,335,291)	(3,335,291)
Balance at March 31, 2015	27,217,257	\$27,217	\$48,766,466	\$(38,509,831)	\$10,283,852

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

ATOSSA GENETICS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(3,335,291)	\$(2,411,531)
Compensation cost for stock options granted	180,628	230,181
Depreciation and amortization	84,867	125,097
Bad debt expense	218,482	27,860
Changes in operating assets and liabilities:		
Accounts receivable	(1,200,733)	19,796
Inventory	(54,840)	-
Prepaid expenses	(16,556)	(245,178)
Increase in other assets	(128,359)	(24,863)
Accounts payable	371,851	42,944
Payroll liabilities	222,823	(150,504)
Deferred rent	4,744	(13,134)
Accrued expenses	653,034	(75,905)
Product recall liability	-	(115,292)
Other current liabilities	687	(13,460)
Net cash used in operating activities	(2,998,663)	(2,603,989)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(54,860)	(2,966)
Purchase of intangible assets	(11,175)	(100,000)
Net cash used in investing activities	(66,035)	(102,966)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common stock and warrants	4,292,349	12,955,745
Net cash provided by financing activities	4,292,349	12,955,745
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,227,651	10,248,790
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	8,500,718	6,342,161
CASH AND CASH EQUIVALENTS, ENDING BALANCE	\$9,728,369	\$16,590,951
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$1,784	\$749
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Noncash reclass of prepaid license fees	\$	15,000
Amortization of commitment shares	\$351,961	\$75,000

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

ATOSSA GENETICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1: NATURE OF OPERATIONS

Atossa Genetics Inc. (the “Company”) was incorporated on April 30, 2009 in the State of Delaware. The Company’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. The Company was formed to develop and market the MASCT System, which is a medical device that collects specimens of nipple aspirate fluid (NAF). The Company’s fiscal year ends on December 31st.

In December 2011, the Company established The National Reference Laboratory for Breast Health, Inc., or NRLBH, as a wholly-owned subsidiary which performs the Company’s NAF cytology test on NAF specimens including those collected with the MASCT System. The NRLBH is certified by College of American Pathologists (CAP) and by Clinical Laboratory Improvement Amendments (CLIA). The current version of the MASCT System is called the ForeCYTE Breast Aspirator. The NRLBH is providing other test services, including the pharmacogenomics test which provides physicians with genetic information that can be used to guide therapeutic decisions and may mitigate the incidence of costly adverse drug reactions and improve efficiencies.

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 consolidated financial statements are prepared using generally accepted accounting principles in the United States of America (“GAAP”) 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 incurred net losses and negative operating cash flows since inception. For the three months ended March 31, 2015, the Company recorded a net loss of

approximately \$3.3 million and used approximately \$3.0 million of cash in operating activities. As of March 31, 2015, the Company had approximately \$9.7 million in cash and cash equivalents and working capital of approximately \$7.9 million. 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. The Company can give no assurances that any additional capital that it is able to obtain, if any, will be sufficient to meet its needs, or that any such financing will be obtainable on acceptable terms. If the Company is unable to obtain adequate capital, it could be forced to cease operations or substantially curtail its commercial activities. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities should the Company be unable to continue as a going concern.

Management's Plan to Continue as a Going Concern

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plans to obtain such resources for the Company include (1) obtaining capital from the sale of its equity securities during 2015, (2) sales of the ForeCYTE and FullCYTE Breast Aspirators and laboratory service revenue in 2015, and (3) short-term borrowings from the banks, stockholders or related party(ies), if needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of its plans.

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

NOTE 3: SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation:

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), have been condensed or omitted pursuant to those rules and regulations. The Company believes disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows with respect to the interim condensed consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire fiscal year. Reference is made to the Company's audited annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2014, which contain information useful to understanding the Company's business and financial statement presentations. The Condensed Consolidated Balance Sheet as of December 31, 2014 was derived from the Company's most recent audited financial statements, but does not include all disclosures required by GAAP for a year-end balance sheet. The Company's significant accounting policies and practices are presented as Note 3 to the consolidated financial statements included in the Annual Report. The accompanying condensed consolidated financial statements include the financial statements of Atossa Genetics Inc. and its wholly-owned subsidiary NRLBH. All significant intercompany account balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements have been prepared in accordance with GAAP.

Use of Estimates:

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

Recently Issued Accounting Pronouncements:

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

In August, 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption, which generally refers to an entity's ability to meet its obligations as they become due. If substantial doubt exists but is not alleviated by management's plan, the footnotes must specifically state that "there is substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued." In addition, if substantial doubt exists, regardless of whether such doubt was alleviated, entities must disclose: (a) principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans, if any); (b) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and (c) management's plans that are intended to mitigate the conditions or events that raise substantial doubt, or that did alleviate substantial doubt, about the entity's ability to continue as a going concern. If substantial doubt has not been alleviated, these disclosures should become more extensive in subsequent reporting periods as additional information becomes available. In the period that substantial doubt no longer exists (before or after considering management's plans), management should disclose how the principal conditions and events that originally gave rise to substantial doubt have been resolved. The ASU applies prospectively to all entities for annual periods ending after December 15, 2016, and to annual and interim periods thereafter. Early adoption is permitted. The Company has not yet adopted the provisions of ASU 2014-15.

NOTE 4: PREPAID EXPENSES

Prepaid expenses consisted of the following: