

CYTORI THERAPEUTICS, INC.

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington , D.C. 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, 2013

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 001-34375

CYTORI THERAPEUTICS , INC.

(Exact name of Registrant as Specified in Its Charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

33-0827593

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

3020 CALLAN ROAD, SAN DIEGO, CALIFORNIA

(Address of principal executive offices)

92121

(Zip Code)

Registrant's telephone number, including area code: **(858) 458-0900**

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 (§232.405 of this chapter) 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 definitions 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

(Do not check if a 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

As of April 30, 2013, there were 67,183,050 shares of the registrant's common stock outstanding.

CYTORI THERAPEUTICS, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

CYTORI THERAPEUTICS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	<u>As of March 31, 2013</u>	<u>As of December 31, 2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,404,000	\$ 25,717,000
Accounts receivable, net of reserves of \$374,000 and of \$278,000 in 2013 and 2012, respectively	2,961,000	3,926,000
Inventories, net	3,646,000	3,175,000
Other current assets	1,189,000	1,161,000
Total current assets	24,200,000	33,979,000
Property and equipment, net	2,049,000	2,174,000
Restricted cash and cash equivalents	350,000	350,000
Investment in joint venture	37,000	85,000
Other assets	2,808,000	2,740,000
Goodwill	3,922,000	3,922,000
Total assets	\$ 33,366,000	\$ 43,250,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,000,000	\$ 7,411,000
Current portion of long-term obligations, net of discount	9,800,000	9,784,000
Current portion of termination fee obligation	800,000	—
Warrant liability	84,000	418,000
Total current liabilities	16,684,000	17,613,000
Deferred revenues, related party	—	638,000
Deferred revenues	232,000	2,635,000
Option liability	2,500,000	2,250,000
Long-term deferred rent and other	988,000	756,000
Long-term obligations, net of discount, less current portion	10,594,000	12,903,000
Total liabilities	30,998,000	36,795,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; -0- shares issued and outstanding in 2013 and 2012	—	—
Common stock, \$0.001 par value; 95,000,000 shares authorized; 67,173,050 and 65,914,050 shares issued and outstanding in 2013 and 2012, respectively	67,000	66,000
Additional paid-in capital	284,806,000	281,117,000
Accumulated other comprehensive loss	(110,000)	—
Accumulated deficit	(282,395,000)	(274,728,000)
Total stockholders' equity	2,368,000	6,455,000
Total liabilities and stockholders' equity	\$ 33,366,000	\$ 43,250,000

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2013	2012
Product revenues	\$ 1,392,000	\$ 1,481,000
Cost of product revenues	<u>756,000</u>	<u>853,000</u>
Gross profit	<u>636,000</u>	<u>628,000</u>
Development revenues:		
Development, related party	638,000	—
Development revenue	1,179,000	—
Government contracts and other	549,000	3,000
	<u>2,366,000</u>	<u>3,000</u>
Operating expenses:		
Research and development	3,720,000	2,836,000
Sales and marketing	2,257,000	2,376,000
General and administrative	3,846,000	3,924,000
Change in fair value of warrant liability	(334,000)	130,000
Change in fair value of option liability	250,000	(270,000)
	<u>9,739,000</u>	<u>8,996,000</u>
Total operating expenses	<u>9,739,000</u>	<u>8,996,000</u>
Operating loss	<u>(6,737,000)</u>	<u>(8,365,000)</u>
Other income (expense):		
Interest income	—	2,000
Interest expense	(709,000)	(865,000)
Other expense, net	(173,000)	(47,000)
Equity loss from investment in joint venture	(48,000)	(50,000)
	<u>(930,000)</u>	<u>(960,000)</u>
Total other expense	<u>(930,000)</u>	<u>(960,000)</u>
Net loss	<u>(7,667,000)</u>	<u>(9,325,000)</u>
Other comprehensive loss – foreign currency translation adjustments	<u>(110,000)</u>	<u>—</u>
Comprehensive loss	<u>\$ (7,777,000)</u>	<u>\$ (9,325,000)</u>
Basic and diluted net loss per common share	<u>\$ (0.11)</u>	<u>\$ (0.16)</u>
Basic and diluted weighted average common shares	<u>66,990,950</u>	<u>57,484,990</u>

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (7,667,000)	\$ (9,325,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	200,000	220,000
Amortization of deferred financing costs and debt discount	192,000	237,000
Increase (decrease) in allowance for doubtful accounts	87,000	(24,000)
Change in fair value of warrant liability	(334,000)	130,000
Change in fair value of option liability	250,000	(270,000)
Stock-based compensation	873,000	942,000
Equity loss from investment in joint venture	48,000	50,000
Increases (decreases) in cash caused by changes in operating assets and liabilities:		
Accounts receivable	868,000	859,000
Inventories	(477,000)	(56,000)
Other current assets	(28,000)	(298,000)
Other assets	(974,000)	(22,000)
Accounts payable and accrued expenses	(523,000)	(83,000)
Deferred revenues, related party	(638,000)	—
Deferred revenues	(1,203,000)	(68,000)
Long-term deferred rent	32,000	(6,000)
	(9,294,000)	(7,714,000)
Cash flows from investing activities:		
Purchases of property and equipment	(81,000)	(25,000)
License agreement termination fee	(200,000)	—
	(281,000)	(25,000)
Cash flows from financing activities:		
Principal payments on long-term obligations	(2,485,000)	(71,000)
Proceeds from exercise of employee stock options and warrants	—	947,000
Proceeds from sale of common stock	3,001,000	4,396,000
Costs from sale of common stock	(184,000)	(56,000)
	332,000	5,216,000
Effect of exchange rate changes on cash and cash equivalents	(70,000)	—
	(9,313,000)	(2,523,000)
Cash and cash equivalents at beginning of period	25,717,000	36,922,000
Cash and cash equivalents at end of period	\$ 16,404,000	\$ 34,399,000
Supplemental disclosure of cash flows information:		
Cash paid during period for:		
Interest	\$ 520,000	\$ 625,000
Supplemental schedule of non-cash operating, investing and financing activities:		
Capital equipment lease	\$ —	\$ —
Net increase in purchases of property and equipment included in accounts payable	—	795,000

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2013
(UNAUDITED)

1. Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. Our consolidated condensed balance sheet at March 31, 2013 has been derived from the audited financial statements at December 31, 2012, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of Cytori Therapeutics, Inc., and our subsidiaries (the Company) have been included. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These financial statements should be read in conjunction with the consolidated financial statements and notes therein included in our annual report on Form 10-K for the year ended December 31, 2012.

2. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Our most significant estimates and critical accounting policies involve recognizing revenue, valuing our put option arrangement with Olympus Corporation, valuing warrants, determining the assumptions used in measuring share-based compensation expense and valuing allowances for doubtful accounts and inventories.

Actual results could differ from these estimates. Management's estimates and assumptions are reviewed regularly, and the effects of revisions are reflected in the consolidated financial statements in the periods they are determined to be necessary.

3. Capital Availability

We incurred net losses of \$7,667,000 and \$9,325,000 for the three months ended March 31, 2013 and 2012, respectively. We have an accumulated deficit of \$282,395,000 as of March 31, 2013. Additionally, we have used net cash of \$9,294,000 and \$7,714,000 to fund our operating activities for the three months ended March 31, 2013 and 2012, respectively. To date, these operating losses have been funded primarily from outside sources of invested capital and gross profits. During 2012 and 2013, we expanded our commercialization activities while simultaneously pursuing available financing sources to support operations and growth.

We have had, and we will likely continue to have, an ongoing need to raise additional cash from outside sources to fund our future operations. We believe we have sufficient cash to fund operations through June 30, 2013, which includes minimum liquidity requirements of the Amended and Restated Loan and Security Agreement, that requires us to make principal payments of \$825,000 per month along with accrued interest and maintain at least three months of cash on hand. We are in discussions with our lender group to extend the term of the loan and defer principal payments to coincide with anticipated product sales, government contract payments, and other potential cash milestones. At June 30, 2013, absent additional funding or debt restructuring, our cash balance will be less than the minimum liquidity amount required by the lender in the Amended and Restated Loan and Security Agreement. In order to fund operations and our continued commercialization efforts through the next twelve months, we are pursuing additional funding through either strategic corporate partnerships, debt restructuring or future issuances of equity or debt securities in addition to our gross profits. We have an established history of raising capital through all these platforms, and are currently involved in negotiations with multiple parties. In the absence of sufficient positive cash flows from operations, no assurance can be given that we can generate sufficient revenue to cover operating costs or that additional financing will be available to us and, if available, on terms acceptable to us in the future.

Without this additional capital, cash generated from sales and containment of costs will not provide adequate funding indefinitely at their current levels. If we cannot raise sufficient capital, we would need to reduce our research, development, and administrative operations, including reductions of our employee base and the deferral of ongoing development projects, to focus almost entirely on the supply of current products to existing distribution channels and our thermal burn contract arrangement with BARDA. As a result, such reductions would negatively affect our ability to achieve certain other corporate goals.

4. Recent Accounting Pronouncements

In February 2013, the FASB issued authoritative guidance related to reclassifications out of accumulated other comprehensive income (“OCI”). Under the amendments in this update, an entity is required to report, in one place, information about reclassifications out of accumulated OCI and to report changes in its accumulated OCI balances. For significant items reclassified out of accumulated OCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under U.S. GAAP is required in the notes to the consolidated financial statements. We adopted this revised guidance in the first quarter of 2013, and have reflected the new disclosures in our unaudited consolidated condensed statements of operations and comprehensive loss. The adoption of this guidance did not affect our financial position or results of operations.

5. Warrant Liability

Warrants with exercise price reset features (down-round protection) are accounted for as liabilities, with changes in fair value included in net loss. The fair value of the liability associated with the warrants with this reset feature decreased to \$84,000 as of March 31, 2013 and \$334,000 in gains from the change in fair value of warrants were recorded for the three months ended March 31, 2013, whereas we recorded \$130,000 in losses for the three months ended March 31, 2012.

All future changes in the fair value of the warrants are recognized currently in earnings until such time as the warrants are exercised or expire in August 2013. These warrants are not traded in an active securities market, and as such, we estimated the fair value of these warrants using an option pricing model with the following assumptions:

	<u>As of</u> <u>March 31, 2013</u>	<u>As of</u> <u>December 31, 2012</u>
Expected term	0.37 years	0.61 years
Common stock market price	\$ 2.51	\$ 2.80
Risk-free interest rate	0.09%	0.11%
Expected volatility	53.28%	73.88%
Resulting fair value (per warrant)	\$ 0.04	\$ 0.20

Expected volatility is based primarily on historical volatility. Historical volatility was computed using daily pricing observations for recent periods that correspond to the expected term of the warrants. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining contractual term of the warrants. The risk-free interest rate is the interest rate for treasury constant maturity instruments published by the Federal Reserve Board that is closest to the expected term of the warrants. The fair value of these warrants also incorporates our assumptions about future equity issuances and their impact to the down-round protection feature.

Fluctuations in the fair value of the warrants are impacted by unobservable inputs, most significantly the assumption with regards to future equity issuances and its impact to the down-round protection feature. Significant increases (decreases) in this input in isolation would result in a significantly higher (lower) fair value measurement.

6. Long-term Debt

On September 9, 2011 we entered into a Second Amendment to the Amended and Restated Loan and Security Agreement (loan agreement) with General Electric Capital Corporation (GECC), Silicon Valley Bank (SVB) and Oxford Finance Corporation (together, the “Lenders”), pursuant to which the Lenders increased the prior term loan made to the Company to a principal amount of \$25.0 million (Term Loan), subject to the terms and conditions set forth in the loan agreement. The Term Loan accrues interest at a fixed rate of 9.87% per annum. Pursuant to the loan agreement, we are required to make (i) twelve (12) equal consecutive monthly principal payments of \$20,833 on the first day of each calendar month, commencing on October 1, 2011, (ii) twenty-nine (29) equal consecutive monthly principal payments of \$825,000 on the first day of each calendar month, commencing on October 1, 2012, and (iii) and one (1) final principal payment of \$825,000 on March 1, 2015. In addition, the maturity date of the Term Loan has been extended until March 1, 2015, and at maturity of the Term Loan, the Company will make a final payment fee equal to 5% (\$1,250,000) of the Term Loan. We may incur additional fees if we elect to prepay the Term Loan. In connection with the Term Loan, on September 9, 2011, we issued to the Lenders warrants to purchase up to an aggregate of 132,891 shares of our common stock at an exercise price of \$3.01 per share. These warrants are immediately exercisable and will expire on September 9, 2018.

The Term Loan amended the Amended and Restated Loan and Security Agreement, of which an aggregate balance of approximately \$15.6 million remained outstanding along with a prorated final payment fee of \$419,000. The net proceeds of the Term Loan, after payment of lender fees and expenses, were approximately \$8.6 million.

We accounted for this amendment as debt modification since the terms of the amended Term Loan and the Original Term Loan were not substantially different and as present value of cash flows of the modified instrument (using a net method of comparing the present value of cash flows related to the lowest common principal balance between the old and the new loans) was within 10% of the original debt instrument. Accordingly, the fees associated with the amended Term Loan of \$300,000, final payment fee of \$1,250,000, and the existing unamortized debt discount from the Original Term Loan of \$332,000 will be amortized as an adjustment of interest expense over the term of the Amended Term Loan using the effective interest method.

We allocated the aggregate proceeds of the Term Loan between the warrants and the debt obligations based on their relative fair values. The fair value of the warrants issued to the Lenders is calculated utilizing the Black-Scholes option pricing model. We are amortizing the relative fair value of the warrants as a discount of \$267,000 over the term of the loan using the effective interest method, with an effective interest rate of 13.63%. If the maturity of the debt is accelerated due to an event of default, then the amortization would be accelerated. The Term Loan is collateralized by the tangible assets of the company, including a security interest in substantially all of its existing and after-acquired assets.

7. Revenue Recognition

Product Sales

We recognize revenue from product sales when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured.

For all sales, we use a binding purchase order or a signed agreement as evidence of an arrangement. Revenue for these product sales is recognized upon delivery to the customer, as all risks and rewards of ownership have been substantively transferred to the customer at that point. For sales to customers who arrange for and manage the shipping process, we recognize revenue upon shipment from our facilities. Shipping and handling costs that are billed to our customers are classified as revenue. The customer's obligation to pay and the payment terms are set at the time of delivery and are not dependent on the subsequent use or resale of our products.

For sales that include multiple deliverables, such as sales of our StemSource® Cell Bank (cell bank), we account for products or services (deliverables) separately rather than as a combined unit. Stem cell banks typically consist of a complex array of equipment, proprietary knowledge, license rights, and services, including one or more StemSource® devices, a cryogenic freezer, measuring and monitoring equipment, and a database patient tracking system. In addition, we typically provide consulting, installation, and training services. Web hosting, technical support and maintenance services are generally provided for a period of up to one year subsequent to the date of sale. FASB authoritative guidance requires an evaluation of these deliverables to determine the appropriate "units of accounting" for purposes of revenue recognition. Each cell bank is customized to provide the best solution for the customer. Depending on customers' needs, all or combination of the following units of accounting will apply to cell bank transactions:

- initial consulting services;
- license rights and standard operating procedures;
- equipment and supplies;
- installation services;
- training services;
- database hosting services;
- technical support services; and
- maintenance services.

FASB authoritative guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence (“VSOE”); (b) third-party evidence (“TPE”); or (c) management estimates. This guidance requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative selling price method. For our cell bank sales, we establish relative selling prices for all deliverables based on vendor-specific quotes for comparable services when available. In the absence of VSOE, we use competitors’ products or services considered largely interchangeable with our own or management’s best estimate. Revenue allocated to each unit of accounting is calculated and recognized based on the relative selling price of each deliverable. Future services such as web hosting and ongoing maintenance are deferred and recognized into income as the services are provided, generally over one year following the installation of the equipment.

Concentration of Significant Customers

For the three months ended March 31, 2013, one distributor comprised 42% of our revenue recognized for the quarter. Two direct customers, two distributors and a government agency accounted for 62% of total outstanding accounts receivable as of March 31, 2013.

For the three months ended March 31, 2012, two direct customers comprised 31% of our revenue recognized for the quarter. Two direct customers accounted for 29% of total outstanding accounts receivable as of March 31, 2012.

Product revenues, classified by geographic location, are as follows:

	Three months ended			
	March 31, 2013		March 31, 2012	
	Product Revenues	% of Total	Product Revenues	% of Total
North America	\$ 295,000	21%	\$ 214,000	14%
Japan	699,000	50%	549,000	37%
Europe	333,000	24%	352,000	24%
Other countries	65,000	5%	366,000	25%
Total product revenues	\$ 1,392,000	100%	\$ 1,481,000	100%

Research and Development

We earn revenue for performing tasks under research and development agreements with both commercial enterprises, such as Olympus and Senko, and governmental agencies like the U.S. Department of Health and Human Service’s Biomedical Advanced Research and Development Authority (BARDA). Revenue earned under development agreements is classified as either research grant or development revenues depending on the nature of the arrangement. Revenues derived from reimbursement of direct out-of-pocket expenses for research costs associated with government contracts are recorded as government contract and other within development revenues. Government contract revenue is recorded at the gross amount of the reimbursement. The costs associated with these reimbursements are reflected as a component of research and development expense in our statements of operations.

In the third quarter of 2012, we were awarded a contract to develop a new countermeasure for thermal burns valued at up to \$106 million with BARDA. The initial base period includes \$4.7 million over two years and covers preclinical research and continued development of Cytori’s Celution® system to improve cell processing. The additional contract options, if fully executed, cover clinical development through FDA approval under a device-based PMA regulatory pathway. This is a cost reimbursement contract and related government contract revenue was recorded at the gross amount of reimbursement starting in the fourth quarter of 2012.

We received funds from Olympus and Olympus-Cytori, Inc. during 2005 and 2006. We recorded upfront fees totaling \$28,311,000 as deferred revenues, related party. In exchange for these proceeds, we agreed to (a) provide Olympus-Cytori, Inc. an exclusive and perpetual license to our Celution® System device technology and certain related intellectual property, and (b) provide future development contributions related to commercializing the Celution® System platform. The license and development services are not separable and as a result the recognition of this deferred amount as revenue requires achievement of service related milestones, under a proportional performance methodology. If and as such revenues are recognized, deferred revenue will be decreased. Proportional performance methodology was elected due to the nature of our development obligations and efforts in support of the Joint Venture (“JV”), including product development activities and regulatory efforts to support the commercialization of the JV products. The application of this methodology uses the achievement of R&D milestones as outputs of value to the JV. We received up-front, non-refundable payments in connection with these development obligations, which we have broken down into specific R&D milestones that are definable and substantive in nature, and which will result in value to the JV when achieved. As our research and development efforts progress, we periodically evaluate, and modify if necessary, the milestone points in our proportional performance model to ensure that revenue recognition accurately reflects our best estimate of substantive value deliverable to the JV. Revenue will be recognized as the above mentioned R&D milestones are completed. Of the amounts received and deferred, we recognized the last remaining development revenue of \$638,000 during the three months ended March 31, 2013 as a result of the United States Court of Appeals upholding the FDA’s previous determination that our cell processing devices were not substantially equivalent to the cited predicate devices. The recognition of revenue associated with this event reflects the completion of our efforts expended to use commercially reasonable efforts to obtain device regulatory approvals in the United States as it pertains to the 510(k) pathway. There was no development revenue recognized during the three months ended March 31, 2012. All related development costs are expensed as incurred and are included in research and development expense on

our statements of operations. To date under the contract, of the \$28,311,000 originally deferred, all deferred amounts have been recognized as of March 31, 2013.

Refer to Note 14 for discussion about arrangement with Senko.

8. Inventories

Inventories are carried at the lower of cost or market, determined on the first-in, first-out (FIFO) method.

Inventories consisted of the following:

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Raw materials	\$ 1,613,000	\$ 1,384,000
Work in process	657,000	404,000
Finished goods	1,376,000	1,387,000
	<u>\$ 3,646,000</u>	<u>\$ 3,175,000</u>

9. Share-Based Compensation

Stock Options

During the first quarter of 2013, we issued to our directors and executive officers options to purchase an aggregate of 1,897,000 shares of our common stock, with four-year vesting for our officers and two-year vesting for our directors. The grant date fair value of the awards granted to our officers was \$1.80 per share for options with an exercise price of \$2.74 (which was the fair market value of our common stock on the date of grant) and \$1.49 per share for options with an exercise price of \$5.00, respectively. The grant date fair value of the awards granted to our directors was \$1.84 per share. The resulting share-based compensation expense of \$3,235,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

During the first quarter of 2013, we issued a grant to our non-executive employees options to purchase an aggregate of 552,350 shares of our common stock, with four-year vesting. The grant date fair values of the awards \$1.92 per share and \$1.64 per share, respectively, due to the awards being granted on two different dates. The resulting share-based compensation expense of \$974,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

During the first quarter of 2012, we issued to our directors and executive officers options to purchase an aggregate of 690,000 shares of our common stock, with four-year vesting for our officers and two-year vesting for our directors. The grant date fair value of the awards granted to our officers was \$2.10 per share and to our directors was \$1.35 per share. The resulting share-based compensation expense of \$1,373,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

Restricted Stock Awards

During the first quarter of 2012, we issued to our executive officers 190,000 shares of restricted stock. The stock award is scheduled to fully vest on January 10, 2013, subject to the officer's continued employment with the Company through the vesting date. The resulting share-based compensation expense of \$654,000 will be recognized as expense over the respective vesting periods.

Performance-Based Restricted Stock Awards

In January 2012, we granted 276,375 performance-based restricted stock awards under the 2004 Equity Incentive Plan. The awards provide certain employees until December 31, 2012 to achieve certain performance goals established by the Compensation Committee. In January 2013, the Compensation Committee modified the awards to allow a portion of the awards to continue vesting based on partial achievement of the performance goals.

As a result of this modification, 86,229 shares with fair value of \$2.74 per share will continue vesting under the modified terms of the grant that would have been cancelled under the original terms. Since we have not recognized any expense relating to these shares through December 31, 2012, additional compensation expense \$236,000 resulting from this modification will be recognized from the modification date through the vesting date of January 2014. We recognized \$70,000 of compensation expense related to performance-based awards during the three months ended March 31, 2013.

The following table summarizes activity with respect to the performance based restricted stock awards during the three months ended March 31, 2013:

	Restricted Stock Awards	Weighted Average Fair Value
Outstanding at January 1, 2013	261,300	\$ 3.44
Granted	0	
Vested	0	
Cancelled/forfeited	(109,746)	\$ 3.44
Outstanding at March 31, 2013	<u>151,554</u>	<u>\$ 3.04</u>
Vested at March 31, 2013	0	

10 Loss per Share

Basic per share data is computed by dividing net income or loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted per share data is computed by dividing net income or loss applicable to common stockholders by the weighted average number of common shares outstanding during the period increased to include, if dilutive, the number of additional common shares that would have been outstanding as calculated using the treasury stock method. Potential common shares were related entirely to outstanding but unexercised options and warrants for all periods presented.

We have excluded all potentially dilutive securities, including unvested performance-based restricted stock, from the calculation of diluted loss per share attributable to common stockholders for the three months ended March 31, 2013 and 2012, as their inclusion would be antidilutive. Potentially dilutive common shares excluded from the calculations of diluted loss per share were 18,979,740 and 18,544,087 for the three months ended March 31, 2013 and 2012, respectively.

11. Other Comprehensive Loss

During the first quarter of 2013, we determined that the functional currency of our Japanese subsidiary changed from the US Dollar to the Japanese Yen due to significant changes in economic facts and circumstances of our Japan subsidiary. As a result of this change, a portion of the foreign exchange gain or loss will be classified as foreign currency translation adjustments within other comprehensive income or loss. Our comprehensive loss includes net loss and foreign currency translation adjustments. See the unaudited consolidated condensed statements of operations and comprehensive loss for the effect of the comprehensive loss to our net loss.

The components of accumulated other comprehensive loss are as follows:

	Foreign currency translation adjustments	Accumulated other comprehensive loss
Beginning balance, January 1, 2013	\$ —	\$ —
Net current period other comprehensive loss	(110,000)	(110,000)
Ending balance, March 31, 2013	<u>\$ (110,000)</u>	<u>\$ (110,000)</u>

12. Commitments and Contingencies

We have entered into agreements with various research organizations for pre-clinical and clinical development studies, which have provisions for cancellation. Under the terms of these agreements, the vendors provide a variety of services including conducting research, recruiting and enrolling patients, monitoring studies and data analysis. Payments under these agreements typically include fees for services and reimbursement of expenses. The timing of payments due under these agreements was estimated based on current schedules of pre-clinical and clinical studies in progress. As of March 31, 2013, we have pre-clinical research study obligations of \$23,000 (all of which are expected to be complete within a year) and clinical research study obligations of \$11,700,000 (\$3,150,000 of which are expected to be complete within a year). Should the timing of the pre-clinical and clinical trials change, the timing of the payment of these obligations would also change.

During 2008, we entered into a supply agreement with a minimum purchase requirements clause. As of March 31, 2013, we have minimum purchase obligations of \$850,000 (all of which are expected to be paid within a year).

We have entered into several lease agreements for our headquarters office location as well as international office locations and corporate housing for our employees on international assignments. As of March 31, 2013, we have remaining lease obligations of \$9,075,000 (\$2,177,000 of which are expected to be completed within a year).

We are subject to various claims and contingencies related to legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to us that may arise as a result of currently pending legal proceedings will not have a material adverse effect on our financial condition, liquidity, or results of operations as a whole.

Refer to note 6 for a discussion of our commitments and contingencies related to our long-term obligations.

Refer to note 13 for a discussion of our commitments and contingencies related to our transactions with Olympus, including (a) our obligation to the Joint Venture in future periods and (b) certain put and call rights embedded in the arrangements with Olympus.

Refer to note 14 for a discussion of our commitments and contingencies related to our arrangements with Senko.

13. Transactions with Olympus Corporation

Initial Investment by Olympus Corporation in Cytori

In 2005, we entered into a common stock purchase agreement with Olympus in which we received \$11,000,000 in cash proceeds. We received an additional \$11,000,000 from Olympus in August 2006 for the issuance of approximately 1,900,000 shares of our common stock at \$5.75 per share. We received an additional \$6,000,000 from Olympus in August 2008 for the issuance of 1,000,000 unregistered shares of our common stock at \$6.00 per share and 500,000 common stock warrants (with an original exercise price of \$8.50 per share) under a private placement offering.

As of March 31, 2013, Olympus holds approximately 5.97% of our issued and outstanding shares. Additionally, Olympus has a right, which it has not yet exercised, to designate a director to serve on our Board of Directors.

Formation of the Olympus-Cytori Joint Venture

In 2005, we entered into a joint venture and other related agreements (the "Joint Venture Agreements") with Olympus. The Joint Venture is owned equally by Olympus and us. We have determined that the Joint Venture is a variable interest entity or VIE, but that Cytori is not the VIE's primary beneficiary. Accordingly, we have accounted for our interests in the Joint Venture using the equity method of accounting, since we can exert significant influence over the Joint Venture's operations. At March 31, 2013, the carrying value of our investment in the Joint Venture is \$37,000. We are under no obligation to provide additional funding to the Joint Venture, but may choose to do so. We made no cash contributions to the Joint Venture during the three months ended March 31, 2013 and 2012.

Put/Calls and Guarantees

The Shareholders' Agreement between Cytori and Olympus provides that in certain specified circumstances of our insolvency or if we experience a change in control, Olympus will have the rights to (i) repurchase our interests in the Joint Venture at the fair value of such interests or (ii) sell its own interests in the Joint Venture to Cytori (the "Put") at the higher of (a) \$22,000,000 or (b) the Put's fair value.

At March 31, 2013 and December 31, 2012, the estimated fair value of the Put was \$2,500,000 and \$2,250,000, respectively. Fluctuations in the Put value are recorded in the consolidated condensed statements of operations as a component of change in fair value of option liabilities. The estimated fair value of the Put has been recorded as a long-term liability in the caption option liability in our consolidated condensed balance sheets.

The valuations of the Put were completed using an option pricing theory based simulation analysis (i.e., a Monte Carlo simulation). The valuations are based on assumptions as of the valuation date with regard to the market value of Cytori and the estimated fair value of the Joint Venture, the expected correlation between the values of Cytori and the Joint Venture, the expected volatility of Cytori and the Joint Venture, the bankruptcy recovery rate for Cytori, the bankruptcy threshold for Cytori, the probability of a change of control event for Cytori, and the risk free interest rate. Fluctuations in the fair value of the Put are impacted by unobservable inputs, most significantly the fair value of Cytori and the Joint Venture and the bankruptcy threshold for Cytori. Generally, a change in the assumption used for the fair value of Cytori and the Joint Venture is accompanied by a directionally opposite change in the fair value of the Put, whereas a change in assumption used for the bankruptcy threshold for Cytori is accompanied by a directionally similar change in the fair value of the Put.

The following assumptions were employed in estimating the value of the Put:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Expected volatility of Cytori	78.80%	79.40%
Expected volatility of the Joint Venture	78.80%	79.40%
Bankruptcy recovery rate for Cytori	28.00%	28.00%
Bankruptcy threshold for Cytori	\$ 15,995,000	\$ 12,622,000
Probability of a change of control event for Cytori	1.44%	1.54%
Expected correlation between fair values of Cytori and the Joint Venture in the future	46.00%	46.00%
Risk free interest rate	1.87%	1.78%

The Put has no expiration date. Accordingly, we will continue to recognize a liability for the Put and mark it to market each quarter until it is exercised or until the arrangements with Olympus are amended. See Note 18, Subsequent Events, for information regarding the termination of our Joint Venture relationship with Olympus.

14. Thin Film Japan Distribution Agreement

In 2004, the Company entered into a Distribution Agreement with Senko. Under this agreement, we granted to Senko an exclusive license to sell and distribute certain Thin Film products in Japan and are responsible for the completion of the initial regulatory application to the MHLW and commercialization of the Thin Film product line in Japan. The Distribution Agreement with Senko commences upon “commercialization.” Essentially, commercialization occurs when one or more Thin Film product registrations are completed with the MHLW. At the inception of this arrangement, we received a \$1,500,000 license fee which was recorded as deferred revenues in 2004. Half of the license fee was refundable if the parties agree commercialization is not achievable and a proportional amount was refundable if we terminate the arrangement, other than for material breach by Senko, before three years post-commercialization. We have also received \$1,250,000 in milestone payments from Senko.

In February 2013, we entered into a mutual termination and release agreement with Senko, whereby the Distribution Agreement and all Senko rights, licenses and privileges granted under the Distribution Agreement terminated and reverted to the Company. As a result of this Termination Agreement, we are obligated to pay Senko \$1,200,000 in six quarterly installment payments of \$200,000 each through May 2014. At the time of the Termination Agreement, we had a balance of \$2,379,000 in deferred revenues on our balance sheet relating to the payments received from Senko in the past pursuant to the Distribution Agreement. During the three months ended March 31, 2013, we made our first installment payment of \$200,000, accrued \$1,000,000 of the termination fee, and recognized the remaining \$1,179,000 in development revenues which reflects the Company’s efforts towards commercialization under the agreement.

15. Fair Value Measurements

Fair value measurements are market-based measurements, not entity-specific measurements. Therefore, fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. We follow a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable in active markets.

The following table provides a summary of the recognized assets and liabilities that we measure at fair value on a recurring basis:

	Balance as of March 31, 2013	Basis of Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 8,645,000	\$ 8,645,000	\$ —	\$ —
Liabilities:				
Put option liability	\$ (2,500,000)	\$ —	\$ —	\$ (2,500,000)
Warrant liability	\$ (84,000)	\$ —	\$ —	\$ (84,000)

	Balance as of December 31, 2012	Basis of Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 6,145,000	\$ 6,145,000	\$ —	\$ —
Liabilities:				
Put option liability	\$ (2,250,000)	\$ —	\$ —	\$ (2,250,000)
Warrant liability	\$ (418,000)	\$ —	\$ —	\$ (418,000)

We use quoted market prices to determine the fair value of our cash equivalents, which consist of money market funds that are classified in Level 1 of the fair value hierarchy.

We value our put liability using an option pricing theory based simulation analysis (i.e., a Monte Carlo simulation) (see note 13). Because some of the inputs to our valuation model are either not observable quoted prices or are not derived principally from or corroborated by observable market data by correlation or other means, the put option liability is classified as Level 3 in the fair value hierarchy.

The following table summarizes the change in our Level 3 put option liability value:

Put option liability	Three months ended March 31, 2013
Beginning balance	\$ (2,250,000)
Increase in fair value recognized in operating expenses	(250,000)
Ending balance	<u>\$ (2,500,000)</u>

Put option liability	Three months ended March 31, 2012
Beginning balance	\$ (1,910,000)
Decrease in fair value recognized in operating expenses	270,000
Ending balance	<u>\$ (1,640,000)</u>

Common stock purchase warrants issued in connection with our August 2008 private equity placement do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the option pricing model (see note 5). Some of the significant inputs are observable in active markets, such as common stock market price, volatility, and risk free rate. The fair value of these warrants also incorporate our assumptions about future equity issuances and their impact to the down-round protection feature. Because some of the inputs to our valuation model are either not observable quoted prices or are not derived principally from or corroborated by observable market data by correlation or other means, the warrant liability is classified as Level 3 in the fair value hierarchy.

The following table summarizes the change in our Level 3 warrant liability value:

Warrant liability	Three months ended March 31, 2013
Beginning balance	\$ (418,000)
Decrease in fair value recognized in operating expenses	334,000
Ending balance	<u>\$ (84,000)</u>

Warrant liability	Three months ended March 31, 2012
Beginning balance	\$ (627,000)
Increase in fair value recognized in operating expenses	(130,000)
Ending balance	<u>\$ (757,000)</u>

No other assets or liabilities are measured at fair value on a recurring basis, or have been measured at fair value on a non-recurring basis subsequent to initial recognition, on the accompanying consolidated condensed balance sheet as of March 31, 2013.

16. Fair Value

Financial Instruments

We disclose fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. The disclosures of estimated fair value of financial instruments at March 31, 2013 and December 31, 2012, were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, accounts receivable, inventories, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value due to the short-term nature of these instruments.

We utilize quoted market prices to estimate the fair value of our fixed rate debt, when available. If quoted market prices are not available, we calculate the fair value of our fixed rate debt based on a currently available market rate assuming the loans are outstanding through maturity and considering the collateral. In determining the current market rate for fixed rate debt, a market spread is added to the quoted yields on federal government treasury securities with similar terms to the debt.

At March 31, 2013 and December 31, 2012, the aggregate fair value and the carrying value of the Company's fixed rate long-term debt were as follows:

	<u>March 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Fixed rate long-term debt	\$ 20,155,000	\$ 20,324,000	\$ 22,425,000	\$ 22,608,000

Carrying value is net of debt discount of \$726,000 and \$917,000 as of March 31, 2013 and December 31, 2012, respectively.

The fair value of debt is classified as Level 3 in the fair value hierarchy as some of the inputs to our valuation model are either not observable quoted prices or are not derived principally from or corroborated by observable market data by correlation or other means.

17. Stockholders' Equity

Common Stock

On December 13, 2010 we raised \$10,000,000 in gross proceeds from a sale of 1,428,571 shares of unregistered common stock to Astellas Pharma Inc. for \$7.00 per share in a private stock placement. Pursuant to the terms of the purchase agreement, we granted Astellas Pharma Inc. a two year right of first refusal to enter into a development and commercialization collaboration with us regarding the use of our technology, on a worldwide basis, for the treatment of liver conditions. In addition, we have agreed to use reasonable efforts to file a registration statement with the Securities and Exchange Commission to register the shares of common stock for resale upon the request of Astellas Pharma Inc. We also granted Astellas Pharma Inc. a non-voting observer seat on our Board of Directors and the right to designate a representative member to our Scientific Advisory Board. The \$10,000,000 in total proceeds we received exceeded the market value of our stock at the completion of the purchase agreement. The \$2,526,000 difference between the proceeds received and the fair market values of our common stock was recorded as a component of deferred revenues in the accompanying balance sheet. This difference was recorded as deferred revenue since, conceptually, the excess proceeds represent a value paid by Astellas Pharma Inc. attributable to the scientific advisory board seat, the non-voting observer seat on our Board of Directors, and the two year right of first refusal to enter into a development and commercialization collaboration with us regarding the use of our technology, on a worldwide basis, for the treatment of liver conditions, rather than an additional equity investment in Cytori. We recognized this deferred amount as development revenue upon the expiration of the two year period in December 2012. We are still actively involved in discussions with Astellas Pharma, Inc. about a potential future development and commercialization collaboration with us.

On July 11, 2011, we entered into a common stock purchase agreement with Seaside 88, LP relating to the offering and sale of a total of up to 6,326,262 shares of our common stock. The agreement required us to issue and Seaside to buy 1,326,262 shares of our common stock at an initial closing and 250,000 shares of our common stock once every two weeks, commencing 30 days after the initial closing, for up to an additional 20 closings, subject to the satisfaction of customary closing conditions. At the initial closing, the offering price was \$4.52, which equaled 88% of our common stock's volume-weighted average trading prices, or VWAP, during the ten-day trading period immediately prior to the initial closing date, raising approximately \$6,000,000 in gross proceeds. At subsequent closings, the offering price was 90.25% of our common stock's volume-weighted average trading prices during the ten-day trading period immediately prior to each subsequent closing date. We raised approximately \$18,233,000 in gross proceeds from the sale of 5,826,262 shares in our scheduled closings through April 9, 2012. Effective, April 30, 2012, we terminated the agreement with Seaside 88, LP and we did not sell the remaining and final 500,000 shares that would otherwise have been sold under this agreement.

In December 2012, we entered into an underwriting agreement with Lazard Capital Markets, LLC (underwriter), relating to the issuance and sale of 7,020,000 shares of our common stock. The price to the public in this offering was \$2.85 per share and the underwriter purchased the shares from us at a price of \$2.69 per share. The transaction was completed on December 19, 2012 raising approximately \$20,007,000 in gross proceeds before deducting underwriting discounts and commissions and other offering expenses payable by us. Under the terms of the underwriting agreement, we granted the underwriter an option, exercisable for 30 days, to purchase up to an additional 1,053,000 shares. Subsequently, in January 2013, the underwriter exercised this option and as a result we sold an additional 1,053,000 shares raising approximately \$3,001,000 in gross proceeds before deducting underwriting discounts and commissions and other offering expenses payable by us.

Warrant Adjustments

Our March 2009 offering of 4,771,174 shares of our common stock and warrants to purchase up to a total of 6,679,644 additional shares of our common stock with an exercise price of \$2.59 per share, our May 2009 equity offering of 1,864,783 shares of our common stock and warrants to purchase up to a total of 3,263,380 additional shares of our common stock with an exercise price of \$2.62 per share, our closings with Seaside 88, LP, our October 2010 offering of 4,600,000 shares of our common stock, our December 2010 sale of 1,428,571 shares of our common stock, our December 2012 offering of 7,020,000 shares of our common stock and our January 2013 sale of 1,053,000 shares of our common stock triggered an adjustment to the exercise price and number of shares issuable under the warrants issued to investors in our August 2008 private placement financing. As a result, as of March 31, 2013, the common stock warrants issued on August 11, 2008 are currently exercisable for 2,145,082 shares of our common stock at an exercise price of \$5.40 per share.

Other Related Party Transactions

During the year ended December 31, 2012, Green Hospital, Inc.'s beneficial ownership decreased to be less than five percent of our outstanding shares of common stock.

During the three months ended March 31, 2013 and 2012, we incurred approximately \$45,000 and \$27,000, respectively, in royalty costs in connection with our sales of our Celution® 800/CRS System products to the European and Asia-Pacific reconstructive surgery market, pursuant to our License and Royalty Agreement and the Amended License/Commercial Agreement with the Olympus-Cytori, Inc. Joint Venture. Additionally, in February 2012, we purchased second generation Celution® Systems and consumable sets from the Olympus-Cytori, Inc. Joint Venture, at a formula-based transfer price aggregating to \$1,048,000. As of March 31, 2013 and December 31, 2012, Olympus Corporation was a beneficial owner of more than five percent of our outstanding shares of common stock.

18. Subsequent Events

On May 8, 2013, Cytori and Olympus agreed to terminate the Olympus-Cytori Joint Venture (Termination Agreement). The JV was formed in 2005 to facilitate the development and commercialization of the next generation Celution® Systems. The Termination Agreement provides for Olympus to sell its interest in the JV along with certain assets and technology patent rights to Cytori in return for payment under one of several payment options (to be selected by Cytori) as defined in the Termination Agreement. The payment options call for a minimum of \$4,500,000 up to a maximum of \$16,000,000 to be paid by Cytori in installments over periods ranging from one year to six years. Installment payments will be calculated quarterly based on 5% of Cytori's gross sales receipts for all products sold. An additional provision sets forth that if Cytori receives a cumulative total of at least \$35,000,000 in cash through strategic or financing arrangements during the first year of the Termination Agreement, Cytori will pay \$4,500,000 upon request of Olympus as full and complete consideration under the Agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) includes the following sections:

- Overview that discusses our operating results and some of the trends that affect our business.
- Results of Operations that includes a more detailed discussion of our revenue and expenses.
- Liquidity and Capital Resources which discusses key aspects of our statements of cash flows, changes in our financial position and our financial commitments.
- Significant changes since our most recent Annual Report on Form 10-K in the Critical Accounting Policies and Significant Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements.

You should read this MD&A in conjunction with the financial statements and related notes in Item 1 and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that may be deemed "forward-looking statements" within the meaning of United States of America securities laws. All statements, other than statements of historical fact, that address activities, events or developments that we intend, expect, project, believe or anticipate and similar expressions or future conditional verbs such as will, should, would, could or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

These statements include, without limitation, statements about our anticipated expenditures, including those related to clinical research studies and general and administrative expenses; the potential size of the market for our products, future development and/or expansion of our products and therapies in our markets, our ability to generate product revenues or effectively manage our gross profit margins; our ability to obtain regulatory clearance; expectations as to our future performance; the "Liquidity and Capital Resources" section of this report, including our potential need for additional financing and the availability thereof; and the potential enhancement of our cash position through development, marketing, and licensing arrangements. Our actual results will likely differ, perhaps materially, from those anticipated in these forward-looking statements as a result of various factors, including: our need and ability to raise additional cash, our joint ventures, risks associated with laws or regulatory requirements applicable to us, market conditions, product performance, potential litigation, and competition within the regenerative medicine field, to name a few. The forward-looking statements included in this report are subject to a number of additional material risks and uncertainties, including but not limited to the risks described in our filings with the Securities and Exchange Commission and under the "Risk Factors" section in Part II below.

We encourage you to read the risks described under Part II, Item 1A "Risk Factors" carefully. We caution you not to place undue reliance on the forward-looking statements contained in this report. These statements, like all statements in this report, speak only as of the date of this report (unless an earlier date is indicated) and we undertake no obligation to update or revise the statements except as required by law. Such forward-looking statements are not guarantees of future performance and actual results will likely differ, perhaps materially, from those suggested by such forward-looking statements.

Overview

We are a cell therapy company dedicated primarily to the development of novel treatments for cardiovascular disease and soft tissue injuries and burns. We have a global product development strategy with a focus on the U.S. cardiovascular disease market. In the U.S. our goal is to bring the Cytori cell therapy to market for treatment of refractory heart failure through Cytori-sponsored clinical development efforts and to develop a treatment for thermal burns combined with radiation injury under a contract from BARDA, a division of the U.S. Department of Health and Human Services.

The Cytori cell therapy is a proprietary formulation of stem and regenerative cells derived from a patient's own adipose (fat) tissue (ADRCs). Adipose tissue is a rich and accessible source of ADRCs. To access these cells from a patient at the time of a surgical procedure, we have designed and developed a sophisticated tissue processing system, the Celution® System, which automates the complex process of digesting fat tissue, releasing the ADRCs, and concentrating them into an optimized and proprietary formulation in a sterile environment. The system is comprised of a central device and requires single-use, per-procedure consumable cartridges. The business model is based on the sale of the central device and generating recurring revenue from the cartridges that are utilized in each procedure.

While we continue focused development of cardiovascular disease market, we have continued efforts to develop new therapeutic applications for Cytori's cell therapy, and we are currently commercializing the Celution® System under select medical device clearances in Europe, Japan, and other regions. The early sales of systems, consumables and ancillary products contributes margins that partially offset our operating expenses and play an important strategic role in fostering familiarity within the medical community with our technology. These sales have also facilitated the discovery of new applications for Cytori's cell therapy by customers conducting investigator-initiated and funded research.

In February 2013, we received a CE Mark for Intravase®, a reagent intended to be used with Cytori's Celution® System for preparing safe and optimized ADRCs for intravascular delivery into the same patient. As a result of this approval, we currently plan to target select centers in Europe to build patient data, which we believe can be used to further expand these claims and increase Celution® adoption. The approval will also allow independent European investigators to conduct their own vascular studies.

We have also refined our corporate priorities to focus on what we believe represents the greatest near term value to our shareholders with our existing capital resources. As part of this strategy, we are going to reduce our 2013 investment in our European heart attack trial, ADVANCE until such time as additional resources are available. This will provide us with flexibility to invest more in areas of higher strategic importance such as in the ATHENA refractory heart failure trial, and in the government funded activities under our BARDA contract.

Development Pipeline

The primary therapeutic areas currently within our development pipeline are cardiovascular disease, specifically refractory heart failure due to chronic myocardial ischemia, and the treatment of thermal burns.

In the U.S., we are conducting our ATHENA trial, a prospective, double blind, placebo-controlled, multi-center trial in up to 45 patients. The trial will measure several endpoints, including peak oxygen consumption (VO₂ Max). Additional endpoints include perfusion defect, left ventricle end-systolic and diastolic volume and ejection fraction at six and 12 months. Enrollment is expected to be complete by mid-2013.

In 2012, we amended our ADVANCE trial and enrolled patients across a small number of European trial centers. In light of the required resources to complete enrollment in an accelerated fashion and competing corporate priorities at this time, we are only prepared to commit a minimal level of investment in ADVANCE for 2013. The goal for 2013 is to bring the total ADVANCE enrollment to 25 patients with an interim analysis to be performed after the first 72 patients.

We have completed two European pilot trials investigating Cytori's cell therapy for cardiovascular disease. We have reported long term, 18-month data from the PRECISE trial for chronic myocardial ischemia, which showed that Cytori cell therapy demonstrated safety and sustained improvement in cardiac functional capacity as measured by VO₂ Max. Results from the APOLLO trial for acute heart attack demonstrated safety and sustained improvement in infarct size and perfusion.

In addition to our cardiovascular disease therapeutic pipeline, Cytori is also developing its cell therapy platform for the treatment of thermal burns combined with radiation injury. In the third quarter of 2012, we were awarded a contract to develop a new countermeasure for thermal burns valued at up to \$106 million with the U.S. Department of Health and Human Service's Biomedical Advanced Research and Development Authority (BARDA). The initial base period includes \$4.7 million over two years and covers preclinical research and continued development of Cytori's Celution® System to improve cell processing. The additional contract options, if fully executed, could cover our clinical development through FDA approval under a device-based PMA regulatory pathway. We are making progress in fulfilling the required milestones of the base contract with the goal of completing the base period in early 2014.

Results of Operations

Product revenues

Product revenues consisted of revenues primarily from our Celution® and Puregraft® Systems and StemSource® Cell Banks.

The following table summarizes the components for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Product revenues - third party	<u>\$ 1,392,000</u>	<u>\$ 1,481,000</u>

We experienced a decrease in product revenue during the three months ended March 31, 2013 as compared to the same periods in 2012, due principally to the product mix comprising revenue for each period and anticipated timing associated with larger system related sales.

A significant contributor to Cytori's product revenue historically and throughout 2012 has been sales in Japan. In September 2012 we obtained Class I Device Clearance for Celution® and a number of our other products in Japan which led to increased product revenues in the fourth quarter of 2012. This clearance is expected to facilitate sales growth in Japan and it is anticipated that demand will come mostly from researchers at academic hospitals seeking to perform investigator-initiated and funded studies using Cytori's cell therapy.

The future : We expect to continue to generate product revenues from a mix of Celution® and StemSource® System and consumables sales as well as Puregraft® orders. We will sell the products to a diverse group of customers in Europe, Asia and the U.S., who may apply the products towards reconstructive surgery, soft tissue repair, research, aesthetics, and cell and tissue banking as approved in each country. Additionally, as a result of Class I Device Clearance for Celution® and a number of our other products in Japan, we anticipate to sell these products to researchers at academic hospitals seeking to perform investigator-initiated and funded studies using Cytori's cell therapy.

Cost of product revenues

Cost of product revenues relate primarily to Celution® System products and StemSource® Cell Banks and includes material, manufacturing labor, and overhead costs. The following table summarizes the components of our cost of revenues for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Cost of product revenues	\$ 737,000	\$ 836,000
Share-based compensation	19,000	17,000
Total cost of product revenues	<u>\$ 756,000</u>	<u>\$ 853,000</u>
Total cost of product revenues as % of product revenues	<u>54.3%</u>	<u>57.6%</u>

Cost of product revenues as a percentage of product revenues was 54.3% and 57.6% for the three months ended March 31, 2013 and 2012, respectively. Fluctuation in this percentage is to be expected due to the product mix, distributor and direct sales mix, and allocation of overhead.

The future. We expect to continue to see variation in our gross profit margin as the product mix comprising revenues fluctuates.

Development revenues

The following table summarizes the components of our development revenues for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Development (Olympus)	\$ 638,000	\$ —
Development (Senko)	1,179,000	—
Government contract (BARDA)	547,000	—
Other	2,000	3,000
Total development revenues	<u>\$ 2,366,000</u>	<u>\$ 3,000</u>

We recognize deferred revenues, related party, as development revenue when certain performance obligations are met (i.e., using a proportional performance approach). Of the amounts received and deferred, we recognized the remaining development revenue of \$638,000 during the three months ended March 31, 2013 as a result of the United States Court of Appeals upholding the FDA's previous determination that our cell processing devices were not substantially equivalent to the cited predicate devices. The recognition of revenue associated with this event reflects the completion of our efforts expended to use commercially reasonable efforts to obtain device regulatory approvals in the United States as it pertains to the 510(k) pathway. There was no similar development revenue recognized during the three months ended March 31, 2012.

In February 2013, we entered into a mutual termination and release agreement with Senko, whereby the Distribution Agreement and all Senko rights, licenses and privileges granted under the Distribution Agreement terminated and reverted to the Company. As a result of this Termination Agreement, we are obligated to pay Senko \$1,200,000 in six quarterly installment payments of \$200,000 each through May 2014. At the time of the Termination Agreement, we had a balance of \$2,379,000 in deferred revenues on our balance sheet relating to the payments received from Senko in the past pursuant to the Distribution Agreement. During the three months ended March 31, 2013, we made our first installment payment of \$200,000, accrued \$1,000,000 of the termination fee, and recognized the remaining \$1,179,000 in development revenues which reflects the Company's efforts towards commercialization under the agreement.

In the third quarter of 2012, we were awarded a contract to develop a new countermeasure for thermal burns valued at up to \$106 million with U.S. Department of Health and Human Service's Biomedical Advanced Research and Development Authority (BARDA). The initial base period includes \$4.7 million over two years and covers preclinical research and continued development of Cytori's Celution® system to improve cell processing. The additional contract options, if fully executed, could cover clinical development through FDA approval under a device-based PMA regulatory pathway. This is a cost reimbursement contract and related government contract revenue was recorded at the gross amount of reimbursement starting in the fourth quarter of 2012. To receive funds under this arrangement, we are required to (i) demonstrate that we incurred "qualifying expenses," as defined in the contract agreement between BARDA and us, (ii) maintain a system of controls, whereby we can accurately track and report all expenditures related solely to develop a new countermeasure for thermal burns, and (iii) file appropriate forms and follow appropriate protocols established by BARDA. During the three months ended March 31, 2013, we incurred \$508,000 in qualified expenditures. We recognized a total of \$547,000 in revenues for the three months ended March 31, 2013, which included allowable fees as well as cost reimbursements. There were no comparable revenues and expenditures for the three months ended March 31, 2012.

The future : We expect to continue recognizing government contract revenue relating to our contract with BARDA as we continue our development work relating to this contract.

Research and development expenses

Research and development expenses include costs associated with the design, development, testing and enhancement of our products, regulatory fees, the purchase of laboratory supplies, pre-clinical studies and clinical studies. The following table summarizes the components of our research and development expenses for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
General research and development	\$ 3,578,000	\$ 2,681,000
Share-based compensation	142,000	155,000
Total research and development expenses	<u>\$ 3,720,000</u>	<u>\$ 2,836,000</u>

Research and development expenses relate to the development of a technology platform that involves using adipose tissue as a source of autologous regenerative cells for therapeutic applications. These expenses, in conjunction with continued development efforts related to our Celution® System, result primarily from the broad expansion of our research and development efforts enabled by the funding we received from Olympus in 2005 and 2006 and from other investors during the last few years.

The increase in research and development expenses for the three months ended March 31, 2013 as compared to the same period in 2012 is due to increases in salary and related benefits expense (excluding share-based compensation) of \$175,000, an increase in professional services expenses of \$104,000, increased research supplies expense of \$148,000, and increased clinical study expense of \$184,000 associated with our clinical, BARDA related development work and regulatory activities.

The future : We expect research and development expenditures to increase in the remainder of 2013 as we continue enrollment in our US trial ATHENA, limited enrollment in the ADVANCE cardiac trial, continue development work under our BARDA contract, and as we seek additional regulatory clearances and potentially seek to initiate additional trials or patient registries during 2013.

Sales and marketing expenses

Sales and marketing expenses include costs of sales and marketing personnel, tradeshows, physician training, and promotional activities and materials. The following table summarizes the components of our sales and marketing expenses for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Sales and marketing	\$ 2,096,000	\$ 2,180,000
Share-based compensation	161,000	196,000
Total sales and marketing expenses	\$ 2,257,000	\$ 2,376,000

The decrease in sales and marketing expense during the three months ended March 31, 2013 as compared to the same period in 2012 was mainly attributed to the decrease in salary and related benefits expense (excluding share-based compensation) of \$67,000 as a result of targeted reductions in staff and external costs made in early 2012.

The future: We expect sales and marketing expenditures to remain relatively stable in the remainder of 2013.

General and administrative expenses

General and administrative expenses include costs for administrative personnel, legal and other professional expenses, and general corporate expenses. The following table summarizes the general and administrative expenses for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
General and administrative	\$ 3,295,000	\$ 3,350,000
Share-based compensation	551,000	574,000
Total general and administrative expenses	\$ 3,846,000	\$ 3,924,000

For the three months ended March 31, 2013 as compared to the same period in 2012, general and administrative expenses (excluding share-based compensation) remained relatively stable, with no significant fluctuations noted.

The future: We expect general and administrative expenses to remain relatively stable through the remainder of 2013.

Share-based compensation expenses

Stock-based compensation expenses include charges related to options and restricted stock awards issued to employees, directors and non-employees along with charges related to the employee stock purchases under the Employee Stock Purchase Plan (ESPP). We measure stock-based compensation expense based on the grant-date fair value of any awards granted to our employees. Such expense is recognized over the period of time that employees provide service to us and earn all rights to the awards.

The following table summarizes the components of our share-based compensation expenses for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Cost of product revenues	\$ 19,000	\$ 17,000
Research and development-related	142,000	155,000
Sales and marketing-related	161,000	196,000
General and administrative-related	551,000	574,000
Total share-based compensation expenses	\$ 873,000	\$ 942,000

Most of the share-based compensation expenses for the three months ended March 31, 2013 and 2012 related to the vesting of stock option and restricted stock awards to employees.

See Notes to the Consolidated Financial Statements included elsewhere herein for disclosure and discussion of share based compensation.

The future . We expect to continue to grant options and stock awards (which will result in an expense) to our employees, directors, and, as appropriate, to non-employee service providers. In addition, previously-granted options will continue to vest in accordance with their original terms. As of March 31, 2013 the total compensation cost related to non-vested stock options and stock awards not yet recognized for all our plans is approximately \$7,495,000, which is expected to be recognized as a result of vesting under service conditions over a weighted average period of 1.97 years.

Change in fair value of warrant liability

The following is a table summarizing the change in fair value of our warrant liability for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Change in fair value of warrant liability	\$ (334,000)	\$ 130,000

Changes in fair value of our warrant liability are primarily due to fluctuations in the valuation inputs, such as stock price, volatility, remaining life and others. See Notes to the Consolidated Condensed Financial Statements included elsewhere herein for disclosure and discussion of our warrant liability.

The future: Future changes in the fair value of the warrant liability will be recognized currently in earnings until such time as the warrants are exercised or expire in August 2013.

Change in fair value of option liability

The following is a table summarizing the change in fair value of our put option liability for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Change in fair value of option liability	\$ 250,000	\$ (270,000)

Changes in fair value of our put option liability are due to changes in assumptions used in estimating the value of the Put, such as bankruptcy threshold for Cytori, fair value of the Olympus-Cytori, Inc. Joint Venture, volatility and others. See Notes to the Consolidated Condensed Financial Statements included elsewhere herein for disclosure and discussion of our put option liability.

The future: The Put has no expiration date. Accordingly, we will continue to recognize a liability for the Put until it is exercised or until the arrangements with Olympus are amended.

Financing items

The following table summarizes interest income, interest expense, and other income and expense for the three months ended March 31, 2013 and 2012:

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Interest income	\$ —	\$ 2,000
Interest expense	(709,000)	(865,000)
Other income (expense)	(173,000)	(47,000)
Total	\$ (882,000)	\$ (910,000)

- Interest expense decreased for the three months ended March 31, 2013 as compared to the same period in 2012 as we continue to repay our principal balance on the \$25.0 million term loan that was amended in September 2011.
- The changes in other income (expense) during the three months ended March 31, 2013 as compared to the same period in 2012 resulted primarily from changes in foreign currency exchange rates.

The future: Interest income earned in the remainder of 2013 will be dependent on our levels of funds available for investment as well as general economic conditions. Subject to our future financing activities, we expect interest expense in 2013 to decrease as we continue to repay principal balance on the \$25.0 million term loan that was amended in September 2011.

Equity loss from investment in Joint Venture

The following table summarizes our equity loss from investment in joint venture for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Equity loss from investment in joint venture	\$ (48,000)	\$ (50,000)

The losses relate entirely to our 50% equity interest in the Joint Venture, which we account for using the equity method of accounting.

The future: We do not expect to recognize significant losses from the activities of the Joint Venture in the foreseeable future. As of March 31, 2013, we were engaged in ongoing discussions with Olympus relating to the future of the Joint Venture relationship, including the potential termination of the Joint Venture. See Notes to the Consolidated Condensed Financial Statements included elsewhere herein for disclosure and discussion of our Joint Venture Termination Agreement that was executed in May 2013.

Liquidity and Capital Resources

Short-term and long-term liquidity

The following is a summary of our key liquidity measures at March 31, 2013 and December 31, 2012:

	As of March 31, 2013	As of December 31, 2012
Cash and cash equivalents	\$ 16,404,000	\$ 25,717,000
Current assets	\$ 24,200,000	\$ 33,979,000
Current liabilities	16,684,000	17,613,000
Working capital	\$ 7,516,000	\$ 16,366,000

We incurred net losses of \$7,667,000 and \$9,325,000 for the three months ended March 31, 2013 and 2012, respectively. We have an accumulated deficit of \$282,395,000 as of March 31, 2013. Additionally, we have used net cash of \$9,294,000 and \$7,714,000 to fund our operating activities for the three months ended March 31, 2013 and 2012, respectively. To date, these operating losses have been funded primarily from outside sources of invested capital and gross profits. During 2012 and 2013, we expanded our commercialization activities while simultaneously pursuing available financing sources to support operations and growth.

We have had, and we will likely continue to have, an ongoing need to raise additional cash from outside sources to fund our future operations. We believe we have sufficient cash to fund operations through June 30, 2013, which includes minimum liquidity requirements of the Amended and Restated Loan and Security Agreement, that requires us to make principal payments of \$825,000 per month along with accrued interest and maintain at least three months of cash on hand. We are in discussions with our lender group to extend the term of the loan and defer principal payments to coincide with anticipated product sales, government contract payments, and other potential cash milestones. At June 30, 2013, absent additional funding or debt restructuring, our cash balance will be less than the minimum liquidity amount required by the lender in the Amended and Restated Loan and Security Agreement. In order to fund operations and our continued commercialization efforts through the next twelve months, we are pursuing additional funding through either strategic corporate partnerships, debt restructuring or future issuances of equity or debt securities in addition to our gross profits. We have an established history of raising capital through all these platforms, and are currently involved in negotiations with multiple parties. In the absence of sufficient positive cash flows from operations, no assurance can be given that we can generate sufficient revenue to cover operating costs or that additional financing will be available to us and, if available, on terms acceptable to us in the future.

Without this additional capital, cash generated from sales and containment of costs will not provide adequate funding indefinitely at their current levels. If we cannot raise sufficient capital, we would need to reduce our research, development, and administrative operations, including reductions of our employee base and the deferral of ongoing development projects, to focus almost entirely on the supply of current products to existing distribution channels and our thermal burn contract arrangement with BARDA. As a result, such reductions would negatively affect our ability to achieve certain other corporate goals.

The following summarizes our contractual obligations and other commitments at March 31, 2013, and the effect such obligations could have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long-term obligations	\$ 21,120,000	\$ 9,923,000	\$ 11,197,000	\$ —	\$ —
Interest commitment on long-term obligations	2,084,000	1,544,000	540,000	—	—
Operating lease obligations	9,075,000	2,177,000	3,868,000	3,030,000	—
Minimum purchase requirements	850,000	850,000	—	—	—
License termination fee obligation	1,000,000	800,000	200,000	—	—
Pre-clinical research study obligations	23,000	23,000	—	—	—
Clinical research study obligations	11,700,000	3,150,000	5,700,000	2,850,000	—
Total	\$ 45,852,000	\$ 18,467,000	\$ 21,505,000	\$ 5,880,000	\$ —

Cash (used in) provided by operating, investing, and financing activities for the three months ended March 31, 2013 and 2012 is summarized as follows:

	For the three months ended March 31,	
	2013	2012
Net cash used in operating activities	\$ (9,294,000)	\$ (7,714,000)
Net cash used in investing activities	(281,000)	(25,000)
Net cash provided by financing activities	332,000	5,216,000
Effect of exchange rate changes on cash and cash equivalents	(70,000)	—
Net decrease in cash and cash equivalents	(9,313,000)	(2,523,000)

Operating activities

Operational activities, inclusive of research and development, sales and marketing, and general and administrative efforts, offset in part by product sales, generated an operating loss of \$6,737,000 for the three months ended March 31, 2013. The operating cash impact of this loss was \$9,294,000, after adjusting for the recognition of non-cash development revenues of \$1,817,000, non-cash share-based compensation and other adjustments for material non-cash activities, such as depreciation, amortization, change in fair value of option and warrant liabilities, and changes in working capital due to timing of product shipments (accounts receivable) and payment of liabilities.

Operational activities, inclusive of research and development, sales and marketing, and general and administrative efforts, offset in part by product sales, generated an operating loss of \$8,365,000 for the three months ended March 31, 2012. The operating cash impact of this loss was \$7,714,000, after adjusting for the consideration of non-cash share-based compensation and other adjustments for material non-cash activities, such as depreciation, amortization, change in fair value of option and warrant liabilities, and changes in working capital due to timing of product shipments (accounts receivable) and payment of liabilities.

Investing activities

Net cash used in investing activities for the three months ended March 31, 2013 resulted from cash outflows for payment of a license termination fee of \$200,000 and for purchases of property and equipment.

Net cash used in investing activities for the three months ended March 31, 2012 resulted from cash outflow for purchases of property and equipment.

Financing Activities

The net cash provided by financing activities for the three months ended March 31, 2013 related primarily to a sale of 1,053,000 shares for approximately \$3,001,000 in gross proceeds in connection with the underwriter exercising the option to purchase additional shares relating to our December 2012 public offering partially offset by principal payments of \$2,485,000 primarily relating to our \$25.0 million loan.

The net cash provided by financing activities for the three months ended March 31, 2012 related primarily to a sale of 1,500,000 shares for approximately \$4,396,000 in gross proceeds in connection with our common stock purchase agreement with Seaside entered into on July 11, 2011 and proceeds from exercise of warrants and employee stock options of \$947,000.

Critical Accounting Policies and Significant Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues and expenses, and that affect our recognition and disclosure of contingent assets and liabilities.

While our estimates are based on assumptions we consider reasonable at the time they were made, our actual results may differ from our estimates, perhaps significantly. If results differ materially from our estimates, we will make adjustments to our financial statements prospectively as we become aware of the necessity for an adjustment.

We believe it is important for you to understand our most critical accounting policies. These are our policies that require us to make our most significant judgments and, as a result, could have the greatest impact on our future financial results. For a summary of significant accounting policies, see Notes to the Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012 as well as Notes to Consolidated Condensed Financial Statements included elsewhere herein for disclosure and discussion of policies and significant estimates related to our warrant and put liabilities, revenue recognition, and stock based compensation.

Recent Accounting Pronouncements

See Notes to Consolidated Financial Statements included elsewhere herein for disclosure and discussion of new accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk related to fluctuations in interest rates and in foreign currency exchange rates.

Interest Rate Exposure

We are not subject to market risk due to fluctuations in interest rates on our long-term obligations as they bear a fixed rate of interest. Our exposure relates primarily to short-term investments, including funds classified as cash equivalents. As of March 31, 2013, all excess funds were invested in money market funds and other highly liquid investments, therefore our interest rate exposure is not considered to be material.

Foreign Currency Exchange Rate Exposure

Our exposure to market risk due to fluctuations in foreign currency exchange rates relates primarily to our activities in Europe and Japan. Transaction gains or losses resulting from cash balances and revenues have not been significant in the past and we are not currently engaged in any hedging activity in the Euro, the Yen or other currencies. Based on our cash balances and revenues derived from markets other than the United States for the three months ended March 31, 2013, a hypothetical 10% adverse change in the Euro or Yen against the U.S. dollar would not result in a material foreign currency exchange loss. Consequently, we do not expect that reductions in the value of such sales denominated in foreign currencies resulting from even a sudden or significant fluctuation in foreign exchange rates would have a direct material impact on our financial position, results of operations or cash flows.

Notwithstanding the foregoing, the indirect effect of fluctuations in interest rates and foreign currency exchange rates could have a material adverse effect on our business, financial condition and results of operations. For example, foreign currency exchange rate fluctuations may affect international demand for our products. In addition, interest rate fluctuations may affect our customers' buying patterns. Furthermore, interest rate and currency exchange rate fluctuations may broadly influence the United States and foreign economies resulting in a material adverse effect on our business, financial condition and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or furnished pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we have been involved in routine litigation incidental to the conduct of our business. As of March 31, 2013, we were not a party to any material legal proceeding. See Notes to the Consolidated Condensed Financial Statements included elsewhere herein for a discussion of our loss contingencies.

Item 1A. Risk Factors

In analyzing our company, you should consider carefully the following risk factors together with all of the other information included in this quarterly report on Form 10-Q, including our unaudited Consolidated Condensed Financial Statements and the related notes and "Management's Discussion and Analysis of Financial Conditions and Results of Operations". If any of the risks described below occur, our business, operating results, and financial condition could be adversely affected and the value of our common stock could decline.

We have marked with an asterisk () those risks described below that reflect new risks or substantive changes from the risks described under Part I, Item 1A "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2012.*

We will need to raise more cash in the future

We have almost always had negative cash flows from operations. Our business will continue to result in a substantial requirement for research and development expenses for several years, during which we may not be able to bring in sufficient cash and/or revenues to offset these expenses. During 2012 and 2013, we expanded our commercialization activities while simultaneously pursuing available financing sources to support operations and growth. We have had, and we will continue to have, an ongoing need to raise additional cash from outside sources to continue funding our operations to profitability. We do not currently believe that our cash balance and the revenues from our operations will be sufficient to fund the development and marketing efforts required to reach profitability without raising additional capital from accessible sources of financing in the future.

In addition, our Amended and Restated Loan and Security Agreement with General Electric Capital Corporation, Silicon Valley Bank and Oxford Finance Corporation requires us to maintain certain minimum cash requirements, including at least three months of cash on hand, to avoid an event of default thereunder, and if our cash reserves fall below those minimum requirements, then we could be in default under the loan agreement and subject to potential adverse remedies by the lenders, which would have a substantial and material adverse effect on our business, financial condition, results of operations, the value of our common stock and warrants and our ability to raise capital. We believe we have enough cash to fund operations through June 30, 2013, which includes minimum liquidity requirements of the Amended and Restated Loan and Security Agreement, that requires us to make principal payments of \$825,000 per month along with accrued interest and maintain at least three months of cash on hand to avoid an event of default under the loan agreement. We are in discussions with our lender group to extend the term of the loan and defer principal payments to coincide with anticipated product sales, government contract payments, and other potential cash milestones. At June 30, 2013, absent additional funding or debt restructuring, our cash balance will be less than the minimum liquidity amount required by the lender in the Amended and Restated Loan and Security Agreement. In order to continue operations through the next twelve months, we are pursuing additional cash through strategic corporate partnership and future sales of equity, and the restructure of our short-term debt obligations, in addition to our gross profits. While we have an established history of raising capital through these platforms, and we are currently involved in negotiations with multiple parties, there is no guarantee that adequate funds will be available when needed from additional debt or equity financing, development and commercialization partnerships, the refinancing of our short-term debts, increased results of operations, or from other sources, or on terms acceptable to us. Our inability to obtain sufficient additional funds in the future would, at a minimum, require us to delay, scale back, or eliminate some or all of our research or product development, manufacturing operations, administrative operations, including our employee base, and clinical or regulatory activities, which could have a substantial negative effect on our results of operations and financial condition.

Continued turmoil in the economy could harm our business

Negative trends in the general economy, including trends resulting from an actual or perceived recession, tightening credit markets, increased cost of commodities, including oil, actual or threatened military action by the United States and threats of terrorist attacks in the United States and abroad, could cause a reduction of investment in and available funding for companies in certain industries, including ours and our customers. Our ability to raise capital has been and may in the future be adversely affected by downturns in current credit conditions, financial markets and the global economy.

We have never been profitable on an operational basis and expect significant operating losses for the next few years

We have incurred net operating losses in each year since we started business. As our focus on the Celution[®] System platform and development of therapeutic applications for its cellular output has increased, losses have resulted primarily from expenses associated with research and development activities and general and administrative expenses. While we work continuously to implement cost reduction measures where possible, we nonetheless expect to continue operating in a loss position on a consolidated basis and that recurring operating expenses will be at high levels for the next several years, in order to perform clinical trials, additional pre-clinical research, product development, and marketing. As a result of our historic losses, we have been, and are likely to continue to be, reliant on raising outside capital to fund our operations.

Our business strategy is high-risk

We are focusing our resources and efforts primarily on development of the Celution[®] System family of products and the therapeutic applications of its cellular output, which requires extensive cash needs for research, development, and commercialization activities. This is a high-risk strategy because there is no assurance that our future products will ever become commercially viable (commercial risk), that we will prevent other companies from depriving us of market share and profit margins by selling products based on our inventions and developments (legal risk), that we will successfully manage a company in a new area of business (regenerative medicine) and on a different scale than we have operated in the past (operational risk), that we will be able to achieve the desired therapeutic results using stem and regenerative cells (scientific risk), or that our cash resources will be adequate to develop our products until we become profitable, if ever (financial risk). We are using our cash in one of the riskiest industries in the economy (strategic risk). This may make our stock an unsuitable investment for many investors.

The development and manufacture of future generation Celution[®] System devices is important to us

We have given the Olympus-Cytori, Inc. Joint Venture an exclusive license to manufacture future generation Celution[®] System devices. If Olympus-Cytori, Inc. does not successfully develop and manufacture these devices, we may experience disruptions and/or delays of our commercialization of these devices into the market. Any significant disruption of our commercialization of Celution[®] System devices could affect our operations and commercialization efforts (clinical, regulatory and/or commercial sales), and be harmful to our business.

Olympus-Cytori, Inc. was 50% owned by us and 50% owned by Olympus. In 2011 Olympus experienced serious internal issues which have led to a significant change in the management structure at Olympus. In 2012 these changes have continued to develop, with a total restructuring of the Olympus board of directors, its management team, and aspects of its operations. In light of these events, we have been engaged in ongoing discussions with Olympus relating to the future of the joint venture relationship for some time and these discussions have resulted in a mutual agreement to terminate the Olympus-Cytori, Inc. Joint Venture. Both parties are committed to ensure that the termination of the Joint Venture would occur as seamlessly as possible, and in a mutually beneficial manner. We do not have any reason to believe at this time that the mutually agreed termination of the Joint Venture as contemplated would have any significant negative effects on our business or operations. Notwithstanding the above, if the termination of our relationship with Olympus were to result in unforeseen changes that significantly disrupt our operations and commercialization efforts (clinical, regulatory and/or commercial sales), then our business would be harmed.

We have a limited operating history; operating results and stock price can be volatile like many life science companies

Our prospects must be evaluated in light of the risks and difficulties frequently encountered by emerging companies and particularly by such companies in rapidly evolving and technologically advanced biotech and medical device fields. From time to time, we have tried to update our investors' expectations as to our operating results by periodically announcing financial guidance. However, we have in the past been forced to revise or withdraw such guidance due to lack of visibility and predictability of product demand. Our stock price has a history of significant volatility, which may harm our ability to raise additional capital and may cause an investment in Cytori to be unsuitable for some investors.

We are vulnerable to competition and technological change, and also to physicians' inertia

We compete with many domestic and foreign companies in developing our technology and products, including biotechnology, medical device, and pharmaceutical companies. Many current and potential competitors have substantially greater financial, technological, research and development, marketing, and personnel resources. There is no assurance that our competitors will not succeed in developing alternative products that are more effective, easier to use, or more economical than those which we have developed or are in the process of developing, or that would render our products obsolete and non-competitive. In general, we may not be able to prevent others from developing and marketing competitive products similar to ours or which perform similar functions.

Competitors may have greater experience in developing therapies or devices, conducting clinical trials, obtaining regulatory clearances or approvals, manufacturing and commercialization. It is possible that competitors may obtain patent protection, approval, or clearance from the FDA or achieve commercialization earlier than we can, any of which could have a substantial negative effect on our business. Finally, Olympus and our other partners might pursue parallel development of other technologies or products, which may result in a partner developing additional products competitive with ours.

We compete against cell-based therapies derived from alternate sources, such as bone marrow, umbilical cord blood and potentially embryos. Doctors historically are slow to adopt new technologies like ours, regardless of the perceived merits, when older technologies continue to be supported by established providers. Overcoming such inertia often requires very significant marketing expenditures or definitive product performance and/or pricing superiority.

We expect physicians' inertia and skepticism to also be a significant barrier as we attempt to gain market penetration with our future products. We believe we will continue to need to finance lengthy time-consuming clinical studies to provide evidence of the medical benefit of our products and resulting therapies in order to overcome this inertia and skepticism particularly in reconstructive surgery, cell preservation, the cardiovascular area and many other indications.

Many potential applications of our technology are pre-commercialization, which subjects us to development and marketing risks

We are in a relatively early stage of the path to commercialization with many of our products. We believe that our long-term viability and growth will depend in large part on our ability to develop commercial quality cell processing devices and useful procedure-specific consumables, and to establish the safety and efficacy of our therapies through clinical trials and studies. With our Celution[®] System platform, we are pursuing new approaches for reconstructive surgery, preservation of stem and regenerative cells for potential future use, therapies for cardiovascular disease, soft tissue defects, burns and other conditions. There is no assurance that our development programs will be successfully completed or that required regulatory clearances or approvals will be obtained on a timely basis, if at all.

There is no proven path for commercializing the Celution[®] System platform in a way to earn a durable profit commensurate with the medical benefit. Although we began to commercialize our reconstructive surgery products in Europe and certain Asian markets, and our cell banking products in Japan, Europe, and certain Asian markets in 2008, additional market opportunities for many of our products and/or services may not materialize for a number of years.

Successful development and market acceptance of our products is subject to developmental risks, including failure of inventive imagination, ineffectiveness, lack of safety, unreliability, failure to receive necessary regulatory clearances or approvals, high commercial cost, preclusion or obsolescence resulting from third parties' proprietary rights or superior or equivalent products, competition from copycat products, and general economic conditions affecting purchasing patterns. There is no assurance that we or our partners will successfully develop and commercialize our products, or that our competitors will not develop competing technologies that are less expensive or superior. Failure to successfully develop and market our products would have a substantial negative effect on our results of operations and financial condition.

Market acceptance of new technology such as ours can be difficult to obtain

New and emerging cell therapy and cell banking technologies, such as those provided by the Celution[®] System family of products, may have difficulty or encounter significant delays in obtaining market acceptance in some or all countries around the world due to the novelty of our cell therapy and cell banking technologies. Therefore, the market adoption of our cell therapy and cell banking technologies may be slow and lengthy with no assurances that significant market adoption will be successful. The lack of market adoption or reduced or minimal market adoption of our cell therapy and cell banking technologies may have a significant impact on our ability to successfully sell our product(s) into a country or region.

Future clinical trial results may differ significantly from our expectations

While we have proceeded incrementally with our clinical trials in an effort to gauge the risks of proceeding with larger and more expensive trials, we cannot guarantee that we will not experience negative results larger and much more expensive clinical trials than we have conducted to date, such as our ADVANCE acute heart attack trial in Europe, and the ATHENA feasibility trial in refractory heart failure. Poor results in our clinical trials could result in substantial delays in commercialization, substantial negative effects on the perception of our products, and substantial additional costs. These risks are increased by our reliance on third parties in the performance of many of the clinical trial functions, including the clinical investigators, hospitals, and other third party service providers.

Manufacturing issues could substantially increase our costs and limit supply of our products

Although we have significant experience in manufacturing the Celution[®] System platform and its consumables at a commercial level, there can be no guarantee that we will be able to successfully develop and manufacture future generation Celution[®] Systems in a manner that is cost-effective or commercially viable, or that development and manufacturing capabilities might not take much longer than currently anticipated to be ready for the market.

Although we have been manufacturing the Celution[®] 800 System and the StemSource[®] 900-based Cell Bank since 2008, we cannot assure that we will be able to manufacture sufficient numbers of such products to meet the demand, or that we will be able to overcome unforeseen manufacturing difficulties for these sophisticated medical devices.

Due to the fact that the Olympus-Cytori Joint Venture has been terminated, Cytori may not have the resources or ability to self-manufacture sufficient numbers of devices and consumables to meet market demand, and this failure may substantially extend the time it would take for us to bring a more advanced commercial device to market.

We may not be able to protect our proprietary rights

Our success depends in part on whether we can maintain our existing patents, obtain additional patents, maintain trade secret protection, and operate without infringing on the proprietary rights of third parties.

There can be no assurance that any of our pending patent applications will be approved or that we will develop additional proprietary products that are patentable. There is also no assurance that any patents issued to us will not become the subject of a re-examination, will provide us with competitive advantages, will not be challenged by any third parties, or that the patents of others will not prevent the commercialization of products incorporating our technology. Furthermore, there can be no guarantee that others will not independently develop similar products, duplicate any of our products, or design around our patents.

Our commercial success will also depend, in part, on our ability to avoid infringing on patents issued by others. If we were judicially determined to be infringing on any third-party patent, we could be required to pay damages, alter our products or processes, obtain licenses, or cease certain activities. If we are required in the future to obtain any licenses from third parties for some of our products, there can be no guarantee that we would be able to do so on commercially favorable terms, if at all. U.S. patent applications are not immediately made public, so we might be surprised by the grant to someone else of a patent on a technology we are actively using.

Litigation, which would result in substantial costs to us and diversion of effort on our part, may be necessary to enforce or confirm the ownership of any patents issued or licensed to us, or to determine the scope and validity of third-party proprietary rights. If our competitors claim technology also claimed by us and prepare and file patent applications in the United States, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office or a foreign patent office to determine priority of invention, which could result in substantial costs to and diversion of effort, even if the eventual outcome is favorable to us. Any such litigation or interference proceeding, regardless of outcome, could be expensive and time-consuming.

Successful challenges to our patents through oppositions, reexamination proceedings or interference proceedings could result in a loss of patent rights in the relevant jurisdiction. If we are unsuccessful in actions we bring against the patents of other parties and it is determined that we infringe the patents of third-parties, we may be subject to litigation, or otherwise prevented from commercializing potential products in the relevant jurisdiction, or may be required to obtain licenses to those patents or develop or obtain alternative technologies, any of which could harm our business. Furthermore, if such challenges to our patent rights are not resolved in our favor, we could be delayed or prevented from entering into new collaborations or from commercializing certain products, which could adversely affect our business and results of operations.

On September 16, 2011, President Obama signed into law major patent law reform known as the Leahy-Smith America Invents Act (AIA). Among other things the AIA implements a first inventor to file standard for patent approval, changes the legal standards for patentability under section 102 of the statute, and creates a post grant review system. As a result of the added uncertainty of interpretation of the AIA and the uncertainty of patent law in general, we cannot predict with certainty how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court. Changes to the patent law under the AIA also may provoke third parties to assert claims against us or result in our intellectual property being narrowed in scope or declared to be invalid or unenforceable.

Competitors or third parties may infringe our patents. We may be required to file patent infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or that the third party's technology does not in fact infringe upon our patents. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our related pending patent applications at risk of not issuing. Litigation may fail and, even if successful, may result in substantial costs and be a distraction to our management. We may not be able to prevent misappropriation of our proprietary rights, particularly in countries outside the U.S. where patent rights may be more difficult to enforce. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential or sensitive information could be compromised by disclosure in the event of litigation. In addition, during the course of litigation there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

In addition to patents, which alone may not be able to protect the fundamentals of our business, we also rely on unpatented trade secrets and proprietary technological expertise. Some of our intended future cell-related therapeutic products may fit into this category. We rely, in part, on confidentiality agreements with our partners, employees, advisors, vendors, and consultants to protect our trade secrets and proprietary technological expertise. There can be no guarantee that these agreements will not be breached, or that we will have adequate remedies for any breach, or that our unpatented trade secrets and proprietary technological expertise will not otherwise become known or be independently discovered by competitors.

Failure to obtain or maintain patent protection, or protect trade secrets, for any reason (or third-party claims against our patents, trade secrets, or proprietary rights, or our involvement in disputes over our patents, trade secrets, or proprietary rights, including involvement in litigation), could have a substantial negative effect on our results of operations and financial condition.

We may not be able to protect our intellectual property in countries outside the United States

Intellectual property law outside the United States is uncertain and in many countries is currently undergoing review and revisions. The laws of some countries do not protect our patent and other intellectual property rights to the same extent as United States laws. This is particularly relevant to us as most of our current commercial product sales and clinical trials are outside of the United States. Third parties may attempt to oppose the issuance of patents to us in foreign countries by initiating opposition proceedings. Opposition proceedings against any of our patent filings in a foreign country could have an adverse effect on our corresponding patents that are issued or pending in the United States. It may be necessary or useful for us to participate in proceedings to determine the validity of our patents or our competitors' patents that have been issued in countries other than the U.S. This could result in substantial costs, divert our efforts and attention from other aspects of our business, and could have a material adverse effect on our results of operations and financial condition. We currently have pending patent applications in Europe, Australia, Japan, Canada, China, Korea, and Singapore, among others.

We and our medical devices are subject to FDA regulation

As medical devices, the Celution[®] System family of products, Puregraft[®] family of products and components of the Stemsources[®] cell banks, must receive regulatory clearances or approvals from the FDA and, in many instances, from non-U.S. and state governments prior to their sale. The Celution[®] System family of products is subject to stringent government regulation in the United States by the FDA under the Federal Food, Drug and Cosmetic Act. The FDA regulates the design/development process, clinical testing, manufacture, safety, labeling, sale, distribution, and promotion of medical devices and drugs. Included among these regulations are pre-market clearance and pre-market approval requirements, design control requirements, and the Quality System Regulations/Good Manufacturing Practices. Other statutory and regulatory requirements govern, among other things, establishment registration and inspection, medical device listing, prohibitions against misbranding and adulteration, labeling and post-market reporting.

The regulatory process can be lengthy, expensive, and uncertain. Before any new medical device may be introduced to the U.S. market, the manufacturer generally must obtain FDA clearance or approval through either the 510(k) pre-market notification process or the lengthier pre-market approval application, or PMA, process. It generally takes from three to 12 months from submission to obtain 510(k) pre-market clearance, although it may take longer. Approval of a PMA could take four or more years from the time the process is initiated. The 510(k) and PMA processes can be expensive, uncertain, and lengthy, and there is no guarantee of ultimate clearance or approval. Our Celution[®] products under development today and in the foreseeable future will be subject to the lengthier PMA process. Securing FDA clearances and approvals may require the submission of extensive clinical data and supporting information to the FDA, and there can be no guarantee of ultimate clearance or approval. Failure to comply with applicable requirements can result in application integrity proceedings, fines, recalls or seizures of products, injunctions, civil penalties, total or partial suspensions of production, withdrawals of existing product approvals or clearances, refusals to approve or clear new applications or notifications, and criminal prosecution.

Medical devices are also subject to post-market reporting requirements for deaths or serious injuries when the device may have caused or contributed to the death or serious injury, and for certain device malfunctions that would be likely to cause or contribute to a death or serious injury if the malfunction were to recur. If safety or effectiveness problems occur after the product reaches the market, the FDA may take steps to prevent or limit further marketing of the product. Additionally, the FDA actively enforces regulations prohibiting marketing and promotion of devices for indications or uses that have not been cleared or approved by the FDA.

There can be no guarantee that we will be able to obtain the necessary 510(k) clearances or PMA approvals to market and manufacture our other products in the United States for their intended use on a timely basis, if at all. Delays in receipt of or failure to receive such clearances or approvals, the loss of previously received clearances or approvals, or failure to comply with existing or future regulatory requirements could have a substantial negative effect on our results of operations and financial condition.

To sell in international markets, we will be subject to regulation in foreign countries

In cooperation with our distribution partners, we intend to market our current and future products both domestically and in many foreign markets. A number of risks are inherent in international transactions. In order for us to market our products in Europe, Canada, Japan and certain other non-U.S. jurisdictions, we need to obtain and maintain required regulatory approvals or clearances and must comply with extensive regulations regarding safety, manufacturing processes and quality. These regulations, including the requirements for approvals or clearances to market, may differ from the FDA regulatory scheme. International sales also may be limited or disrupted by political instability, price controls, trade restrictions and changes in tariffs. Additionally, fluctuations in currency exchange rates may adversely affect demand for our products by increasing the price of our products in the currency of the countries in which the products are sold.

There can be no assurance that we will obtain regulatory approvals or clearances in all of the countries where we intend to market our products, or that we will not incur significant costs in obtaining or maintaining foreign regulatory approvals or clearances, or that we will be able to successfully commercialize current or future products in various foreign markets. Delays in receipt of approvals or clearances to market our products in foreign countries, failure to receive such approvals or clearances or the future loss of previously received approvals or clearances could have a substantial negative effect on our results of operations and financial condition.

Changing, new and/or emerging government regulations may adversely affect us

Government regulations can change without notice. Given the fact that Cytori operates in various international markets, our access to such markets could change with little to no warning due to a change in government regulations that suddenly up-regulate our product(s) and create greater regulatory burden for our cell therapy and cell banking technology products.

Due to the fact that there are new and emerging cell therapy and cell banking regulations that have recently been drafted and/or implemented in various countries around the world, the application and subsequent implementation of these new and emerging regulations have little to no precedence. Therefore, the level of complexity and stringency is not known and may vary from country to country, creating greater uncertainty for the international regulatory process.

Anticipated or unanticipated changes in the way or manner in which the FDA regulates products or classes/groups of products can delay, further burden, or alleviate regulatory pathways that were once available to other products. There are no guarantees that such changes in FDA's approach to the regulatory process will not deleteriously affect some or all of our products or product applications.

We may have difficulty obtaining health insurance reimbursement for our products

New and emerging cell therapy and cell banking technologies, such as those provided by the Celution[®] System family of products, may have difficulty or encounter significant delays in obtaining health care reimbursement in some or all countries around the world due to the novelty of our cell therapy and cell banking technology and subsequent lack of existing reimbursement schemes/pathways. Therefore, the creation of new reimbursement pathways may be complex and lengthy with no assurances that such reimbursements will be successful. The lack of health insurance reimbursement or reduced or minimal reimbursement pricing may have a significant impact on our ability to successfully sell our cell therapy and cell banking technology product(s) into a county or region, which would negatively impact our operating results.

Our concentration of sales in Japan may have negative effects on our business in the event of any crisis in that region

We have operations in a number of regions around the world, including the United States, Japan, and Europe. Our global operations may be subject to risks that may limit our ability to operate our business. We sell our products globally, which exposes us to a number of risks that can arise from international trade transactions, local business practices and cultural considerations, including:

- political unrest, terrorism and economic or financial instability;
- unexpected changes and uncertainty in regulatory requirements and systems related
- nationalization programs that may be implemented by foreign governments;
- import-export regulations;
- difficulties in enforcing agreements and collecting receivables;
- difficulties in ensuring compliance with the laws and regulations of multiple jurisdictions;
- changes in labor practices, including wage inflation, labor unrest and unionization policies;
- longer payment cycles by international customers;
- currency exchange fluctuations;

- disruptions of service from utilities or telecommunications providers, including electricity shortages;
- difficulties in staffing foreign branches and subsidiaries and in managing an expatriate workforce, and differing employment practices and labor issues;
- potentially adverse tax consequences;

We also face risks associated with currency exchange and convertibility, inflation and repatriation of earnings as a result of our foreign operations. We are also vulnerable to appreciation or depreciation of foreign currencies against the U.S. dollar. Although we have significant operations in Asia, a substantial portion of transactions are denominated in U.S. dollars. As appreciation against the U.S. dollar increases, it will result in an increase in the cost of our business expenses abroad. Conversely, downward fluctuations in the value of foreign currencies relative to the U.S. dollar may make our products less price competitive than local solutions. From time to time, we may engage in currency hedging activities, but such activities may not be able to limit the risks of currency fluctuations.

Our revenue, results of operations, and cash flows may suffer upon the loss of a significant customer or a significant reduction in the amount of product ordered by any such customer.

Our largest customer in Japan accounted for 12% of our revenue during the year ended December 31, 2012. Loss of this significant customer or a significant reduction in the amount of product ordered by this customer would adversely affect our revenue, results of operations, and cash flows.

We must maintain quality assurance certification and manufacturing approvals

The manufacture of our products is, and the manufacture of any future cell-related therapeutic products would be, subject to periodic inspection by regulatory authorities and distribution partners. The manufacture of devices and products for human use is subject to regulation and inspection from time to time by the FDA for compliance with the FDA's Quality System Regulation, or QSR, requirements, as well as equivalent requirements and inspections by state and non-U.S. regulatory authorities. There can be no guarantee that the FDA or other authorities will not, during the course of an inspection of existing or new facilities, identify what they consider to be deficiencies in our compliance with QSRs or other requirements and request, or seek remedial action.

Failure to comply with such regulations or a potential delay in attaining compliance may adversely affect our manufacturing activities and could result in, among other things, injunctions, civil penalties, FDA refusal to grant pre-market approvals or clearances of future or pending product submissions, fines, recalls or seizures of products, total or partial suspensions of production, and criminal prosecution. There can be no assurance after such occurrences that we will be able to obtain additional necessary regulatory approvals or clearances on a timely basis, if at all. Delays in receipt of or failure to receive such approvals or clearances, or the loss of previously received approvals or clearances could have a substantial negative effect on our results of operations and financial condition.

The termination or suspension of the BARDA contract could adversely affect our business and our ability to further develop our Celution® System

Cytori was awarded the contract with BARDA in September 2012 with the aim to develop a new countermeasure for a combined injury involving thermal burn and radiation exposure which would be useful following a mass-casualty event. The cost-plus-fixed-fee contract is valued at up to \$106 million, with a guaranteed base period of approximately \$4.7 million which includes preclinical research and the acceleration of Cytori's ongoing development of the Celution® cell processing System (the Celution® System). Upon satisfactory proof of concept, BARDA may elect to exercise up to three contract options which will extend the contract term to up to five years if all options are exercised. BARDA may suspend or terminate this contract should we fail to achieve key objectives or milestones, or fail to comply with the operating procedures and processes approved by BARDA and its audit agency, the Defense Contract Audit Agency. There can be no assurance that we will be able to achieve these milestones or continue to comply with these procedures and protocols, or whether we will be able to successfully develop our Celution® System under the contract. If the BARDA contract were terminated or suspended, our business could be adversely affected.

The BARDA contract has certain contracting requirements that allow the U.S. Government to unilaterally control its contracts. If the U.S. Government suspends, cancels, or otherwise terminates our contract with them, we could experience significant revenue shortfalls, and our financial condition and business may be adversely affected

Contracts with U.S. Government agencies typically contain termination provisions unfavorable to the other party, and are subject to audit and modification by the U.S. government at its sole discretion, which will subject us to additional risks. These risks include the ability of the U.S. Government to unilaterally:

- audit or object to our contract-related costs and fees, and require us to reimburse all such costs and fees;
- suspend or prevent us for a set period of time from receiving new contracts or extending our existing contracts based on violations or suspected violations of laws or regulations;
- cancel, terminate or suspend our contracts based on violations or suspected violations of laws or regulations;
- terminate our contracts if in the Government's best interest, including if funds become unavailable to the applicable governmental agency;
- reduce the scope and value of our contracts; and
- change certain terms and conditions in our contracts.

BARDA is able to terminate its contracts with us, either for its best interests or if we default by failing to perform in accordance with or to achieve the milestones set forth in the contract schedules and terms. Termination-for-convenience provisions generally enable us to recover only our costs incurred or committed and settlement expenses on the work completed prior to termination. Changes to, or an unexpected termination of this contract could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when or to what extent BARDA might revise, alter or terminate its contract with us in the future.

Under our contract with BARDA, our operations, and those of our contractors, are subject to audit by the U.S. Government, a negative outcome to which could adversely affect our financial conditions and business operations

U.S. government agencies, such as the Department of Health and Human Services, or DHHS, and the Defense Contract Audit Agency, or the DCAA, routinely audit and investigate government contractors and recipients of federal grants. These agencies evaluate a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards.

The DHHS and the DCAA also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a contract will not be reimbursed, while such costs already reimbursed must generally be repaid. If an audit identifies improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including, but not limited to:

- termination of contracts;
- forfeiture of profits;
- suspension of payments;
- fines; and
- suspension or prohibition from conducting business with the United States government.

We depend on a few key officers

Our performance is substantially dependent on the performance of our executive officers and other key scientific and sales staff, including Christopher J. Calhoun, our Chief Executive Officer, and Marc Hedrick, MD, our President. We rely upon them for strategic business decisions and guidance. We believe that our future success in developing marketable products and achieving a competitive position will depend in large part upon whether we can attract and retain additional qualified management and scientific personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to continue to attract and retain such personnel. The loss of the services of one or more of our executive officers or key scientific staff, or the inability to attract and retain additional personnel and develop expertise as needed could have a substantial negative effect on our results of operations and financial condition.

We may not have enough product liability insurance

The testing, manufacturing, marketing, and sale of our regenerative cell products involve an inherent risk that product liability claims will be asserted against us, our distribution partners, or licensees. There can be no guarantee that our clinical trial and commercial product liability insurance is adequate or will continue to be available in sufficient amounts or at an acceptable cost, if at all. A product liability claim, product recall, or other claim, as well as any claims for uninsured liabilities or in excess of insured liabilities, could have a substantial negative effect on our results of operations and financial condition. Also, well-publicized claims could cause our stock to fall sharply, even before the merits of the claims are decided by a court.

Risks Related to Ownership of our Common Stock

The market price of our common stock may be volatile and fluctuate significantly, which could result in substantial losses for stockholders and subject us to litigation.

The market price of our common stock may be subject to significant fluctuations. Among the factors that may cause the market price of our common stock to fluctuate are the risks described in this “Risk Factors” section and other factors, including:

- fluctuations in our operating results or the operating results of our competitors;
- changes in estimates of our financial results or recommendations by securities analysts;
- variance in our financial performance from the expectations of securities analysts;
- changes in the estimates of the future size and growth rate of our markets;
- changes in accounting principles or changes in interpretations of existing principles, which could affect our financial results;
- conditions and trends in the markets we serve;
- changes in general economic, industry and market conditions;
- success of competitive products and services;
- changes in market valuations or earnings of our competitors;
- announcements of significant new products, contracts, acquisitions or strategic alliances by us or our competitors;
- the timing and outcome of regulatory reviews and approvals of our products;
- the commencement or outcome of litigation involving our company, our general industry or both;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- actual or expected sales of our common stock by the holders of our common stock; and
- the trading volume of our common stock.

In addition, the stock market in general, the NASDAQ Global Market and the market for cell therapy development companies in particular may experience a loss of investor confidence. A loss of investor confidence may result in extreme price and volume fluctuations in our common stock that are unrelated or disproportionate to the operating performance of our business, our financial condition or results of operations. These broad market and industry factors may materially harm the market price of our common stock and expose us to securities class-action litigation. Class-action litigation, even if unsuccessful, could be costly to defend and divert management’s attention and resources, which could further materially harm our financial condition and results of operations.

Future sales of our common stock may depress our share price.

As of March 31, 2013, we had 67,173,050 shares of our common stock outstanding. Sales of a number of shares of common stock in the public market, or the expectation of such sales, could cause the market price of our common stock to decline. In addition, our 2004 Equity Incentive Plan provides for annual increases in the number of shares available for issuance under the plan, which may, among other things, result in dilution of the price of our common stock. We may also sell additional common stock in subsequent public offerings, which may adversely affect the market price of our common stock.

We have granted demand registration rights for the registration of the resale of certain shares of our common stock to each of Olympus Corporation, Astellas Pharma Inc. and Green Hospital Supply, Inc. pursuant to common stock purchase agreements previously entered into with each of these stockholders. An aggregate of 5,528,571 shares of our common stock are subject to these demand registration rights. If we receive a written request from any of these stockholders to file a registration statement under the Securities Act covering its shares of unregistered common stock, we are required to use reasonable efforts to prepare and file with the SEC within 30 business days of such request a registration statement covering the resale of the shares for an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act.

Our charter documents contain anti-takeover provisions and in 2003 we adopted a Stockholder Rights Plan to prevent hostile takeovers.

Certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws could discourage, delay or prevent a merger, acquisition or other change of control that stockholders may consider favorable. These provisions could also prevent or frustrate attempts by our stockholders to replace or remove members of our Board of Directors. Stockholders who wish to participate in these transactions may not have the opportunity to do so. These provisions:

- authorize our Board of Directors to issue without stockholder approval up to 5,000,000 shares of preferred stock, the rights of which will be determined at the discretion of the Board of Directors, of which 9,500 shares are designated as Series RP Preferred Stock pursuant to the Stockholder Rights Plan described below;
- require that stockholder actions must be effected at a duly called stockholder meeting and cannot be taken by written consent;
- establish advance notice requirements for stockholder nominations to our Board of Directors or for stockholder proposals that can be acted on at stockholder meetings; and
- limit who may call stockholder meetings.

In addition, in 2003 we adopted a Stockholder Rights Plan of the kind often referred to as a poison pill. The purpose of the Stockholder Rights Plan is to prevent coercive takeover tactics that may otherwise be utilized in takeover attempts. The existence of such a rights plan may also prevent or delay a change in control of the Company, and this prevention or delay may adversely affect the market price of our shares.

We are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large stockholders, in particular those owning 15% or more of the voting rights on our common stock, from merging or combining with us for a prescribed period of time.

We pay no dividends.

We have never paid cash dividends in the past, and currently do not intend to pay any cash dividends in the foreseeable future. This could make an investment in our company inappropriate for some investors, and may serve to narrow our potential sources of additional capital.

If securities and/or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. In addition, it is likely that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Termination of Olympus-Cytori Joint Venture

Effective on May 8, 2013, we entered into a Joint Venture Termination Agreement with the Olympus Corporation. The Joint Venture was formed in 2005 to facilitate the development and commercialization of the next generation Celution® Systems. The Joint Venture owns all manufacturing rights to develop and manufacture the Celution Products commercialized by us. This Agreement transfers all of the shares of the Joint Venture Company, Olympus-Cytori, Inc. to us. Pursuant to the Agreement, Olympus will also transfer to us all their interest in the jointly developed patents and patent applications and certain Olympus patents and patent applications related to the Joint Venture developed Celution products, all of the design and manufacturing related information relative to the Joint Venture developed Celution products, certain completed devices, consumables and related tools and parts and grants us a license to use Olympus intellectual property rights incorporated into the Joint Venture developed Celution products. All of the Olympus-Cytori Joint Venture related agreements would be terminated in full, and each party will grant the other a full release of claims. In consideration for the rights and properties transferred to us, we will pay Olympus the following:

- Initial Fee of \$220,000 within 60 days of the Effective Date
- 5% of the gross sales of all of our product sales until the Full Purchase Price has been paid.
- The Full Purchase Price shall be satisfied upon our fulfillment of any one of the following payment options (each of which is at our election, except for the Olympus Option below, and inclusive of the previously paid Initial Payment, and any payments made to Olympus based on gross sales of our products):
 - o We may elect to pay Olympus a total of \$4.5 million dollars within one year of the Effective Date; (or)
 - o Olympus Option- In the event we raise at least \$35 million dollars in cash or cash equivalents within one year of the Effective Date, Olympus may require that we immediately pay Olympus a total of \$4.5 million dollars; (or)
 - o We may elect to pay Olympus a total of \$6.0 million dollars within two years of the Effective Date; (or)
 - o In the event we have not paid Olympus the Full Purchase Price during the first two years, we shall be required to pay Olympus a total of \$16 million dollars as follows:
 - \$3 million dollars during our fiscal year in which the third anniversary of the Effective Date falls; and
 - \$3 million dollars during our fiscal year in which the fourth anniversary of the Effective Date falls; and
 - \$4 million dollars during our fiscal year in which the fifth anniversary of the Effective Date falls; and
 - any additional amounts necessary to reach a total of \$16 million dollars paid by us during our fiscal year in which the sixth anniversary of the Effective Date falls.

The Joint Venture Termination Agreement was the culmination of events that date back to 2011 when Olympus experienced serious internal issues which led to a significant change in the management structure at Olympus. In 2012 these changes continued to develop, with a total restructuring of the Olympus board of directors, its management team, and many aspects of its operations. In light of these events, we were engaged in ongoing discussions with Olympus relating to the future of the joint venture relationship, and the future development of the Celution System to ensure the continuity of operations for both parties, irrespective of the final outcome of the relationship. Both parties were committed to ensure that any transition would occur as seamlessly as possible, and in a mutually beneficial manner. We do not believe that Joint Venture Termination Agreement will have any significant effects on our business or operations, except with respect to the cash commitments required to pay the purchase price for the Joint Venture and its assets as described above.

Item 6. Exhibits

Exhibit No.	Description
10.91	Joint Venture Termination Agreement dated May 8, 2013 by and between the Company and Olympus Corporation (filed herewith).
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1*	Certifications Pursuant to 18 U.S.C. Section 1350/ Securities Exchange Act Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. 1350 and are not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

CYTORI THERAPEUTICS, INC.

Dated: May 10, 2013

By: /s/ Christopher J. Calhoun

Christopher J. Calhoun
Chief Executive Officer

Dated: May 10, 2013

By: /s/ Mark E. Saad

Mark E. Saad
Chief Financial Officer

JOINT VENTURE TERMINATION AGREEMENT

by and between

OLYMPUS CORPORATION

and

CYTORI THERAPEUTICS INC.

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JOINT VENTURE TERMINATION AGREEMENT

THIS JOINT VENTURE TERMINATION AGREEMENT (this “Agreement”) is entered into as of the Effective Date by and between Olympus Corporation, a corporation organized and existing under the laws of Japan (“Olympus”), and Cytori Therapeutics Inc., a company organized and existing under the laws of the State of Delaware, United States of America (“Cytori”). Olympus and Cytori are hereinafter also referred to collectively as the “Parties” and each individually as a “Party”.

RECITALS

- A. **WHEREAS**, Olympus is a leading developer and manufacturer of medical and scientific equipment.
- B. **WHEREAS**, Cytori is a leading developer of regenerative cell technology, including scientific equipment used to carry out regenerative cell therapies and treatments.
- C. **WHEREAS**, Olympus and Cytori entered into a certain Joint Venture Agreement dated November 4, 2005 (the “Joint Venture Agreement”), and certain Related Agreements (defined below) that set forth, among other things, the terms and conditions for the formation, operation, and management of the JV.
- D. **WHEREAS**, Pursuant to the Joint Venture Agreement, Olympus and Cytori each acquired and currently own one thousand and twenty-six (1,026) shares of the common stock of Olympus-Cytori, Inc., a company organized and existing under the laws of the State of Delaware, United States of America (the “JV”).
- E. **WHEREAS**, Olympus entered the Related Agreements (as hereinafter defined) with Cytori and/or the JV.
- F. **WHEREAS**, Olympus acquired and currently owns four million thirteen thousand and forty-three (4,013,043) shares of Cytori’s common stock (the “Cytori Shares”).
- G. **WHEREAS**, In light of long-term business considerations, subject to the terms and conditions herein, Olympus is willing to sell its shares of the JV and certain of its assets to Cytori, and Cytori wishes to acquire such shares and assets and both Olympus and Cytori desire to terminate the Joint Venture Agreement and the Related Agreements.

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

1. DEFINITIONS

- 1.1 Defined Terms. Capitalized terms used in this Agreement have the respective meanings ascribed thereto in Schedule 1.1.

1.2 Interpretation. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes,” and “including” shall be deemed to be followed by the phrase “without limitation.” Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument, other document or provision of law herein shall be construed as referring to such agreement, instrument, other document or provision of law as from time to time re-enacted, re-printed, amended, re-named, superseded, supplemented or otherwise modified prior to the date hereof, (b) any reference herein to any person shall be construed to include such person’s successors and assigns, (c) the word “country” shall be construed to include any country, state, nation or territory recognized by the international community, (d) the words “herein,” “hereof,” and “hereunder,” and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (e) all references herein to Sections and Schedules shall be construed to refer to Sections and Schedules to this Agreement, (f) Section headings used herein are for convenience of reference only, do not form a part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement, (g) whenever this Agreement refers to an Schedule attached hereto, such Schedule shall be deemed to be incorporated by reference herein, and (h) whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

2. **PURCHASE AND SALE OF OLYMPUS JV SHARES AND THE OLYMPUS ASSETS**

2.1 Basic Obligation. Subject to the terms and conditions of this Agreement, Olympus shall sell and convey the JV Shares and the Olympus Assets to Cytori free and clear of any Encumbrances, and Cytori shall purchase the JV Shares and the Olympus Assets from Olympus for the Total Purchase Price.

2.2 Purchase and Sale of all JV Shares.

- (a) On the Transfer Date, Olympus shall send to Cytori via an international courier service, return receipt requested, original share certificates representing the JV Shares, duly endorsed (or accompanied by duly executed stock powers).
- (b) On or prior to the Transfer Date, Olympus shall cause Messrs. Yasunobu Toyoshima, Masatoshi Kobayashi, and Mamoru Kaneko to resign as directors of the JV, effective as of the Transfer Date, and shall provide copies of such written resignations to Cytori.

2.3 Delivery of the Olympus Assets. In order to effectuate the transfer of the Assigned Patents to Cytori, as soon as reasonably practicable after the Transfer Date, Olympus shall execute such forms of assignment as shall be reasonably agreed to by Olympus and Cytori. Within four (4) weeks of the Transfer Date, Olympus shall deliver the Olympus Assets, other than the Assigned Patents, to Cytori FCA Tokyo, Japan. Title to and risk of loss of the Olympus Assets shall pass from Olympus to Cytori upon Olympus’ delivery of the Olympus Assets to Cytori. Notwithstanding the foregoing, (i) if any of the Service Parts have not been manufactured by the Transfer Date, Olympus shall not be obligated to deliver such item(s) within four (4) weeks of the Transfer Date, but shall deliver such item(s) to Cytori FCA Tokyo, Japan within thirty (30) days after such item(s) has been manufactured; and (ii) Olympus shall have no obligation to deliver the New Devices to Cytori if Cytori does not or does not cause the JV to maintain in effect through the date of delivery of the New Devices all CE Marks and other government approvals for the Celution One Device and Celution One Consumables that are in effect as of November 28, 2011, or any subsequent equally valid CE Mark and approvals.

- 2.4 Purchase Price. Cytori shall pay Olympus the Initial Payment within sixty (60) days of the Effective Date. Cytori shall pay Olympus the USD value of five percent (5%) of Cytori's gross sales receipts for sales of all products including, without limitation, all previous models and any newer models of the Celution One Devices and Celution One Consumables, beginning with gross sales receipts received for sales made in Cytori's first fiscal quarter of 2013, within sixty (60) days of the end of each Cytori fiscal quarter, until the Total Purchase Price is paid by Cytori to Olympus in full (the "**Installment Payments**"). Cytori may elect to pay the Total Purchase Price under any one of the following options:
- (a) One Year Payment Option. Cytori may elect to pay Olympus a total of USD 4,500,000, inclusive of the Initial Payment and all Installment Payments (the "**One Year Payment Option**"). If Cytori exercises this option, Cytori shall pay Olympus the Initial Payment and the Installment Payments as set forth above, plus any additional amounts necessary to reach a total of USD 4,500,000 within one (1) year of the Effective Date.
 - (b) Two Year Payment Option. Cytori may elect to pay Olympus a total of USD 6,000,000, inclusive of the Initial Payment and all Installment Payments (the "**Two Year Payment Option**"). If Cytori exercises this option, Cytori shall pay Olympus the Initial Payment and the Installment Payments as set forth above, plus any additional amounts necessary to reach a total of USD 6,000,000 within two (2) years of the Effective Date.
 - (c) Olympus Payment Option. Cytori shall promptly inform Olympus in writing of all cash and cash equivalents that Cytori receives within one (1) year following the Effective Date. Notwithstanding Cytori's exercise of the One Year Payment Option or Two Year Payment Option, if Cytori receives a cumulative total of at least USD 35,000,000 in cash or cash equivalents through strategic and/or financing arrangements during such one (1) year period, then, Cytori shall pay Olympus a total of USD 4,500,000 within five (5) Business Days of Cytori's receipt of a written notice from Olympus requesting such payment (the "**Olympus Payment Option**"). For the avoidance of doubt, the cumulative sum that Cytori shall pay Olympus under the Olympus Payment Option is USD 4,500,000, composed of (i) the Initial Payment, (ii) any Installment Payments received by Olympus, and (iii) any additional amounts necessary to reach a total of USD 4,500,000.

(d) Extended Payment Option. Cytori may elect to pay Olympus a total of USD 16,000,000, inclusive of the Initial Payment and all Installment Payments (the “**Extended Payment Option**”). If Cytori exercises this option, Cytori shall pay Olympus the Initial Payment, the Installment Payments, and the minimum annual payments below, until Cytori has paid Olympus a total of USD 16,000,000 (after which Cytori shall have no further obligation with respect to the Extended Payment Option) provided, however, that during years three (3) through six (6) Cytori shall pay the minimum Installment Payment amounts specified below for such years, with any shortfall in installment payments for each year being paid in full within sixty (60) days following the end of each relevant Cytori fiscal year. Cytori shall pay Olympus at least the following amounts during years three (3) through six (6) following the Effective Date: (i) USD 3,000,000 during the Cytori fiscal year in which the third anniversary of the Effective Date falls; (ii) USD 3,000,000 during the Cytori fiscal year in which the fourth anniversary of the Effective Date falls; (iii) USD 4,000,000 during the Cytori fiscal year in which the fifth anniversary of the Effective Date falls; and (iv) any additional amounts necessary to reach a total of USD 16,000,000 during the Cytori fiscal year in which the sixth anniversary of the Effective Date falls.

If Cytori does not exercise the One Year Payment Option, Two Year Payment Option, or pay Olympus the Total Purchase Price pursuant to Section 2.4(c), then Cytori shall be deemed to have exercised the Extended Payment Option. Cytori shall pay the Total Purchase Price to Olympus in accordance with this Section 2.4 without prior notice or demand and without deduction, set-off, or reduction for any reason and notwithstanding any dispute that may arise from or be related to this Agreement or any claim, counterclaim, recoupment, defense, or other right which Cytori may have against Olympus.

2.5 Payment Method. Cytori shall pay all amounts due to Olympus hereunder by wire transfer in immediately available funds to the following bank account:

Account No : 022101
Account Name : OLYMPUS CORPORATION
Account With : The Bank of Tokyo-Mitsubishi UFJ, Ltd. Shinjuku-Chuo Branch
Bank Address : 1-8-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-8691 Japan
Swift Code : BOTKJPJT
Bank Code : 0005

2.6 Taxes on the Transfer of the JV Shares and Olympus Assets. Any sales taxes, use taxes, transfer taxes, documentary charges, recording fees, filing fees or similar taxes, charges, fees or expenses (other than Taxes attributable to Olympus’ gain or income from the sale of the JV Shares or the Olympus Assets, or expenses associated with a failure by Olympus to appropriately remit Taxes or timely file the appropriate Tax Returns) that may become payable in connection with the sale of the JV Shares or the Olympus Assets to Cytori shall be split evenly such that one-half of such amounts shall be borne and paid by Olympus and one half shall be borne and paid by Cytori.

- 2.7 Taxes. All Tax Returns shall be prepared consistently with the Code or other Applicable Law. The Parties shall make jointly the necessary elections and execute and file, within the prescribed times therefor, the prescribed election forms and any other documents required to give effect to the foregoing and also prepare and file all of their respective Tax Returns in a manner consistent with such elections.
- 2.8 Books and Records; Access; Assistance.
- (a) Subject to any limitations imposed by Applicable Law, including limitations that are required to preserve any applicable attorney-client privilege, after the Transfer Date, Cytori and Olympus shall make reasonably available to each other and to any Governmental Authority (including any Governmental Authority having responsibility for the collection or enforcement of Taxes) and shall cause the JV to make reasonably available to Cytori and Olympus and to any Governmental Authority, all books and records relating to the JV Shares and the Olympus Assets for all periods prior to the Transfer Date and shall use commercially reasonable efforts to preserve (i) all such books and records and (ii) Tax information, records or documents pertaining to the JV Shares and the Olympus Assets, until the later of ten (10) years after the Transfer Date or the expiration of all applicable statutes of limitations for Taxes or extensions thereof. Cytori and Olympus shall also make available to each other, during normal business hours when reasonably requested, personnel responsible for preparing or maintaining information, records and documents, in connection with Taxes. The right to access provided by this Section 2.8 shall include the right to make copies of accessed documents.
- (b) Notwithstanding the foregoing, Section 2.8(a) shall not provide Cytori or Olympus any access rights to documents or information of the other Party which access would violate any Applicable Law or obligations regarding the confidentiality thereof (unless any such violation could be and is avoided by the recipient's execution and delivery of an appropriate confidentiality agreement), or waive any attorney/client, work product, or like privilege.
- 2.9 Tax Relief. The Parties shall reasonably cooperate in preparing and filing all Tax Returns (to the extent related to the JV Shares and the Olympus Assets), including maintaining and making available to each other all records necessary in connection with preparing such Tax Returns and in resolving all disputes and audits relating to Taxes (to the extent related to the JV Shares and the Olympus Assets). In addition, each Party shall render such reasonable assistance and cooperation as may be requested by the other Party to obtain any tax relief and other favorable tax treatment that may be available under Applicable Law with respect to this Agreement.

2.10 Automatic Termination. If Cytori fails to make any timely payment of the Total Purchase Price in accordance with Section 2.4, (i) the License and (ii) Olympus' obligations to provide the Warranty Service and Celution One Support in accordance with Section 8.1 shall automatically and immediately terminate. However, Cytori shall have a period of five (5) Business Days after written notice from Olympus to pay Olympus the full amount of any missed payment of the Total Purchase Price to avoid the automatic termination set forth in this Section 2.10.

3. LICENSE

3.1 License. Olympus hereby grants Cytori a non-exclusive, sublicenseable, worldwide, and non-transferable license under the Olympus IP to design, develop, make, have made, use, translate, perform, service, maintain, import, offer to sell, and sell the Final Celution Devices and Deliverables. Cytori shall obtain Olympus' written consent prior to granting any sublicense of Cytori's license under the Olympus IP, provided, however, that Olympus shall not unreasonably withhold, condition, or delay such consent.

3.2 Revocability. Upon Cytori paying Olympus the Total Purchase Price in accordance with Section 2.4, the License shall become fully paid-up and irrevocable.

3.3 Retention of Rights. Except to the extent expressly assigned or licensed in this Agreement, Olympus retains and reserves all rights to all Olympus IP, including the right to use Olympus IP for any purpose whatsoever.

4. ADDITIONAL OBLIGATIONS OF OLYMPUS

4.1 Transfer of JV Information and Documentation. On the Transfer Date, Olympus shall deliver to Cytori the JV Information and Documentation FCA Tokyo, Japan, to be used by Cytori for any lawful purpose. For the avoidance of doubt, Olympus, in its sole discretion, may continue to use any JV Information and Documentation solely for the purpose of the warranty and support obligations of Olympus as provided herein.

4.2 JV Assets. As soon as commercially reasonable following the Transfer Date, Olympus shall destroy the JV Assets in Japan at Olympus' sole cost and expense, and Olympus shall provide Cytori with a certification of destruction once this has been accomplished.

5. ADDITIONAL OBLIGATIONS OF CYTORI

5.1 Sale of Olympus' Cytori Shares. At Olympus' reasonable request, Cytori shall fully cooperate in good faith to assist Olympus in its efforts to sell the Cytori Shares in an orderly manner and subject to Applicable Law. The expectation, but without creating any obligation on Olympus, is that any such sales could take place any time within two (2) years of the Effective Date.

5.2 Olympus Name. As of the Effective Date, Cytori shall cease and shall cause the JV to cease all uses of “Olympus”, including, without limitation, use of “Olympus” as a trademark, trade name, or service mark, as well as any other word or phrase that indicates the involvement of Olympus in relation to the JV or any products or services offered by the JV or Cytori; provided, however, that Cytori shall have a reasonable period after the Effective Date to effect a change in the corporate name of the JV to remove “Olympus”, which period shall in no event extend after the Transfer Date.

6. TERMINATION OF THE JOINT VENTURE AGREEMENT AND RELATED AGREEMENTS

6.1 Termination. The Joint Venture Agreement and all Related Agreements are hereby terminated in their entirety, including any and all provisions thereof which by their terms were to have survived or extended beyond termination, and, notwithstanding any general survivability language or any indication that one or more provisions were to survive or extend beyond termination, none of the parties thereto shall have any rights or obligations whatsoever thereunder. The Parties shall cooperate and shall cause the JV to consent to the termination of all Related Agreements to which the JV is a party and to sign the Acknowledgment Agreement.

6.2 Cytori Release and Waiver. Upon the delivery of the JV Shares to Cytori as set forth in Section 2.2, and except for Olympus’ obligations set forth in this Agreement, Cytori, on behalf of itself and its predecessors, successors, parents, Affiliates, subsidiaries and each and all of their respective officers, directors, employees, and their heirs, successors, executors and assigns (collectively, the “Cytori Parties”) shall fully, finally, unconditionally, irrevocably and forever release and discharge Olympus, its predecessors, successors, parents, Affiliates, subsidiaries, and each and all of their respective past and present officers, directors, partners, limited partners, shareholders, employees, servants, attorneys, insurers, agents, and other representatives, and the heirs, successors, executors, predecessors, Affiliates, insurers, reinsurers, and assigns of any of the foregoing from all actions, causes of action, liabilities, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims, and demands (including, without limitation, attorneys’ fees) whatsoever, in law, admiralty or equity, which the Cytori Parties may now have or ever did have or hereafter can, shall or may, have, whether known or unknown, for, upon, or by reason of any matter, cause or thing whatsoever from the beginning of the world to the Effective Date.

6.3 Olympus Release and Waiver. Upon Cytori’s payment in full of the Total Purchase Price and except for Cytori’s obligations set forth in this Agreement, Olympus, on behalf of itself and its predecessors, successors, parents, Affiliates, subsidiaries, and each and all of their respective officers, directors, employees, and their heirs, successors, executors and assigns (collectively, the “Olympus Parties”) shall fully, finally, unconditionally, irrevocably and forever release and discharge Cytori, its predecessors, successors, parents, Affiliates, subsidiaries, and each and all of their respective past and present officers, directors, partners, limited partners, shareholders, employees, servants, attorneys, insurers, agents, and other representatives, and the heirs, successors, executors, predecessors, Affiliates, insurers, reinsurers, and assigns of any of the foregoing from all actions, causes of action, liabilities, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims, and demands (including, without limitation, attorneys’ fees) whatsoever, in law, admiralty or equity, which the Olympus Parties may now have or ever did have or hereafter can, shall or may, have, whether known or unknown, for, upon, or by reason of any matter, cause or thing whatsoever from the beginning of the world to the Effective Date.

7. REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties Cytori. Cytori hereby represents and warrants to Olympus that:

- (a) Cytori is a corporation duly incorporated, validly existing, and in good standing under the laws of Delaware, with full legal capacity and power to own its property and carry on its business as presently conducted or proposed to be conducted;
- (b) Cytori has full corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder;
- (c) The execution and delivery by Cytori of this Agreement and the performance by Cytori of its obligations hereunder have been duly and validly authorized by all necessary corporate action on the part of Cytori, and no other proceeding on the part of Cytori is necessary to authorize the execution, delivery, or performance hereof. This Agreement has been duly executed and delivered by Cytori and, assuming the due authorization, execution, and delivery hereof by the other Party, this Agreement constitutes a legal, valid, and binding obligation of Cytori, enforceable against Cytori in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, moratorium, or other Applicable Law affecting the enforcement of creditors' rights generally or by general principles of equity;
- (d) No consent, approval, or action of, filing with or notice to any Governmental Authority or any other Person is required in connection with Cytori's execution, delivery, or performance of this Agreement, or else such has already been obtained;

- (e) There is no pending or, to the knowledge of Cytori, threatened litigation, arbitration, mediation, administrative investigation, or other proceeding that challenges the validity of this Agreement or, if adversely decided, could (or could reasonably be expected to) have a material adverse effect on Cytori's ability to perform its obligations hereunder; and
- (f) To Cytori's knowledge, neither Cytori, nor any of its predecessors, successors, parents, Affiliates (which for purposes of this Section 7.1(f) shall not include the JV), subsidiaries and each and all of their respective past and present officers, directors, partners, limited partners, shareholders, employees, servants, attorneys, insurers, agents, and other representatives, and the heirs, successors, executors, predecessors, Affiliates, insurers, reinsurers, and assigns, have breached the Three-Way NDA.

7.2 Representations and Warranties Olympus. Olympus hereby represents and warrants to Cytori that:

- (a) Olympus is a corporation duly incorporated and validly existing, with full legal capacity and power to own its property and carry on its business as presently conducted or proposed to be conducted;
- (b) Olympus has full corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder;
- (c) The execution and delivery by Olympus of this Agreement and the performance by Olympus of its obligations hereunder have been duly and validly authorized by all necessary corporate action on the part of Olympus, and no other proceeding on the part of Olympus is necessary to authorize the execution, delivery, or performance hereof. This Agreement has been duly executed and delivered by Olympus and, assuming the due authorization, execution, and delivery hereof by the other Party, this Agreement constitutes a legal, valid, and binding obligation of Olympus, enforceable against Olympus in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, moratorium, or other Applicable Law affecting the enforcement of creditors' rights generally or by general principles of equity;
- (d) No consent, approval, or action of, filing with or notice to any Governmental Authority or any other Person is required in connection with Olympus's execution, delivery, or performance of this Agreement, or else such has already been obtained;
- (e) There is no pending or, to the knowledge of Olympus, threatened litigation, arbitration, mediation, administrative investigation, or other proceeding that challenges the validity of this Agreement or, if adversely decided, could (or could reasonably be expected to) have a material adverse effect on Olympus's ability to perform its obligations hereunder;
- (f) Schedules 2.3(A-D) attached hereto are complete to the best of Olympus' knowledge;

- (g) Olympus (i) is the record and beneficial owner of the number of JV Shares indicated in Recital D of this Agreement, (ii) has good and marketable title to all of such JV Shares and (iii) has the absolute right, power and the authority to sell, transfer and deliver all of such JV Shares, free and clear of all Encumbrances. Except for the number of JV Shares indicated in Recital D of this Agreement, Olympus does not own any additional shares of capital stock of the JV. Except for agreements between Cytori and Olympus, there are no options, warrants, rights, calls, commitments or other agreements of any character whatsoever related to shares of the JV owned by Olympus; and
- (h) To Olympus' knowledge, neither Olympus, nor any of its predecessors, successors, parents, Affiliates (which for purposes of this Section 7.2(h) shall not include the JV), subsidiaries and each and all of their respective past and present officers, directors, partners, limited partners, shareholders, employees, servants, attorneys, insurers, agents, and other representatives, and the heirs, successors, executors, predecessors, Affiliates, insurers, reinsurers, and assigns, have breached the Three-Way NDA.
- (i) Olympus has shut down all production lines for manufacturing the Celution One Device and / or the Final Celution Devices within its control, and as of the Transfer Date will have terminated all contracts related to the manufacture of such devices as well as any related consumables.

8. OLYMPUS WARRANTY SERVICE AND CELUTION ONE SUPPORT OBLIGATIONS

- 8.1 Olympus Warranty Service and Celution One Support. Cytori acknowledges that Olympus will not be able to provide Cytori with maintenance and repair warranty services similar to those set forth in the relevant Related Agreements because the Olympus Assets include the Service Parts, which are necessary for Olympus to provide such services. However, Olympus will provide Cytori with the Warranty Service and Celution One Support until March 31, 2014. Olympus' obligation to provide Warranty Service and Celution One Support shall not apply to: (a) malfunctions or damages caused by any Force Majeure Event; (b) malfunctions that are the result of improper storage, installation, use, maintenance or repair by Cytori, its agents, distributors, or customers; (c) malfunctions caused by improper operation of the Covered Product(s), or use of the Covered Product(s) with any equipment, software, hardware, or device not authorized by Olympus; and/or (d) malfunctions or damages caused by the defects or failure of equipment, parts, or service supplied by Cytori.
- 8.2 Further Celution One Support. Olympus and Cytori shall discuss in good faith, with the intent to assist with, Cytori's requests for Olympus to provide technical assistance and software support, which assistance and support shall in no event be provided after March 31, 2014, in relation to Celution One Devices and Celution One Consumables that are not Covered Products, in accordance with Section 3 of **Schedule 8.1 B** attached hereto.

8.3 Olympus Disclaimer. OLYMPUS IS SELLING AND TRANSFERRING THE JV SHARES AND THE OLYMPUS ASSETS, IS GRANTING THE LICENSE, WILL DELIVER THE JV INFORMATION AND DOCUMENTATION, AND WILL PERFORM ITS CONTINUING OBLIGATIONS, INCLUDING WARRANTY SERVICE AND CEUTION ONE SUPPORT IN ACCORDANCE WITH SECTION 8.1, AND ANY FURTHER CEUTION ONE SUPPORT THAT OLYMPUS MAY PROVIDE IN ACCORDANCE WITH SECTION 8.2, "AS IS" AND WITHOUT ANY EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES, EXCEPT AS EXPRESSLY SET FORTH IN SECTION 7.2. EXCEPT AS SPECIFICALLY SET FORTH IN SECTION 7.2, OLYMPUS HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, AND THOSE ARISING FROM COURSE OF DEALING. OLYMPUS DOES NOT WARRANT THAT ALL DEFICIENCIES, ERRORS, DEFECTS OR NON-CONFORMITIES OF THE PRODUCT(S) OR PARTS COMPONENTS THEREOF (WHETHER DIRECTLY INDIRECTLY) SUPPLIED BY OLYMPUS CAN BE CORRECTED. THE WARRANTY SERVICE SET FORTH IN THIS SECTION 8 IS LIMITED TO THE COVERED PRODUCT(S). EXCEPT AS EXPRESSLY SPECIFIED IN SECTION 7.2, OLYMPUS DOES NOT MAKE ANY REPRESENTATIONS OR WARRANTIES IN RELATION TO THE ASSIGNED PATENTS, THE LICENSE GRANTED IN ACCORDANCE WITH SECTION 3.1 OR THE INFORMATION OR DOCUMENTATION PROVIDED IN ACCORDANCE WITH SECTION 4, INCLUDING IN RELATION TO ANY THIRD PARTY CLAIMS OF INFRINGEMENT OR THAT ANY PATENTS WILL BE ISSUED BASED ON ANY PATENT APPLICATIONS INCLUDED WITHIN THE DEFINITIONS OF OLYMPUS IP. FOR THE AVOIDANCE OF DOUBT, OLYMPUS HEREBY DISCLAIMS AND DOES NOT PROVIDE ANY WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY PRODUCTS THAT HAVE BEEN SHIPPED TO OR ARE USED IN COUNTRIES OUTSIDE THE EUROPEAN UNION.

9. CONFIDENTIALITY

9.1 Public Announcements. Neither Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld, delayed, or conditioned; provided, however, that either Party and any of their respective Affiliates may make any public disclosure it believes in good faith is required by Applicable Law or any listing or trading agreement concerning its publicly traded securities (in which case the disclosing Party or Affiliate will use commercially reasonable efforts to advise the other Party prior to making the disclosure).

9.2 Confidentiality and Non-Use.

- (a) Olympus, and its Affiliates to whom Cytori Confidential Information has previously been disclosed, shall exercise the same degree of care with respect to maintaining the confidentiality of any Cytori Confidential Information in its possession that Olympus exercises with respect to similar types of Olympus' own proprietary information, but in no event less than a reasonable degree of care, except that any Cytori Confidential Information required by Applicable Law or legal or administrative process to be disclosed may be disclosed, provided that, if reasonably possible, Olympus shall first notify Cytori of such disclosure requirement so that Cytori may seek a protective order or other appropriate remedy. Olympus agrees to be responsible for the destruction or confidential maintenance of all Cytori Confidential Information that Olympus disclosed to Kawasumi during the time that the Joint Venture Agreement was in force. Except as necessary for Olympus to enforce the terms of the Agreement, and perform its obligations set forth in this Agreement, Olympus shall not in any manner use (in any way), or disclose to any third party, the Cytori Confidential Information.
- (b) Cytori shall exercise the same degree of care with respect to maintaining the confidentiality of any Olympus Confidential Information in its possession or in the possession of the JV, that Cytori exercises with respect to similar types of Cytori's own proprietary information, but in no event less than a reasonable degree of care, except that any Olympus Confidential Information required by Applicable Law or legal or administrative process to be disclosed may be disclosed, provided that, if reasonably possible, Cytori shall first notify Olympus of such disclosure requirement so that Olympus may seek a protective order or other appropriate remedy. Notwithstanding the foregoing, Cytori may, without the prior written consent of Olympus, disclose Olympus Confidential Information related to the License to Cytori's Affiliates that also agree to be bound by this Section 9.2(b). Except as permitted by the terms of this Agreement or as necessary for Cytori to exercise its rights or perform its obligations set forth in this Agreement, Cytori shall not in any manner use (in any way), or disclose to any third party, the Olympus Confidential Information.

10. LIMITATION OF LIABILITY

- 10.1 No Consequential or Incidental Damages. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY OR TO ANY THIRD PARTY FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES OF ANY NATURE (INCLUDING, BUT NOT LIMITED TO, DAMAGES FOR LOSS OF BUSINESS, LOSS OF PROFIT OR REVENUES, LOSS OF USE OF THE PRODUCT(S) OR ANY ASSOCIATED EQUIPMENT, COST OF CAPITAL, COST OF SUBSTITUTE PRODUCT(S), FACILITIES OR SERVICE, DOWNTIME, PERSONAL PROFITS, BUSINESS INTERRUPTION, OR ANY OTHER PECUNIARY LOSS) ARISING OUT OF OR IN ANY WAY RELATED TO THE PARTIES' PERFORMANCE OR FAILURE TO PERFORM UNDER THIS AGREEMENT, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE OTHER PARTY HAS BEEN WARNED OF THE POSSIBILITY OF SUCH DAMAGES.

10.2 Limitation on Claims and Liability Cap. Neither Party may bring or file any claim for breach of Section 7 (*Representations and Warranties*) or Section 8 (*Olympus Warranty Service and Celution One Support Obligations*) after March 31, 2015. Except for Cytori's obligation to pay the Total Purchase Price pursuant to Section 2.4 (*Purchase Price*), Cytori's obligations to adhere to the scope of the License as set forth in Section 3.1, and Cytori's indemnification obligations set forth in Section 11 (*Indemnification*), the total cumulative monetary liability of either Party for claims arising out of or related to this Agreement shall not exceed USD 1,000,000. Notwithstanding the foregoing, (i) either Party may bring or file any claim for monetary damages directly incurred due to a breach of Section 9.2 (*Confidentiality and Non-Use*) until March 31, 2018, without any limitation on the amount of such damages, and (ii) the Parties understand and agree that any breaches by Cytori of Section 3.1 (*License*) or any breaches by either Party Section 9.2 (*Confidentiality and Non-Use*) will cause the non-breaching Party irreparable injury and damage and therefore, only in relation to breaches or anticipated breaches of Section 3.1 (*License*) or Section 9.2 (*Confidentiality and Non-Use*) by a Party, the non-breaching Party is entitled to seek injunctive and equitable relief in addition to all other remedies available to it by law, without the necessity of posting any kind of bond or security, and without any deadline by which such claims must be brought.

11. INDEMNIFICATION

11.1 Indemnification Obligations of the Parties. Cytori shall indemnify, defend, and hold Olympus and Olympus' Affiliates, successors, and assigns (each an "**Indemnified Party**") harmless from and against, and pay or reimburse each of them for and with respect to, all damages, losses, liabilities, claims, demands, costs, and expenses (including, without limitation, reasonable attorneys' fees) suffered or incurred by such Indemnified Party, resulting from third party claims, and relating to, arising out of or resulting from, any use of the Products outside of the European Union.

11.2 Administration of Indemnification. For purposes of administering the indemnification provisions set forth in Section 11.1, the following procedures shall apply:

- (a) Whenever a claim subject to indemnification under Section 11.1 (each, an "**Indemnity Claim**") shall arise, the Indemnified Party shall, reasonably promptly after acquiring knowledge of the Indemnity Claim, give written notice to Cytori, setting forth in reasonable detail, to the extent then available, the facts concerning the nature of the Indemnity Claim and the basis upon which the Indemnified Party believes that it is entitled to indemnification under Section 11.1.

- (b) In the event of any Indemnity Claim resulting from or in connection with any claim by a third party, Cytori shall be entitled, at its sole expense and to the extent permitted by Applicable Law, to either:
- (1) participate in defending against such claim; or
 - (2) assume the entire defense of such claim with counsel selected by it and reasonably acceptable to the Indemnified Party; provided that Cytori agrees in writing that it does not and will not contest its responsibility for indemnifying the Indemnified Party in respect of such claim or proceeding and provided further that no settlement shall be made and no judgment consented to by Cytori without the prior written consent of the Indemnified Party, such consent not be unreasonably withheld, conditioned or delayed, except that no such consent shall be required if the claimant is entitled under the settlement to only monetary damages actually paid by Cytori.

Notwithstanding the foregoing provisions of this Section 11.2(b), if (A) a third party claim would, if successful, result in the imposition of damages for which Cytori would not be solely responsible, or (B) representation of both the Indemnified Party and Cytori by the same counsel would otherwise be inappropriate due to actual or potential differing interests between them, then Cytori shall not be entitled to assume the entire defense of such claim and each party shall be entitled to retain counsel who shall, to the extent appropriate in the opinion of each such counsel, cooperate with one another in defending against said claim. In the case of clause (A) of the preceding sentence, Cytori shall be obligated to bear only that portion of the expense of the Indemnified Party's counsel that is in proportion to the damages subject to indemnification by Cytori compared to the total amount of the third-party claim against the Indemnified Party.

- (c) If, within fifteen (15) Business Days after receipt of notice of an Indemnity Claim given pursuant to Section 11.2(a), Cytori fails to give the Indemnified Party written notice of Cytori election to undertake the defense of such Indemnity Claim, Cytori subsequently fails to diligently prosecute such defense, or the Applicable Law allows Cytori to undertake neither (1) nor (2) in Section 11.2(b) above, the Indemnified Party may defend the claim in such manner as it reasonably deems appropriate or settle the claim (after giving notice thereof to Cytori) on such terms as the Indemnified Party may deem appropriate; provided that no settlement shall be made and no judgment consented to by the Indemnified Party without the prior written consent of Cytori, such consent not be unreasonably withheld, conditioned or delayed, except that no such consent shall be required if the claimant is entitled under the settlement to only monetary damages actually paid by the Indemnified Party. If the Indemnified Party assumes the defense of the claim pursuant to this Section 11.2(c), it shall be entitled to monthly reimbursement of defense expenses incurred and prompt indemnification from Cytori in accordance with this Section 11.

(d) Failure or delay by an Indemnified Party to give reasonably prompt notice of any Indemnity Claim (if given prior to expiration of the applicable Survival Period) shall not release, waive or otherwise affect Cytori's obligations with respect to the Indemnity Claim, except to the extent that Cytori can demonstrate actual loss or prejudice as a result of such failure or delay.

12. GENERAL PROVISIONS

- 12.1 Governing Law. This Agreement shall in all respects be governed by and construed in accordance with the laws of New York without reference to principles of conflicts of laws that would require the application of the laws of another jurisdiction.
- 12.2 Dispute Resolution. All disputes arising out of or in connection with this Agreement, or any relationship created by or in accordance with this Agreement shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**") by three (3) arbitrators. Judgment on the award rendered by the panel of arbitrators shall be binding upon the Parties and may be entered in any court having jurisdiction thereof. Olympus shall nominate one (1) arbitrator and Cytori shall nominate one (1) arbitrator. The arbitrators so nominated by each Party respectively shall jointly nominate the third arbitrator within fifteen (15) days following the confirmation of arbitrators nominated by each Party. If the arbitrators nominated by each respective Party cannot agree on the third arbitrator, then such third arbitrator shall be selected as provided in the Rules. The place of the arbitration and all hearings and meetings shall be Honolulu, Hawaii. In addition to the Rules and except as otherwise provided herein, the Parties agree that the arbitration shall be conducted according to the International Bar Association Rules on the Taking of Evidence in International Commercial Arbitration. The arbitrators may order pre-hearing production or exchange of documentary evidence, and may require written submissions from the relevant Party, but may not otherwise order pre-hearing depositions or discovery. The arbitrators shall apply the laws of New York as set forth in Section 12.1 and the Federal Arbitration Act shall govern. The language of the arbitral proceedings shall be English. The arbitrators shall not issue any award, grant any relief, or take any action that is prohibited by or inconsistent with the terms of this Agreement and shall not have the authority to use the equitable powers provided by the Rules to modify any terms of this Agreement, nor shall the arbitrators have the power to award any punitive or exemplary damages. The provisions of this Section 12.2 shall not apply to any claims for equitable relief brought by a party solely for breaches or anticipated breaches of Section 3.1 (*License*) or Section 9.2 (*Confidentiality and Non-Use*).
- 12.3 Notices and Other Communications. Any and all notices, requests, demands, and other communications required or otherwise contemplated to be made under this Agreement shall be in writing and in English and shall be provided by one or more of the following means and shall be deemed to have been duly given (a) if delivered personally, when received, (b) if transmitted by facsimile or electronic mail ("**E-mail**") originating in Japan, on the date of transmission with receipt of a transmittal confirmation, (c) if transmitted by facsimile or E-mail originating in the United States, on the first (1st) Business Day following receipt of a transmittal confirmation, or (d) if by international courier service, on the fourth (4th) Business Day following the date of deposit with such courier service, or such earlier delivery date as may be confirmed in writing to the sender by such courier service. All such notices, requests, demands and other communications shall be addressed as follows:

If to Olympus:

2-3 Kuboyama-cho, Hachioji-shi, Tokyo 192-8512, Japan
Attention: Mamoru Kaneko
Facsimile: +81 42-691-7350
E-mail: ma_kaneko@ot.olympus.co.jp

With a copy to:
Mr. Stephen E. Chelberg
Squire Sanders (US) LLP
Ebisu Prime Square Tower, 16F
1-1-39 Hiroo, Shibuya-ku Tokyo, Japan 150-0012
Facsimile: +81 (0)3-5774-1800
E-mail: stephen.chelberg@squiresanders.com

If to Cytori:

3020 Callan Road
San Diego, California 92121, United States of America
Attention: Christopher J. Calhoun
Facsimile: 858-458-0994
E-mail: ccalhoun@cytori.com

or to such other address, facsimile number, or E-mail address as a Party may have specified to the other Party in writing delivered in accordance with this Section 12.3.

- 12.4 Governing Language. This Agreement is in the English language only, which language shall be controlling in all respects, and all versions hereof in any other language shall be for accommodation only and shall not be binding upon the Parties. All communications and notices to be made or given pursuant to this Agreement shall be in the English language.
- 12.5 Severability. If any provision in this Agreement shall be found or be held to be invalid or unenforceable, then the meaning of said provision shall be construed, to the extent feasible, so as to render the provision enforceable, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement which shall remain in full force and effect unless the severed provision is essential and material to the rights or benefits received by either Party. In such event, the Parties shall use reasonable efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement which most nearly reflects the Parties' intent in entering into this Agreement.

- 12.6 Further Assurances. Each Party shall perform such acts, execute and deliver such instruments and documents, and do all such other things as may be reasonably necessary to accomplish the transactions contemplated in this Agreement.
- 12.7 Expenses. Each Party shall bear its own costs and expenses, including, without limitation, fees and expenses of legal counsel, accountants, brokers, consultants, and other representatives used or hired in connection with the negotiation and preparation of this Agreement and consummation of the transactions contemplated hereby.
- 12.8 No Waiver. No waiver of any term or condition of this Agreement shall be valid or binding on a Party unless the same shall have been set forth in a written document, specifically referring to this Agreement and duly signed by the waiving Party. The failure of a Party to enforce at any time any of the provisions of this Agreement, or the failure to require at any time performance by the other Party of any of the provisions of this Agreement, shall in no way be construed to be a present or future waiver of such provisions, nor in any way affect the ability of a Party to enforce each and every such provision thereafter.
- 12.9 Entire Agreement; Amendments. The terms and conditions contained in this Agreement (including the Schedules attached hereto), constitute the entire agreement between the Parties and supersede all previous agreements and understandings, whether oral or written, between the Parties with respect to the subject matter hereof. No agreement or understanding amending this Agreement shall be binding upon either Party unless set forth in a written document which expressly refers to this Agreement and which is signed and delivered by duly authorized representatives of both Parties.
- 12.10 Assignment. Except as set forth in Section 3 above, neither Party has the right to assign its rights or obligations under this Agreement.
- 12.11 No Agency. The Parties are independent contractors. Nothing contained herein or done in pursuance of this Agreement shall constitute either Party as being the agent of the other Party for any purpose or in any sense whatsoever.
- 12.12 No Beneficiaries. Nothing herein express or implied, is intended to or shall be construed to confer upon or give to any Person, other than the Parties, any interests, rights, remedies or other benefits with respect to or in connection with any agreement or provision contained herein or contemplated hereby.
- 12.13 Rights and Remedies Cumulative. Except as otherwise provided in this Agreement, the rights and remedies provided herein shall be cumulative and not exclusive of any other rights or remedies provided by law or otherwise.

12.14 Counterparts . This Agreement may be executed in any number of counterparts, and each counterpart shall constitute an original instrument, but all such separate counterparts shall constitute only one and the same instrument.

IN WITNESS WHEREOF , the Parties have caused their respective duly authorized representatives to execute this Agreement.

OLYMPUS CORPORATION

By:
/s/ Hiroyuki Sasa

Name:
Hiroyuki Sasa

Title:
President and Representative Director

Date:
May 8, 2013

CYTORI THERAPEUTICS INC.

By:
/s/ Christopher J. Calhoun

Name:
Christopher J. Calhoun

Title:
Chief Executive Officer

Date:
May 8, 2013

LIST OF SCHEDULES

Schedule 1.1 Definitions
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SCHEDULE 1.1

DEFINITIONS

“ **Acknowledgement Agreement** ” means the agreement to be executed by Olympus and the JV in the form attached hereto as in the form attached hereto as **Schedule 6.1 B** .

“ **Affiliate** ” means any Person controlling, controlled by, or under common control with another Person, where control means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of securities, other ownership interest, and/or contract.

“ **Agreement** ” has the meaning ascribed thereto in the opening paragraph of this Agreement.

“ **Applicable Law** ” means, as to any Person, any statute, law, rule, regulation, directive, treaty, judgment, order, decree or injunction of any Governmental Authority that is applicable to or binding upon such Person or any of its properties.

“ **Assigned Patents** ” means all of Olympus’ rights in those patents and patent applications listed in **Schedule 2.3 A** attached hereto.

“ **Assistance Request** ” has the meaning ascribed thereto in **Schedule 8.1 B** .

“ **Bug Fixing Request** ” has the meaning ascribed thereto in **Schedule 8.1 B** .

“ **Business Day** ” means a day on which commercial banks in Tokyo, Japan and San Diego, California, United States of America are generally open to conduct their regular banking business.

“ **Celution One Consumables** ” means the OC-1020-IP consumables developed and manufactured by or for Olympus as described in **Schedule 2.3 D** .

“ **Celution One Device** ” means the OC-1000-D3 device developed and manufactured by or for Olympus as described in **Schedule 2.3 C** .

“ **Code** ” means the United States Internal Revenue Code of 1986, as amended.

“ **Covered Product** ” means all Products that Olympus shipped to the European Union and that since being shipped to the European Union have been used exclusively by or for Cytori in the European Union.

“ **Cytori** ” has the meaning ascribed thereto in the opening paragraph of this Agreement.

“ **Cytori Confidential Information** ” means (i) the JV Information and Documentation (not including the Intellectual Property Rights of Olympus), (ii) all confidential or proprietary information previously provided by Cytori to Olympus pursuant to the Related Agreements that was marked as confidential if in written (including electronic) form, or if in oral form, was followed by a writing confirming that the information is “confidential” within thirty (30) Business Days after oral disclosure, (iii) all confidential or proprietary information that Cytori provided to Olympus pursuant to this Agreement that is marked as confidential if in written (including electronic) form, or if in oral form, is followed by a writing confirming that the information is “confidential” within thirty (30) Business Days after oral disclosure, (iv) the following written or electronic materials Olympus received from Cytori relating or pertaining to the JV and the development of the Final Celution Devices, Celution One Device, Celution One Consumables and Deliverables whether or not such written or electronic materials are marked or confirmed as confidential:

- (a) diagrams, drawings, schematics or plans and software (including specifications therefore);
- (b) all documentation, protocols, and reports relating to laboratory studies and feasibility experiments related to device development or adipose-related research;
- (c) manufacturing documentation, material specifications, and supplier lists and information;
- (d) second source manufacturing records and documents;
- (e) all documents and records relating or pertaining to Cytori's proprietary enzymes and reagents including Celase and Intravase;
- (f) technical service documentation and forms;
- (g) regulatory documents and filings (technical files, and all submissions to FDA, BSi, DEKRA, MHLW, and other global regulatory bodies including all supporting documentation);
- (h) quality system documents and records including electronic files and records on QCBD;
- (i) financial documents, including spreadsheets and summaries;
- (j) descriptions or summaries of Cytori IP, IP opinions and correspondence or other communications relating to Cytori IP (including any information and correspondence related to the 231 patent);
- (k) all documents related to any Cytori-sponsored preclinical studies; and
- (l) all documents and records concerning Cytori's past or present clinical trials, including, but not limited to, the Restore 1, Restore 2, Apollo, Precise, Athena, and Advance trials, as well as any such records relating to any investigator initiated trials involving the Celution 600 & Celution 800, Puregraft or the Celution One Device.

and (v) the information listed in **Schedule 9.2 (a)** (not including the Intellectual Property Rights of Olympus). Cytori Confidential Information does not include any trade secrets or information that was or is (A) known to Olympus prior to receipt thereof from Cytori or the JV; (B) disclosed to Olympus by a third person which had or has a legal right to make such disclosure without requiring Olympus to maintain the confidentiality thereof at the time of such disclosure; (C) or becomes part of the public domain through no fault of Olympus; or (D) independently developed by or for Olympus as evidenced by its written records, without reference to Cytori Confidential Information.

“ **Cytori Parties** ” has the meaning ascribed thereto in Section 6.2.

“ **Cytori Shares** ” has the meaning ascribed thereto in Recital F.

“ **Deliverables** ” means those items listed as deliverables in the Development Plan attached as Exhibit 1B to the JDA as amended effective as of May 20, 2008.

“ **Effective Date** ” means the last date of signature of this Agreement.

“ **E-mail** ” has the meaning ascribed thereto in Section 12.3.

“ **Encumbrance** ” means, with respect to any item, any mortgage, lien, pledge, charge, or security interest of any kind in respect of such item, but specifically excludes (i) mortgages, liens, pledges, charges, and security interests which do not materially detract from the value of or interfere with the use of the item, (ii) liens for taxes not yet due (or which are being contested in good faith), and (iii) mechanics’, carriers’, workers’, repairers’, materialmens’, workhousmens’, land lords’, and similar liens arising or incurred in the ordinary course of business that are not past due or delinquent as of the Effective Date, as well as similar liens under Japanese law, such as statutory liens (*sakidori tokken*) and rights of retention (*ryuuchi ken*), arising or incurred in the ordinary course of business that are not past due or delinquent as of the Effective Date.

“ **Extended Payment Option** ” has the meaning ascribed thereto in Section 2.4(d).

“ **FCA** ” means Free Carrier as defined in Incoterms 2010.

“ **Final Celution Devices** ” means (i) the Licensed Product developed by Olympus pursuant to the Development Plan and the Specifications and that received Acceptance by the JV in accordance with the JDA (with the capitalized terms in this definition having the meanings set forth in the JDA) (“ **Final Product**”), (ii) the Celution One Device, (iii) minor variations to the Celution One Device and the Final Product that Cytori may make or have made as necessary to modify the Celution One Device or Final Product for use in various countries (such as changes to the power supply and changes to the type of electrical plug used), (iv) minor variations in the components of the Celution One Device and the Final Product that are substantially equivalent to the existing components of the Celution One Device and the Final Product and that are necessary as a result of Cytori using different component suppliers than Olympus used to manufacture the same components for the Celution One Device and the Final Product (such as changes to the centrifuge motor, the vacuum pump, circuit boards, heating elements for both the digest chamber and the LR chamber, machined components, valves, optical and leak sensors, casters, and different materials, processes), and (v) minor changes to the geometry of and other minor design changes to the consumables used in the Celution One Device and Final Product necessitated by Cytori’s use of alternate consumables manufacturers, and (vi) different colors and materials for external components of the Celution One Device and Final Product that have substantially equivalent properties to the same existing external components.

“ **Force Majeure Event** ” means any events beyond a Party’s reasonable control, including, but not limited to, acts of God, acts of war, acts of terrorism, civil disturbance, earthquake, epidemic, widespread communicable disease (such as SARS), governmental action, strikes, fire, flood, typhoon, tsunami, peril or accident at sea, inability to secure materials and transportation or facilities, nuclear accident or disaster, walkouts or lock-outs, or other labor disputes beyond the reasonable control of a Party.

“ **Governmental Authority** ” means any (i) country, nation, state, county, city, town, village, district or other jurisdiction of any nature, (ii) federal, state, local, municipal, foreign or other government or political subdivision thereof, (iii) governmental or quasi-governmental authority of any nature (including any taxing authority, agency, branch, board, department, central bank, commission, bureau, official, or entity and any court), or (iv) body exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature (including stock exchanges and other self-regulatory bodies).

“ **Indemnified Party** ” has the meaning ascribed thereto in Section 11.1.

“ **Indemnity Claim** ” has the meaning ascribed thereto in Section 11.2(a).

“ **Initial Payment** ” means USD 220,000.

“ **Installment Payments** ” has the meaning ascribed thereto in Section 2.4.

“ **Intellectual Property Rights** ” or “ **IP** ” means (a) all inventions (whether patentable or unpatentable and whether or not actually reduced to practice), all improvements thereto as of the Effective Date, and all patents, provisional and non-provisional patent applications and patent disclosures, together with all reissues, divisions, continuations, continuations-in-part, renewals, extensions and reexaminations thereof, (b) all copyrightable works, all works of authorship, all copyrights, and all applications, registrations and renewals in connection therewith, (c) all mask works and all applications, registrations and renewals in connection therewith, (d) all trademarks, service marks, trade names, service names, brand names, trade dress rights, logos, Internet domain names and corporate names, together with the goodwill associated with any of the foregoing, (e) all trade secrets and confidential business information (including, but not limited to, ideas, research and development information, knowhow, formulas, compositions, biochemical and biological materials, reagents, assays, manufacturing and production processes and techniques, technical data, data base rights, designs, drawings, specifications, customer and supplier lists, pricing and cost information and business and marketing plans and proposals), and (f) any and all applications and registrations of the foregoing (in any jurisdiction).

“ **JDA** ” has the meaning ascribed thereto in Schedule 6.1A.

“ **Joint Venture Agreement** ” has the meaning ascribed thereto in Recital C.

“ **JV** ” has the meaning ascribed thereto in Recital D.

“ **JV Assets** ” means those fixtures and tooling listed in **Schedule 4.2** attached hereto.

“ **JV Information and Documentation** ” means that certain JV Information and Documentation set forth in **Schedule 4.1** attached hereto.

“ **JV Shares** ” means the one thousand and twenty-six (1,026) shares of JV common stock held by Olympus.

“ **License** ” means the license that Olympus grants to Cytori in accordance with Section 3.1.

“ **New Devices** ” means two (2) fully assembled Celution One Devices that Olympus will provide to Cytori as an Olympus Asset in accordance with this Agreement.

“ **Olympus** ” has the meaning ascribed thereto in the opening paragraph of this Agreement.

“ **Olympus Assets** ” means:

- (a) the Service Parts;
- (b) the New Devices;
- (c) the Assigned Patents;
- (d) one (1) lot (twenty-eight (28) individual sets) of Celution One Consumables with an expiration date of May 31, 2013.

“ **Olympus Confidential Information** ” means (i) the Intellectual Property Rights of Olympus included in the JV Information and Documentation, (ii) all confidential or proprietary information previously provided by Olympus to Cytori pursuant to the Related Agreements that was marked as confidential if in written (including electronic) form, or if in oral form, was followed by a writing confirming that the information is “confidential” within thirty (30) Business Days after oral disclosure, (iii) all confidential or proprietary information that Olympus provided to Cytori pursuant to this Agreement that is marked as confidential if in written (including electronic) form, or if in oral form, is followed by a writing confirming that the information is “confidential” within thirty (30) Business Days after oral disclosure, (iv) the following written or electronic materials Cytori received from Olympus relating or pertaining to the Intellectual Property Rights of Olympus in connection with the JV and the development of the Celution One Device and Deliverables whether or not such written or electronic materials are marked or confirmed as confidential:

- (a) diagrams, drawings, schematics or plans and software (including specifications therefore);

- (b) all documentation, protocols, and reports relating to laboratory studies and feasibility experiments related to device development or adipose-related research;
- (c) manufacturing documentation, material specifications, and supplier lists and information;
- (d) second source manufacturing records and documents;
- (e) technical service documentation and forms;
- (f) quality system documents and records including electronic files and records on QCBD;
- (g) financial documents, including spreadsheets and summaries; and
- (h) descriptions or summaries of Olympus IP, IP opinions and correspondence or other communications relating to Olympus IP;

and (v) the Intellectual Property Rights of Olympus included in the items listed in **Schedule 9.2 (b)**. Olympus Confidential Information does not include any trade secrets or information that was or is (A) known to Cytori prior to receipt thereof from Olympus or the JV; (B) disclosed to Cytori by a third person which had or has a legal right to make such disclosure without requiring Cytori to maintain the confidentiality thereof at the time of such disclosure; (C) or becomes part of the public domain through no fault of Cytori; or (D) independently developed by or for Cytori as evidenced by its written records, without reference to Olympus Confidential Information.

“ **Olympus IP** ” means all Intellectual Property Rights owned by Olympus that Olympus incorporated into any Final Celution Device or Deliverable as of February 28, 2012.

“ **Olympus Parties** ” has the meaning ascribed thereto in Section 6.3.

“ **Olympus Payment Option** ” has the meaning ascribed thereto in Section 2.4(c).

“ **One Year Payment Option** ” has the meaning ascribed thereto in Section 2.4(a).

“ **Party** ” and “ **Parties** ” have the meanings ascribed thereto in the opening paragraph of this Agreement.

“ **Person** ” means a natural individual, Governmental Authority, partnership, firm, corporation, or any other entity.

“ **Products** ” means the Celution One Devices and Celution One Consumables previously sold by the JV to Cytori as of the Effective Date, listed in **Schedule 8.1 A**, and the New Devices.

“ **Related Agreements** ” means all agreements entered into by and between Olympus and Cytori and by and between Olympus and the JV, including those listed in **Schedule 6.1 A**.

“ **Rules** ” has the meaning ascribed thereto in Section 12.1.

“ **Service Parts** ” means those spare parts and repair jigs and tools for service of Celution One Devices listed in **Schedule 2.3 B** attached hereto.

“ **Tax Return** ” means any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“ **Taxes** ” means all taxes, charges, fees, duties, levies or other assessments, including, without limitation, income, gross receipts, net proceeds, ad valorem, turnover, real and personal property (tangible and intangible), sales, consumption, use, franchise, excise, value added, license, payroll, unemployment, environmental, customs duties, capital stock, disability, stamp, leasing, lease, user, transfer, fuel, excess profits, occupational and interest equalization, windfall profits, severance and employees’ or third parties income withholding and Social Security taxes, and taxes of any other kind whatsoever imposed by the United States or any foreign country or by any state, region, municipality, subdivision or instrumentality of the United States or of any foreign country or by any other tax authority and such term shall include any interest, penalties, surcharges or additions to tax attributable to such taxes.

“ **Three-Way NDA** ” means that certain Three-Way Non-Disclosure Agreement by and among Olympus, Cytori, and the JV dated November 4, 2005, as amended.

“ **Total Purchase Price** ” means the purchase price paid by Cytori to Olympus for the JV Shares and the Olympus Assets pursuant to Cytori’s exercise of the One Year Payment Option, the Two Year Payment Option, the Olympus Payment Option, or the Extended Payment Option in accordance with Section 2.4.

“ **Transfer Date** ” means five (5) Business Days after Olympus receives the Initial Payment.

“ **Two Year Payment Option** ” has the meaning ascribed thereto in Section 2.4(b).

“ **USD** ” means United States dollars, the official currency of the United States of America.

“ **Warranty Service and Celution One Support** ” means the service that Olympus shall provide in accordance with Section 8.1 as set forth in Sections 1 and 2 of **Schedule 8.1 B** attached hereto.

**Certification of Principal Executive Officer Pursuant to
Securities Exchange Act Rule 13a-14(a),
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Christopher J. Calhoun, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cytori Therapeutics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report- based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ Christopher J. Calhoun

Christopher J. Calhoun,
Chief Executive Officer

**Certification of Principal Financial Officer Pursuant to
Securities Exchange Act Rule 13a-14(a),
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark E. Saad, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cytori Therapeutics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report- based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ Mark E. Saad

Mark E. Saad
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350/ SECURITIES EXCHANGE ACT RULE 13a-14(b), AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Cytori Therapeutics, Inc. for the quarterly period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof, Christopher J. Calhoun, as Chief Executive Officer of Cytori Therapeutics, Inc., and Mark E. Saad, as Chief Financial Officer of Cytori Therapeutics, Inc., each hereby certifies, respectively, that:

1. The Form 10-Q report of Cytori Therapeutics, Inc. that this certification accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934.
2. The information contained in the Form 10-Q report of Cytori Therapeutics, Inc. that this certification accompanies fairly presents, in all material respects, the financial condition and results of operations of Cytori Therapeutics, Inc.

Dated: May 10, 2013

By: /s/ Christopher J. Calhoun
Christopher J. Calhoun
Chief Executive Officer

Dated: May 10, 2013

By: /s/ Mark E. Saad
Mark E. Saad
Chief Financial Officer
