cytori | 2016 annual report

TO MY FELLOW STOCKHOLDERS:

Marc Hedrick, MD
President and Chief Executive Officer

On behalf of our teams in San Diego, Japan, Europe and now San Antonio, I want to thank you for your ongoing support for Cytori and its mission of enhancing lives through the development of novel therapeutics. Towards that end, we have made significant progress in 2016 and have set the foundation for 2017 to be an important year for the company.

What are some key accomplishments in 2016? First, I am pleased to report that enrollment in our U.S. Phase III STAR trial for our lead therapy, Habeo™ Cell Therapy, finished ahead of schedule. This trial evaluates Habeo for the treatment of scleroderma of the hand. Addtionally, based on promising three-year follow-up data from the original French investigator-initated SCLERADEC I pilot trial and a growing amount of supportive pre-clinical data, we are evaluating the use of Habeo beyond scleroderma to a broader group of patients with secondary Raynaud's symptoms.

We also made progress in 2016 on a number of other clinical objectives around the world. The Japanese investigator-initiated ADRESU approval trial using Cytori Cell Therapy for male stress urinary incontinence following prostate surgery hit the mid-point in enrollment. We also completed the one year follow-up of our U.S. Phase II ACT-OA trial for knee osteoarthritis. This trial reported early evidence of a potential effect on joint pathology as measured by follow-up MRI assessments. Preclinically, we completed the key development activities related to our BARDA contract and we are currently in the process of seeking U.S. FDA and BARDA approval of our proposed thermal burn clinical trial, with the goal of commencing patient enrollment in 2017.

In early, 2017, we completed the strategic acquisition of substantially all of the assets of San Antonio, Texas-based Azaya Therapeutics, Inc., expanding our pipeline in both the near- and long-term. The acquisition features ATI-0918, a nanoparticle encapsulated generic formulation of doxorubicin used commonly to treat many cancers such as breast and ovarian cancer. European study data for ATI-0918 indicate that it has met the statistical criteria for bioequivalence to the reference listed drug in Europe, and we intend that these bioequivalence data will serve as a basis for a planned regulatory submission to the European Medicines Agency for ATI-0918 approval. The acquisition also includes a new nanoparticle manufacturing facility in Texas that we will use for production of ATI-0918 in connection with our regulatory and commercialization efforts for this drug candidate.

In conclusion, I want to recognize the employees of Cytori for their dedication to the company and its mission. The many acheivements of 2016 are because of them. Due to their hard work and dedication, and the support of our various stakeholders, we have many more promising opportunities to which we can look forward in 2017. Thank you once again for your support!

Sincerely,

Marc H. Hedrick, MD
President and Chief Executive Officer

April 10, 2017

cytori

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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	**33-0827593**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3020 CALLAN ROAD, SAN DIEGO, CALIFORNIA	**92121**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.001	**NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was $42.3 million based on the closing sales price of the registrant's common stock on June 30, 2016 as reported on the Nasdaq Capital Market, of $2.09 per share.

As of January 31, 2017, there were 21,966,424 shares of the registrant's common stock outstanding.

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PART I

Item 1. Business

References to "Cytori," "we," "us" and "our" refer to Cytori Therapeutics, Inc. and its consolidated subsidiaries. References to "Notes" refer to the Notes to Consolidated Financial Statements included herein (refer to Item 8).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that may be deemed "forward-looking statements" within the meaning of U.S. 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 research and development, sales and marketing, 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 or development revenues and the sources of such revenues; our ability to effectively manage our gross profit margins; our ability to obtain regulatory approvals; expectations as to our future performance; portions of 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: the early stage of our product candidates and therapies, the results of our research and development activities, including uncertainties relating to the clinical trials of our product candidates and therapies; our need and ability to raise additional cash; the outcome of our partnering/licensing efforts; 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 under the "Risk Factors" in Item 1A of Part I above, which we encourage you to read carefully

We encourage you to read the risks described under "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.

This Annual report on Form 10-K refers to trademarks such as Cytori Cell Therapy, Habeo Cell Therapy, Celution, Celase, Intravase, Puregraft and StemSource. Solely for convenience, our trademarks and tradenames referred to in this Form 10-K may appear without the ® or ™ symbols, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and tradenames.

General

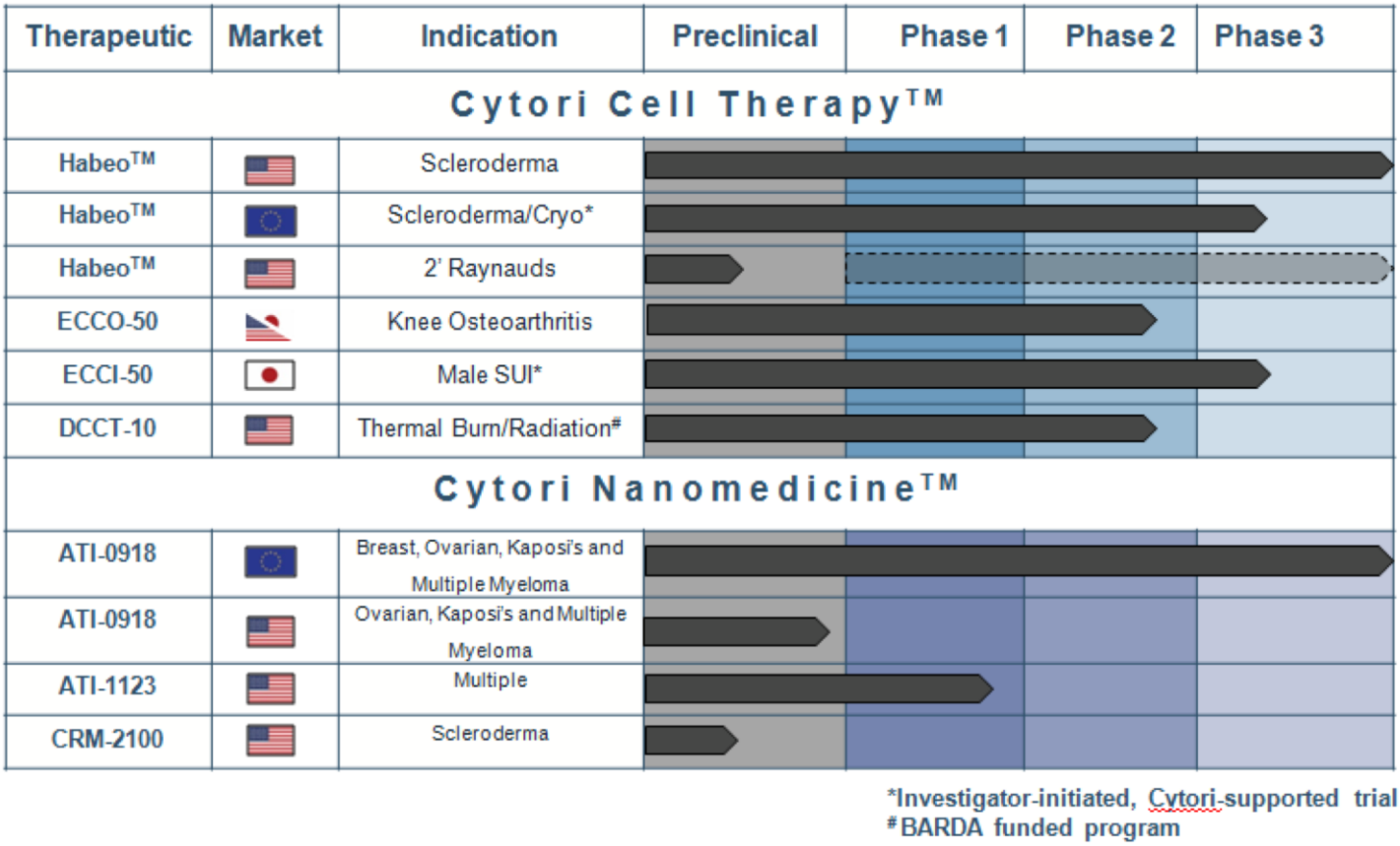
Our strategy is to build a profitable and growing specialty therapeutics company focused on rare and niche opportunities frequently overlooked by larger companies but requiring breadth of scope, expertise and focus often not possessed by or available to smaller companies. To meet this objective, we have, thus far, identified two therapeutic development platforms, discussed below, and candidate therapeutics in our pipeline that hold promise for millions of patients and significant market potential. Our current corporate activities fall substantially into one of two key areas related to our two therapeutic development platforms: Cytori Cell Therapy™ and Cytori Nanomedicine™.

Our Cytori Cell Therapy, or CCT, platform, is based on the scientific discovery that the human adipose or fat tissue compartment is a source of a unique mixed population of stem, progenitor and regenerative cells that may hold substantial promise in the treatment of numerous diseases. To bring this promise to patients, we are developing the processes and procedures via proprietary hardware- and software-based devices and single-use reagents and consumable sets, to enable doctors to have access to a variety of therapies at the bedside derived fundamentally from each patient's own adipose tissue. Our lead product candidate is for the treatment of impaired hand function in scleroderma, and we have recently completed a U.S. pivotal clinical trial for this indication using our Habeo™ Cell Therapy product. We have additional CCT treatments in various stages of development. Further, our CCT platform is the subject of investigator-initiated trials conducted by our partners, licensees and other third parties, some of which are supported by us and/or

funded by government agencies and other funding sources. Currently, we internally manufacture or source our CCT-related products from third parties. We also have obtained regulatory approval to sell some of our CCT products, including our Celution devices and consumable kits, in certain markets outside the United States. In those markets, we have been able to further develop and improve our core technologies, gain expanded clinical experience and data and generate sales.

Our Cytori Nanomedicine platform features a versatile and novel protein-stabilized liposomal nanoparticle technology for drug encapsulation that has thus far provided the foundation to bring two promising drugs into early/late stage clinical trials. By encapsulating certain drugs, we can create both novel compounds and improve the performance via reformulated versions of existing drugs. Nanoparticle encapsulation is promising because it can help improve the trafficking and metabolism of many drugs, thus potentially enhancing the therapeutic profile and patient benefits. Our lead drug candidate, ATI-0918 is a generic version of liposomal encapsulated doxorubicin. Liposomal encapsulated doxorubicin is a heavily relied upon chemotherapeutic used in many cancer types on a global basis. We believe that data from a 60-patient European study of ATI-0918 has met the statistical criteria for bioequivalence to Caelyx®, the current reference listed drug in Europe. We intend that these bioequivalence data will serve as a basis for our planned regulatory submission to the European Medicines Agency, or EMA, for ATI-0918. Our second nanomedicine drug candidate is ATI-1123, a new chemical entity which is a nanoparticle-encapsulated form of docetaxel, also a standard chemotherapeutic drug used for many cancers. A phase I clinical trial of ATI-1123 has been completed, and we are investigating possible expansion of this trial to phase II, most likely in conjunction with a development partner. In addition, we are early in the long-term research and development of encapsulated regenerative medicine drugs, focused first on the treatment of scleroderma and related connective disorders. Finally, in connection with our acquisition of the ATI-0918 and ATI-1123 drug candidates, we have acquired know-how (including proprietary processes and techniques) and a scalable nanoparticle manufacturing plant in San Antonio, Texas from which we intend to test, validate and eventually manufacture commercial quantities of our nanoparticle drugs.

Development Pipeline



Cytori Cell Therapy

Our primary near-term goal is for Cytori Cell Therapy to be the first cell therapy to market for the treatment of impaired hand function in scleroderma, through Cytori-sponsored and supported clinical development efforts. The Cytori-sponsored **S**cleroderma **T**reatment with Celution Processed **A**dipose Derived **R**egenerative Cells, or STAR clinical trial, is a randomized, double-blind, placebo-controlled, Phase III pivotal clinical trial in the U.S. The purpose of the STAR trial is to evaluate the safety and efficacy of a single

administration of Habeo™ Cell Therapy (formerly named ECCS-50) in patients with scleroderma affecting the hands and fingers. We initiated the first sites for our STAR trial in July 2015 and we completed final enrollment of 88 patients in June 2016. We anticipate obtaining 48-week follow-up data in mid-2017. Once the study is unblinded and data are available, subjects randomized to the placebo arm will be given the option of being treated within a crossover arm of the study.

With respect to the remainder of our current cellular therapeutics clinical pipeline:

- We completed our Phase II Celution Prepared **A**dipose Derived Regenerative **C**ells in the **T**reatment of **O**steo**A**rthritis of the Knee, or ACT-OA clinical trial, in June 2015. The 48-week analysis was performed as planned and the top-line data are described in the "Osteoarthritis" section below.

- In July 2015, a Japanese investigator-initiated study in men with stress urinary incontinence, or SUI, following prostatic surgery for prostate cancer or benign prostatic hypertrophy, called ADRESU, received approval to begin enrollment from the Japanese Ministry of Health, Labor and Welfare, or MHLW. In December 2016, we announced that the ADRESU trial had reached 50% enrollment. The Japan Agency for Medical Research and Development, or AMED, has provided partial funding for the ADRESU trial.

- We are developing a treatment for thermal burns under a contract from the Biomedical Advanced Research Development Authority, or BARDA, a division of the U.S. Department of Health and Human Services. We submitted an Investigational Device Exemption, or IDE, application to the U.S. Food and Drug Administration, or FDA, in the fourth quarter of 2016 for a pilot clinical study in thermal burn, and we expect FDA's final determination by mid-2017. If we receive FDA's approval of the IDE, we will then seek approval of the pilot clinical study from BARDA as study sponsor.

- We recently announced our intent to initiate clinical trials in secondary Raynaud's Phenomenon, or SRP. This decision was based upon the encouraging Raynaud's Condition Score data from the investigator-initiated, Phase I, open-label, 12-patient SCLERADEC I clinical trial assessing use of Cytori Cell Therapy in patients with impaired hand function due to systemic scleroderma.

In addition to our targeted therapeutic development, we have continued to commercialize our Cytori Cell Therapy technology under select medical device approvals, clearances and registrations to customers in Europe, Japan and other regions. These customers are a mix of research customers evaluating new therapeutic applications of Cytori Cell Therapy and commercial customers, including our licensing partners, distributors, and end user hospitals, clinics and physicians, that use our Celution cell processing system (as further described in "*Sales, Marketing and Service*" below) mostly for treatment of patients in private pay procedures. In Japan, our largest commercial market, we gained increased utilization of our products in the private pay marketplace in 2016 due to several factors, including increased clarity around the November 2014 Regenerative Medicine Law (implemented in November 2015 as it relates to regenerative medicine products like Cytori Cell Therapy) and we project that our sales and market presence in Japan will continue to grow in 2017. The sale of Celution systems, consumables and ancillary products contribute a margin that partially offsets our operating expenses and will continue to play a role in fostering familiarity within the medical community with our technology.

Habeo Cell Therapy for Impaired Hand Function in Scleroderma and Secondary Raynaud's Phenomenon

Scleroderma is a rare and chronic autoimmune disorder associated with fibrosis of the skin, and destructive changes in blood vessels and multiple organ systems as the result of a generalized overproduction of collagen. Scleroderma affects approximately 50,000 patients in the United States (women are affected four times more frequently than men) and is typically detected between the ages of 30 and 50. More than 90 percent of scleroderma patients have hand involvement that is typically progressive and can result in chronic pain, blood flow changes and severe dysfunction. A small number of treatments are occasionally used off-label for hand scleroderma but and they do little to modify disease progression or substantially improve symptoms. Treatment options are directed at protecting the hands from injury and detrimental environmental conditions as well as the use of vasodilators. When the disease is advanced, immunosuppressive and other medications may be used but are often accompanied by side effects.

The STAR trial is a 48-week, 19 site, randomized, double blind, placebo-controlled pivotal clinical trial of 88 patients in the U.S. for the treatment of impaired hand function in scleroderma. The trial evaluates the safety and efficacy of a single administration of Habeo Cell Therapy in patients with scleroderma affecting the hands and fingers. The STAR trial uses the Cochin Hand Function Scale, or CHFS, a validated measure of hand function, as the primary endpoint measured at 24 weeks and 48 weeks (approximately 6 and 12 months) after a single administration of Habeo Cell Therapy or placebo. Pending the 48 week results, patients in the placebo group will be eligible for crossover to the active arm of the trial after all patients have completed 48 weeks of follow-up. We anticipate study results in mid-2017. The STAR trial is predicated on a completed, investigator-initiated, 12-patient, open-label, Phase I pilot trial, termed SCLERADEC I, sponsored by Assistance Publique-Hôpitaux de Marseille, or AP-HM, in Marseille, France. The SCLERADEC I trial received partial support from Cytori. The six-month results were published in the Annals of the Rheumatic Diseases in May 2014 and demonstrated approximately a 50 percent improvement at six months across four important and validated

endpoints used to assess the clinical status in patients with scleroderma with impaired hand function. Two-year follow up data in the SCLERADEC I trial was presented at the Systemic Sclerosis World Congress in February 2016 and published in the journal *Current Research in Translational Medicine* in November 2016 and demonstrated sustained improvement in the following four key endpoints: CHFS, SHAQ, RCS, and hand pain, as assessed by a standard visual analogue scale.

Further, on December 5, 2016, we released topline results for three-year follow-up data showing sustained benefits materially consistent with those shown in two-year data.

In 2014, Drs. Guy Magalon and Brigitte Granel, under the sponsorship of AP-HM, submitted a study for review for a follow-up randomized, double-blind, placebo-controlled trial in France using Cytori Cell Therapy, to be supported by us. The trial, named SCLERADEC II, received approval from the French government in April 2015. Enrollment of this trial commenced in October 2015 and is ongoing. Enrollment is expected to be completed in 2017, approximately one year later than originally projected, due to delays in French regulatory approvals of participating sites. Patients will be followed at six-month post-treatment and compared with placebo treated patients. Pending the six-month results patients in the placebo group will be eligible for crossover using Habeo cells stored at the time of the initial procedure. This crossover arm will open after all patients have completed six-month follow up. We anticipate study results in 2018, however, the trial timeline is controlled in full by the sponsoring institution.

In November 2016, the US FDA Office of Orphan Products Development granted Cytori an orphan drug designation for cryopreserved or centrally processed ECCS-50 (Habeo) for scleroderma.

In January 2017, we announced our intention to broaden our investigation of Habeo Cell Therapy beyond systemic scleroderma to include secondary Raynaud's Phenomenon, or SRP. This expansion of Cytori's research and development efforts is based upon: (i) the 36-month follow-up data from the SCLERADEC I trial, which reported a 90 percent reduction in the Raynaud's Condition Score, which assesses the frequency and severity of Raynaud's attacks experienced by patients with Raynaud's Phenomenon, or RP; (ii) earlier limited published data reporting an association between use of Habeo Cell Therapy and improvement in vascular architecture, hand color, and other direct and indirect indicators of vascular function, and (iii) our internal preclinical data regarding the potential role of Habeo Cell Therapy in the stabilization of the vascular endothelium, an important contributor to the vascular dysfunction found in patients with RP. SRP is a problem that affects millions of patients worldwide.

Osteoarthritis

Osteoarthritis is a disease of the entire joint involving the cartilage, joint lining, ligaments and underlying bone. The breakdown of tissue leads to pain, joint stiffness and reduced function. It is the most common form of arthritis and affects an estimated 13.9% of US adults over the age of 25, and 33.6% of U.S. adults over the age of 65. Current treatments include physical therapy, non-steroidal anti-inflammatory medications, viscosupplement injections, and total knee replacement. A substantial medical need exists as present medications have limited efficacy and joint replacement is a relatively definitive treatment for those with the most advanced disease.

ACT-OA, was a 94-patient, randomized, double-blind, placebo controlled study involving two doses of Cytori Cell Therapy, a low dose and a high dose, and was conducted over 48 weeks. The randomization was 1:1:1 between the control, low and high dose groups. The trial was completed in June 2015. The goal of this proof-of-concept trial was to help determine: (1) safety and feasibility of the ECCO-50 therapeutic for osteoarthritis, (2) provide dosing guidance and (3) explore key trial endpoints useful for a Phase III trial.

We completed top-line analysis of the final 48-week data in July 2016. A total of 94 patients were randomized (33 placebo, 30 low dose ECCO-50, 31 high dose ECCO-50). In general, a clear difference between low and high dose ECCO-50 was not observed and therefore the data for both groups have been combined. We evaluated numerous endpoints that can be summarized as follows:

- Intraarticular application of a single dose of ECCO-50 is feasible in an outpatient day-surgery setting; no serious adverse events were reported related to the fat harvest, cell injection or to the cell therapy.
- Consistent trends were observed in most secondary endpoints at 12, 24 and 48 weeks in the target knee of the treated group relative to placebo control group; 12-week primary endpoint of single pain on walking question did not achieve statistical significance.
- Consistent trends were observed in all six pre-specified MRI Osteoarthritis Knee Score (MOAKS) classification scores suggesting a lower degree of target knee joint pathological worsening at 48 weeks for the treated group relative to placebo control group. The differences against placebo favored ADRCs specifically in the number of bone marrow lesions, the percentage of the bone marrow lesion that is not a cyst, the size of the bone marrow lesions as a percentage of the total sub-region volume, percentage of full thickness cartilage loss, cartilage loss as a percentage of cartilage surface area and the size of the largest osteophyte.

In summary, the ACT-OA Phase II trial demonstrated feasibility of same day fat harvesting, cell processing and intraarticular administration of autologous ADRCs (ECCO-50) with a potential for a beneficial effect of ECCO-50. The accumulated data and experienced gained will be critical in considering designs of further clinical trials in osteoarthritis and other potential indications. In addition, we are actively pursuing partnering and commercialization opportunities for ECCO-50 to further develop our knee osteoarthritis program and also to support our growing commercial sales into the knee osteoarthritis market in Japan.

Stress Urinary Incontinence

Another therapeutic target under evaluation by Cytori in combination with the University of Nagoya and the Japanese MHLW is stress urinary incontinence in men following surgical removal of the prostate gland, which is based on positive data reported in a peer reviewed journal resulting from the use of ADRCs prepared by our Celution System. The ADRESU trial is a 45 patient, investigator-initiated, open-label, multi-center, single arm trial that was approved by the Japanese MHLW in July 2015 and is being led by both Momokazu Gotoh, MD, Ph.D., Professor and Chairman of the Department of Urology and Tokunori Yamamoto, MD, Ph.D., Associate Professor Department of Urology at University of Nagoya Graduate School of Medicine. Trial enrollment began in September 2015, and in December 2016, the trial achieved 50% enrollment. This clinical trial is primarily sponsored and funded by the Japanese government, including a grant provided by AMED.

Cutaneous and Soft Tissue Thermal and Radiation Injuries

We are also developing Cytori Cell Therapy, or DCCT-10, for the treatment of thermal burns. In the third quarter of 2012, we were awarded a contract by BARDA valued at up to $106 million to develop a medical countermeasure for thermal burns. The total award under the BARDA contract has been intended to support all clinical, preclinical, regulatory and technology development activities needed to complete the FDA approval process for use of DCCT-10 in thermal burn injury under a device-based PMA regulatory pathway and to provide preclinical data in burn complicated by radiation exposure.

Pursuant to this contract, BARDA initially awarded us approximately $4.7 million over the initial two-year base period to fund preclinical research and continued development of our Celution System to improve cell processing. In August 2014, BARDA determined that Cytori had completed the objectives of the initial phase of the contract, and exercised its first contract option in the amount of approximately $12 million. In December 2014 and September 2016, BARDA exercised additional contract options pursuant to which it provided us with $2.0 million and $2.5 million in supplemental funds, respectively. These additional funds supported continuation of our research, regulatory, clinical and other activities required for submission of an IDE request to the FDA for RELIEF, a pilot clinical trial using DCCT-10 for the treatment of thermal burns. We submitted our IDE application to the FDA in the fourth quarter of 2016. Upon receipt of IDE approval, if granted, we anticipate that BARDA will provide funding to cover costs associated with execution of the clinical trial and related activities.

The latest BARDA contract modification, entered into in September 2016, is scheduled to terminate in April 2017, but is subject to a no-cost extension at our request and subject to BARDA's approval. We are in active negotiations with BARDA regarding entry into a new contract or contract option, which, if executed, would provide funding for the proposed RELIEF pilot trial and related costs and expenses.

Other recent developments for Cytori Cell Therapy

- In April 2016, the European Commission, acting on the positive recommendation from the European Medicines Agency Committee for Orphan Medicinal Products, issued orphan drug designation to a broad range of Cytori Cell Therapy formulations when used for the treatment of systemic sclerosis under Community Register of Orphan Medicinal Products number EU/3/16/1643.

- In February 2017, the U.S. FDA Division of Industry and Consumer Education, or DICE, granted us Small Business status for fiscal year 2017, thus entitling us to receive significant financial incentives, fee reductions, and fee waivers for selective FDA medical device regulatory filings. We anticipate that this grant of small business status will substantially reduce filing fees in 2017 for our planned pre-market authorization, or PMA, application for Habeo Cell Therapy, should the STAR Phase III data support filing of this application.

Cytori Nanomedicine

In February 2017, we completed our acquisition of substantially all of the assets of Azaya Therapeutics, Inc., or Azaya, pursuant to the terms of an Asset Purchase Agreement, dated January 26, 2017 by and between us and Azaya. Pursuant to the terms of the agreement, we acquired equipment, inventory, certain intellectual property including, a portfolio of investigational therapies and related assets, and assumed certain liabilities, from Azaya in exchange for the issuance of $2.0 million of shares of our common stock, assumption of

approximately $1.9 million in Azaya's trade payables and related charges, and the obligation to pay Azaya future milestones, earn-outs and licensing fees. The acquisition of Azaya brought two additional product candidates, ATI-0918 and ATI-1123, into the Cytori pipeline and we intend to develop and potentially commercialize both compounds.

ATI-0918 is a complex generic formulation of the market leading Doxil®/Caelyx®, which is a liposomal encapsulation of doxorubicin and approved for use in breast cancer, ovarian cancer, multiple myeloma, and Kaposi's Sarcoma. The current approval pathway for ATI-0918 is to demonstrate bioequivalence to Caelyx® for approval in the EU and to Lipodox® in the U.S. A study to demonstrate ATI-0918's bioequivalence to Caelyx®, for purposes of EMA approval, has been completed and we intend for these data to serve as the basis for our submission of a marketing authorization application for ATI-0918 to the EMA. We are also making plans to perform a bioequivalence study of ATI-0918 to the U.S. reference listed drug to serve as the basis for submission of an application for U.S. FDA approval. We currently anticipate that any U.S. bioequivalence trial for ATI-0918 would be funded by a development partner or licensee.

ATI-1123 is a liposomal formulation of docetaxel. Docetaxel is currently approved for non-small cell lung cancer, breast cancer, squamous cell carcinoma of the head and neck cancer, gastric adenocarcinoma, and hormone refractory prostate cancer. Its side effects include hair loss, bone marrow suppression, and allergic reactions. It is currently available as a generic drug. There is no form of docetaxel as a liposomal formulation. There is a protein (albumin) bound form of a similar chemotherapeutic drug, paclitaxel known as Abraxane®, which demonstrated some clinical advantages to paclitaxel. ATI-1123 has shown superiority to docetaxel in several animal models including some tumor types not amenable to treatment by docetaxel. A Phase I study of ATI-1123 has been completed in late stage refractory patients and has shown some activity in several tumor types (mostly stable disease). We are currently evaluating clinical scenarios to bring into Phase II studies in several indications.

Sales, Marketing and Service

Cytori Cell Therapy™

We sell Celution cell processing systems, or Celution Systems, StemSource cell and tissue banking systems, or StemSource Systems, and surgical accessories and instrumentation to hospitals, clinics, physicians, researchers and other customers for commercial and research purposes, including performance of investigator-initiated studies. Our proprietary enzymatic reagents, which we market and sell under the brand names Celase® and Intravase®, are sold as part of our Celution Systems and StemSource Systems (with respect to Celase), or under certain circumstances, are sold separately.

We sell our Celution and StemSource Systems through a combination of a direct sales force, third-party distributors, independent sales representatives, and licensees. Our strategy is to grow and leverage our installed base of Celution and StemSource devices at cell processing facilities, clinics, hospitals and research labs to drive recurring sales of our proprietary disposables. To increase product familiarity and usage among current customers, we launch product enhancements, expand the approved indications for use, perform clinical and technical training, provide on-site case support, and facilitate facility-level licensing with regional and/or national regulatory bodies.

In Japan, we sell our products through our wholly owned subsidiary, Cytori Therapeutics, K.K., which has a direct sales capability. We currently intend to increase our direct sales personnel in Japan over time. In the Bahamas, Chile, Europe, South Korea, Russia and Vietnam, we sell our full product portfolio either directly to customers or through numerous third-party distributors. In the U.S., we are limited to selling only research reagents and surgical accessories and instrumentation directly to customers. Bimini Technologies, LLC, through its wholly owned subsidiary Kerastem Technologies, LLC, has a global exclusive license to sell our Celution cell processing systems for hair applications. Lorem Vascular has an exclusive license to sell our full product portfolio in all fields of use, excluding hair applications, in Australia, China, Hong Kong, Malaysia and Singapore.

In early 2016, we commenced the process of implementing a managed access program, or MAP, (also known as early access program or named patient program) for our Habeo Cell Therapy in conjunction with Idis Managed Access, part of Clinigen Group plc, or Idis, in select countries across Europe, the Middle East and Africa, or EMEA, for patients with impaired hand function due to scleroderma. Initially, we have focused on select countries within these regions and intend to expand our focus over time, depending on interest and participation in our MAP, our strategic focus, and other factors. Our MAP is intended to drive awareness of Habeo Cell Therapy in advance of anticipated commercial launch and also to provide useful pricing and clinical date. Though we have generated significant interest in the MAP, we have yet to treat a patient under it. We intend to continue to appropriately invest resources in our MAP.

As of December 31, 2016, we had three individuals in our global marketing team responsible for market assessments and business plans, competitive intelligence, distribution strategy, product management, social media and websites, forecasting, pricing and reimbursement, customer communication, relationship management and service. We create awareness of and demand for our products among physicians and researchers through digital advertising, e-marketing campaigns, and webinars, pre-clinical and clinical publications, patient advocacy group partnerships, sales collateral, and industry and medical society meetings.

As of December 31, 2016, we had three Cytori employees in our field service team responsible for providing Celution and StemSource installations, maintenance, training, troubleshooting, and hardware and software update/upgrade services to new and existing customers. This team also initiates and closes sites participating in Cytori-sponsored clinical trials.

For the year ended December 31, 2016, our sales were concentrated with respect to two distributors and three direct customers, which comprised 65% of our product revenue recognized. Two direct customers accounted for 57% of total outstanding accounts receivable (excluding receivables from BARDA) as of December 31, 2016.

Cytori Nanomedicine™

Our Cytori Nanomedicine pipeline includes both early and late stage nanomedicine product candidates, patented liposomal encapsulated docetaxel (ATI-1123) and generic liposomal encapsulated doxorubicin (ATI-0918), respectively. We are actively seeking regional and global partnerships with either pharmaceutical manufacturers or wholesale distributors for both of these product candidates, with priority on ATI-0918 in Europe where a generic form of liposomal doxorubicin is neither approved nor available.

Customers and Partners

In Japan, Europe, the Middle East, the Asia-Pacific region and Latin America, we offer our Cytori Systems and StemSource Systems through direct sales representatives, distributors and licensing partners, to hospitals, clinics and researchers, including for purposes of performing investigator-initiated and funded studies.

Pursuant to our Sale and Exclusive License/Supply Agreement, or Bimini Agreement, with Bimini, we granted Bimini a global exclusive license to our Cytori Cell Therapy devices and consumable products for hair applications excluding systemic or intravascular delivery of adipose-derived regenerative cells, or ADRCs. Bimini's current focus is on the aesthetics cash-pay market. Through Kerastem, its wholly owned subsidiary, Bimini is conducting an FDA-approved Phase II clinical trial in the United States, called STYLE, to study the safety and feasibility of Kerastem's solution for female and male pattern baldness. In September 2016, Bimini announced completion of its STYLE trial enrollment of 70 patients at four clinical trial sites within the United States. We anticipate that six- month follow-up data from this Phase II clinical trial will be available in mid-2017. Outside of the United States, Bimini is engaged in market development efforts in Europe and Japan for the hair market. The Kerastem Hair Therapy is CE mark approved in the EU for sales to patients with alopecia, or hair loss. Under the Bimini Agreement, Bimini is required, among other things, to pay an eight percent (8%) royalty on its net sales of our products for contemplated hair applications.

Pursuant to our Amended and Restated License/Supply Agreement, or Lorem Agreement, with Lorem Vascular Pte. Ltd., or Lorem Vascular, we granted Lorem Vascular an exclusive license in all fields of use (excluding hair applications subject to Bimini's license) to our Cytori Cell Therapy products for sale into China, Hong Kong, Malaysia, Singapore and Australia. Under the Lorem Agreement, Lorem Vascular committed to pay up to $500 million in license fees in the form of revenue milestones. In addition, Lorem Vascular is required to pay us 30% of their gross profits in China, Hong Kong and Malaysia for the term of the Lorem Agreement. Lorem Vascular has certain minimum product purchase obligations, including purchase obligations triggered by achievement of applicable regulatory clearance for our products in China, which regulatory clearance was achieved as of April 2015. Lorem Vascular has partially satisfied these related product purchase obligations, and as a result, we are currently in discussions with Lorem Vascular regarding restructuring of its obligations and our rights under the Lorem agreement. We cannot guarantee that our restructuring discussions with Lorem Vascular will be successful. Should we be unable to conclude these negotiations to our satisfaction, a dispute may ensue. See, also, our discussions of the regulatory landscape in China for our products as well as discussions regarding our relationship with Lorem Vascular in the "Risk Factors" section and in the "Competition" and "Governmental Regulation" sections of this "Business" section below.

Refer to Note 2 of the Notes to Consolidated Financial Statements for a discussion of geographical concentration of sales.

Manufacturing

Cytori Cell Therapy

We currently manufacture or source our Cytori Cell Therapy products at our headquarters in San Diego, California and in Wales, in the United Kingdom. We believe that our manufacturing capabilities will be sufficient to enable us to meet anticipated demand for these products in 2017. We are, and the manufacturer of any future therapeutic products would be, subject to periodic inspection by regulatory authorities and distribution partners. The manufacturer 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, such as our Notified Body in Europe and the California Food and Drug Branch.

We source the raw materials for the Celution device, Celution consumable kit and other products that we manufacture from a variety of sources. Most of these components are available from multiple vendors either as off-the-shelf items or as custom fabrication. We purchase our Celase and Intravase regents from Roche Diagnostics Corporation, or Roche. While we have significant inventory of these reagents in inventory, we do not have a second source to provide us with these reagents should our supply arrangement with Roche terminate or be suspended, or should Roche be unable to meet its supply obligations thereunder.

Cytori Nanomedicine

We are in the process of a facility re-start and validations at our recently acquired nanoparticle manufacturing facility located in San Antonio, Texas. Once validation is complete, the facility and processes are designed to comply with cGMP per FDA and EMA regulations to manufacture drug candidates for clinical, research, development and commercial use. Upon approval of our drug candidates, our manufacturing capabilities will encompass validated manufacturing processes for drug product as well as a quality assurance product release process with the ability to ultimately scale-up the process to meet increasing market demands. We believe our strategic investments in the analytical and manufacturing capabilities, including personnel from drug discovery through drug development, will allow us to advance our product candidates more quickly. Our San Antonio facility enables us to produce drug substance in a cost-effective manner while retaining control over the process and timing. As needed, the use of a qualified Clinical Manufacturing Organization may be utilized to perform various manufacturing processes as we deem appropriate to meet our operational objectives.

Our current principal suppliers for our Cytori Nanomedicines business are LGM Pharma, which supplies our active pharmaceutical ingredient, or API (doxorubicin HC1), as well as Lipoid, LLC and Dishman Netherlands, B.V., which supply us with other raw materials used in the manufacture of our ATI-0918 and ATI-1123 drug candidates. Each of these suppliers is currently a sole source supplier.

Competition

We compete primarily on the basis of the safety and efficacy of our therapies across a broad range of clinical indications to address significant unmet medical and market needs, supported by our brand name, pricing, products, published clinical data, regulatory approvals, and reimbursement. We believe that our continued success depends on our ability to:

- Develop and innovate our product and technology platforms;
- Initiate new and advance existing clinical development programs;
- Secure and maintain regulatory agency approvals;
- Build and expand our commercial footprint;
- Achieve improved economies of scale and scope;
- Generate and protect intellectual property;
- Hire and retain key talent; and
- Successfully execute acquisition, licensing, and partnership activities.

Cytori Cell Therapy

According to the Alliance for Regenerative Medicine, there over 700 companies worldwide and 801 clinical trials underway within the global regenerative medicine market. Per Allied Market Research, this market is projected to reach $30.2 billion by 2022 and to be dominated by the cell therapy segment.

Today, we compete directly against companies within the autologous adipose-derived cell therapy segment offering manual, semi-automated, or full automated cell processing and/or banking systems used with or without tissue dissociation reagents. Our primary competitors include, but are not limited to, Adisave, Biosafe Group, GID Group, Healeon Medical, Human Med AG, Medikan International, PNC International, SERVA Electrophoresis GmbH, and Tissue Genesis. None of these companies are conducting clinical trials for the treatment of hand dysfunction in scleroderma patients. However, they are engaged in a number of clinical trials around the world.

Company	Clinical Trial		
	Affiliation	Location	Indication
Adisave	Sponsor	Canada	Wounds and Soft Tissue Defects
GID Group	Sponsor	U.S.	Alopecia
GID Group	Sponsor	U.S.	Knee Osteoarthritis
Healeon Medical	Sponsor	U.S.	Alopecia
Human Med AG	Co-Collaborator	France	Knee Osteoarthritis
Tissue Genesis	Sponsor	U.S.	Critical Limb Ischemia

A study published in 2016 reported that there were 570 medical clinics in the U.S. advertising and offering stem cell treatments, including those derived from adipose tissue, directly to patients. It is unclear whether the FDA will allow these clinics to continue to operate in this fashion and whether they will pose a threat to our business if and at such time that we obtain PMA approval to commercialize Habeo Cell Therapy in the U.S.

In the future, we also anticipate encountering competition from companies developing and offering drugs for the treatment of scleroderma including, but not limited to, Actelion Pharmaceuticals, Allergan, Apricus Biosciences, Bayer, Corbus Pharmaceuticals, Covis Pharma, CSL Behring, Genentech, and United Therapeutics. No companies today have approved drugs indicated for improving hand function in scleroderma patients while only Tracleer® (Bosentan) is approved in Europe for the prevention of new digital ulcers in scleroderma patients. Habeo Cell Therapy is expected to compete with or be used in conjunction with second and/or third line therapies including, but not limited to, phosphodiesterase inhibitors, botulinum toxin A, angiotensin II receptor blockers, ACE inhibitors, alpha blockers, selective serotonin reuptake inhibitors, topical nitrates, IV prostanoids, endothelin receptor antagonists, immunosuppressants, and surgical interventions.

Cytori Nanomedicine™

ATI-0918, our generic liposomal encapsulated doxorubicin product candidate is expected to face competition from both patented and generic nanomedicine products for the treatment of breast cancer (BC), ovarian cancer (OC), multiple myeloma (MM), and/or Kaposi's Sarcoma (KS) in all geographies. New nanoparticle-doxorubicin monotherapies and drug combination therapies represent third generation approaches intended to be safer and more effective than today's patented and generic pegylated liposomal doxorubicin.

U.S.				
Company	Product	Formulation	Stage	Indications
JNJ Janssen	DOXIL	Pegylated liposomal doxorubicin	Commercial	BC, OC, MM, KS
Sun Pharma	Lipodox	Pegylated liposomal doxorubicin	Commercial	BC, OC, MM, KS
Taiwan Liposome Co	Doxisome	Pegylated liposomal doxorubicin	ANDA Submitted	BC, OC, KS
Teva Actavis	Doxorubicin Liposome	Pegylated liposomal doxorubicin	ANDA Submitted	BC, OC, MM, KS
Celsion	Thermodox	Heat-sensitive liposomal doxorubicin	Phase 1/2/3	Liver; Recurrent BC
Supratek Pharma	SP1049C	Block copolymer doxorubicin	Phase 1/2/3	Upper GI, MDR lung, BC
Adocia	DriveIn	Hyaluronan nanoparticle doxorubicin	Preclinical	

Europe				
Company	**Product**	**Formulation**	**Stage**	**Indications**
JNJ Janssen	CAELYX	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS
Teva	Myocet	Non-pegylated liposomal doxorubicin	Commercial	Breast (with cyclophosphamide)
Taiwan Liposome Co	Doxisome	Pegylated liposomal doxorubicin	MAA Submission H1 2017	BC, OC, KS
InnoMedica	Talidox	Glycan targeted liposomal doxorubicin	Phase 1/2	OC, KS
Ceronco Biosciences	CB001	Glucosylceramide-enriched liposomal doxorubicin	Preclinical	BC, OC, KS

Rest of World					
Country	**Company**	**Product**	**Formulation**	**Stage**	**Indications**
China	Shanghai F-Z	Libaoduo	Pegylated liposomal doxorubicin	BE Study vs Lipodox Ongoing	BC, OC, KS
China	CSPC	Duomeisu	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS, MM, lymphoma
Hong Kong	NAL Pharma	NAL1872	Pegylated liposomal doxorubicin	Preclinical	BC, OC, KS
India	Intas Pharma	Pegadria	Pegylated liposomal doxorubicin	BE Study vs DOXIL Complete	BC, OC, KS
India	Dr. Reddy's Labs	Doxorubicin	Pegylated liposomal doxorubicin	BE Study vs Lipodox Ongoing	BC, OC, KS
India	Alkem Labs	Lipisol	Pegylated liposomal doxorubicin	Commercial	
India	Celon Labs	Lippod	Pegylated liposomal doxorubicin	Commercial	BC, OC, MM, KS
India	Cipla	Oncodox PEG	Pegylated liposomal doxorubicin	Commercial	BC, OC, MM, KS
India	Natco Pharma	Natdox-LP	Pegylated liposomal doxorubicin	Commercial	OC
India	SRS Pharma	Dox HCl Liposome	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS
India	Parenteral Drugs	Doxopar	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS
India	Zuventus	Rubilong	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS
India	Zydus Cadila	Nudoxa	Pegylated liposomal doxorubicin	Commercial	BC, OC, KS
Philippines Sri Lanka Taiwan Thailand Vietnam	TTY Biopharm	Lipo-dox	Pegylated liposomal doxorubicin	Commercial	BC, OC, MM, KS
Philippines Sri Lanka Taiwan Thailand Vietnam	TTY Biopharm	CAELYX II	Pegylated liposomal doxorubicin	Development	BC, OC, MM, KS
Russia	Oasmia	Doxophos	Nanoparticle doxorubicin	MAA Submission in Dec 2015	BC

Our ATI-1123 product candidate is expected to face competition from both Sanofi's Taxotere, which is approved for 11 indications and available in 90 countries with a majority of sales from China, Japan, Korea, and Taiwan, and generic docetaxel which is available from major suppliers in the U.S., Europe and Japan including, but not limited to, Accord, Actavis, Dr. Reddy's Labs, GLS Pharma, Hospira, Sun Pharma, Teva, and Winthrop. Further competition may result from advances made by companies currently developing nanoparticle-docetaxel products including, but not limited to, Adocia, Cristal Therapeutics, and Oasmia Pharmaceutical.

Research and Development

Research and development expenses were $16.2 million and $19.0 million for the years ended December 31, 2016 and 2015, respectively. These expenses have supported the basic research, product development and clinical activities necessary to bring our products to market.

Our research and development efforts in 2016 focused predominantly on the following areas:

- Completion of enrollment in the STAR (hand manifestation of scleroderma) trial and ongoing ACT-OA (knee osteoarthritis) trial expenses;
- Support of ongoing preclinical and other research activities towards BARDA contract milestones;
- Support of the investigator initiated trials ADRESU in Japan and SCLERADEC-II in France;
- Planning and development of next generation Celution Cell Therapy products, including detailed product roadmaps for the device, consumables and accessories;

- Development of new configurations and expanded functionality of our Celution® platform to address the current Japanese regulatory approval as a medical device (Japan Class I) and other markets;
- Conduct ADRC viability and transport studies in support of clinical trial requirements;
- Conduct presentation and publishing of research efforts related to ADRC characterization and potency to further establish scientific leadership in the field; and
- Continued optimization and development of the Celution® System family of products and next-generation devices, single-use consumables and related instrumentation.

Intellectual Property

Our success depends in large part on our ability to protect our proprietary technology, including the Celution® System product platform, and to operate without infringing on the proprietary rights of third parties. We rely on a combination of patent, trade secret, copyright and trademark laws, as well as confidentiality agreements, licensing agreements and other agreements, to establish and protect our proprietary rights. Our success also depends, in part, on our ability to avoid infringing patents issued to 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.

To protect our proprietary medical technologies, including the Celution® System platform and other scientific discoveries, we have a portfolio of over 100 issued patents worldwide. We currently have 34 issued U.S. patents and 68 issued international patents. Of the 34 issued U.S. patents, eight were issued in 2016. Of the 68 issued international patents, seven were issued in 2016. In addition, we have over 45 patent applications pending worldwide related to our Cytori Cell Therapy technology. We are seeking additional patents on methods and systems for processing adipose-derived stem and regenerative cells, on the use of adipose-derived stem and regenerative cells for a variety of therapeutic indications, including their mechanisms of actions, on compositions of matter that include adipose-derived stem and regenerative cells, and on other scientific discoveries. We are seeking additional patents on methods and systems for processing adipose-derived stem and regenerative cells, on the use of adipose-derived stem and regenerative cells for a variety of therapeutic indications, including their mechanisms of action, on compositions of matter that include adipose-derived stem and regenerative cells, and on other scientific discoveries. Regarding our Cytori Nanomedicine program, as part of our assert acquisition transaction with Azaya Therapeutics, we acquired Azaya Therapeutics' patent portfolio consisting of two issued patents, and one pending patent application. Since the Azaya asset acquisition, we have filed one patent application relating to Cytori Nanomedicine, and intend to actively continue to enhance our nanomedicine portfolio.

We cannot assure that any of our pending patent applications will be issued, that we will develop additional proprietary products that are patentable, that any patents issued to us will provide us with competitive advantages or 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, we cannot assure that others will not independently develop similar products, duplicate any of our products or design around our patents. 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.

There is a risk that any patent applications that we file and any patents that we hold or later obtain could be challenged by third parties and declared invalid or infringing of third party claims. For many of our pending applications, patent interference proceedings may be instituted with the U.S. Patent and Trademark Office, or the USPTO, when more than one person files a patent application covering the same technology, or if someone wishes to challenge the validity of an issued patent. At the completion of the interference proceeding, the USPTO will determine which competing applicant is entitled to the patent, or whether an issued patent is valid. Patent interference proceedings are complex, highly contested legal proceedings, and the USPTO's decision is subject to appeal. This means that if an interference proceeding arises with respect to any of our patent applications, we may experience significant expenses and delay in obtaining a patent, and if the outcome of the proceeding is unfavorable to us, the patent could be issued to a competitor rather than to us. Third parties can file post-grant proceedings in the USPTO, seeking to have issued patent invalidated, within nine months of issuance. This means that patents undergoing post-grant proceedings may be lost, or some or all claims may require amendment or cancellation, if the outcome of the proceedings is unfavorable to us. Post-grant proceedings are complex and could result in a reduction or loss of patent rights. The institution of post-grant proceedings against our patents could also result in significant expenses.

Patent law outside the United States is uncertain and in many countries, is currently undergoing review and revisions. The laws of some countries may not protect our proprietary rights to the same extent as the laws 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 United States. 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 or issued patents in Europe, Brazil, Mexico, India, Russia, Australia, Japan, Canada, China, Korea and Singapore, among others.

In addition to patent protection, we rely on unpatented trade secrets and proprietary technological expertise. We cannot assure you that others will not independently develop or otherwise acquire substantially equivalent techniques, somehow gain access to our trade secrets and proprietary technological expertise or disclose such trade secrets, or that we can ultimately protect our rights to such unpatented trade secrets and proprietary technological expertise. We rely, in part, on confidentiality agreements with our marketing partners, employees, advisors, vendors and consultants to protect our trade secrets and proprietary technological expertise. We cannot assure you that these agreements will not be breached, 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.

Government Regulation – Medical Devices

As a medical company, we operate under stringent regulations and our companies and products are subject to a variety of distinct regulations around the world that are subject to modification or change.

Cytori Cell Therapy

Cytori Cell Therapy technology is regulated through a variety or agencies and approaches around the world. Our products must receive regulatory clearances or approvals from regulatory bodies in the European Union such as the EMA and the FDA and from other applicable governments prior to their sale or in some cases prior to clinical trials. This technology platform incorporates multiple elements including devices, reagents and software that in combination yield an autologous cellular product. As a result of the complex nature of our products and differing regulations through the world, there is no single unified of global set of regulatory requirements or common approach to regulation and is therefore region specific.

Cytori Cell Therapy technology is, and will be, 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 requirements to comply with Quality System Regulations/Good Manufacturing Practices. Other statutory and regulatory requirements govern, among other things, registration and inspection, medical device listing, prohibitions against misbranding and adulteration, labeling and post-market reporting. In the U.S., we must currently obtain FDA clearance or approval through the PMA application process, which requires clinical trials to generate clinical data supportive of safety and efficacy. Approval of a PMA could take four or more years from the time the process is initiated due to the requirement for clinical trials. 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.

Recently, the U.S. government enacted the 21st Century Cures Act, or the CURES Act, in the United States that has many provisions that could be favorable for us. However, the provisions of the CURES Act are broad and lack enough detail currently to determine its effect on our regulatory pathway. Further interpretation and implementation of the CURES Act must occur before any definitive assessments can be made.

Outside the U.S., the Cytori Cell Therapy family of products must also comply with the government regulations of each individual country in which the products are to be distributed and sold. These regulations vary in complexity and can be as stringent, and on occasion even more stringent, than FDA regulations in the United States. International government regulations vary from country to country and region to region. For example, regulations in some parts of the world only require product registration while other regions/countries require a complex product approval process. 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 precedent. Furthermore, the level of complexity and stringency is not always precisely understood today for each country, creating greater uncertainty for the international regulatory process. Furthermore, government regulations can change with little to no notice and may result in up-regulation of our product(s), thereby, creating a greater regulatory burden for our cell processing and cell banking technology products.

In Europe, Cytori Cell Therapy is approved as the Celution device and consumable product and is sold for commercial and research use. Expansion of use of Cytori Cell Therapy in Europe will likely require an expansion of our regulatory claims that would likely include disease-specific claims obtained through the completion of clinical trials. It is possible that Cytori Cell Therapy may be regulated as a device, similar to its regulatory pathway in the U.S., an advanced tissue medicinal product or ATMP, or some combination of the two in Europe. Cytori is current working with both European authorities and country-specific competent authorities to clarify the proper path for Cytori’s Habeo Cell Therapy in Europe.

Regulations in the Asia-Pacific and Japan regions are currently evolving for cell therapy products. For example, the Japan Diet enacted a regenerative medicine law in November of 2014 following sweeping changes in Japan's medical device regulations in 2014. In China, the regulatory landscape for cell therapies such as ours is subject to increasing regulation, and success in this market will depend heavily on a firm understanding of applicable regulations and a commitment to pursuing appropriate regulatory approvals, including any required approvals from the National Health and Family Planning Commission of the People's Republic of China, or NHFPC, and other governmental entities. These regulatory uncertainties further complicate the regulatory process in the Asia-Pacific region and may lengthen approval timelines and/or market entrance or penetration.

Regulatory Developments

China Regulatory Clearance

In April 2015, the State Food and Drug Administration of the People's Republic of China, or CFDA, granted regulatory clearance for our Celution device, consumable kit and reagents necessary to allow the importation and sale of our products into the Chinese market, the world's largest healthcare market. The Chinese market for our Celution products is subject to an exclusive license in favor of our partner, Lorem Vascular.

EU Orphan Designation

In April 2015, the European Commission, acting on the positive recommendation from the European Medicines Agency Committee for Orphan Medicinal Products, granted an orphan drug designation to Assistance Publique Hopitaux du Marseille (France), the sponsor institution for the SCLERADEC I and SCLERADEC II trials using Cytori Cell Therapy, for the treatment of systemic sclerosis.

In April 2016, the European Commission, acting on the positive recommendation from the European Medicines Agency Committee for Orphan Medicinal Products, issued orphan drug designation to a broad range of Cytori Cell Therapy formulations when used for the treatment of systemic sclerosis under Community Register of Orphan Medicinal Products number EU/3/16/1643.

In November 2016, the US FDA Office of Orphan Products Development (OOPD) granted Cytori an orphan drug designation for cryopreserved or centrally processed ECCS-50 Habeo for scleroderma.

Government Regulation – Nanoparticle Oncology Drugs

Our nanoparticle oncology drug products must receive regulatory approvals from the EMA and the FDA and, from other applicable governments prior to their sale.

Our current and future nanoparticle oncology drugs are, or will be, 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 oncology drugs. Included among these regulations are drug approval requirements and the current Good Manufacturing Practices, cGMP. Other statutory and regulatory requirements govern, among other things, cGMP inspection, prohibitions against misbranding and adulteration, labeling and post-market reporting. The recent CURES Act legislation regarding drugs in the United States has yet to be implemented and may yield additional regulatory requirements on therapeutic drugs while providing some relief in selected regulatory burdens. The FDA's interpretation and implementation of the CURES Act has yet to be published.

Our nanoparticle oncology drugs must also comply with the government regulations of each individual country in which the products are to be distributed and sold. These regulations vary in complexity and can be as stringent, and on occasion even more stringent, than FDA regulations in the United States. International government regulations vary from country to country and region to region. For instance, our ATI-0918 drug candidate relies on an expedited approval process referred to as 'bioequivalence' or BE approved under an abbreviated new drug application, or ANDA. ANDA and BE products require a 'reference drug' and/or 'reference listed drug' ,or RLD, to show equivalence with. The reference drug may not be the same in all territories or countries, which could require different and unique BE clinical studies for some territories. Furthermore, the level of complexity and stringency is not always precisely understood today for each country, creating greater uncertainty for the international regulatory process. Additionally, government regulations can change with little to no notice and may result in the elimination of the BE regulatory pathway in some regions, creating increased regulatory burden.

Worldwide, the regulatory process can be lengthy, expensive, and uncertain with no guarantee of approval. Before any new drugs may be introduced to the U.S. market, the manufacturer generally must obtain FDA approval through either ANDA process for generic drugs off patent that allow for bioequivalence to and existing reference listed drug, or the lengthier new drug approval (NDA) process,

which typically requires multiple successful Phase III clinical trials to generate clinical data supportive of safety and efficacy along with extensive pharmacodynamic and pharmacokinetic preclinical testing to demonstrate safety. Approval of a ANDA could take four or more years from the time the process is initiated due to the requirement for clinical trials. NDA drugs could take significantly longer due to the additional preclinical requirements along with the typical requirement for two successful Phase III clinical trials.

Our lead ATI-0918 drug candidate is eligible for the ANDA regulatory pathway, while our ATI-0123 drug candidate is subject to the significantly lengthier NDA process. Changes to the reference listed drug (RLD) for drugs eligible for the ANDA process can result in significant delays in the regulatory process as BE clinical studies may need to be repeated for regions / countries that no longer recognize the RLD utilized in BE clinical studies. 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, refusals to approve new applications or notifications, and criminal prosecution.

Drugs are also subject to post-market reporting requirements for deaths or serious injuries when the drug may have caused or contributed to the death or serious injury, or serious adverse events. If safety or effectiveness problems occur after the drug reaches the market, the FDA may take steps to prevent or limit further marketing of the drug. Additionally, the FDA actively enforces regulations prohibiting marketing and promotion of drugs for indications or uses that have not been approved by the FDA.

We must comply with extensive regulations from foreign jurisdictions regarding safety, manufacturing processes and quality. These regulations, including the requirements for marketing and authorization, may differ from the FDA regulatory scheme in the United States.

Employees

As of December 31, 2016, we had 65 full-time employees. Of these full-time employees, seven were engaged in manufacturing, 31 were engaged in research and development, nine were engaged in sales and marketing and 18 were engaged in management, finance and administration. From time to time, we also employ independent contractors to support our operations. Our employees are not represented by any collective bargaining agreements and we have never experienced an organized work stoppage.

Corporate Information and Web Site Access to SEC Filings

We were initially formed as a California general partnership in July 1996, and incorporated in the State of Delaware in May 1997. We were formerly known as MacroPore Biosurgery, Inc., and before that as MacroPore, Inc. Our corporate offices are located at 3020 Callan Road, San Diego, CA 92121. Our telephone number is (858) 458-0900. We maintain an Internet website at www.cytori.com. Through this site, we make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission, or the SEC. In addition, we publish on our website all reports filed under Section 16(a) of the Exchange Act by our directors, officers and stockholders owning more than 10% of our outstanding common stock. These materials are accessible via the Investor Relations—Reports and Filings section of our website within the "SEC Filings" link. Some of the information is stored directly on our website, while other information can be accessed by selecting the provided link to the section on the SEC website, which contains filings for our company and its insiders.

The public can also obtain any documents that we file with the SEC at http://www.sec.gov. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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 Annual Report on Form 10-K, including our audited Consolidated 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.

Risks Related to Our Business and Industry

Our success depends substantially upon the successful development and commercialization of our cellular therapeutics, and if we are unable to develop and commercialize our cellular therapeutic product candidates, especially Habeo Cell Therapy, our business could be seriously harmed.

Our success in large part is dependent upon our ability to develop our Cytori Cell Therapy products, and in particular, our Habeo Cell Therapy product. The success of Habeo Cell Therapy and any future cellular therapeutic products are highly dependent on meeting our primary endpoint in our U.S. Phase III STAR clinical trial. Further, if the primary endpoint in the currently enrolling French investigator-initiated SCLERADEC II trial is met, then the SCLERADEC II data would also be valuable to our regulatory and commercialization efforts within and outside the EU and could play a useful supporting role in any regulatory submissions to the U.S. FDA. If the STAR and/or SCLERADEC II clinical trial data are not deemed sufficient to support continued development and commercialization of Habeo Cell Therapy, our business will be significantly harmed. Further, even if the primary endpoints in these clinical trials are met, our ability to receive regulatory approval on a timely (or even possibly expedited) basis in the market in which we intend to market and sell Habeo Cell Therapy, and to receive the reimbursement coding, coverage and payment that we are currently anticipating, will likely be directly correlated to the reported efficacy of our Habeo Cell Therapy in the STAR trial, as well as SCLERADEC II clinical trial. There can be no assurance that such clinical data will meet these trials' primary or secondary endpoints, or if met, that such data will support the regulatory approvals or reimbursement that we would seek for Habeo Cell Therapy, or any regulatory approvals or reimbursement at all.

Development and commercialization of our cellular therapeutics product candidates could be further materially harmed if we encounter difficulties such as:

- an inability to produce Habeo Cell Therapy or our other Cytori Cell Therapy product candidates at an appropriate cost or to scale for commercialization so as to meet customer demand for our cell therapy products; and

- delayed, unexpected and/or adverse regulatory guidance, feedback or determinations, whether because of the novelty of our technology, changes in regulatory approval processes, or otherwise.

We believe we must also continue to develop and manufacture enhanced and lower-cost versions of our Celution devices, reagents, and consumable kits. If we are not able to develop products capable of successfully competing in the marketplace, or if we experience disruptions and/or delays in our production of these products as required by the marketplace, our operations and commercialization efforts would be harmed. Further, there can be no assurance that we will be able to successfully develop and manufacture future generation Celution devices and other products 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, or their successor products, to meet future demand, or that we will be able to overcome unforeseen manufacturing difficulties for this sophisticated equipment.

Our future success is in large part dependent upon our ability to successfully integrate and develop our Cytori Nanomedicine platform and commercialize our newly acquired ATI-0918 drug candidate, and any failure to do so could significantly harm our business and prospects.

In February 2017, we acquired substantially all of the assets of Azaya Therapeutics Inc, or Azaya, including Azaya's two drug candidates, ATI-0918 and ATI-1123, and related manufacturing equipment and inventory. Our ability to successfully integrate, develop and commercialize these assets is subject to a number of risks, including the following:

- Azaya suspended its business, including its research and development efforts, at the end of 2015, so we must recommence the business, including (i) recalibration, revalidation and requalification of the acquired drug manufacturing equipment and manufacturing facility located in San Antonio, Texas; and (ii) hiring of substantial numbers of new employees to operate the Cytori Nanomedicines business. We may encounter unexpected issues and expenses in recommencing this business;

- We do not have substantive drug development and commercialization experience, and thus we will be required to hire and rely on significant numbers of scientific, quality, regulatory and other technical personnel with the experience and expertise necessary to develop and commercialize our Cytori Nanomedicine drug candidates. We may be unable to identify, hire and retain personnel with the requisite experience to conduct the operations necessary to commercialize our ATI-0918 and ATI-1123 product candidates, in which case our business would be materially harmed;

- ATI-0918, a complex generic liposomal formulation of doxorubicin, is very difficult to manufacture, and we can offer no assurances that we will (i) be able to manufacture this drug in accordance with all applicable laws and regulations; or (ii) demonstrate bioequivalence to Lipodox® (Sun Pharma) in the United States; or Caelyx® (Janssen, a Johnson & Johnson company) in Europe as required to obtain regulatory approvals within our currently anticipated timeframes, or at all;

- We intend to find a commercialization partner to share or assume responsibility for commercialization, marketing and sales activities and related costs and expenses for our ATI-0918 drug candidate, as well as our ATI-1123 drug candidate. We do not currently have the financial resources to develop our ATI-1123 drug candidate internally, nor do we currently have the financial or human resources to market and sell ATI-0918 or ATI-1123 if and when commercialized, so if we are unable to find a suitable partner to take on these activities and costs, we may be forced to delay or suspend our development and commercialization activities, or procure additional capital to continue development of these drug candidates ourselves. There can be no assurance that we would obtain sufficient capital to fund the development and commercialization of our Cytori Nanomedicines program ourselves, or if we do obtain such capital, that our development and commercialization efforts would be successful;

- Conduct of this newly acquired business will require significant capital, and to the extent that we incur unanticipated expenses or revenue downturns in our business, are unable to timely obtain sufficient additional capital on terms acceptable to us (or at all) to fund this business, our ability to commercialize our ATI-0918 drug candidate could be materially and adversely impacted;

- New competitive products become commercially available before we launch ATI-0918;

- It is possible that the EMA could change the reference drug for ATI-0918 in Europe from Caelyx. Though we deem this possibility to be unlikely, if the EMA were to change the reference drug, we could be required to conduct a bioequivalence trial to establish bioequivalence with the new reference drug, which would adversely affect our business and operations; and

- We are not experienced in acquiring and integrating new businesses.

If we are unable to successfully partner with other companies to commercialize our product candidates, our business could materially suffer.

A key part of our business strategy is to leverage strategic partnerships/collaborations to commercialize our product candidates. We do not have the financial, human or other resources necessary to develop, commercialize, launch or sell our therapeutic offerings in all of the geographies that we are targeting, and thus it is important that we identify and partner with third parties who possess the necessary resources to bring our products to market. We expect that any such partners will provide regulatory and reimbursement/pricing expertise, sales and marketing resources, and other expertise and resources vital to the success of our product offerings in their territories. We further expect, but cannot guarantee, that any such partnering arrangements will include upfront cash payments to us in return for the rights to develop, manufacture, and/or sell our products in specified territories, as well as downstream revenues in the form of milestone payments and royalties.

We are currently prioritizing our efforts to find a strategic partner for our Habeo Cell Therapy, formerly ECCS-50, which is specifically intended for treatment of hand dysfunction in scleroderma patients. For various reasons, including the novelty of our cellular therapeutic approach, the regulatory and reimbursement environments for Habeo Cell Therapy in certain markets, including Europe and the Asia-Pacific region, are complex and uncertain. There can be no assurance that regulatory agencies or authorities in the U.S., Europe, the Asia-Pacific region or elsewhere will grant conditional or full regulatory approval for Habeo Cell Therapy on the timeframes we anticipate, or at all, nor can we guarantee that government or commercial payers will grant us favorable reimbursement for use of Habeo Cell Therapy. Further, even if we receive regulatory approval and favorable reimbursement, there is no guarantee that a market will develop for Habeo Cell Therapy at our intended price points, or at all. These commercialization risks could affect prospective partners' or collaborators' willingness to enter into partnering arrangements on terms acceptable to us, or at all. Prospective partners may be unwilling to enter into an agreement with us unless and until we announce positive top-line data from our STAR clinical trial, which announcement is expected to occur in or around mid-2017. If the STAR and/or SCLERADEC II clinical trial data do not meet their primary endpoints, we anticipate that it will be difficult to thereafter find a commercialization partner for

our Habeo Cell Therapy on favorable terms, if at all. If we do conclude a partnering arrangement for our Habeo Cell Therapy prior to announcement of STAR clinical trial data, any such agreement may contain certain payment conditions, termination rights or other rights and obligations that would be triggered by positive or negative STAR data.

We are also prioritizing our efforts to find a strategic partner to help commercialize and sell our ATI-0918 drug candidate, initially in Europe, and secondarily, to fund development and commercialization of our ATI-1123 product candidate. We do not currently have the commercial expertise or resources to market and sell either ATI-0918 or ATI-1123. There can be no assurance that we will enter into partnering agreements for either ATI-0918 or ATI-1123 with suitable partners on terms acceptable to us, or at all. However, regardless of whether we enter into a partnering agreement for ATI-0918, we will still incur significant near-term costs and expenses in manufacturing, testing and validating it and in performing necessary regulatory and clinical work to ready our EMA marketing dossier for submission. If we cannot find a suitable partner for our ATI-0918 product candidate, our business could be significantly harmed.

We are also soliciting partnering interest in our ECCO-50 therapeutic for use in knee osteoarthritis, but we anticipate that our partnering efforts with respect to this indication will be subordinate to our Habeo Cell Therapy and ATI-0918 partnering efforts. Further, while consistent trends were observed in most secondary endpoints relative to the placebo group in our ACT-OA knee osteoarthritis trial, the 12-week endpoint of single pain on walking question did not achieve statistical significance, so there can be no assurance that our partnering efforts for our ECCS-50 therapeutics will be successful.

In addition, we may seek development and/or commercial partners for the other therapeutic indications set forth in our clinical pipeline, including:

- use of Cytori Cell Therapy in stress urinary incontinence, or SUI, in men following surgical removal of the prostate gland (this therapeutic indication is currently the subject of a Phase III, investigator-initiated trial in Japan, called ADRESU); and

- development of Cytori Cell Therapy for Secondary Raynaud's Phenomenon, or SRP (this therapeutic indication is currently in the pre-clinical stage).

There can be no assurance that these male SUI and SRP pipeline indications will be attractive to prospective partners. The male SUI market is small (approximately $45.0 million), and the long-term viability of both indications, especially SRP, is in substantial part dependent upon receipt of positive STAR and/or SCLERADEC II clinical data.

Even if we succeed in securing partners for our lead or other product candidates, our partners may fail to develop or effectively commercialize our product candidates. Partnerships and collaborations involving our products and product candidates pose a number of risks, including the following:

- partners may not have sufficient resources or may decide not to devote the necessary resources due to internal constraints such as budget limitations, lack of human resources, or a change in strategic focus;

- partners may believe our intellectual property is not valid or is unenforceable or unprotectable, or the product or product candidate infringes on the intellectual property rights of others;

- partners may dispute their responsibility to conduct development and commercialization activities pursuant to the applicable collaboration, including the payment of related costs or the division of any revenues;

- partners may decide to pursue a competitive product developed outside of the partnering arrangement;

- partners may not be able to obtain, or believe they cannot obtain, the necessary regulatory approvals or reimbursement rates for the product candidates; and

- partners may decide to terminate or not to renew their agreement with us for these reasons or other reasons.

As a result, partnering agreements may not lead to development or commercialization of our lead product candidates or other product candidates in the most efficient manner or at all.

Our current business strategy is high-risk.

Our current business strategy is to aggressively develop and commercialize our Cytori Cell Therapy and Cytori Nanomedicine platforms, while simultaneously controlling expenses and preserving and growing our existing contract and

commercial sales revenues. We also believe that there are synergies between our existing cellular therapeutic technologies and our oncology drug assets that we can exploit and commercialize.

Our current business strategy is a high-risk strategy for a number of reasons including the following:

- current and anticipated clinical trials using Cytori Cell Therapy, including our current STAR clinical trial and the investigator-initiated SCLERADEC II trial, may not yield positive results;
- research and development and commercialization of our cellular therapeutics and our oncology drug assets will require significant amounts of additional capital, and we cannot assure you that we will have access to sufficient capital, or find partners to provide capital, necessary to develop and bring our products to market;
- our business model may be challenging for prospective business partners, as our therapeutic approach involves:
    - multiple procedures - liposuction followed by preparation and same-day administration of the autologous cellular therapeutic – for which there may not be existing reimbursement codes (or which reimbursement codes may not be deemed adequate by prospective partners); and
    - processing of cells via our Celution System (which to date has been regulated as a medical device), followed by administration of our Cytori Cell Therapy, which is considered to be a drug by FDA and other regulatory agencies.
- our current installed base of Celution devices may pose potential risks to us if the operators of these devices (i) harm a patient during the course of treating the patient with Cytori Cell therapy; or (ii) treat patients "off label" in a manner that is competitive with us, creates channel conflict with us, or otherwise negatively impacts our business;
- our Celution platform is a novel technology that may never receive regulatory or commercial approval for our intended therapeutic indications;
- we may incur material costs and expenses in executing our business strategy that are not currently contemplated and that could cause our operating expenses to materially increase beyond current projections;
- our Celution technology is potentially subject to different regulatory regimes in different territories, and we are not experienced in obtaining regulatory approvals for therapeutic indications, such as hand complications of scleroderma, of our Cytori Cell Therapy products;
- we do not have an operating history as a drug development company, or prior experience with obtaining regulatory, reimbursement or other approvals for drug candidates such as ATI-0918 and ATI-1123;
- our ATI-0918 and ATI-1123 drug candidates, if commercialized, will compete against established competitive drugs that are marketed and sold by large companies with significant human, technical and financial resources;
- we are not experienced in acquiring and integrating new assets, such as those acquired from Azaya;
- we are unfamiliar with the competitive landscape for our Cytori Nanomedicines product candidates, and as such key assumptions regarding customer acceptance and market share may not be realized;
- our product candidates may never become commercially viable;
- we may not be able to prevent other companies from depriving us of market share and profit margins by selling products based on our intellectual property and developments; and
- the regenerative medicine industry is a very risky industry, and this has adversely affect our ability to attract investment capital and collaborators for our Cytori Cell Therapy.

Our business is sensitive to general economic, business and industry conditions.

We are exposed to general economic, business and industry conditions, both in the United States and globally. Adverse global economic and financial conditions are difficult to predict and mitigate against, and therefore the potential impact is difficult to estimate. Negative trends in the economy, including trends resulting from an actual or perceived recession, tightening credit markets, such as significant reductions in available capital and liquidity from banks and other credit providers, substantial volatility in equity

and currency values worldwide, prolonged recessionary or slow growth periods, 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 those of our customers. Thus, our business operations and 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 face intense competition, and if our competitors market and/or develop products that are marketed more effectively, approved more quickly than our product candidates or demonstrated to be safer or more effective than our products, our commercial opportunities could be reduced or eliminated.

The life science industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary therapeutics. We face competition from a number of sources, some of which may target the same indications as our products or product candidates, including small and large, domestic and multinational, medical device, biotechnology and pharmaceutical companies, academic institutions, government agencies and private and public research institutions, many of which have greater financial resources, sales and marketing capabilities, including larger, well-established sales forces, manufacturing capabilities, experience in obtaining regulatory approvals for product candidates and other resources than we do.

We expect that product candidates in our pipeline, if approved, to compete on the basis of, among other things, product efficacy and safety, time to market, price, coverage and reimbursement by third-party payers, extent of adverse side effects and convenience of treatment procedures. One or more of our competitors may develop other products that compete with ours, obtain necessary approvals for such products from the FDA, EMA, MHLW or other agencies, if required, more rapidly than we do or develop alternative products or therapies that are safer, more effective and/or more cost effective than any products developed by us. The competition that we will encounter with respect to any of our product candidates that receive the requisite regulatory approval and classification and are marketed will have an effect on our product prices, market share and results of operations. We may not be able to differentiate any products that we are able to market from those of our competitors, successfully develop or introduce new products that are less costly or offer better results than those of our competitors, or offer purchasers of our products payment and other commercial terms as favorable as those offered by our competitors. In addition, competitors may seek to develop alternative formulations of or technological approaches to our product candidates and/or alternative cell therapy or drug delivery technologies that address our targeted indications.

Cytori Cell Therapy: Cytori Cell Therapy may face competition from cell therapies derived from autologous or allogeneic tissue sources such as adipose tissue, bone marrow and cord blood, and processed using alternative approaches, methods and technologies such as cryopreserved, cultured, expanded, manual, non-enzymatic, selectively isolated cell therapies, and other therapeutic approaches including those administered using oral, subcutaneous, topical and intravenous routes. If approved for the treatment of hand dysfunction and/or Raynaud's Phenomenon in scleroderma patients, Habeo Cell Therapy will likely compete against other products and product candidates. Johns Hopkins University, in collaboration with Allergan, recently completed and reported results from a Phase III clinical trial evaluating injection of Botox into the hands of patients with scleroderma-associated Raynaud's Syndrome. Further, Corbus Pharmaceuticals is conducting a Phase II clinical trial evaluating Resunab (JBT-101) in patients with diffuse cutaneous systemic sclerosis and has reported positive topline results showing a clear signal of clinical benefit. University of Pittsburgh, in collaboration with the NIAMS, is conducting a Phase II clinical trial evaluating Lipitor's (atorvastatin) effect on blood vessel function and Raynaud symptoms in patients with early diffuse systemic sclerosis. Primus Pharmaceuticals is sponsoring a U.S. multi-center clinical trial to evaluate Diosmiplex in patients with Raynaud's disease. Covis Pharmaceuticals has completed a Phase 2 clinical trial to evaluate Vascana in patients with Raynaud's Phenomenon secondary to Connective Tissue Disease. Apricus Biosciences has completed a Phase 2 clinical trial for Vascana in patients with Raynaud's Phenomenon secondary to systemic sclerosis. Stanford University, in collaboration with United Therapeutics, is sponsoring a Phase 2 clinical trial evaluating oral Orenitram (treprostinil) for the treatment of Calcinosis in patients with systemic sclerosis. Bayer is a collaborator in a Phase 2 clinical trial evaluating Adempas (riociguat) in patients with scleroderma-associated digital ulcers. Bristol-Myers Squibb and NIAID are collaborators in a Phase 2 clinical trial evaluating Abatacept in patients with diffuse cutaneous systemic sclerosis. Invtiva Pharma is sponsoring a Phase 2 clinical trial evaluating IVA337 in patients with diffuse cutaneous systemic sclerosis. The Catholic University of Korea is sponsoring a clinical trial evaluating autologous stromal vascular fraction injected into the fingers of patients with systemic sclerosis. Sanofi is sponsoring a Phase 2 clinical trial evaluating SAR156597 in patients with diffuse systemic sclerosis. Hoffman-La Roche is sponsoring Phase 3 clinical trials evaluating Actemra (tocilizumab) in patients with systemic sclerosis. Most of these studies use the primary and secondary outcome measures as used in our STAR clinical trial.

Our Cytori Cell Therapy may also face competition from lower price alternative cell therapies, including manually processed, or "home brewed" ADRCs that are harvested and used to treat patients for a wide range of indications. There are hundreds of stromal vascular fraction, or SVF, clinics within the United States alone, that purport to offer cell therapy treatments for ailments ranging from facial rejuvenation to stroke. Though FDA has indicated that it intends to regulate this "home brew" industry, if it fails to do so, then companies without FDA approvals may continue to offer cell therapy treatments on an "off-label," unapproved basis at substantially

lower prices then we intend to command. Similar clinics existing in every other market in which we intend to compete. Further, it is possible that positive STAR or SCLERADEC II clinical data, if possible, could be used by our cheaper cost competitors to tout their own cell therapy offerings, which could significantly harm our business.

Cytori Nanomedicines: We may face competition for our ATI-0918 asset (which is intended for the treatment of breast and ovarian cancers, multiple myeloma, and Kaposi's sarcoma) from multiple drug classes including antiretrovirals, chemotherapies, corticosteroids, histone deacetaylase inhibitors, hormone therapies, immunotherapies, and targeted therapies, as well as companies seeking approvals in Europe or the United States for their pegylated liposomal doxorubicin products. In particular, if a competitor is first to the European market with an EMA-approved generic liposomal doxorubicin that is bioequivalent to Caelyx, our projections and market assumptions for our ATI-0918 would have to be materially altered and our business could be harmed. Taiwan Liposome Company has reported their intent to file a Marketing Authorization Application, or MAA, with the EMA in the first half of 2017 for its generic Doxisome (TLC177) product which is ahead of our schedule for submitting our MAA for ATI-0918. In the United States, we may face competition for ATI-0918 from multiple generic formulations of pegylated liposomal doxorubicin. Sun Pharma's Lipodox product is currently approved in the United States and both Taiwan Liposome Company (Doxisome) and Actavis have reported that they have filed ANDAs with the FDA. Shanghai F-Z (Libaoduo) and Dr. Reddy's Labs are conducting ongoing bioequivalence studies versus Lipodox which they may decide to use to support FDA submissions for approval of their pegylated liposomal doxorubicin products.

Companies that currently have active development programs for nanoparticle-docetaxel products that may be future competitors for our ATI-1123asset include:

- Adocia's DriveIn nanoparticle-docetaxel product candidate, which is in the preclinical stage;
- Cristal Therapeutics' CriPac nanoparticle-docetaxel, which is currently being evaluated in a Phase 1 clinical trial for the treatment of solid tumors; and
- Oasmia's Docecal, a formulation of docetaxel combined with a patented nanoparticle-based technology, XR17, which is currently being evaluated in a Phase 1 clinical trial.

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. Compared to us, many of our potential competitors have substantially greater:

- capital resources;
- research and development resources and experience, including personnel and experience;
- product development, clinical trial and regulatory resources and experience;
- sales and marketing resources and experience;
- manufacturing and distribution resources and experience;
- name, brand and product recognition; and
- resources, experience and expertise in prosecution and enforcement of intellectual property rights.

As a result of these factors, our competitors may obtain regulatory approval of their products more quickly than we are able to or may obtain patent protection or other intellectual property rights that limit or block us from developing or commercializing our product candidates. Our competitors may also develop products that are more effective, more useful, better tolerated, subject to fewer or less severe side effects, more widely prescribed or accepted or less costly than ours and may also be more successful than we are in manufacturing and marketing their products. If we are unable to compete effectively with the marketed therapeutics of our competitors or if such competitors are successful in developing products that compete with any of our product candidates that are approved, our business, results of operations, financial condition and prospects may be materially adversely affected.

Our clinical trials may fail to demonstrate acceptable levels of safety and efficacy for Habeo Cell Therapy or any of our other product candidates, which could prevent or significantly delay their regulatory approval and commercialization.

Clinical testing of our products is a long, expensive and uncertain process, and the failure or delay of a clinical trial can occur at any stage. Many factors, currently known and unknown, can adversely affect clinical trials and the ability to evaluate a product candidate's efficacy. During the course of treatment, patients can die or suffer other adverse events for reasons that may or may not be related to the proposed product being tested. Even if initial results of preclinical and nonclinical studies or clinical trial results are promising, we may obtain different results in subsequent trials or studies that fail to show the desired levels of safety and efficacy, or we may not obtain applicable regulatory approval for a variety of other reasons. For instance, the investigator-initiated 12-patient, open-label SCLERADEC I trial investigating use of Habeo Cell Therapy for hand complications of scleroderma, sponsored by the Assistance Publique Hôpitaux de Marseille, or AP-HM, located in Marseille, France, has reported strong clinical data suggesting safety and efficacy of a single treatment of Habeo Cell Therapyout to three years after treatment. However, there can be no assurances that our current STAR clinical trial or AP-HM's currently enrolling SCLERADEC II clinical trial will be successful. These trials are testing broader human use of Habeo Cell Therapy in blinded, randomized, placebo-controlled trial settings, as opposed to SCLERADEC I's open-label, single arm, uncontrolled, unblinded format. Many companies in our industry have suffered significant setbacks in advanced clinical trials, despite promising results in earlier trials. If our Phase III STAR clinical trial and the Phase III Cytori-supported SCLERADEC II clinical trial do not meet their primary endpoints, we will likely be unable to obtain regulatory approval for our Habeo Cell Therapy, and may be forced to abandon our scleroderma development program, which would severely affect our business.

Further, with respect to the conduct and results of clinical trials generally, in the United States, Europe, Japan and other jurisdictions, the conduct and results of clinical trials can be delayed, limited suspended, or otherwise adversely affected for many reasons, including, among others:

- clinical results may not meet prescribed endpoints for the studies or otherwise provide sufficient data to support the efficacy of our product candidates;
- clinical and nonclinical test results may reveal side effects, adverse events or unexpected safety issues associated with the use of our product candidates;
- lack of adequate funding to continue the clinical trial, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional trials and studies and increased expenses associated with the services of our contract research organizations, or CROs, and other third parties;
- inability to design appropriate clinical trial protocols;
- slower than expected rates of subject recruitment and enrollment rates in clinical trials;
- regulatory review may not find a product safe or effective enough to merit either continued testing or final approval;
- regulatory review may not find that the data from preclinical testing and clinical trials justifies approval;
- regulatory authorities may require that we change our studies or conduct additional studies which may significantly delay or make continued pursuit of approval commercially unattractive;
- a regulatory agency may reject our trial data or disagree with our interpretations of either clinical trial data or applicable regulations;
- the cost of clinical trials required for product approval may be greater than what we originally anticipate, and we may decide to not pursue regulatory approval for such a product;
- a regulatory agency may identify problems or other deficiencies in our existing manufacturing processes or facilities or the existing processes or facilities of our collaborators, our contract manufacturers or our raw material suppliers;
- a regulatory agency may change its formal or informal approval requirements and policies, act contrary to previous guidance, adopt new regulations or raise new issues or concerns late in the approval process;

- a product candidate may be approved only for indications that are narrow or under conditions that place the product at a competitive disadvantage, which may limit the sales and marketing activities for such products or otherwise adversely impact the commercial potential of a product; and

- a regulatory agency may ask us to put a clinical study on hold pending additional safety data; (and there can be no assurance that we will be able to satisfy the regulator agencies' requests in a timely manner, which can lead to significant uncertainty in the completion of a clinical study).

In addition, Cytori Cell Therapy is currently the subject of a number of investigator-initiated trials, including the SCLERADEC II clinical trial in France and the ADRESU clinical trial in Japan. While these investigator-initiated trials are useful to help enhance awareness and use of our cell therapy technologies and products, and to identify potential therapeutic targets, there are also associated risks. We do not control the design and conduct of these trials, thus any data integrity issues or patient safety arising out of any of these trials would be beyond our control, yet could adversely affect our reputation and damage the clinical and commercial prospects for our Cytori Cell Therapy product candidates.

We also face clinical trial-related risks with regard to our reliance on other third parties in the performance of many of the clinical trial functions, including CROs, that help execute our clinical trials, the hospitals and clinics at which our trials are conducted, the clinical investigators at the trial sites, and other third party service providers. Failure of any third-party service provider to adhere to applicable trial protocols, laws and regulations in the conduct of one of our clinical trials could adversely affect the conduct and results of such trial (including possible data integrity issues), which could seriously harm our business.

Our success depends in substantial part on our ability to obtain regulatory approvals for Habeo Cell Therapy and ATI-1123. However, we cannot be certain that we will receive regulatory approval for these product candidates or our other product candidates.

We have only a limited number of product candidates in development, and our business depends substantially on their successful development and commercialization. Our product candidates will require development, regulatory review and approval in multiple jurisdictions, substantial investment, access to sufficient commercial manufacturing capacity and significant marketing efforts before we can generate any revenues from sales of our product candidates. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, whose regulations differ from country to country.

We are not permitted to market our product candidates in the United States until we receive approval from the FDA, or in any foreign countries until we receive the requisite approval from the regulatory authorities of such countries (including centralized marketing authorization from the European Medicines Agency), and we may never receive such regulatory approvals. Obtaining regulatory approval for a product candidate is a lengthy, expensive and uncertain process, and may not be obtained. Any failure to obtain regulatory approval of any of our product candidates would limit our ability to generate future revenues (and any failure to obtain such approval for all of the indications and labeling claims we deem desirable could reduce our potential revenue), would potentially harm the development prospects of our product candidates and would have a material and adverse impact on our business.

Even if we successfully obtain regulatory approvals to market our product candidates, our revenues will be dependent, in part, on our ability to commercialize such products as well as the size of the markets in the territories for which we gain regulatory approval. If the markets for our product candidates are not as significant as we estimate, our business and prospects will be harmed

Regarding to our two current lead commercialization candidates, Habeo Cell Therapy and ATI-0918:

- Though we believe that Habeo Cell Therapy will be regulated as an Advanced Therapeutic Medicinal Product, or ATMP, in Europe, it is possible that the EMA instead provides a medical device classification for Habeo Cell Therapy, in which case we will be unable to avail ourselves of the orphan drug designation granted to us covering use of Cytori Cell Therapy for systemic sclerosis, and will instead compete with other medical device manufacturers purporting to offer cellular therapeutics competitive with ours (and possibly at much lower price points than we currently contemplate for our therapy). Any classification of Cytori Cell Therapy as a medical device could make it difficult for us to identify pharmaceuticals companies willing to help us commercialize this product offering in Europe, and could also deter medical device companies from partnering with us given potential pricing and competitive concerns.

- If Habeo Cell Therapy is classified as an ATMP in Europe, then we will be required to comply with applicable cGMP requirements, as interpreted and implemented at the national level in each country, which would take longer and cost more to get to market than if Habeo Cell Therapy were classified as a medical device, and would in turn increase the costs of commercializing Habeo Cell Therapy in these countries. Further, potential pharmaceutical

partners may be wary of the medical device component of our cell therapy. These commercialization hurdles could increase the difficulties in finding suitable partners to help us commercialize this product offering in Europe.

- The EMA has approved eight ATMPs in Europe to date, with application review periods ranging from approximately thirteen to thirty-five months. This wide range in review periods makes it difficult to predict whether and on what timeframe our Habeo Cell Therapy would receive EMA approval, if at all.

- Given the novelty of our cellular therapeutics technology, we anticipate that we may face regulatory hurdles in other jurisdictions outside of the United States and Europe that could delay regulatory approval and commercial launch of Habeo Cell Therapy.

- The reference drugs for ATI-0918, which are currently Lipodox® in the United States and Caelyx® in Europe, may change.

- Though Azaya previously completed a European ATI-0918 60-patient bioequivalence trial, the EMA has not confirmed the adequacy of the trial for purposes of determining bioequivalence of ATI-0918 to Caelyx®. It is possible that the EMA could require us to conduct another bioequivalency trial for ATI-0918, which would cause us to incur significant delays and additional costs and expense and would materially and adversely affect our business.

- Though it is our intent to expeditiously pursue regulatory review of ATI-0918 in Europe through submission of a marketing authorization application, or MAA, to the EMA, prior to submission of this application we must first conduct and complete certain activities, including chemistry, manufacturing and controls, or CMC, activities, for inclusion in the application, and we cannot guarantee that we will successfully complete these activities.

- We intend to seek scientific advice from the EMA regarding required elements of the MAA before we submit the MAA, and if the EMA's scientific advice requires us to conduct substantive additional work (including possible provision of substantial additional data or information), our submission of the MAA could be materially delayed, which in turn would materially push back our anticipated launch date for ATI-0918 in Europe.

- If we are unable to satisfy the EMA's requirements to issuance of the marketing authorization for ATI-0918, we will not be able to launch ATI-0918 in Europe, and our business would be materially harmed.

If a product candidate is not approved in a timely fashion on commercially viable terms, or if development of any product candidate is terminated due to difficulties or delays encountered in the regulatory approval process, it could have a material adverse effect on our business, and we will become more dependent on the development of other proprietary products and/or our ability to successfully acquire other products and technologies. There can be no assurance that any product candidate will receive regulatory approval in a timely manner, or at all.

If our products candidate and technologies receive regulatory approval but do not achieve broad market acceptance, especially by physicians, the revenues that we generate will be limited.

The commercial success of any of our approved products or technologies will depend upon the acceptance of these products and technologies by physicians, patients and the medical community. The degree of market acceptance of these products and technologies will depend on a number of factors, including, among others:

- acceptance by physicians and patients of the product as a safe and effective treatment;

- any negative publicity or political action related to our or our competitors' products or technologies;

- the relative convenience and ease of administration;

- the prevalence and severity of adverse side effects;

- demonstration to authorities of the pharmacoeconomic benefits;

- demonstration to authorities of the improvement in burden of illness;

- limitations or warnings contained in a product's approved labeling;

- payers' level of restrictions and/or barriers to coverage;
- the clinical indications for which a product is approved;
- availability and perceived advantages of alternative treatments;
- the effectiveness of our or any current or future collaborators' sales, marketing and distribution strategies; and
- pricing and cost effectiveness.

Our Celution technology and products compete against cell-based therapies derived from alternate sources, such as bone marrow, umbilical cord blood and, potentially, embryos. Some of our competitors with products based on these other cell-based therapies have substantially greater financial, human and technical resources than we do. In addition, some of them have approved products with therapeutic claims, established revenues and broad market recognition. Physicians historically are slow to adopt new technologies like ours regardless of the perceived merits when older technologies, as the current standard of care, continue to be supported by established providers. Overcoming such inertia often requires significant marketing expenditures or definitive product performance and/or pricing superiority.

We face similar competitive pressures with our Cytori Nanomedicine product candidates. As a generic liposomal encapsulation of doxorubicin, ATI-0918, if approved and launched commercially, will potentially compete against Caelyx and Myocet® (manufactured by Teva) in Europe, and against Lipodox® in the United States. These existing competitive liposomal doxorubicin products have been on the market for many years, have gained widespread physician acceptance and are marketed by competitors with substantially greater resources than we have. Further, our ATI-1123 product candidate, if developed and commercialized, would compete against a number of established docetaxel drugs, including Taxotere® (Sanofi S.A.) and numerous existing generic docetaxel products.

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.

Overall, our efforts to educate the medical community on the benefits of any of our products or technologies for which we obtain marketing approval from the FDA or other regulatory authorities and gain broad market acceptance may require significant resources and may never be successful. If our products and technologies do not achieve an adequate level of acceptance by physicians, pharmacists and patients, we may not generate sufficient revenue from these products to become or remain profitable.

Many potential applications of our product candidates are pre-commercial, which subjects us to development and marketing risks.

Our products candidates are at various stages of development. Successful development and market acceptance of our products is subject to developmental risks, including risk of negative clinical data from current and anticipated trials, failure of inventive imagination, ineffectiveness, lack of safety, unreliability, manufacturing hurdles, 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 can be no assurance that we or our partners will successfully develop and commercialize our product candidates, or that our competitors will not develop competing technologies that are less expensive or superior. Failure to successfully develop and market our product candidates would have a substantial negative effect on our results of operations and financial condition.

Regarding our cell therapy products, we believe that our long-term viability and growth will depend in large part on our ability to establish the safety and efficacy of our cell therapies through clinical trials and studies. Though we generate revenues from commercial sales of our Celution products, there is no proven path for commercializing Cytori Cell Therapy in a way to earn a durable profit commensurate with the medical benefit. We have been engaged for a number of years in commercial sales of our Celution devices and consumable kits in Japan Europe and certain Asian markets, and our cell banking products in Japan, Europe, and certain Asian markets, but we have not achieved significant growth due in significant part to our inability thus far to obtain therapeutic, on-label use that is reimbursed by payers. Thus, we do not expect the market for our products to appreciably increase until we have positive clinical data from a validated, Phase III, controlled, randomized trial that reports safety and efficacy of our cellular therapeutic in a discrete disease state or condition. However, there can be no assurance that one or more clinical trials of our cell therapy product candidates will yield positive results.

Regarding our Cytori Nanomedicine program, our ATI-0918 generic drug candidate is pre-commercial. Our ATI-0918 bioequivalence trial results and accompanying manufacturing and other data are subject to review and feedback by the EMA prior to our submission of our marketing authorization application, or MAA, to the EMA. There can be no assurances that the EMA will view the results of the bioequivalence trial favorably. Further, we are required to complete certain manufacturing, drug stability and other activities before we submit our MAA to the EMA. There can be no assurance that the EMA will deem our MAA sufficient grant us marketing authorization within the timelines we currently project, or at all.

Our ATI-1123 drug candidate is in early clinical stages and is subject to all of the attendant risks of an early-stage drug. Should we wish to commercialize ATI-0918 in the United States, we believe we will need to conduct a clinical trial to demonstrate bioequivalence to the then-current reference drug in the United States (currently Lipodox®). Any such bioequivalency trial would be time and resource intensive, would take years to complete at considerable expense, and could ultimately fail to demonstrate ATI-0918's bioequivalence to the reference drug. Also, we intend to find a partner to develop our ATI-1123 drug candidate, but and if we are unsuccessful in doing so, our ATI-1123 development program could be delayed or suspended.

If we or any party to a key collaboration, licensing, development, acquisition or similar arrangement fails to perform material obligations under such arrangement, or any arrangement is terminated for any reason, there could be an adverse effect on our business.

We are currently party to certain licensing, collaboration and acquisition agreements under which we may make or receive future payments in the form of milestone payments, maintenance fees, royalties and/or minimum product purchases. We are dependent on our collaborators to commercialize Cytori Cell Therapy in certain countries and in certain indications for us to realize any financial benefits from these collaborations. Our collaborators may not devote the attention and resources to such efforts to be successful. In addition, in the event that a party fails to perform under a key collaboration agreement, or if a key collaboration agreement is terminated, the reduction in anticipated revenues could delay or suspend our commercialization efforts in certain countries. Specifically, the termination of a key collaboration agreement by one of our collaborators could materially impact our ability to enter into additional collaboration agreements with new collaborators on favorable terms.

Risks relating to our current material collaborations (excluding our BARDA partnership, which is discussed below in these "Risk Factors") include the following:

- Under our asset purchase agreement with Azaya, we are required to use commercial reasonable efforts to develop our ATI-0918 and ATI-1123 drug candidates, and we have future milestone, earn-out and other payments to Azaya tied to our commercialization and sale activities for these drug candidates. If we are unsuccessful in our efforts to develop our ATI-0918 and ATI-1223 drug assets, or if Azaya and we were to enter into a dispute over the terms of our agreement, then our business could be seriously harmed.

- Lorem Vascular, is our exclusive licensee for our Cytori Cell Therapy products in all fields of use in China, Hong Kong, Singapore, Malaysia and Australia under the terms of the Lorem Agreement. Lorem Vascular is responsible for commercializing our Cytori Cell Therapy products in these territories. Lorem Vascular is relatively new company with no previous operating history, and has yet to generate meaningful revenues in its licensed territories. There can be no assurance that Lorem Vascular will be able to generate meaningful revenues in its licensed territories in the future. We are in ongoing discussions with Lorem Vascular regarding the terms of our collaboration, including the structure of the Lorem Agreement. If we are unable to agree with Lorem Vascular on revised terms to our collaboration, our relationship with them could suffer. A dispute may arise between us and Lorem Vascular that could lead to arbitration or other adversarial proceedings. Any such proceedings could cause significant diversion of management time and attention, cause us significant expense, and could potentially result in an outcome adverse to us. Further, any such dispute could negatively affect our ability to realize any sales or royalty revenues from Lorem Vascular's commercial activities in the territories under its exclusive license. Even if we successfully restructure or otherwise revise our agreement with Lorem Vascular, there can be no assurance that Lorem Vascular will be able to successfully commercialize our Celution products in China or in the other territories subject to its license. Further, if Lorem Vascular fails to comply with any regulations applicable to its development, marketing and sale of our products, there can be no assurance that regulators would not try to hold us responsible for such activities.

- Pursuant to the Bimini Agreement, we have, among other things, granted Bimini an exclusive, worldwide license to use and sell our Cytori Cell Therapy products in the alopecia (hair loss) field. Cytori and Bimini granted certain licenses to each other, and have certain license, royalty and other payment obligations under the Bimini agreement, as well as certain supply, development and non-competition obligations. If we and Bimini were to enter into a dispute regarding the terms of our agreement, our business could be harmed.

If we or our distributors or collaborators fail to comply with regulatory requirements applicable to the development, manufacturing, and marketing of our products, regulatory agencies may take action against us or them, which could significantly harm our business.

Our products and product candidates, along with the clinical development process, the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for these products, are subject to continual requirements and review by the FDA and state and foreign regulatory bodies. Regulatory authorities subject a marketed product, its manufacturer and the manufacturing facilities to continual review and periodic inspections. We, our distributors and collaborators, and our and their respective contractors, suppliers and vendors, will be subject to ongoing regulatory requirements, including complying with regulations and laws regarding advertising, promotion and sales of products, required submissions of safety and other post-market information and reports, registration requirements, Clinical Good Manufacturing Practices (cGMP) regulations (including requirements relating to quality control and quality assurance, as well as the corresponding maintenance of records and documentation), and the requirements regarding the distribution of samples to physicians and recordkeeping requirements. Regulatory agencies may change existing requirements or adopt new requirements or policies. We, our distributors and collaborators, and our and their respective contractors, suppliers and vendors, may be slow to adapt or may not be able to adapt to these changes or new requirements.

Failure to comply with regulatory requirements may result in any of the following:

- restrictions on our products or manufacturing processes;
- warning letters;
- withdrawal of the products from the market;
- voluntary or mandatory recall;
- fines;
- suspension or withdrawal of regulatory approvals;
- suspension or termination of any of our ongoing clinical trials;
- refusal to permit the import or export of our products;
- refusal to approve pending applications or supplements to approved applications that we submit;
- product seizure;
- injunctions; or
- imposition of civil or criminal penalties.

To the extent any of our customers fail to use our products in compliance with applicable regulations, regulators could try to hold us responsible if they believe we facilitated or were otherwise somehow responsible for our customer's non-compliance.

We currently sell our Celution Cell Therapy products in numerous markets outside of the United States for research and commercial use. These markets have different, and in some cases, less burdensome, regulatory schemes applicable to our products than in the United States. To the extent any of our customers, whether inside or outside the United States, use or further market our products in their home market or in other markets in a way that does not comply with applicable local regulations, regulators could try to hold us responsible if they believe we facilitated or were otherwise responsible for the customer's actions. While we take measures in an effort to protect us against these types of risks, we cannot ensure you that such measures would prevent us from becoming subject to any such claims.

We and our products are subject to extensive regulation, and the requirements to obtain regulatory approvals in the United States and other jurisdictions can be costly, time-consuming and unpredictable. If we or our partners are unable to obtain timely regulatory approval for our product candidates, our business may be substantially harmed.

Cytori Cell Therapy: Our Celution system family of products and components of the Stemsource cell banks, must receive regulatory clearances or approvals from the FDA and from foreign regulatory bodies prior to commercial sale in those jurisdictions. Our Cytori Cell Therapy platform, including the Celution device, Celase and Intravase reagents, and consumable kits, is subject to

stringent government regulation in the United States by the FDA under the Federal Food, Drug and Cosmetic Act, and by the EMA and other regulatory agencies outside of the United States under their respective regulatory regimes.

The regulatory process for our cell therapy products 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, 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 can be no assurance 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. 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.

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.

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, as well as 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. While we believe that our current activities are in compliance with FDA regulations relating to marketing and promotion, if regulators were to determine that our commercialization efforts, or those of our distributors, collaborators or customers, involve improper marketing and promotion of our products in violation of FDA regulations, our business could be substantially negatively affected.

There can be no assurance 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. In addition, there can be no assurance that we will obtain regulatory approvals or clearances in all of the other 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.

Cytori Nanomedicines: The worldwide regulatory process for our Cytori Nanomedicines drug candidates can be lengthy and expensive, with no guarantee of approval.

Before any new drugs may be introduced to the U.S. market, the manufacturer generally must obtain FDA approval through either an abbreviated new drug application, or ANDA, process for generic drugs off patent that allow for bioequivalence to an existing reference listed drug, or RLD, or the lengthier new drug approval, or NDA, process, which typically requires multiple successful Phase III clinical trials to generate clinical data supportive of safety and efficacy along with extensive pharmacodynamic and pharmacokinetic preclinical testing to demonstrate safety. Our lead drug product under development (ATI-0918) is eligible ANDA process, while our ATI-1123 drug candidate is subject to the significantly lengthier NDA process. Approval of an ANDA could take four or more years from the time the process is initiated due to the requirement for clinical trials. NDA drugs could take significantly longer due to the additional preclinical requirements along with the typical requirement for two successful Phase III clinical studies.

In Europe, as in the United States, there are two regulatory steps to complete before a drug candidate is approved to be marketed in the European Union. These two steps are clinical trial application and marketing authorization application. Clinical trial applications are approved at the member state level, whereas marketing authorization applications are approved at both the member state and centralized levels. Both ATI-0918 and ATI-1123 will follow the centralized procedure for EMA regulatory approval. The centralized procedure allows the applicant to obtain a marketing authorization that is valid throughout the EU. Similar to the FDA process, the EMA centralized process requires bioequivalence data for generic drug candidates such as ATI-0918, and robust clinical data for non-generic drug candidates like ATI-01123 similar to clinical data required for NDA drug candidates.

There are numerous risks arising out of the regulation of our ATI-0918 and ATI-1123 drug candidates include the following:

- We can provide no assurances that our current and future oncology drugs will meet all of the stringent government regulation in the United States, by the FDA under the Federal Food, Drug and Cosmetic Act, and/or in international markets such as Europe, by the EMA under its Medicinal Products Directive, or Japan, by Japan's Pharmaceuticals and Medical Devices Agency and Ministry of Health, Labor and Welfare under the Japanese Pharmaceutical Affairs Law.

- We intend to seek regulatory of our ATI-0918 drug candidate via abbreviated approval processes referred to as bioequivalence or BE, approved under an abbreviated new drug application, or ANDA. There are no assurances that these abbreviated processes are or will be available in markets outside of the United States, or where available, that we will successfully obtain regulatory approvals via such abbreviated processes.

- It is required for ANDA and BE drug candidates that there is a reference listed drug, or RLD, with which the drug candidate must demonstrate equivalence. There are no assurances that the reference drug for ATI-0918 will be the same in all territories or countries, which could require different and unique BE clinical studies for some territories where we currently intend to commercialize ATI-0918. Changes in the RLD may result in the nullification of BE clinical studies and can result in significant delays in the regulatory process as BE clinical studies may need to be repeated for jurisdictions that no longer recognize the reference drug utilized in BE clinical studies.

- Our Cytori Nanomedicines drug candidates, if approved, will still be subject to post-market reporting requirements for deaths or serious injuries when the drug may have caused or contributed to the death or serious injury, or serious adverse events. There are no assurances that our drug products will not have safety or effectiveness problems occurring after the drugs reach the market. There are no assurances that regulatory authorities will not take steps to prevent or limit further marketing of the drug due to safety concerns.

- It is possible that the new legislation in our priority markets, such as the newly enacted CURES Act in the United States, will yield additional regulatory requirements for therapeutic drugs for our Cytori Nanomedicine drug candidates (the FDA's interpretation and implementation of the CURES Act has yet to be published).

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

Cytori Cell Therapy: Government regulations can change without notice. Given the fact that we operate 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.

Our ability to receive regulatory approvals for our Cytori Cell Therapy products and to sell into foreign markets is complex, due in part to by the nature of our Celution platform and manufacturing process. The platform consists of our Celution device that processes the patient's own adipose (fat) tissue to create a heterogeneous mixture of regenerative cells. In the United States, this heterogeneous mixture of cells is subject to classification as a drug, but the FDA has made the determination that our Cytori Cell Therapy will be regulated as a Class III PMA medical device. However, foreign regulatory bodies must assess our particular platform and manufacturing process to make their own determination whether our Cytori Cell Therapy product candidates should receive medical device or drug classifications. For example, the European Commission has granted orphan drug designation for the use of Cytori Cell Therapy (currently branded as Habeo Cell Therapy) in treatment of system sclerosis. The EMA has not made a determination whether it would classify Habeo Cell Therapy as an ATMP or a medical device. Though we believe that Habeo Cell Therapy will be classified by the EMA as an ATMP, we cannot guarantee that the EMA will not arrive at a different determination at such time that we ask a determination to be made. Regardless of the EMA's ultimate determination, we will also be required to comply with the particular regulatory requirements of each of the member states of the European Economic Area (comprised of 28 European Union, or EU, member states plus Iceland, Liechtenstein, and Norway) with respect to our cell therapy offerings, a process which we anticipate will require considerable time, effort and expense. We expect that regulatory bodies in other jurisdictions will engage in similar analyses of our Cytori Cell Therapy, and we cannot predict then outcomes of these analyses.

In Japan, the Japanese Diet recently passed the Act regarding Ensuring of Safety of Regenerative Medicine, or the Regenerative Medicine Law, and the revisions to the Pharmaceutical Affairs Law as applied to drugs, medical devices and regenerative medicine. The Regenerative Medicine Law initially caused some confusion for regenerative companies operating in Japan, but we believe that this law, as currently implemented, benefits Cytori and its customers by allowing an expedited path for our customers in Japan to obtain licenses under the Regenerative Medicine Law to treat patients with Cytori Cell Therapy. However, we cannot be certain that the Regenerative Medicine Law will not be repealed or that current interpretations and implementation of the Regenerative Medicine Law will not change in a manner adverse to our business. Further, we currently import and sell our products in Japan under Class I notifications that we obtained several years ago. However, at the request of Japanese regulators, we are in the process of obtaining Class III approvals for our Celution device and consumable kits. Though we are pursuing these Class III

approvals process without any anticipated interruption to our commercial activities, it is possible that other jurisdictions in which we currently sell may require similar heightened regulatory approvals but with potential restrictions on our ability to market and sell our Cytori Cell Therapy products in such territories during the application process and review period for the required regulatory approval(s).

Any regulatory review committees and advisory groups and any contemplated new guidelines may lengthen the regulatory review process, require us to perform additional studies, increase our development costs, lead to changes in regulatory positions and interpretations, delay or prevent approval and commercialization of our product candidates or lead to significant post-approval limitations or restrictions. As we advance our product candidates, we will be required to consult with these regulatory and advisory groups, and comply with applicable guidelines. If we fail to do so, we may be required to delay or discontinue development of our product candidates. Delay or failure to obtain, or unexpected costs in obtaining, the regulatory approval necessary to bring a product candidate to market could decrease our ability to generate sufficient revenue to maintain our business. Divergence in regulatory criteria for different regulatory agencies around the globe could result in the repeat of clinical studies and/or preclinical studies to satisfy local territory requirements, resulting in the repeating of studies and/or delays in the regulatory process. Some territories may require clinical data in their indigenous population, resulting in the repeat of clinical studies in whole or in part. Some territories may object to the formulation ingredients in the final finished product and may require reformulation to modify or remove objectionable components; resulting in delays in regulatory approvals. Such objectionable reformulations include, but are not limited to, human or animal components, BSE/TSE risks, banned packaging components, prohibited chemicals, banned substances, etc. There can be no assurances that FDA or foreign regulatory authorities will accept our pre-clinical and/or clinical data.

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 or other regulators regulate 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 the FDA's or other regulators' approach to the regulatory process will not deleteriously affect some or all of our products or product applications.

Cytori Nanomedicines: Our nanotechnology technology is also subject to government regulations that are subject to change. Our lead product, ATI-0918 is regulated under bioequivalence rules that rely on a reference listed drug, or RLD, for equivalence in the United States and other jurisdictions. Government agencies can change the reference listed drug or reference drug without notice. These changes in the RLD could invalidate clinical studies and require the initiation of new clinical studies for determining equivalence to a newly assigned RLD. Furthermore, bioequivalence studies may need to be repeated in certain foreign entities as some governments may require additional confirmatory studies in their patient populations. These additional requirements could result in additional clinical studies or delays in the regulatory process. Other risks with the RLD criteria are in the criteria for demonstrating bioequivalence. Bioequivalence criteria may not be identical in all geographical regions, resulting in the requirement for new bioequivalence studies to demonstrate equivalence to a more stringent standard. Additionally, bioequivalence criteria rely on the products being "off patent" in the territory. Patent expiration dates may vary in different regions which may result in bioequivalence regulatory pathways being delayed in some territories. Current regulatory pathways such as the abbreviated new drug application, or ANDA, pathway, of we are currently relying on, are subject to change and may cease to be viable regulatory pathways in the future.

Our pipeline oncology products, such as ATI-1123, are being developed under existing government criteria, which are subject to change in the future. Clinical and/or pre-clinical criteria in addition to cGMP manufacturing requirements may change and impose additional regulatory burdens. Clinical requirements are subject to change which may result in delays in completing the regulatory process. Divergence in regulatory criteria for different regulatory agencies around the globe could result in the repeat of clinical studies and/or preclinical studies to satisfy local jurisdictional requirements, which would significantly lengthen the regulatory process and increase uncertainty of outcome. Some jurisdictions may require clinical data in their indigenous population, resulting in the repeat of clinical studies in whole or in part. Some jurisdictions may object to the formulation ingredients in the final finished product and may require reformulation to modify or remove objectionable components; resulting in delays in regulatory approvals. Such objectionable reformulations include, but are not limited to, human or animal components, bovine spongiform encephalopathy/ transmissible spongiform encephalopathy risks, banned packaging components, prohibited chemicals, banned substances, etc. There can be no assurance that the FDA or foreign regulatory authorities will accept our pre-clinical and/or clinical data.

We may have difficulty obtaining appropriate and sufficient pricing and reimbursement for our cell therapy products.

New and emerging cell therapy and cell banking technologies, such as those provided by the Cytori Cell Therapy 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 at pricing that is profitable and that adequately compensates Cytori for its development costs, which would negatively impact our operating results.

Habeo Cell Therapy, our lead indication, is intended to treat hand manifestations of systemic scleroderma, which is a rare, or orphan, disease. As such, we anticipate that Habeo Cell Therapy will be priced to reflect its orphan status in our prior target markets for this indication. In the United States and in Europe, we anticipate that this pricing will be supported by Habeo Cell Therapy meeting primary endpoints from the STAR and SCLERADEC II clinical trials. Further, in Europe, we expect that Habeo Cell Therapy will be classified as an ATMP with orphan drug status, and if we are the first ATMP approved for this indication in Europe, we will receive certain benefits, including market exclusivity (subject to certain caveats). Status as an approved ATMP with orphan drug designation could provide us with a strong platform from which to seek higher reimbursement. However, the level of reimbursement Habeo Cell Therapy will receive will be directly related to the quantity and quality of clinical evidence reported by these STAR and SCLERADEC II clinical trials. It is possible that our clinical trial data are sufficient to support regulatory approval of Habeo Cell Therapy, but not sufficient to support pricing at a level that makes Habeo Cell Therapy attractive to potential partners or to make it economically viable for us to directly commercialize Habeo Cell Therapy. Further, if the STAR and SCLERADEC II clinical trials are not successful, we may not be in a position to seek regulatory approval at all, and we may be required to suspend or abandon our Habeo Cell Therapy commercialization efforts.

Our European managed access program for Habeo Cell Therapy may not be successful, which in turn could adversely affect our Habeo Cell Therapy commercialization efforts.

Our managed access program, or MAP (also known as early access program or named patient program), is intended to provide access in select countries across Europe, the Middle East and Africa, or EMEA, to our Habeo Cell Therapy for patients with impaired hand function due to scleroderma in advance of anticipated commercialization of Habeo Cell Therapy. Our MAP will has faced and will continue to face numerous challenges, including the following:

- In most countries, patient access to Habeo Cell therapy will be provided on an 'individual' patient basis where physicians will make an application to their Competent Authority in each country on a patient-by-patient basis. This imposes a significant administrative burden on participating physicians, and requires them to navigate a process with which they are oftentimes unfamiliar.

- In certain countries, hospitals and/or patients will be required to pay a portion of our procedure fees under our MAP. This payment obligation may limit the number of hospitals and patients who can afford to participate in our MAP.

- Because Cytori is targeting an orphan indication in scleroderma where there is an established need for effective therapies, regulators in Europe have been willing to allow an approval trial based on limited data from the 12-patient, investigator initiated SCLERADEC I pilot trial. The lack of robust Phase II clinical data has also proven to be a hurdle to MAP acceptance. We believe that positive results from the STAR clinical trial and/or SCLERADEC II clinical trial will help drive interest in our MAP, but there is no guarantee that either trial will achieve positive results.

Orphan drug designation may not ensure that we will enjoy market exclusivity in a particular market, and if we fail to obtain or maintain orphan drug designation or other regulatory exclusivity for some of our product candidates, our competitive position would be harmed.

A product candidate that receives orphan drug designation can benefit from potential commercial benefits following approval. Under the U.S. Orphan Drug Act, the FDA may designate a product candidate as an orphan drug if it is intended to treat a rare disease or condition, defined as affecting a patient population of fewer than 200,000 in the United States, or a patient population greater than 200,000 in the United States where there is no reasonable expectation that the cost of developing the drug will be recovered from sales in the United States. In the European Union, or EU, the EMA's Committee for Orphan Medicinal Products, or COMP, grants orphan drug designation to promote the development of products that are intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than 10,000 persons in the EU. Currently, this designation provides market exclusivity in the U.S. and the European Union for seven years and ten years, respectively, if a product is the first such product approved for such orphan indication. This market exclusivity does not, however, pertain to indications other than those for which the drug was specifically designated in the approval, nor does it prevent other types of drugs from receiving orphan designations or approvals in these same indications. Further, even after an orphan drug is approved, the FDA can subsequently approve a drug with similar chemical structure for the same condition if the FDA concludes that the new drug is clinically superior to the orphan product or a market shortage occurs. In the EU, orphan exclusivity may be reduced to six years if the drug no longer satisfies the original designation criteria or can be lost altogether if the marketing authorization holder consents to a second orphan

drug application or cannot supply enough drug, or when a second applicant demonstrates its drug is "clinically superior" to the original orphan drug.

In April 2016, the European Commission, acting on the positive recommendation from the COMP, issued orphan drug designation to a broad range of Cytori Cell Therapy formulations when used for the treatment of systemic sclerosis. In November 2016, the U.S. FDA Office of Orphan Products Development granted us an orphan drug designation for cryopreserved or centrally processed ECCS-50 (Habeo) for scleroderma. Either or both of such orphan drug designations may fail to result in or maintain orphan drug exclusivity upon approval, which would harm our competitive position.

We generate 71% of our sales revenues from Japan, with 76% of those revenues generated by sales to four customers and 49% of these revenues generated by sales to one customer. This concentration of sales in one territory, and to one small group of customers in Japan, makes us vulnerable to the loss of our key customers and to adverse changes in the Japanese market.

In 2016, we generated approximately $3.3 million in sales revenues in Japan, representing 71% of our overall global sales revenues. 76% of the Japan sales revenues were from four key customers, and 49% of these sales revenues were from one key customer. We expect a relatively small number of customers to account for a majority of our revenues for the foreseeable future. This concentration of sales in one country, and in a small subset of customers within such country, represents a risk to our business. Our existing business in Japan, and our prospects for further growth of product sales in Japan, are subject to a number of risks, including the following:

- Existing laws and regulations pertaining to our business, including the Act regarding Ensuring of Safety of Regenerative Medicine, or the Regenerative Medicine Law, passed in 2013, may be repealed, or implemented, amended or superseded, in a manner that is adverse to our business;
- Macroeconomic conditions in Japan may deteriorate, thus weakening demand for our cell therapy products, which are used in self-pay procedures in Japan;
- Japanese regulatory authorities may take unexpected actions with respect to our cell therapy products, including with respect to required regulatory clearances and approvals in Japan, that could cause us to suspend or curtail our cell therapy sales operations in Japan;
- Quality issues could arise, requiring product recalls or other actions that could cause us reputational damage and lost sales;
- One or more of our key customers in Japan may decide to acquire competitive products, adopt other technological or therapeutics approaches to the conditions they treat, or otherwise reduce or cease their purchases of our products;
- Our Cytori Cell Therapy product trials may not achieve statistical significance and thus could diminish the perceived value and efficacy of our technology; and
- Our relatively small team in Japan may not be able to manage the needs of a growing business, and we may not able to hire and retain existing or new employees necessary to maintain and expand our business in Japan.

Further, a loss of one or more of our key customers, a dispute or disagreement with one of these key customers, a significant deterioration in the financial condition of one of these key customers, or a significant reduction in the amount of our products ordered by any key customer could adversely affect our revenue, results of operations and cash flows.

If we experience an interruption in supply from a material sole source supplier, our business may be harmed

We acquire some our components and other raw materials from sole source suppliers. If there is an interruption in supply of our raw materials from a sole source supplier, there can be no assurance that we will be able to obtain adequate quantities of the raw materials within a reasonable time or at commercially reasonable prices. Interruptions in supplies due to pricing, timing, availability or other issues with our sole source suppliers could have a negative impact on our ability to manufacture products and product candidates, which in turn could adversely affect commercial sales of our commercially available Cytori Cell Therapy products, delay our development and commercialization efforts and cause us to potentially breach our supply or other obligations under our agreements with certain other counterparties.

We source our Celase and Intravase reagents, which are used to process patients' autologous adipose (fat) tissue, under an exclusive manufacturing arrangement with Roche Diagnostics Corporation, or Roche. We do not have a second qualified supplier to manufacture these reagents, and we estimate that it would take approximately two years to qualify another manufacturing source for our reagents. Though we have significant inventory related to these reagents on hand which we believe are sufficient to satisfy currently anticipated internal and customer demand for at least the next three years, if our agreement with Roche were to terminate or if Roche were otherwise unable to manufacture sufficient volumes of the reagents to meet our customer demand, our business could be materially and adversely affected.

We are dependent on sole source suppliers to manufacture the API (active pharmaceutical ingredient) and certain other components of our Cytori Nanomedicines drug candidates. There are no assurances that these sole source suppliers will enter into supply agreements with us to provide contractual assurance to us around supply and pricing. Regardless whether a sole source supplier enters into a written supply arrangement with us, such supplier could still delay, suspend or terminate supply of raw materials to us for a number of reasons, including manufacturing or quality issues, payment disputes with us, bankruptcy or insolvency, or other occurrences.

If a sole source supplier ceases supply of raw materials necessary there is no guarantee that we will find an alternative supplier for the necessary raw materials on terms acceptable to us, or at all. Further the qualification process for a new vendor could take months or even years, and any such day in qualification could significantly harm our business.

We may engage in strategic transactions that could impact our liquidity, increase our expenses and present significant distractions to our management.

From time to time we may consider strategic transactions, such as acquisitions of companies, asset purchases and out-licensing or in-licensing of products, product candidates or technologies. For example, in February 2017, we acquired intellectual property and a portfolio of investigational oncology therapies from Azaya Therapeutics. This acquisition materially impacted our liquidity and will materially increase our expenses (including a substantial increase in employee headcount). Further, growth of the Cytori Nanomedicine business will require significant management time and attention. Additional potential transactions that we may consider include a variety of different business arrangements, including spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Any such transaction may require us to incur non-recurring or other charges, may increase our near and long-term expenditures and may pose significant integration challenges or disrupt our management or business, which could adversely affect our operations and financial results. For example, these transactions may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention in order to develop acquired products, product candidates or technologies;
- incurrence of substantial debt or dilutive issuances of equity securities to pay for acquisitions;
- higher than expected acquisition and integration costs;
- write-downs of assets or goodwill or impairment charges;
- increased amortization expenses;
- difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to retain key employees of any acquired businesses.

Accordingly, although there can be no assurance that we will undertake or successfully complete any additional transactions of the nature described above, any additional transactions that we do complete could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are exposed to risks related to our international operations, and failure to manage these risks may adversely affect our operating results and financial condition.

We have operations in several regions around the world, including the United States, Japan, the Asia-Pacific region and Europe. Our global operations may be subject to risks that 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, among others:

- political unrest, terrorism and economic or financial instability;
- unexpected changes and uncertainty in regulatory requirements;
- 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; and
- 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.

We must maintain quality assurance certification and manufacturing approvals.

The manufacture of our products is, and the manufacture of any future drug and/or cell-related therapeutic products would be, subject to periodic inspection by regulatory authorities and distribution partners. The manufacture of drugs and devices products for human use is subject to regulation and inspection from time to time by the FDA for compliance with the FDA's cGMP (current good manufacturing practices), 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 assurance 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 that 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.

BARDA may terminate or suspend its agreement with us, or suspend, delay or reduce its funding of our development hereunder, which could delay and/or adversely affect our business and our ability to further develop our Celution System.

In September 2012, we were awarded a contract, or the BARDA Agreement, with the Biomedical Advanced Research and Development Authority, or BARDA, a division of the U.S. Department of Health and Human Services. The objective of the BARDA Agreement is to develop our cell therapy technology for use as a new countermeasure for a combined injury involving thermal burn and radiation exposure that would be employed following a mass-casualty event. The original total value of the cost-plus-fixed-fee BARDA Agreement was up to an aggregate of $106 million, which aggregate potential value has decreased somewhat as we and BARDA have gained more insight into anticipated and actual budgets for different phases of our development work.

We have received over $20 million in cost-plus-fixed-fee funding from BARDA to fund our preclinical research and development of Cytori Cell Therapy for thermal burn, or DCCT-10, and to fund development of our Celution cell processing system. There are additional contract options under the BARDA Agreement to provide over $80 million in additional funds to:

- conduct a pilot clinical study, and related regulatory and other tasks;
- conduct a pivotal clinical trial, and related clinical, regulatory, and other activities, with the objective of obtaining FDA approval for intravenous use of DCCT-10 in thermal burn injury; and
- conduct of clinical, regulatory and other tasks required to develop and obtain FDA clearance for other characteristics suitable for use in thermal burn injury following a mass casualty event.

The current contract modification to the BARDA Agreement executed by us and BARDA in September 2016 will expire in April 2017. We are in active discussions with BARDA regarding BARDA's continued funding of our DCCT-10 development program, but there is no guarantee that we will reach agreement with BARDA regarding an extension of our existing contract modification, execution of a new contract modification, or execution of a new agreement. If we are unable to enter into a new contract or contract modification with BARDA, we may cease to receive funds from BARDA as soon April 2017. If this occurs, we would likely severely curtail, suspend or even terminate our DCCT-10 program, and our business would be harmed.

Further should we cease to receive BARDA funding, certain of our product development efforts, including development of our next generation Celution devices, could be harmed.

Further, we are currently in the process of seeking FDA approval of our IDE application for our proposed RELIEF Phase I clinical trial to assess the safety and feasibility of intravenous administration of DCCT-10 as a thermal burn countermeasure. If the FDA approves our IDE application, then BARDA's approval and agreement to fund the trial will be required to proceed. There can be no assurance that BARDA will agree to fund the entire cost of the trial. If BARDA declines to fund the full costs of the trial, we may be required to terminate our DCCT-10 development program.

BARDA may suspend or terminate the BARDA Agreement, or decline to enter into a new agreement upon termination of the BARDA Agreement, for a number of reasons, including our failure to achieve key objectives or milestones or failure 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 comply with BARDA's operating procedures and processes, achieve the necessary clinical milestones or whether we will be able to successfully develop our DCCT-10 product candidate under the contract.

Our contract with BARDA will expire in September 2017. Though we intend to negotiate a new agreement with BARDA, there is no guarantee that we will be able to do so. Any new agreement with BARDA may be on terms less favorable to us than our current agreement.

Our current BARDA Agreement will expire in September 2017, and there is no guarantee that we will execute a new contract with BARDA. We anticipate that if the FDA approves our RELIEF pilot trial IDE application, and if BARDA agrees to fund this trial, that any BARDA funding for this trial would be awarded under our existing contract. However, we do not anticipate that any additional funds will be awarded to us under the current BARDA Agreement. Thus, it is likely that our current BARDA Agreement will expire with only approximately $30 million of the total original contract value of $106 million having been awarded to us. Any subsequent awards for a pivotal clinical trial of our DCCT-10 therapeutic, for regulatory activities in anticipation of FDA approval, and for other related development and commercialization activities, would be granted (if at all) under a new contract with BARDA. There can be no guarantee that BARDA and we will enter into a new agreement on terms acceptable to us, or at all. If we do enter into a new contract with BARDA, it might provide for lower funding caps and other material terms less favorable to us than the current BARDA Agreement. Further, we would expect that any contract with BARDA would be unlikely to fund the continued development of our latest generation Celution systems. If we do not enter into a new contract with BARDA when our current BARA Agreement

expires that provides for continued funding of our DCCT-10 development efforts, we will likely be required to suspend or terminate our thermal burn program.

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 U.S. Government.

If we are unable to identify, hire and/or retain key personnel, we may not be able to sustain or grow our business.

Our ability to operate successfully and manage our potential future growth depends significantly upon our ability to attract, retain, and motivate highly skilled and qualified research, technical, clinical, regulatory, sales, marketing, managerial and financial

personnel. We compete for talent with numerous companies, as well as universities and non-profit research organizations. In the near term, we intend to hire a significant number of scientists, quality and regulatory personnel, and other technical staff with the requisite expertise to support and expand our Cytori Nanomedicines business. The manufacturing of these oncology drug assets is a highly complex process that requires significant experience and know-how. If we are unable to attract personnel with the necessary skills and experience to reestablish and expand our Cytori Nanomedicines business, which is currently conducted out of our San Antonio, Texas facility, our business could be harmed.

Our future success also depends on the personal efforts and abilities of the principal members of our senior management and scientific staff to provide strategic direction, manage our operations, and maintain a cohesive and stable environment. In particular, we are highly dependent on our executive officers, especially Marc Hedrick, M.D., our Chief Executive Officer, Tiago Girão, our Chief Financial Officer, and John Harris, our Vice President and General Manager of Cell Therapy. Given their leadership, extensive technical, scientific and financial expertise and management and operational experience, these individuals would be difficult to replace. Consequently, the loss of services of one or more of these named individuals could result in product development delays or the failure of our collaborations with current and future collaborators, which, in turn, may hurt our ability to develop and commercialize products and generate revenues. We have not entered into any employment agreements with our executive officers or key personnel, nor do we maintain key man life insurance on the lives of any of the members of our senior management. Although we have a stock option plan pursuant to which we provide our executive officers with various economic incentives to remain employed with us, these incentives may not be sufficient to retain them. The loss of key personnel for any reason or our inability to hire, retain, and motivate additional qualified personnel in the future could prevent us from sustaining or growing our business.

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability if our insurance coverage for those claims is inadequate.

The commercial use of our products and clinical use of our products and product candidates expose us to the risk of product liability claims. This risk exists even if a product or product candidate is approved for commercial sale by applicable regulatory authorities and manufactured in facilities regulated by such authorities. Our products and product candidates are designed to affect important bodily functions and processes. Any side effects, manufacturing defects, misuse or abuse associated with our products or our product candidates could result in injury to a patient or even death. For example, ATI-0918 is cytotoxic, or toxic to living cells, and, if incorrectly or defectively manufactured or labeled, or incorrectly dosed or otherwise used in a manner not contemplated by its label, could result in patient harm and even death. In addition, a liability claim may be brought against us even if our products or product candidates merely appear to have caused an injury.

Product liability claims may be brought against us by consumers, health care providers, pharmaceutical companies or others selling or otherwise coming into contact with our products or product candidates, if approved, among others. If we cannot successfully defend ourselves against product liability claims, we will incur substantial liabilities. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- the inability to commercialize our product candidates;
- decreased demand for our product candidates, if approved;
- impairment of our business reputation;
- product recall or withdrawal from the market;
- withdrawal of clinical trial participants;
- costs of related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants; or
- loss of revenues.

We have obtained product liability insurance coverage for commercial product sales and clinical trials with a $10 million per occurrence and annual aggregate coverage limit. Our insurance coverage may not be sufficient to cover all of our product liability related expenses or losses and may not cover us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost, in sufficient amounts or upon adequate terms to protect us against losses due to product liability. If we determine that it is prudent to increase our

product liability coverage, we may be unable to obtain this increased product liability insurance on commercially reasonable terms or at all. Large judgments have been awarded in class action or individual lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could decrease our cash and have a material adverse effect on our business, results of operations, financial condition and prospects.

Our employees, principal investigators, consultants and collaboration partners may engage in misconduct or other improper activities, including noncompliance with laws and regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with manufacturing standards we have established, to comply with federal and state healthcare fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations restrict or prohibit a wide range of activity relating to pricing, discounting, marketing and promotion, sales commissions, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation, or, given we are a listed company the United States, breach of insider trading laws. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Our operations are subject to anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act, and other anticorruption laws that apply in countries where we do business.

Anti-corruption laws generally prohibit us and our employees and intermediaries from bribing, being bribed or making other prohibited payments to government officials or other persons to obtain or retain business or gain some other business advantage. We participate in collaborations and relationships with third parties whose actions could potentially subject us to liability under these anti-corruption laws. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

There is no assurance that we will be completely effective in ensuring our compliance with all applicable anti-corruption laws or other laws including trade related laws. If we are not in compliance with these laws, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of these laws by respective government bodies could also have an adverse impact on our reputation, our business, results of operations and financial condition.

A failure to adequately protect private health information could result in severe harm to our reputation and subject us to significant liabilities, each of which could have a material adverse effect on our business.

Throughout the clinical trial process, we may obtain the private health information of our trial subjects. There are a number of state, federal and international laws protecting the privacy and security of health information and personal data. As part of the American Recovery and Reinvestment Act 2009, or ARRA, Congress amended the privacy and security provisions of the Healthcare Information Portability and Accountability Act, or HIPAA. HIPAA imposes limitations on the use and disclosure of an individual's healthcare information by healthcare providers conducting certain electronic transactions, healthcare clearinghouses, and health insurance plans, collectively referred to as covered entities. The HIPAA amendments also impose compliance obligations and corresponding penalties for non-compliance on certain individuals and entities that provide services to or perform certain functions on behalf of healthcare providers and other covered entities involving the use or disclosure of individually identifiable health information, collectively referred to as business associates. ARRA also made significant increases in the penalties for improper use or disclosure of an individual's health information under HIPAA and extended enforcement authority to state attorneys general. The amendments also create notification requirements to federal regulators, and in some cases local and national media, for individuals whose health information has been inappropriately accessed or disclosed. Notification is not required under HIPAA if the health information that is improperly used or disclosed is deemed secured in accordance with certain encryption or other standards developed by the U.S. Department of Health and Human Services, or HHS. Most states have laws requiring notification of affected individuals and state regulators in the event of a breach of personal information, which is a broader class of information than the health information protected by HIPAA. Many state laws impose significant data security requirements, such as encryption or mandatory contractual

terms to ensure ongoing protection of personal information. Activities outside of the U.S. implicate local and national data protection standards, impose additional compliance requirements and generate additional risks of enforcement for non-compliance. The EU's Data Protection Directive, Canada's Personal Information Protection and Electronic Documents Act and other data protection, privacy and similar national, state/provincial and local laws may also restrict the access, use and disclosure of patient health information abroad. We may be required to expend significant capital and other resources to ensure ongoing compliance with applicable privacy and data security laws, to protect against security breaches and hackers or to alleviate problems caused by such breaches.

We and our collaborators must comply with environmental laws and regulations, including those pertaining to use of hazardous and biological materials in our business, and failure to comply with these laws and regulations could expose us to significant liabilities.

We and our collaborators are subject to various federal, state and local environmental laws, rules and regulations, including those relating to discharge of materials into the air, water and ground, those relating to manufacturing, storage, use, transportation and disposal of hazardous and biological materials, and those relating to the health and safety of employees with respect to laboratory activities required for the development of our products and activities. In particular, our Cytori Nanomedicine products and processes involve the controlled storage, use and disposal of certain cytotoxic, or toxic to living cells, materials. Even if we and these suppliers and collaborators comply with the standards prescribed by law and regulation, the risk of accidental contamination or injury from hazardous materials, or other violations of applicable environmental laws, rules or regulations cannot be completely eliminated. In the event of any violation of such laws, rules or regulations, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of any insurance we may obtain and could exceed our financial resources. We may not be able to maintain insurance on acceptable terms, or at all. We may incur significant costs in complying with environmental laws, rules and regulations.

Increased information technology security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, and products.

Increased global information technology security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data and communications. While we attempt to mitigate these risks by employing a number of measures, including employee refreshers, monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks and products remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to the compromising of confidential information and communications, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our securities.

Risks Related to our Financial Position and Capital Requirements

The statements in this section, as well as statements described elsewhere in this annual report, or in other SEC filings, describe risks that could materially and adversely affect our business, financial condition and results of operations, which could also cause the trading price of our equity securities to decline. These risks are not the only risks that we face. Our business, financial condition and results of operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations

We have incurred losses since inception, we expect to incur significant net losses in the foreseeable future and we may never become profitable.

We have almost always had negative cash flows from operations and have incurred net operating losses each year since we started business. For the years ended December 31, 2016 and 2015, we incurred net loss of $22.0 million and $19.4 million, respectively, our net cash used in operating activities was $19.5 million and $20.5 million, respectively, and, at December 31, 2016, our accumulated deficit was $379.1 million. We expect to continue to incur net losses and negative cash flow from operating activities for at least the next year. As our focus on development of Cytori Cell Therapy, the Celution system platform and development of therapeutic applications for Cytori Cell Therapy has increased, losses have resulted primarily from expenses associated with research and development and clinical trial-related activities, as well as general and administrative expenses. While we have implemented and continue to implement cost reduction measures where possible, we nonetheless expect to continue operating in a loss position on a consolidated basis and expect that recurring operating expenses will be at even higher levels for at least the next year to perform clinical trial and other development activities for our Cytori Cell Therapy and Cytori Nanomedicines products and product candidates, including additional pre-clinical research, clinical trial-related activities, pre-commercialization activities (including regulatory and reimbursement analysis and market research), and marketing.

Our ability to generate sufficient revenues from any of our products, product candidates or technologies to achieve profitability will depend on a number of factors including, but not limited to:

- our ability to manufacture, test and validate our product candidates in compliance with applicable laws and as required for submission to applicable regulatory bodies, including manufacturing, testing and validation of our ATI-0918 drug candidate;
- our or our partners' ability to successfully complete clinical trials of our product candidates;
- our ability to obtain necessary regulatory approvals for our product candidates;
- our or our partners' ability to negotiate and receive favorable reimbursement for our product candidates, including for our product candidates that have been granted or may be granted orphan drug status or otherwise command currently anticipated pricing levels;
- our ability to negotiate favorable arrangements with third parties to help finance the development of, and market and distribute, our products and product candidates; and
- the degree to which our approved products are accepted in the marketplace.

Because of the numerous risks and uncertainties associated with our commercialization and product development efforts, we are unable to predict the extent of our future losses or when or if we will become profitable and it is possible we will never become profitable. If we do not generate significant sales from any of our product candidates that may receive regulatory approval, there would likely be a material adverse effect on our business, results of operations, financial condition and prospects which could result in our inability to continue operations.

We will need substantial additional funding to develop our products and for our future operations. If we are unable to obtain the funds necessary to do so, we may be required to delay, scale back or eliminate our product development activities or may be unable to continue our business.

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, including our continuing substantial research and development expenses. 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 near future. Although it is difficult to predict future liquidity requirements, we believe that our $12.6 million in cash and cash equivalents on hand as of December 31, 2016 will be sufficient to fund our currently contemplated operations at least through June 2017. Our future capital requirements will depend on many factors, including:

- our ability to raise capital to fund our operations on terms acceptable to us, or at all;
- our perceived capital needs with respect to development of our Cytori Cell Therapy and Cytori Nanomedicines development programs, and any delays in, adverse events of, and excessive costs of such programs beyond what we currently anticipate;
- our ability to establish and maintain collaborative and other arrangements with third parties to assist in bringing our products to market and the cost of such arrangements at the time;

- costs associated with the integration and operation of our newly acquired Cytori Nanomedicine business, including hiring of as many as 20 or more new employees to operate the Cytori Nanomedicine business, and costs of validation, requalification and recommencement of the Cytori Nanomedicine manufacturing operations at our San Antonio, Texas facility;

- the cost of manufacturing our product candidates, including compliance with good manufacturing practices, or GMP, applicable to our product candidates;

- expenses related to the establishment of sales and marketing capabilities for product candidates awaiting approval or products that have been approved;

- the level of our sales and marketing expenses;

- competing technological and market developments; and

- our ability to introduce and sell new products.

We have secured capital historically from grant revenues, collaboration proceeds, and debt and equity offerings. We will need to secure substantial additional capital to fund our future operations. We cannot be certain that additional capital will be available on terms acceptable to us, or at all. Our ability to raise capital was adversely affected when the FDA put a hold on our ATHENA cardiac trials in mid-2014, which had an adverse impact to stock price performance and our corresponding ability to restructure our debt. More recently, a continued downward trend in our stock price resulting from a number of factors, including (i) general economic and industry conditions, (ii) challenges faced by the regenerative medicine industry as a whole, (iii) the market's unfavorable view of certain of our recent equity financings conducted in 2014 and 2015 (which financings were priced at a discount to market and included 100% warrant coverage), (iv) market concerns regarding our continued need for capital (and the effects of any future capital raising transactions we may consummate) (v) market perceptions of our ATHENA and ACT-OA clinical trial data; and (vi) our recent NASDAQ Stock Market LLC, or Nasdaq, listing deficiency issues and resultant 1-for-15 reverse stock split, have made it more difficult to procure additional capital on terms reasonably acceptable to us. Though our recent acquisition of the Cytori Nanomedicine business from Azaya Therapeutics, including our ATI-0918 and ATI-1123 drug candidates, appear to have been viewed favorably by our investors and the marketplace, we cannot assure you that this acquisition will not ultimately be viewed negatively and thus further hamper our efforts to attract additional capital. If we are unsuccessful in our efforts to raise any such additional capital, we may be required to take actions that could materially and adversely harm our business, including a possible significant reduction in our research, development and administrative operations (including reduction of our employee base), surrendering of our rights to some technologies or product opportunities, delaying of our clinical trials or regulatory and reimbursement efforts, or curtailing of or even ceasing operations.

Our financing plans include pursuing additional cash through use of our at-the-market, or ATM, offering program, or ATM, strategic corporate partnerships, licensing and sales of equity. In addition, in December 2016, we entered into a purchase agreement, or the Lincoln Park Purchase Agreement, with Lincoln Park Capital Fund, LLC, or Lincoln Park, pursuant to which we may direct Lincoln Park to purchase up to $20.0 million in shares of our common stock from time to time over a 30-month period, commencing upon the satisfaction of certain conditions, including that a registration statement be declared effective by the SEC. 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 or from other sources or on terms acceptable to us. In addition, under current SEC regulations, at any time during which the aggregate market value of our common stock held by non-affiliates, or public float, is less than $75.0 million, the amount we can raise through primary public offerings of securities in any twelve-month period using shelf registration statements, including sales under our ATM offering program, is limited to an aggregate of one-third of our public float. As of December 31, 2016, our public float was 21.5 million shares, the value of which was $32.5 million based upon the closing price of our common stock of $1.51 on such date. The value of one-third of our public float calculated on the same basis was approximately $11.0 million.

Further, our Loan and Security Agreement with Oxford Finance, LLC, or Oxford, as further described below, requires us to maintain a minimum of $5.0 million in unrestricted cash and cash equivalents on hand to avoid an event of default under the Loan and Security Agreement. Based on our cash and cash equivalents on hand of approximately $12.6 million at December 31, 2016, and our obligation to make payments of principal of $590,000 plus accrued interest in monthly installments, we estimate that we must raise additional capital and/or obtain a waiver or restructure the Loan and Security Agreement on or before May 2017 to avoid defaulting under our $5 million minimum cash/cash equivalents covenant. If we are unable to avoid an event of default under the Loan and Security Agreement, our business could be severely harmed. See the Risk Factor below regarding the Loan and Security Agreement.

In addition to the funding sources previously mentioned, we continue to seek additional capital through product revenues and state and federal development programs, including additional funding opportunities though our current BARDA contract.

Our level of indebtedness, and covenant restrictions under such indebtedness, could adversely affect our operations and liquidity.

Under our Loan and Security Agreement with Oxford, as collateral agent and lender, Oxford made a term loan to us in an aggregate principal amount of $17,700,000, or the Term Loan, subject to the terms and conditions set forth in the Loan and Security Agreement.

The Term Loan accrues interest at a floating rate equal to the three-month LIBOR rate (with a floor of 1.00%) plus 7.95% per annum. Prior to January 2017, we made interest-only payments on the Term Loan. However, as of January 2017, we are required to make payments of principal (in the amount of $590,000 per month) and accrued interest in equal monthly installments of approximately $725,000 to amortize the Term Loan through June 1, 2019, the maturity date. All unpaid principal and accrued and unpaid interest with respect to the Term Loan is due and payable in full on June 1, 2019.

As security for our obligations under the Loan and Security Agreement, we granted a security interest in substantially all of our existing and after-acquired assets, subject to certain exceptions set forth in the Loan and Security Agreement and excluding our intellectual property assets, which are subject to a negative pledge by us. If we are unable to discharge these obligations, Oxford could foreclose on these assets, which would, at a minimum, have a severe material effect on our ability to operate our business.

Our indebtedness to Oxford could adversely affect our operations and liquidity, by, among other things:

- causing us to use a larger portion of our cash flow to fund interest and principal payments, reducing the availability of cash to fund working capital and capital expenditures and other business activities;
- making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- limiting our ability to borrow additional monies in the future to fund working capital and capital expenditures and for other general corporate purposes.

The Loan and Security Agreement requires us to maintain at least $5 million in unrestricted cash and/or cash equivalents and includes certain reporting and other covenants, that, among other things, restrict our ability to (i) dispose of assets, (ii) change the business we conduct, (iii) make acquisitions, (iv) engage in mergers or consolidations, (v) incur additional indebtedness, (vi) create liens on assets, (vii) maintain any collateral account, (viii) pay dividends, (ix) make investments, loans or advances, (x) engage in certain transactions with affiliates, and (xi) prepay certain other indebtedness or amend other financing arrangements. If we fail to comply with any of these covenants or restrictions, such failure may result in an event of default, which if not cured or waived, could result in Oxford causing the outstanding loan amount ($17.7 million as of December 31, 2016) to become immediately due and payable. If the maturity of our indebtedness is accelerated, we may not have, or be able to timely procure, sufficient cash resources to satisfy our debt obligations, and such acceleration would adversely affect our business and financial condition.

In addition, our indebtedness under the Loan and Security Agreement is secured by a security interest in substantially all of our existing and after-acquired assets, excluding our intellectual property assets (which are subject to a negative pledge), and therefore, if we are unable to repay such indebtedness, Oxford could foreclose on these assets, which would, at a minimum, have a severe material effect on our ability to operate our business.

The report of our independent registered public accounting firm contains an emphasis paragraph regarding the substantial doubt about our ability to continue as a "going concern."

The audit report of our independent registered public accounting firm covering the December 31, 2016 consolidated financial statements contains an explanatory paragraph that states that our recurring losses from operations, liquidity position, and debt service requirements raises substantial doubt about our ability to continue as a going concern. This going concern opinion could materially limit our ability to raise additional funds through the issuance of new debt or equity securities or otherwise. Future reports on our financial statements may also include an explanatory paragraph with respect to our ability to continue as a going concern. To date, our operating losses have been funded primarily from outside sources of invested capital and gross profits. 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. However, no assurance can be given that additional capital will be available when required or on terms acceptable to us. If we are unsuccessful in our efforts to raise any such additional capital, we would be required to take actions that could materially and adversely affect our business, including significant reductions in our research, development and administrative operations (including reduction of our employee base), possible surrender or other disposition of our rights to some technologies or product opportunities, delaying of our clinical trials or curtailing or ceasing operations. We also cannot give assurance that we will achieve sufficient revenues in the future

to achieve profitability and cash flow positive operations to allow us to continue as a going concern. The perception that we may not be able to continue as a going concern may cause third parties to choose not to deal with us due to concerns about our ability to meet our contractual obligations, which could have a material adverse effect on our business.

We may not be able to access the full amounts available under the Lincoln Park Purchase Agreement, which could prevent us from accessing the capital we need to continue our operations, which could have an adverse effect on our business.

In December 2016, we entered into the Lincoln Park Purchase Agreement, pursuant to which we may direct Lincoln Park to purchase up to $20.0 million of shares of our common stock from time to time over a 30-month period, commencing upon the satisfaction of certain conditions, including that a registration statement be declared effective by the SEC. Thereafter, on any trading day selected by us, we may sell shares of common stock to Lincoln Park in amounts up to 100,000 shares per regular sale (such purchases, Regular Purchases) up to the aggregate commitment of $20.0 million. If the market price of our common stock is not below $2.00 per share on the purchase date, then the Regular Purchase amount may be increased to 150,000 shares. If the market price is not below $3.00 per share on the purchase date, then the Regular Purchase amount may be increased to 300,000 shares. Although there are no upper limits on the per share price Lincoln Park may pay to purchase our common stock, we may not sell more than $1.0 million in shares of common stock to Lincoln Park per any individual Regular Purchase. The purchase price of Regular Purchases will be based on the prevailing market prices of shares of our common stock, which shall be equal to the lesser of the lowest sale price of the common shares during the purchase date and the average of the three lowest closing sale prices of the common shares during the ten business days prior to the purchase date.

In addition to Regular Purchases, we may in our sole discretion direct Lincoln Park on each purchase date to make accelerated purchases on the following business day up to the lesser of (i) three times the number of shares purchased pursuant to such Regular Purchase or (ii) 30% of the trading volume on the accelerated purchase date at a purchase price equal to the lesser of (i) the closing sale price on the accelerated purchase date and (ii) 97% of the accelerated purchase date's volume weighted average price (such purchases, Accelerated Purchases). We cannot submit an Accelerated Purchase notice if the market price of our common stock is below $1.00.

In addition to Regular Purchases and Accelerated Purchases described above, we may also direct Lincoln Park, on any business day that the closing price of our common stock is not below $1.00, to purchase additional amounts of our common stock, which we refer to as an Additional Purchase whereby, pursuant to each Additional Purchase we may sell up to $1.0 million of common stock in each Additional Purchase notice, provided, however, that (i) we may not deliver to Lincoln Park more than two separate Additional Purchase notices and (ii) at least 30 business days must pass between our delivery of the first Additional Purchase notice to Lincoln Park and our delivery of the second Additional Purchase notice. The purchase price for each such Additional Purchase shall be equal to the lower of (i) 97% of the purchase price under a Regular Purchase on the date we give notice for the related Additional Purchase, or (ii) $2.00 per share.

Depending on the prevailing market price of our common stock, we may not be able to sell shares to Lincoln Park for the maximum $20.0 million over the term of the Lincoln Park Purchase Agreement. For example, under the rules of the NASDAQ Capital Market, in no event may we issue more than 19.99% of our shares outstanding (which is approximately 4,315,814 shares based on 21,579,071 shares outstanding prior to the signing of the Lincoln Park Purchase Agreement) under the Lincoln Park Purchase Agreement unless we obtain stockholder approval or an exception pursuant to the rules of the NASDAQ Capital Market is obtained to issue more than 19.99%. This limitation will not apply if, at any time the exchange cap is reached and at all times thereafter, the average price paid for all shares issued and sold under the Lincoln Park Purchase Agreement is equal to or greater than $1.6674, which was the consolidated closing bid price of our common stock on December 22, 2016 including an increment for the commitment shares we issued and may issue to Lincoln Park. We are not required or permitted to issue any shares of common stock under the Purchase Agreement if such issuance would breach our obligations under the rules or regulations of the NASDAQ Capital Market. In addition, Lincoln Park will not be required to purchase any shares of our common stock if such sale would result in Lincoln Park's beneficial ownership exceeding 9.99% of the then outstanding shares of our common stock. Our inability to access a portion or the full amount available under the Lincoln Park Purchase Agreement, in the absence of any other financing sources, could have a material adverse effect on our business.

The sale or issuance of our common stock to Lincoln Park may cause dilution and the sale of the shares of common stock acquired by Lincoln Park, or the perception that such sales may occur, could cause the price of our common stock to fall.

In December 2016, we entered into the Lincoln Park Purchase Agreement, pursuant to which Lincoln Park has committed to purchase up to $20.0 million of our common stock. Concurrently with the execution of the Lincoln Park Purchase Agreement, we issued 127,419 shares of our common stock to Lincoln Park as an initial fee for its commitment to purchase shares of our common stock under the Lincoln Park Purchase Agreement. Further, for each additional purchase by Lincoln Park, we will issue additional commitment shares in commensurate amounts up to a total of 382,258 shares based upon the relative proportion of the aggregate

amount of $20.0 million purchased by Lincoln Park. The purchase shares that may be sold pursuant to the Lincoln Park Purchase Agreement may be sold by us to Lincoln Park at our discretion from time to time over a 30-month period. The purchase price for the shares that we may sell to Lincoln Park under the Lincoln Park Purchase Agreement will fluctuate based on the price of our common stock. Depending on market liquidity at the time, sales of such shares may cause the trading price of our common stock to fall.

We generally have the right to control the timing and amount of any sales of our shares to Lincoln Park. Additional sales of our common stock, if any, to Lincoln Park will depend upon market conditions and other factors to be determined by us. Lincoln Park may ultimately purchase all, some or none of the shares of our common stock that may be sold pursuant to the Lincoln Park Purchase Agreement and, after it has acquired shares, Lincoln Park may sell all, some or none of those shares. Therefore, sales to Lincoln Park by us could result in substantial dilution to the interests of other holders of our common stock. Additionally, the sale of a substantial number of shares of our common stock to Lincoln Park, or the anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

Material weaknesses in our internal control over financial reporting have occurred in the past and could occur in the future.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting.

We identified a material weakness in our internal control over financial reporting for the year ended December 31, 2013, which may have adversely affected investor confidence in us and, as a result, the value of our common stock. While no such material weakness was identified for the years ended December 31, 2016 or December 31, 2015, we cannot assure you that additional material weaknesses will not be identified in the future.

If we are unable to effectively remediate any material weaknesses in a timely manner, or if we identify one or more additional material weaknesses in the future, investors could lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock.

We may not be able to correctly estimate or control our future operating expenses, which could lead to cash shortfalls.

Our budgeted expense levels are based in part on our expectations concerning future revenues from sales as well our assessment of the future investments needed to expand our commercial organization and support research and development activities. We may be unable to reduce our expenditures in a timely manner to compensate for any unexpected events or a shortfall in revenue. Accordingly, a shortfall in demand for our products or other unexpected events could have an immediate and material impact on our business and financial condition.

Our operating results have been and will likely continue to be volatile.

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, pharmaceutical 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.

Risks Relating to Our Intellectual Property

Our success depends in part on our ability to protect our intellectual property. It is difficult and costly to protect our proprietary rights and technology, and we may not be able to ensure their protection.

Our success depends in part on our ability to obtain and maintain patent, trademark and trade secret protection of our platform technology and current product candidates, including but not limited to our Cytori Cell Therapy and Cytori Nanomedicine products and product candidates, including Habeo Cell Therapy, ATI-0918 and ATI-1123, as well as successfully defending our intellectual property against third-party challenges. Our ability to stop unauthorized third parties from making using selling, offering to sell or importing our platform technology and/or our product candidates is dependent upon the extent to which we have rights under valid and enforceable patents or trade secrets that cover these activities.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we, or Azaya Therapeutics, as the case may be, might not have been the first to file patent applications for the covered inventions;
- it is possible that our pending patent applications will not result in issued patents;
- it is possible that there are dominating patents to our products of which we are not aware;
- it is possible that there are prior public disclosures that could invalidate our patents, of which we are not aware;
- it is possible that others may circumvent our patents;
- it is possible that there are unpublished applications or patent applications maintained in secrecy that may later issue with claims covering our products or technology similar to ours;
- the claims of our patents or patent applications, if and when issued, may not cover our system or products, or our system or product candidates;
- our owned or in-licensed issued patents may not provide us with any competitive advantages, or may be narrowed in scope, be held invalid or unenforceable as a result of legal administrative challenges by third parties;
- others may be able to make or use compounds that are the same or similar to the ATI-1123 product but that are not covered by the claims of our patents;
- we may not be able to detect infringement against our patents, which may be especially difficult for manufacturing processes or formulation patents, such as the patents/applications related to ATI-1123;
- the API in ATI-0918 is commercially available in generic drug products;
- we may not develop additional proprietary technologies for which we can obtain patent protection; or
- the patents of others may have an adverse effect on our business.

The patent positions of pharmaceutical, biopharmaceutical and medical device companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in patents in these fields has emerged to date in the United States. There have been recent changes regarding how patent laws are interpreted, and both the U.S. Patent and Trademark Office, or PTO, and Congress have recently made significant changes to the patent system. There have been three U.S. Supreme Court decisions that now show a trend of the Supreme Court which is distinctly negative on patents. The trend of these decisions along with resulting changes in patentability requirements being implemented by the U.S. Patent and Trademark Office could make it increasingly difficult for us to obtain and maintain patents on our products. We cannot accurately predict future changes in the interpretation of patent laws or changes to patent laws which might be enacted into law. Those changes may materially affect our patents, our ability to obtain patents and/or the patents and applications of our collaborators and licensors. The patent situation in these fields outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in the patents we own or to which we have a license or third-party patents.

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. 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 United States. 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, South Korea, Brazil, South Africa, among other jurisdictions.

Our intellectual property related to Cytori Nanomedicine was acquired from Azaya. As ATI-0918 is a generic drug, we did not acquire any patents related to ATI-0918. We acquired two issued patents and one patent application related to ATI-1123 from Azaya, and intend to file additional patent applications around our ATI-1123 drug candidate. There is no guaranty that any patent applications we file on ATI-1123 will issue, or if issued, that we will be to use and enforce these patents as an effective component of our intellectual property strategy.

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 trade secrets.

We may rely on trade secrets to protect our technology, especially with respect to the Cytori Nanomedicines products, as well as in areas where we do not believe patent protection is appropriate or obtainable. Trade secrets are difficult to protect, and we have limited control over the protection of trade secrets used by our collaborators and suppliers. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, state laws in the Unites States vary, and their courts as well as courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. If our confidential or proprietary information is divulged to or acquired by third parties, including our competitors, our competitive position in the marketplace will be harmed and our ability to successfully penetrate our target markets could be severely compromised.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is common in the device, biotechnology and pharmaceutical industries, we employ individuals who were previously employed at other device, biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management, which would adversely affect our financial condition.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights, and we may be unable to protect our rights to our products and technology.

Litigation 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, which would result in substantial costs to us and diversion of effort on our part. 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 USPTO 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, prevented from commercializing potential products in the relevant jurisdiction and/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.

Competitors or third parties may infringe on or upon 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 United States where patent rights may be more difficult to enforce. Further, 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.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.

Our commercial success will also depend, in part, on our ability to avoid infringing on patents issued by others. There may be issued patents of third parties of which we are currently unaware, that are infringed or are alleged to be infringed by our product candidate or proprietary technologies. Because some patent applications in the United States may be maintained in secrecy until the patents are issued, patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our owned and in-licensed issued patents or our pending applications, or that we or, if applicable, a licensor were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering our product candidates or technology similar to ours. Any such patent application may have priority over our patent applications or patents, which could further require us to obtain rights to issued patents covering such technologies.

We may be exposed to, or threatened with, future litigation by third parties having patent or other intellectual property rights alleging that our product candidates and/or proprietary technologies infringe their intellectual property rights. These lawsuits are costly and could adversely affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we or our commercialization partners are infringing the third party's patents and would order us or our partners to stop the activities covered by the patents. In addition, there is a risk that a court will order us or our partners to pay the other party damages for having violated the other party's patents.

If a third-party's patent was found to cover our products, proprietary technologies or their uses, we could be enjoined by a court and required to pay damages and could be unable to commercialize our product candidates or use our proprietary technologies unless we or they obtained a license to the patent. A license may not be available to us on acceptable terms, if at all. In addition, during litigation, the patent holder could obtain a preliminary injunction or other equitable relief which could prohibit us from making, using or selling our products, technologies or methods pending a trial on the merits, which could be years away.

Risks Relating to the Securities Markets and an Investment in Our Stock

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

The market price of our common stock has been, and may continue to 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;
- the outcome of clinical trials involving the use of our products, including our sponsored trials;
- 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 currently serve or which we intend to target with our product candidates;
- 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;
- our continuing ability to list our securities on an established market or exchange;
- 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 markets 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, which may materially harm the market price of our common stock and result in substantial losses for stockholders.

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

As of December 31, 2016, we had 21,707,890 shares of our common stock outstanding. Sales of a number of shares of common stock in the public market, including pursuant to the Lincoln Park Purchase Agreement, or our ATM program, or the expectation of such sales, could cause the market price of our common stock to decline. We may also sell additional common stock or securities convertible into or exercisable or exchangeable for common stock in subsequent public or private offerings or other transactions, which may adversely affect the market price of our common stock.

We have granted demand registration rights for the resale of certain shares of our common stock to each of 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 approximately 300,000 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 of 1933, as amended, or 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.

We have also granted registration rights to Azaya, with respect to the 1,173,241 shares of our common stock that we issued in the name of Azaya at the closing of our acquisition of the Cytori Nanomedicine assets. Under the terms of our asset purchase agreement with Azaya, we are required to use best efforts to have a registration statement covering these shares filed with the SEC, and are thereafter required to use commercially reasonable efforts to have the registration declared effective by the SEC. Though Azaya is subject to certain volume limitations regarding its sales of our common stock, once Azaya is able to sell these shares, any such sales could put pressure on our stock and depress our share price.

Our stockholders may experience substantial dilution in the value of their investment if we issue additional shares of our capital stock.

Our charter allows us to issue up to 75,000,000 shares of our common stock and to issue and designate the rights of, without stockholder approval, up to 5,000,000 shares of preferred stock. To raise additional capital, we may in the future sell additional shares of our common stock or other securities convertible into or exchangeable for our common stock at prices that are lower than the prices paid by existing stockholders, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders, which could result in substantial dilution to the interests of existing stockholders.

We could be delisted from Nasdaq, which could seriously harm the liquidity of our stock and our ability to raise capital.

Following notice from Nasdaq staff in June 2015 and December 2015, we had a hearing in January 2016 relating to our noncompliance with the $1.00 minimum bid price per share requirement. The NASDAQ Hearing Panel granted us until May 31, 2016 to come into compliance with the minimum bid price requirement, including requirements relating to obtaining stockholders approval

of a reverse stock split that would bring our stock price above $1.00 per share for a minimum of 10 consecutive trading days. We transferred the listing of our common stock from the NASDAQ Global Market to the NASDAQ Capital Market in February 2016. In May 2016, we consummated a 1-for-15 reverse stock split pursuant to which the minimum bid price per share of our common stock rose above $1.00. Pursuant to a letter dated May 26, 2016, the Nasdaq staff delivered notice to us that we had regained compliance with Nasdaq's minimum bid price rule. However, we may be unable to maintain compliance with our current minimum bid price obligation or the other listing requirements, which could cause us to lose eligibility for continued listing on the NASDAQ Capital Market or any comparable trading market. If we cease to be eligible to trade on the NASDAQ Capital Market:

- We may have to pursue trading on a less recognized or accepted market, such as the OTC Bulletin Board or the "pink sheets."

- The trading price of our common stock could suffer, including an increased spread between the "bid" and "asked" prices quoted by market makers.

- Shares of our common stock could be less liquid and marketable, thereby reducing the ability of stockholders to purchase or sell our shares as quickly and as inexpensively as they have done historically. If our stock is traded as a "penny stock," transactions in our stock would be more difficult and cumbersome.

- We may be unable to access capital on favorable terms or at all, as companies trading on alternative markets may be viewed as less attractive investments with higher associated risks, such that existing or prospective institutional investors may be less interested in, or prohibited from, investing in our common stock. This may also cause the market price of our common stock to decline.

We may be or become the target of securities litigation, which is costly and time-consuming to defend.

In the past, following periods of market volatility in the price of a company's securities, the reporting of unfavorable news or continued decline in a company's stock price, security holders have often instituted class action litigation. The market value of our securities has steadily declined over the past several years for a variety of reasons discussed elsewhere in this "Risk Factors" section, which heightens our litigation risk. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer. Any adverse determination in any such litigation or any amounts paid to settle any such actual or threatened litigation could require that we make significant payments.

We may issue debt and equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by up to all of our assets, or by issuing additional debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, guarantees, preferred stock, hybrid securities, or securities convertible into or exchangeable for equity securities. In the event of our liquidation, our lenders and holders of our debt and preferred securities would receive distributions of our available assets before distributions to the holders of our common stock. Because our decision to incur debt and issue securities in future offerings may be influenced by market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings or debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

If you hold warrants issued pursuant to our rights offering, you may be limited in your ability to engage in certain hedging transactions that could provide you with financial benefits.

In June 2016, we closed our rights offering to subscribe for units at a subscription price of $2.55 per unit, or the Rights Offering. Pursuant to the Rights Offering, we sold to our stockholders of record (as of May 20, 2016) an aggregate of 6,704,852 units consisting of 6,704,852 shares of common stock and 3,352,306 warrants, or Warrants, with each Warrant exercisable for one share of common stock at an exercise price of $3.06 per share.

Holders of Warrants were required to represent to us that they will not enter into any short sale or similar transaction with respect to our common stock for so long as they continue to hold Warrants. These requirements prevent our Warrant holders from pursuing certain investment strategies that could provide them greater financial benefits than they might have realized had they not been required to make this representation.

Absence of a public trading market for the Warrants may limit the ability to resell the Warrants.

The Warrants are listed for trading on Nasdaq under the symbol "CYTXW," but there can be no assurance that a robust market will exist for the Warrants. Even if a market for the Warrants does develop, the price of the Warrants may fluctuate and liquidity may be limited. If the Warrants cease to be eligible for continued listing on Nasdaq, or if the market for the Warrants does not fully develop (or subsequently weakens), then purchasers of the Warrants may be unable to resell the Warrants or sell them only at an unfavorable price for an extended period of time, if at all. Future trading prices of the Warrants will depend on many factors, including:

- our operating performance and financial condition;
- our ability to continue the effectiveness of the registration statement covering the Warrants and the common stock issuable upon exercise of the Warrants;
- the interest of securities dealers in making and maintaining a market; and
- the market for similar securities.

The market price of our common stock may never exceed the exercise price of the Warrants issued in connection with the Rights Offering.

The Warrants issued pursuant to the Rights Offering became exercisable upon issuance and will expire thirty (30) months from the date of issuance. The market price of our common stock may never exceed the exercise price of the Warrants prior to their date of expiration. Any Warrants not exercised by their date of expiration will expire worthless and we will be under no further obligation to the Warrant holder.

The Warrants contain features that may reduce Warrant holders' economic benefit from owning them.

The Warrants contain features that allow us to redeem the Warrants and that prohibit Warrant holders from engaging in certain investment strategies. We may redeem the Warrants for $0.01 per Warrant once the closing price of our common stock has equaled or exceeded $7.65 per share, subject to adjustment, for ten consecutive trading days, provided that we may not do so prior to the first anniversary of closing of the Rights Offering, and only upon not less than thirty (30) days' prior written notice of redemption. If we give notice of redemption, Warrant holders will be forced to sell or exercise their Warrants or accept the redemption price. The notice of redemption could come at a time when it is not advisable or possible for Warrant holders to exercise the Warrants. As a result, Warrant holders may be unable to benefit from owning the Warrants being redeemed. In addition, for so long as Warrant holders continue to hold Warrants, they will not be permitted to enter into any short sale or similar transaction with respect to our common stock. This could prevent Warrant holders from pursuing investment strategies that could provide them greater financial benefits from owning the Warrants.

Since the Warrants are executory contracts, they may have no value in a bankruptcy or reorganization proceeding.

In the event a bankruptcy or reorganization proceeding is commenced by or against us, a bankruptcy court may hold that any unexercised Warrants are executory contracts that are subject to rejection by us with the approval of the bankruptcy court. As a result, holders of the Warrants may, even if we have sufficient funds, not be entitled to receive any consideration for their Warrants or may receive an amount less than they would be entitled to if they had exercised their Warrants prior to the commencement of any such bankruptcy or reorganization proceeding.

Our charter documents contain anti-takeover provisions.

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;
- 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.

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 presently do not intend to pay cash dividends on our common stock.

We have never paid cash dividends in the past, and we currently anticipate that no cash dividends will be paid on the common stock in the foreseeable future. Furthermore, our Loan and Security Agreement with Oxford currently prohibits our issuance of cash dividends. This could make an investment in our common stock inappropriate for some investors, and may serve to narrow our potential sources of additional capital. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that all earnings, if any, will be retained to finance the future expansion of our business.

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 may 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 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease 77,585 square feet at 3020 and 3030 Callan Road, San Diego, California that we use for our corporate headquarters and manufacturing facilities. The related lease agreement, as amended, provides for a monthly rent that commenced at a rate of $1.80 per square foot, with an annual increase of $0.05 per square foot. The lease term is 88 months, commenced on July 1, 2010 and expiring on October 31, 2017.

Additionally, we entered into several lease agreements for international office locations. For these properties, we pay an aggregate of approximately $28,000 in rent per month. The lease for the property in Japan will expire in May 2017 and the lease for the property in the United Kingdom will expire in June 2019.

Item 3. Legal Proceedings

From time to time, we have been involved in routine litigation incidental to the conduct of our business. As of December 31, 2016, we were not a party to any material legal proceeding.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Prices

From August 2000 (our initial public offering in Germany) until September 2007, our common stock was quoted on the Frankfurt Stock Exchange under the symbol "XMPA" (formerly XMP). In September 2007, our stock closed trading on the Frankfurt Stock Exchange. In December 2005, our common stock commenced trading on the NASDAQ Capital Market under the symbol "CYTX." From December 2005 until February 2006, our common stock traded on the NASDAQ Capital Market, from February 2006 until February 2016, it traded on the NASDAQ Global Market, and since February 2016, it has traded on the NASDAQ Capital Market. Our common stock has, from time to time, traded on a limited, sporadic and volatile basis. The following tables show the high and low sales prices for our common stock for the periods indicated, as reported on the NASDAQ Global Market or the NASDAQ Capital Market, as applicable. These prices do not include retail markups, markdowns or commissions.

Common Stock

	High	Low
2015		
Quarter ended March 31, 2015	$ 20.55	$ 6.60
Quarter ended June 30, 2015	$ 20.25	$ 8.40
Quarter ended September 30, 2015	$ 8.25	$ 4.50
Quarter ended December 31, 2015	$ 6.30	$ 2.85
2016		
Quarter ended March 31, 2016	$ 3.30	$ 1.95
Quarter ended June 30, 2016	$ 5.25	$ 2.00
Quarter ended September 30, 2016	$ 2.25	$ 1.83
Quarter ended December 31, 2016	$ 2.00	$ 1.36

All of our outstanding shares have been deposited with the Depository Trust & Clearing Corporation (DTCC) since December 9, 2005.

As of January 31, 2016, we had approximately 21 record holders of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of individual stockholders represented by these record holders.

Dividends

We have never declared or paid any dividends on our common stock and do not anticipate paying any in the foreseeable future. Furthermore, our Loan and Security Agreement currently prohibits our issuance of cash dividends on common stock.

Equity Compensation Plan Information

The following table gives information as of December 31, 2016 about shares of our common stock that may be issued upon the exercise of outstanding options, warrants and rights and shares remaining available for issuance under all of our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders (1)	7,782	$ 84.23	—
Equity compensation plans not approved by security holders (2)	230,748	$ 56.75	—
Equity compensation plans not approved by security holders (3)	364,764	$ 4.64	525,965
Equity compensation plans not approved by security holders (4)	33,333	$ 2.18	33,333
Total	636,627	$ 24.37	559,298

(1) The 1997 Stock Option and Stock Purchase Plan expired in October 2007.

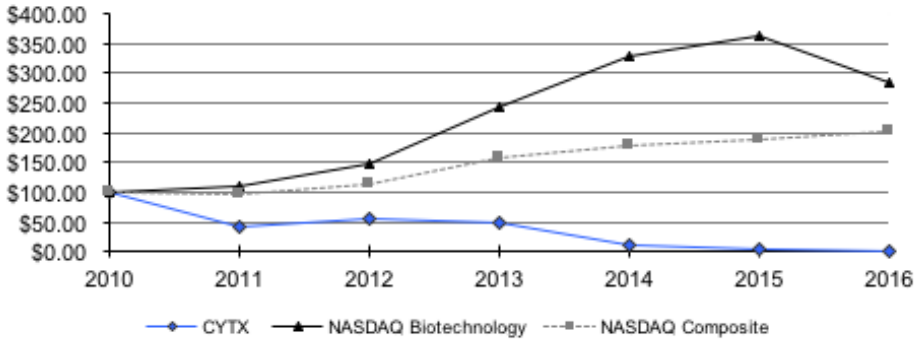
(2) The 2004 Stock Option and Stock Purchase Plan expired in August 2014.

(3) See Notes to the Consolidated Financial Statements included elsewhere herein for a description of our 2014 Equity Incentive Plan.

(4) See Notes to the Consolidated Financial Statements included elsewhere herein for a description of our 2015 New Employee Incentive Plan.

Comparative Stock Performance Graph

The following graph shows how an initial investment of $100 in our common stock would have compared to an equal investment in the NASDAQ Composite Index and the NASDAQ Biotechnology Index during the period from December 31, 2010 through December 31, 2016. The performance shown is not necessarily indicative of future price performance.



Item 6. Selected Financial Data

The selected data presented below under the captions "Statements of Operations Data," "Statements of Cash Flows Data" and "Balance Sheet Data" for, and as of the end of, each of the years in the two-year period ended December 31, 2016, are derived from, and should be read in conjunction with, our audited consolidated financial statements. The consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2016, which have been audited by BDO USA, LLP as of December 31, 2016 and KPMG LLP as of December 31, 2015, which are independent registered public accounting firms, and their reports thereon, are included elsewhere in this Annual Report.

The information contained in this table should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes thereto included elsewhere in this report:

Consolidated Statements of Operations and Comprehensive Loss (in thousands)

	For the Years Ended December 31,	
	2016	2015
Product revenues	$ 4,656	$ 4,838
Cost of product revenues	2,715	3,186
Gross profit	1,941	1,652
Development revenues:		
Government contracts and other	6,724	6,821
	6,724	6,821
Operating expenses:		
Research and development	16,197	19,000
Sales and marketing	3,611	2,662
General and administrative	8,563	9,765
Change in fair value of warrant liabilities	—	(7,668)
Total operating expenses	28,371	23,759
Operating loss	(19,706)	(15,286)
Other income (expense):		
Loss on debt extinguishment	—	(260)
Interest income	19	9
Interest expense	(2,592)	(3,379)
Other income, net	233	172
Total other expense	(2,340)	(3,458)
Net loss	$ (22,046)	$ (18,744)
Beneficial conversion feature for convertible preferred stock	—	(661)
Net loss allocable to common stockholders	$ (22,046)	$ (19,405)
Basic and diluted net loss per share allocable to common stockholders	$ (1.28)	$ (2.07)
Basic and diluted weighted average shares used in calculating net loss per share allocable to common stockholders	17,290,933	9,386,488
Comprehensive loss:		
Net loss	$ (22,046)	$ (18,744)
Other comprehensive income – foreign currency translation adjustments	262	296
Comprehensive loss	$ (21,784)	$ (18,448)

Consolidated Statements of Cash Flows (in thousands)

	For the Years Ended December 31,	
	2016	2015
Net cash used in operating activities	$ (19,533)	$ (20,468)
Net cash provided by (used in) used in investing activities	64	(613)
Net cash provided by financing activities	17,609	20,797
Effect of exchange rate changes on cash and cash equivalents	82	—
Net decrease in cash and cash equivalents	(1,778)	(284)
Cash and cash equivalents at beginning of year	14,338	14,622
Cash and cash equivalents at end of year	$ 12,560	$ 14,338

Consolidated Balance Sheet Details (in thousands)

	As of December 31,	
	2016	2015
Cash and cash equivalents	$ 12,560	$ 14,338
Working capital	6,246	12,806
Total assets	34,609	37,698
Deferred revenues	97	105
Long-term deferred rent and other	17	269
Long-term obligations, net of discount, less current portion	11,008	16,681
Total stockholders' equity	10,986	12,206

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We develop cellular therapeutics uniquely formulated and optimized for specific diseases and medical conditions and related products. Lead therapeutics in our pipeline are currently targeted for impaired hand function in scleroderma, osteoarthritis of the knee, stress urinary incontinence, and deep thermal burns including those complicated by radiation exposure.

Our cellular therapeutics are collectively known by the trademarked name, Cytori Cell Therapy, and consist of a mixed population of specialized cells including stem cells that are involved in response to injury, repair and healing. These cellular therapeutics are extracted from an adult patient's own adipose (fat) tissue using our fully automated Celution System, which includes a device, proprietary enzymes, and sterile consumable sets utilized at the point-of-therapeutic application or potentially at an off-site processing center. Cytori Cell Therapy can either be administered to the patient the same day or cryopreserved for future use.

Our primary near-term goal is for Cytori Cell Therapy to be the first cell therapy to market for the treatment of impaired hand function in scleroderma, through Cytori-sponsored and supported clinical development efforts. The STAR trial is a 48-week, randomized, double blind, placebo-controlled Phase III pivotal clinical trial of 80 patients in the U.S. The trial evaluates the safety and efficacy of a single administration of Cytori Cell Therapy (ECCS-50) in scleroderma patients affecting the hands and fingers. The first sites for the scleroderma study were initiated in July 2015 and completed enrollment of 88 patients in June 2016. We anticipate that we will receive 48-week follow-up data on this Phase III pivotal clinical trial in mid-2017.

With respect to the remainder of our clinical pipeline, we received Investigational Device Exemption, or IDE, approval from the U.S. Food and Drug Administration, or the FDA, in late 2014 for our Phase II ACT-OA osteoarthritis study and in early 2015 we initiated this study, and enrollment was completed in June 2015. The 48-week analysis was performed as planned and the top-line data are described in the "Osteoarthritis" section below. In July 2015, a Company-supported male stress urinary incontinence, or SUI, trial in Japan for male prostatectomy patients (after prostate surgery) received approval to begin enrollment from the Japanese Ministry of Health, Labor and Welfare, or MHLW. Patient enrollment is ongoing. Partial funding of this study is granted by AMED (Japan Agency for Medical Research and Development). The goal of this investigator-initiated trial is to gain regulatory approval in Japan of Cytori Cell Therapy for this indication. We are also developing a treatment for thermal burns combined with radiation injury under a contract from the Biomedical Advanced Research Development Authority, or BARDA, a division of the U.S. Department of Health and Human Services. We are also exploring other development opportunities in a variety of other conditions.

In addition to our targeted therapeutic development, we have continued to commercialize our Cytori Cell Therapy technology under select medical device approvals, clearances and registrations to research and commercial customers in Europe, Japan and other regions. Many of these customers are research customers evaluating new therapeutic applications of Cytori Cell Therapy. The sale of systems, consumables and ancillary products contributes a margin that partially offsets our operating expenses and will continue to play a role in fostering familiarity within the medical community with our technology. These sales have also facilitated the discovery of new applications for Cytori Cell Therapy by customers conducting investigator-initiated and funded research.

Lead Indication: Scleroderma

Scleroderma is a rare and chronic autoimmune disorder associated with fibrosis of the skin, and destructive changes in blood vessels and multiple organ systems as the result of a generalized overproduction of collagen. Scleroderma affects approximately 50,000 patients in the U.S. (women are affected four times more frequently than men) and is typically detected between the ages of 30 and 50. More than 90 percent of scleroderma patients have hand involvement that is typically progressive and can result in chronic pain, blood flow changes and severe dysfunction. The limited availability of treatments for scleroderma may provide some benefit but do little to modify disease progression or substantially improve symptoms. Treatment options are directed at protecting the hands from injury and detrimental environmental conditions as well as the use of vasodilators. When the disease is advanced, immunosuppressive and other medications may be used but are often accompanied by significant side effects.

In January 2015, the FDA granted IDE approval for a pivotal clinical trial, named the "STAR" trial, to evaluate Cytori Cell Therapy as a potential treatment for impaired hand function in scleroderma. The STAR trial is a 48-week, randomized, double blind, placebo-controlled pivotal clinical trial of 88 patients in the U.S. The trial evaluates the safety and efficacy of a single administration of Habeo Cell Therapy in patients with scleroderma affecting the hands and fingers. The STAR trial uses the Cochin Hand Function Scale, or CHFS, a validated measure of hand function, as the primary endpoint measured at six months after a single administration of Habeo Cell Therapy or placebo. Patients in the placebo group will be eligible for crossover to the active arm of the trial after all patients have completed 48 weeks of follow up. In February 2015, the FDA approved our request to increase the number of investigational sites from 12 to up to 20. The increased number of sites served to broaden the geographic coverage of the trial and facilitate trial enrollment. The enrollment of this trial began in August 2015 and was completed at 88 patients in June 2016. We anticipate that we will receive 48-week follow-up data on this Phase III pivotal clinical trial in mid-2017.

The STAR trial is predicated on a completed investigator-initiated pilot 12-patient, open-label Phase I trial performed in France termed SCLERADEC I. The SCLERADEC I trial received partial support from Cytori. The six-month results were published in the Annals of the Rheumatic Diseases in May 2014 and demonstrated approximately a 50 percent improvement at six months across four important and validated endpoints used to assess the clinical status in patients with scleroderma with impaired hand function. Patients perceived their health status to be improved as shown by a 45.2% and 42.4% decrease of the Scleroderma Health Assessment Questionnaire, or SHAQ, at month 2 ($p=0.001$) and at month 6 ($p=0.001$), respectively. A 47% and 56% decrease of the CHFS at month 2 and month 6 in comparison to baseline was observed ($p<0.001$ for both). Grip strength increased at month 6 with a mean improvement of +4.8±6.4 kg for the dominant hand ($p=0.033$) and +4.0±3.5 kg for the non-dominant hand ($p=0.002$). Similarly, an increase in pinch strength at month 6 was noted with a mean improvement of +1.0±1.1 kg for the dominant hand ($p=0.009$) and +0.8±1.2 kg for the non-dominant hand ($p=0.050$). Among subjects having at least one digital ulcer, or DU, at inclusion, total number of DU decreased, from 15 DUs at baseline, 10 at month 2 and 7 at month 6. The average reduction of the Raynaud's Condition Score from baseline was 53.7% at month 2 ($p<0.001$) and 67.5% at month 6 ($p<0.001$). Hand pain showed a significant decrease of 63.6% at month 2 ($p=0.001$) and 70% at month 6 ($p<0.001$). One year results were published in September 2015 in the journal Rheumatology. Relative to baseline, the CHFS and the SHAQ improved by 51.3% and 46.8%, respectively ($p<0.001$ for both). The Raynaud's score improved by 63.2% from baseline ($p<0.001$). Other findings at one-year included a 30.5% improvement in grip strength ($p=0.002$) and a 34.5% improvement in hand pain ($p=0.052$). In February 2016, two-year follow up data in the SCLERADEC I trial was presented at the Systemic Sclerosis World Congress, which demonstrated sustained improvement in the following four key endpoints: Cochin Hand Function Score (CHFS), Scleroderma Health Assessment Questionnaire, Raynaud's Condition Score (which assesses severity of Raynaud's Phenomenon), and hand pain, as assessed by a standard visual analogue scale. The major findings at 24 months following a single administration of ECCS-50 were as follows:

- Hand dysfunction assessed by the CHFS, showed a 62% reduction in hand dysfunction at two years ($p<0.001$).
- Raynaud's Condition Score decreased by an average of 89% over baseline at two years ($p<0.001$).
- Hand pain, as measured by a 100 mm Visual Analogue Scale, and the Scleroderma Health Assessment Questionnaire (SHAQ) score at two years both showed improvement of 50% over baseline ($p=0.01$ and $p<0.001$, respectively).
- Improvement of 20% in grip strength and 330% in pinch strength at two years ($p=0.05$ and $p=0.004$, respectively).
- Continued reduction in the number of ulcers from 15 at baseline to 9 at one year and 6 at two years.

In 2014, Drs. Guy Magalon and Brigitte Granel, under the sponsorship of the Assistance Publique - Hôpitaux de Marseille, submitted a study for review for a follow-up Phase III randomized, double-blind, placebo-controlled trial in France using Cytori Cell Therapy, to be supported by Cytori. The trial name is SCLERADEC II and was approved by the French government in April 2015. Enrollment of this trial commenced in October 2015 and is ongoing. Patients will be followed for a 6-month post-procedure.

In April 2016, the European Commission, acting on the positive recommendation from the European Medicines Agency Committee for Orphan Medicinal Products, issued orphan drug designation to a broad range of Cytori Cell Therapy formulations when used for the treatment of hand dysfunction and Raynaud's Phenomenon in patients with scleroderma under Community Register of Orphan Medicinal Products number EU/3/16/1643. In November 2016, the US FDA Office of Orphan Products Development (OOPD) granted Cytori an orphan drug designation for cryopreserved or centrally processed ECCS-50 (HABEO) for scleroderma.

Osteoarthritis

Osteoarthritis is a disease of the entire joint involving the cartilage, joint lining, ligaments and underlying bone. The breakdown of tissue leads to pain, joint stiffness and reduced function. It is the most common form of arthritis and affects an estimated 13.9% of US adults over the age of 25, and 33.6% of U.S. adults over the age of 65. Current treatments include physical therapy, non-steroidal anti-inflammatory medications, viscosupplement injections, and total knee replacement. A substantial medical need exists as present medications have limited efficacy and joint replacement is a relatively definitive treatment for those with the most advanced disease.

In the later part of 2014, we received approval by the FDA to begin an exploratory U.S. IDE pilot (Phase II) trial of Cytori Cell Therapy (ECCO-50) in patients with osteoarthritis of the knee. The trial, called ACT-OA, is a 94-patient, randomized, double-blind, placebo controlled study involving two doses of Cytori Cell Therapy, a low dose and a high dose, and was conducted over 48 weeks. The randomization is 1:1:1 between the control, low and high dose groups. Enrollment on this trial began in February 2015 and was completed in June 2015. The goal of this proof-of-concept trial is to help determine: (1) safety and feasibility of the ECCO-50 therapeutic for osteoarthritis, (2) provide dosing guidance and (3) explore key trial endpoints useful for a Phase III trial.

Top-line analysis of the final 48-week data has recently been completed. The primary objective of this prospective, randomized, placebo controlled study was to evaluate the safety and feasibility of intraarticular injection of Celution prepared adipose-derived regenerative cells injected into knees of patients with chronic knee pain due to osteoarthritis. A total of 94 patients were randomized (33 placebo, 30 low dose ECCS-50, 31 high dose ECCS-50). In general, a clear difference between low and high dose ECCS-50 was not observed and therefore the data for both groups have been combined. Numerous endpoints were evaluated that can be summarized as follows:

- Intraarticular application of a single dose of ECCO-50 is feasible in an outpatient day-surgery setting; no serious adverse events were reported related to the fat harvest, cell injection or to the cell therapy.
- Consistent trends observed in most secondary endpoints at 12, 24 and 48 weeks in the target knee of the treated group relative to placebo control group; 12-week primary endpoint of single pain on walking question did not achieve statistical significance.
- Consistent trends observed in all 6 pre-specified MRI Osteoarthritis Knee Score (MOAKS) classification scores suggesting decrease in target knee joint pathologic features at 48 weeks for the treated group relative to placebo control group. The differences against placebo favored ADRCs specifically in the number of bone marrow lesions, the percentage of the bone marrow lesion that is not a cyst, the size of the bone marrow lesions as a percentage of the total sub-region volume, percentage of full thickness cartilage loss, cartilage loss as a percentage of cartilage surface area and the size of the largest osteophyte.

In summary, the ACT-OA Phase II trial demonstrated feasibility of same day fat harvesting, cell processing and intraarticular administration of autologous ADRCs (ECCO-50) with a potential for a cell benefit effect. Additional analyses are ongoing. The accumulated data and experienced gained will be critical in considering designs of further clinical trials in osteoarthritis and other potential indications. As well, the multicenter nature of the trial in the United States provides relevant information as to optimizing commercialization.

Stress Urinary Incontinence

Another therapeutic target under evaluation by Cytori in combination with the University of Nagoya and the Japanese MHLW is stress urinary incontinence in men following surgical removal of the prostate gland, which is based on positive data reported in a peer reviewed journal resulting from the use of ADRCs prepared by our Celution System. The ADRESU trial is a 45 patient, investigator-initiated, open-label, multi-center, single arm trial that was approved by the Japanese MHLW in July 2015 and is being led by both Momokazu Gotoh, MD, Ph.D., Professor and Chairman of the Department of Urology and Tokunori Yamamoto, MD, Ph.D.,

Associate Professor Department of Urology at University of Nagoya Graduate School of Medicine. Trial enrollment began trial in September 2015, and in December 2016, the trial was 50% enrolled. This clinical trial is primarily sponsored and funded by the Japanese government, including a grant provided by AMED.

Cutaneous and Soft Tissue Thermal and Radiation Injuries

Cytori Cell Therapy is also being developed for the treatment of thermal burns combined with radiation injury. In the third quarter of 2012, we were awarded a contract valued at up to $106 million with BARDA to develop a medical countermeasure for thermal burns. The initial base period included $4.7 million over two years and covered preclinical research and continued development of Cytori's Celution System to improve cell processing.

In 2014, an in-process review meeting was held with BARDA at which Cytori confirmed completion of the objectives of the initial phase of the contract. In August 2014, BARDA exercised contract option 1 in the amount of approximately $12 million. In December 2014 and September 2016, the option 1 was supplemented with an additional $2 million and $2.5 million in funds, respectively. This funded continuation of research, regulatory, clinical and other activities required for submission of an Investigational Device Exemption, or IDE, request to the FDA for a pilot clinical trial using Cytori Cell Therapy (DCCT-10) for the treatment of thermal burns. We anticipate that we will receive IDE approval in the first half of 2017 to execute this pilot clinical trial. Upon receipt of IDE approval, if granted, we anticipate that BARDA will provide funding to cover costs associated with execution of the clinical trial and related activities, currently estimated to be between $8.0 million and $12.0 million.

Our contract with BARDA contains two additional options to fund a pivotal clinical trial and additional preclinical work in thermal burn complicated by radiation exposure. These options are valued at up to $45 million and $23 million, respectively.

The total award under the BARDA contract is intended to support all clinical, preclinical, regulatory and technology development activities needed to complete the FDA approval process for use of DCCT-10 in thermal burn injury under a device-based PMA regulatory pathway and to provide preclinical data in burn complicated by radiation exposure.

Other Clinical Indications

Heart failure due to ischemic heart disease does not represent a current clinical target for us at this time. Our ATHENA and ATHENA II trials related to that indication were truncated and we have minimized expenses related to initiatives in this area. While the safety data from these trial programs will be used for regulatory support for our other indications and also for publication in peer reviewed forums, we are not actively pursuing indications related to these trials. The 12 month results of the ATHENA Trials were presented by the investigators at the Society of Cardiac Angiography and Interventions Annual Scientific Meeting on May 5, 2016 and data was published in the Catheterization and Cardiovascular Interventions journal in June 2016.

Results of Operations

Product revenues

Product revenues consisted of revenues primarily from the sale of our Cytori Cell Therapy-related products.

The following table summarizes the components for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
Product revenues - third party	$ 4,656	$ 4,838

A majority of our product revenue in 2016 and 2015 was derived from Japan. Two new regenerative medicine laws in Japan went into effect in November 2014, removing regulatory uncertainties and providing a clear path for us to offer Cytori Cell Therapy in Japan, where our technology is mainly being used in the aesthetics and orthopedic fields. Further, we expect continued demand from researchers at academic hospitals seeking to perform investigator-initiated and funded studies.

We experienced a decrease of $0.2 million in product revenue during the year ended December 31, 2016 as compared to the same period in 2015, due to decreased revenues in Asia Pacific of $0.7 million, primarily due to the opening order from Lorem Vascular in the second quarter of 2015 and lack of ongoing orders in subsequent periods and decreased revenue in EMEA of $0.3 million, but partially offset by increased revenues in Japan of $0.9 million due to continued adoption of Cytori Cell Therapy primarily in the aesthetic and osteoarthritis business.

The future: We expect to continue to generate a majority of product revenues from the sale of Cytori Cell Therapy-related products to researchers, clinicians, and distributors in EMEA, Japan, Asia Pacific, and the Americas. In Japan and EMEA, researchers will use our technology in ongoing and new investigator-initiated and funded studies focused on, but not limited to, hand scleroderma, Crohn's disease, peripheral artery disease, erectile dysfunction, and diabetic foot ulcers. Habeo Cell Therapy for hand scleroderma will continue to be accessible to patients and physicians through a managed access program, or MAP, that we initiated in EMEA in 2016. In the Americas, Cytori's partner, Kerastem, is utilizing the Cytori Cell Therapy technology as part of its FDA-approved STYLE trial for patients with alopecia, or hair loss. Overall, we expect 2017 product revenues to remain relatively consistent with 2016.

Cost of product revenues

Cost of product revenues relate primarily to Cytori Cell Therapy-related products and includes material, manufacturing labor, and overhead costs, as well as amortization of intangible assets. The following table summarizes the components of our cost of revenues for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
Cost of product revenues	$ 2,128	$ 2,745
Amortization of intangible assets	546	362
Share-based compensation	41	79
Total cost of product revenues	$ 2,715	$3,186
Total cost of product revenues as % of product revenues	58%	66%

Cost of product revenues as a percentage of product revenues was 58% and 66% for the years ended December 31, 2016 and 2015, respectively. Fluctuation in this percentage is due to the product mix, distributor and direct sales mix, geographic mix, foreign exchange rates and allocation of overhead.

The future: We expect to continue to see variation in our gross profit margin as the product mix, distributor and direct sales mix and geographic mix comprising revenues fluctuate. We are investigating various pricing options for our cellular therapeutics, including orphan pricing for our Habeo Cell Therapy, which may help to increase our gross profit margins in 2017 and beyond.

Development revenues

Under our government contract with BARDA, we recognized a total of $6.7 million and $6.8 million in development revenues for the years ended December 31, 2016 and 2015, respectively which included allowable fees as well as cost reimbursements. During both of the years ended December 31, 2016 and 2015, we incurred $6.3 million in qualified expenditures. The decrease in revenues for the years ended December 31, 2016 as compared to the same periods in 2015 is primarily due to slight decreases in research and development activities related to our contact with BARDA.

The future: Our current contract with BARDA expires in April 2017. We are in the process of negotiating an extension of the current contract option (which will expire in mid-April) for initiation of a pilot clinical trial of DCCT-10 in thermal burn injury.

Research and development expenses

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 as well as the continued development efforts related to our clinical trials.

Research and development expenses include costs associated with the design, development, testing and enhancement of our products, payment of regulatory fees, laboratory supplies, pre-clinical studies and clinical studies.

The following table summarizes the components of our research and development expenses for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
General research and development	$ 15,846	$ 18,442
Share-based compensation	351	558
Total research and development expenses	$ 16,197	$ 19,000

The decrease in research and development expenses, excluding share-based compensation for the year ended December 31, 2016 as compared to the same period in 2015 is due to a decrease of approximately $2.6 million in clinical studies and related professional services as well as a decrease in salaries and benefits as a result of a decrease in the number of the U.S. clinical trials enrolling from two trials in 2015 to one trial in 2016.

The future: We expect aggregate research and development expenditures to increase in 2017 as we incur development costs in preparation of Habeo U.S. PMA filing submission, our development efforts of the recently acquired assets from Azaya Therapeutics, and ongoing activities of the U.S. STAR clinical trial.

Sales and marketing expenses

Sales and marketing expenses include costs of sales and marketing personnel, events and tradeshows, customer and sales representative education and training, primary and secondary market research, and product and service promotion. The following table summarizes the components of our sales and marketing expenses for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
Sales and marketing	$ 3,444	$ 2,552
Share-based compensation	167	110
Total sales and marketing expenses	$ 3,611	$ 2,662

Sales and marketing expenses excluding share-based compensation increased by approximately $0.9 million for the year ended December 31, 2016 as compared to the same period in 2015 due to increases in salary and related benefits expense and professional services mostly related to our operations in Japan, commercial planning activities for scleroderma in the U.S. and investments in the EMEA managed access program.

The future: We expect sales and marketing expenditures to slightly increase during the first half of 2017. These expenditures will have a greater increase in the second half of 2017 as we prepare for commercial readiness for hand scleroderma in the U.S. and knee osteoarthritis, aesthetics and stress urinary incontinence in Japan.

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 years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
General and administrative	$ 8,042	$ 8,471
Share-based compensation	521	1,294
Total general and administrative expenses	$ 8,563	$9,765

General and administrative expenses excluding share-based compensation decreased by $0.4 million for the year ended December 31, 2016, as compared to the same period in 2015 primarily due to decreases in salary and related benefits expense and professional services consistent with our ongoing cost curtailment efforts.

The future: We expect general and administrative expenditures to increase significantly with the acquisition of Azaya assets and as we integrate its operations under the Cytori Therapeutics umbrella.

Share-based compensation expenses

Share-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, or 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 requisite service period.

The following table summarizes the components of our share-based compensation for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
Cost of product revenues	$ 41	$ 79
Research and development-related	351	558
Sales and marketing-related	167	110
General and administrative-related	521	1,294
Total share-based compensation	$ 1,080	$ 2,041

The decrease in share-based compensation expenses for the year ended December 31, 2016 as compared to the same period in 2015 is primarily related to a lower annual grant activities caused by reductions in headcount and due to the decline in the stock price during 2016 as compared to the same period in 2015, and its corresponding impact on 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 December 31, 2016, the total compensation cost related to non-vested stock options and stock awards not yet recognized for all our plans is approximately $1.0 million which is expected to be recognized as a result of vesting under service conditions over a weighted average period of 1.6 years.

Change in fair value of warrant liability

The following is a table summarizing the change in fair value of warrant liability for the years ended December 31, 2016 and 2015:

	Years ended December 31,	
	2016	2015
Change in fair value of warrant liability	$ —	$ (7,668)

The decrease in fair value of our warrant liability for the year ended December 31, 2016 as compared to the same period in 2015 is due to the fact that all warrants with price reset features accounted for as liabilities were cashless exercised during the year ended December 31, 2015.

The future: We do not expect any further changes in fair value of warrant liability, as all of our outstanding warrants with exercise price reset features were settled during December 2015.

Financing items

The following table summarizes loss on debt extinguishment, interest income, interest expense, and other income and expense for the years ended December 31, 2016 and 2015 (in thousands):

	Years ended December 31,	
	2016	2015
Loss on debt extinguishment	$ —	$ (260)
Interest income	19	9
Interest expense	(2,592)	(3,379)
Other income, net	233	172
Total	$ (2,340)	$ (3,458)

- In connection with the Loan and Security Agreement, a loss on debt extinguishment was recorded that relates to the payoff of the prior loan obligations.
- Interest expense decreased for the year ended December 31, 2016 as compared to the same period in 2015, due to partial pay down and refinance of principal loan balance in May 2015.
- The changes in other income during the year ended December 31, 2016 as compared to the same periods in 2015 resulted primarily from changes in exchange rates related to transactions in foreign currency.

The future: We expect interest expense in 2017 to decrease as we begin making payments on the principal balance of the Loan and Security Agreement.

Liquidity and Capital Resources

Short-term and long-term liquidity

The following is a summary of our key liquidity measures at December 31, 2016 and 2015 (in thousands):

	As of December 31,	
	2016	2015
Cash and cash equivalents	$ 12,560	$ 14,338
Current assets	$ 18,747	$ 21,243
Current liabilities	12,501	8,437
Working capital	$ 6,246	$ 12,806

We incurred net losses of $22.0 million and $18.7 million for the years ended December 31, 2016 and 2015, respectively. We have an accumulated deficit of $379.1 million as of December 31, 2016. Additionally, we have used net cash of $19.5 million and $20.5 million to fund our operating activities for the years ended December 31, 2016 and 2015, respectively.

To date, these operating losses have been funded primarily from outside sources of invested capital including our recently completed Lincoln Park Purchase Agreement, the Rights Offering (as defined below), our at-the-market or ATM offering program, the Loan and Security Agreement and gross profits. We have had, and we will likely continue to have, an ongoing need to raise additional cash from outside sources to fund our future clinical development programs and other operations.

On June 15, 2016, we closed the Rights Offering originally filed under a Form S-1 registration statement in April 2016. Pursuant to the Rights Offering, we sold an aggregate of 6,704,852 units consisting of a total of 6,704,852 shares of common stock and 3,352,306 warrants, with each warrant exercisable for one share of common stock at an exercise price of $3.06 per share, resulting in total net proceeds of $15.3 million.

During 2016, we sold 1,840,982 shares of our common stock under our ATM offering program, receiving total net proceeds of approximately $4.4 million. Although sales of our common stock have taken place pursuant to our ATM offering program, there can be no assurance that we will be successful in consummating future sales based on prevailing market conditions or in the quantities or at the prices that we deem appropriate. In addition, under current SEC regulations, at any time during which the aggregate market value of our common stock held by non-affiliates, or public float, is less than $75.0 million, the amount we can raise through primary public offerings of securities in any twelve-month period using shelf registration statements, including sales under our ATM offering program, is limited to an aggregate of one-third of our public float. As of December 31, 2016, our public float was 21.5 million shares, the value of which was $32.5 million based upon the closing price of our common stock of $1.51 on such date. The value of one-third of our public float calculated on the same basis was approximately $11.0 million.

On December 22, 2016, we entered into the Lincoln Park Purchase Agreement and a registration rights agreement, with Lincoln Park pursuant to which we have the right to sell to Lincoln Park and Lincoln Park is obligated to purchase up to $20.0 million in amounts of shares, of our common stock, over the 30-month period commencing on the date that a registration statement, that we filed with the Securities and Exchange Commission (the "SEC") in December 2016. We may direct Lincoln Park, at its sole discretion and subject to certain conditions, to purchase up to 100,000 shares of common stock on any business day but in no event will the amount of a single Regular Purchase exceed $1.0 million. The purchase price of shares of common stock related to the Regular Purchases will be based on the prevailing market prices of such shares at the time of sales. Our sales of shares of common stock to Lincoln Park under the Lincoln Park Purchase Agreement are limited to no more than the number of shares that would result in the beneficial ownership by Lincoln Park and its affiliates, at any single point in time, of more than 9.99% of the then outstanding shares of the common stock. There are no trading volume requirements or restrictions under the Lincoln Park Purchase Agreement. There is no upper limit on the price per share that Lincoln Park must pay for common stock under a Regular Purchase or an accelerated purchase and in no event will shares be sold to Lincoln Park on a day our closing price is less than the floor price of $0.50 per share as set forth in the Lincoln Park Purchase Agreement. On December 22, 2016, we issued to Lincoln Park 127,419 shares of common stock as commitment shares in consideration for entering into the Lincoln Park Purchase Agreement. We will issue up to an additional 382,258 shares of common stock on a pro rata basis to Lincoln Park only as and when shares are sold under the Lincoln Park Purchase Agreement to Lincoln Park. To date, we sold no shares under the Lincoln Park Purchase Agreement to Lincoln Park.

Pursuant to these securities transactions and related equity issuances, as well as anticipated gross profits and potential outside sources of capital, we believe we have sufficient cash to fund operations through at least through Q2 2017. We continue to seek additional capital through product revenues, strategic transactions, including extension opportunities under the awarded BARDA contract, and from other financing alternatives. However, there can be no assurance that we will be successful in securing additional resources when needed, on terms acceptable to us or at all. Therefore, there exists substantial doubt about our ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from uncertainty related to our ability to continue as a going concern.

The following summarizes our contractual obligations and other commitments at December 31, 2016, and the effect such obligations could have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Long-term obligations	$ 18,789	$ 7,080	$ 11,709	$ —	$ —
Interest commitment on long-term obligations	3,162	1,311	1,851	—	—
Operating lease obligations	1,847	1,782	65	—	—
Minimum purchase obligation	6,567	1,074	2,547	2,946	—
Clinical research study obligations	3,329	3,220	109	—	—
Total	$ 33,694	$ 14,467	$ 16,281	$ 2,946	$ —

Cash (used in) provided by operating, investing and financing activities for the years ended December 31, 2016 and 2015 is summarized as follows (in thousands):

	Years Ended December 31,	
	2016	2015
Net cash used in operating activities	$ (19,533)	$ (20,468)
Net cash provided by (used in) investing activities	64	(613)
Net cash provided by financing activities	17,609	20,797
Effect of exchange rate changes on cash and cash equivalents	82	—
Net decrease in cash and cash equivalents	$ (1,778)	$ (284)

Operating activities

Net cash used in operating activities for the year ended December 31, 2016 was $19.5 million. Overall, our operational cash use decreased during the year ended December 31, 2016 as compared to the same period in 2015 due primarily to a decrease in losses from operations (when adjusted for non-cash items) of $3.3 million offset by working capital givebacks of approximately $2.1 million.

Investing activities

Net cash provided by investing activities for the year ended December 31, 2016 resulted from $0.1 million in proceeds from sale of assets offset by cash outflows for purchases of property and equipment of $0.1 million. This cash outflow for purchases of property and equipment was $0.5 million lower than the same period in 2015 due to cash outflow reduction efforts implemented throughout 2016.

Financing Activities

The net cash provided by financing activities for the year ended December 31, 2016 related primarily to a sale of common stock through our Rights Offering and ATM offering program. The cash inflow from financing activities was approximately $3.2 million lower than the same period in 2015, primarily due to the fact that there was $7.3 million less in capital raised during the year ended December 31, 2016 as compared to the same period in 2015, a decrease of $4.9 million in proceeds for exercised warrants, an increase of $0.2 million in Joint Venture purchase payments to Olympus Corporation, and $9.2 million decrease in principal payments on long-term obligations and loan fees.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

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.

Revenue Recognition

In accordance with the Securities and Exchange Commission's guidance, 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 customers that have not developed a sufficient payment history with us or for whom a letter of credit is not in place at the time of the transaction, we defer revenues until collectability is reasonably assured.

For all sales, we use a binding purchase order or a signed agreement as evidence of an arrangement. If the other revenue recognition criteria are met, 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 where all revenue recognition criteria are not met, revenue is deferred and related inventory remains on our books.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories include the cost of material, labor, and overhead, and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market. We periodically evaluate our on-hand stock and make appropriate provisions for any stock deemed excess or obsolete. Manufacturing costs resulting from lower than "normal" production levels are expensed as incurred.

Impairment

We assess certain of our long-lived assets, such as property and equipment and intangible assets other than goodwill, for potential impairment when there is a change in circumstances that indicates carrying values of assets may not be recoverable. Such long-lived assets are deemed to be impaired when the undiscounted cash flows expected to be generated by the asset (or asset group) are less than the asset's carrying amount. Any required impairment loss would be measured as the amount by which the asset's carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and a charge to operating expense.

Goodwill and Intangibles

Goodwill is reviewed for impairment annually or more frequently if indicators of impairment exist. We perform our impairment test annually during the fourth quarter. The impairment evaluation is performed assuming the we operate in a single operating segment and reporting unit. First we assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing qualitative factors, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If deemed necessary, a two-step test is used to identify the potential impairment and to measure the amount of goodwill impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; otherwise, there is an indication that goodwill may be impaired and the amount of the loss, if any, is measured by performing step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. There was no indication of impairment of goodwill for all periods presented.

Separable intangible assets that have finite useful lives are amortized over their respective useful lives.

Share-based compensation

The estimated fair value of share-based awards exchanged for employee and non-employee director services are expensed over the requisite service period and over the period during which the employee and non-employee director is required to provide service in exchange for the award. For purposes of calculating stock-based compensation, we estimate the fair value of stock options and shares issued under the Employee Stock Purchase Plan using a Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected volatility is based on the historical volatility of our common stock over the most recent period commensurate with the estimated expected term of the stock options. The expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options. The dividend yield assumption is based on our history and expectation of no dividend payouts. The fair value of restricted stock agreements granted is based on the market price of our common stock on the day of the grant.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements included elsewhere herein for disclosure and discussion of new accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Cytori Therapeutics, Inc.

We have audited the accompanying consolidated balance sheet of Cytori Therapeutics, Inc. (the "Company") as of December 31, 2016 and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the accompanying schedule of valuation and qualifying accounts listed in the accompanying index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cytori Therapeutics, Inc. at December 31, 2016, and the results of its operations and its cash flows for the year then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in material respects, the information set forth therein.

The accompanying consolidated financial statements and schedule have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO USA, LLP
San Diego, California

March 24, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cytori Therapeutics, Inc.:

We have audited the accompanying consolidated balance sheet of Cytori Therapeutics, Inc. and subsidiaries (the Company) as of December 31, 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2015. In connection with our audit of the consolidated financial statements, we have also audited the accompanying schedule of valuation and qualifying accounts as of and for the year ended December 31, 2015. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cytori Therapeutics, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company's recurring losses from operations and liquidity position raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1. The consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

San Diego, California
March 11, 2016

CYTORI THERAPEUTICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value data)

	As of December31, 2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 12,560	$ 14,338
Accounts receivable, net of reserves of $167 and $797 in 2016 and 2015, respectively	1,242	1,052
Restricted cash	350	—
Inventories, net	3,725	4,298
Other current assets	870	1,555
Total current assets	18,747	21,243
Property and equipment, net	1,157	1,631
Restricted cash	—	350
Other assets	2,336	1,521
Intangibles, net	8,447	9,031
Goodwill	3,922	3,922
Total assets	$ 34,609	$ 37,698
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,872	$ 6,687
Current portion of long-term obligations, net of discount	6,629	—
Joint venture purchase obligation	—	1,750
Total current liabilities	12,501	8,437
Deferred revenues	97	105
Long-term deferred rent and other	17	269
Long-term obligations, net of discount, less current portion	11,008	16,681
Total liabilities	23,623	25,492
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 13,500 shares issued; no shares outstanding in 2016 and 2015	—	—
Common stock, $0.001 par value; 75,000,000 shares authorized; 21,707,890 and 13,003,893 shares issued and outstanding in 2016 and 2015, respectively	22	13
Additional paid-in capital	388,769	368,214
Accumulated other comprehensive income	1,258	996
Accumulated deficit	(379,063)	(357,017)
Total stockholders' equity	10,986	12,206
Total liabilities and stockholders' equity	$ 34,609	$ 37,698

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)

	For the Years Ended December 31, 2016	2015
Product revenues	$ 4,656	$ 4,838
Cost of product revenues	2,715	3,186
Gross profit	1,941	1,652
Development revenues:		
Government contracts and other	6,724	6,821
	6,724	6,821
Operating expenses:		
Research and development	16,197	19,000
Sales and marketing	3,611	2,662
General and administrative	8,563	9,765
Change in fair value of warrant liabilities	—	(7,668)
Total operating expenses	28,371	23,759
Operating loss	(19,706)	(15,286)
Other income (expense):		
Loss on debt extinguishment	—	(260)
Interest income	19	9
Interest expense	(2,592)	(3,379)
Other income, net	233	172
Total other expense	(2,340)	(3,458)
Net loss	$ (22,046)	$ (18,744)
Beneficial conversion feature for convertible preferred stock	—	(661)
Net loss allocable to common stockholders	$ (22,046)	$ (19,405)
Basic and diluted net loss per share allocable to common stockholders	$ (1.28)	$ (2.07)
Basic and diluted weighted average shares used in calculating net loss per share allocable to common stockholders	17,290,933	9,386,488
Comprehensive loss:		
Net loss	$ (22,046)	$ (18,744)
Other comprehensive income – foreign currency translation adjustments	262	296
Comprehensive loss	$ (21,784)	$ (18,448)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(in thousands, except share data)

	Convertible preferred stock		Common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders' equity
	Shares	Amount	Shares	Amount	capital	(loss) income	deficit	(deficit)
Balance at December 31, 2014	5,311	$ —	6,623,225	$ 7	$ 331,864	$ 700	$ (338,273)	$ (5,702)
Share-based compensation	—	—	—	—	2,041	—	—	2,041
Issuance of common stock under stock option plan and employee stock purchase plan	—	—	15,437	—	27	—	—	27
Conversion of Series A 3.6% Convertible Preferred Stock into common stock	(5,311)	—	680,943	1	(3)	—	—	(2)
Issuance of common stock under stock warrant agreement, net	—	—	3,123,577	3	22,810	—	—	22,813
Sale of common stock, net	—	—	2,560,711	2	10,699	—	—	10,701
Allocation of fair value for debt-related warrants	—	—	—	—	776	—	—	776
Foreign currency translation adjustment and accumulated other comprehensive income	—	—	—	—	—	296	—	296
Net loss	—	—	—	—	—	—	(18,744)	(18,744)
Balance at December 31, 2015	—	—	13,003,893	13	368,214	996	(357,017)	12,206
Share-based compensation	—	—	—	—	1,080	—	—	1,080
Issuance of common stock under employee stock purchase plan	—	—	30,744	—	6	—	—	6
Sale of common stock, net	—	—	8,673,253	9	19,469	—	—	19,478
Foreign currency translation adjustment and accumulated other comprehensive income	—	—	—	—	—	262	—	262
Net loss	—	—	—	—	—		(22,046)	(22,046)
Balance at December 31, 2016	—	$ —	21,707,890	$ 22	$ 388,769	$ 1,258	$ (379,063)	$ 10,986

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CYTORI THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (22,046)	$ (18,744)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,182	1,093
Amortization of deferred financing costs and debt discount	954	979
Joint Venture acquisition obligation accretion	24	365
Provision for doubtful accounts	—	(105)
Provision for expired inventory	172	—
Change in fair value of warrants	—	(7,668)
Share-based compensation expense	1,080	2,041
(Gain) loss on asset disposal	(127)	8
Loss on debt extinguishment	—	260
Increases (decreases) in cash caused by changes in operating assets and liabilities:		
Accounts receivable	(179)	328
Inventories	471	490
Other current assets	633	(637)
Other assets	(764)	363
Accounts payable and accrued expenses	(673)	1,045
Deferred revenues	(8)	3
Long-term deferred rent	(252)	(289)
Net cash used in operating activities	(19,533)	(20,468)
Cash flows from investing activities:		
Purchases of property and equipment	(67)	(611)
Expenditures for intellectual property	—	(13)
Proceeds from sale of assets	131	11
Net cash provided by (used in) investing activities	64	(613)
Cash flows from financing activities:		
Principal payments on long-term obligations	—	(25,032)
Proceeds from long-term obligations	—	17,700
Debt issuance costs and loan fees	—	(1,854)
Joint Venture purchase payments	(1,774)	(1,623)
Proceeds from exercise of employee stock options and warrants	—	4,997
Proceeds from sale of common stock	21,467	29,054
Costs from sale of common stock	(2,084)	(2,370)
Dividends paid on preferred stock	—	(75)
Net cash provided by financing activities	17,609	20,797
Effect of exchange rate changes on cash and cash equivalents	82	—
Net decrease in cash and cash equivalents	(1,778)	(284)
Cash and cash equivalents at beginning of period	14,338	14,622
Cash and cash equivalents at end of period	$ 12,560	$ 14,338
Supplemental disclosure of cash flows information:		
Cash paid during period for:		
Interest	$ 1,618	$ 1,994
Final payment fee on long-term debt	$ —	$ 1,839
Supplemental schedule of non-cash investing and financing activities:		
Issuance costs paid in common stock	$ 189	$ —
Conversion of preferred stock into common stock	$ —	$ 10
Declared dividend related to preferred stock	$ —	$ 3
Fair value of warrants allocated to additional paid-in capital	$ —	$ 776

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

The Company

Cytori Therapeutics, Inc. (NASDAQ: CYTX) develops cell therapies uniquely formulated and optimized for specific diseases and medical conditions with a primary focus on impaired hand function in scleroderma, in addition to our other pipeline areas, such as osteoarthritis of the knee, stress urinary incontinence, and full thickness thermal burns including those complicated by radiation exposure.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

We have five wholly-owned subsidiaries located in Japan, United Kingdom, Switzerland, India and Spain that have been established primarily to support our sales and marketing activities in these regions.

Reverse Stock Split

On May 10, 2016, following stockholder and Board approval, an amendment (the "Amendment") to the Company's amended and restated certificate of incorporation, as amended, was filed and declared effective, which Amendment effectuated a one-for-fifteen (1:15) reverse stock split of the Company's (i) outstanding common stock, and (ii) common stock reserved for issuance upon exercise of outstanding warrants and options (the "1:15 Reverse Stock Split"). Upon effectiveness of the 1:15 Reverse Stock Split, the number of shares of the Company's common stock (x) issued and outstanding decreased from approximately 200 million shares (as of May 10, 2016) to approximately 13.3 million shares; (y) reserved for issuance upon exercise of outstanding warrants and options decreased from approximately 16 million shares to approximately 1.1 million shares, and (z) reserved but unallocated under our current equity incentive plans (including the stockholder-approved share increase to the Company's 2014 Equity Incentive Plan) decreased from approximately 6.5 million common shares to approximately 0.4 million common shares. In connection with the 1:15 Reverse Stock Split, the Company also decreased the total number of its authorized shares of common stock from 290 million to 75 million. The number of authorized shares of preferred stock remained unchanged. Following the 1:15 Reverse Stock Split, certain reclassifications have been made to the prior periods' financial statements to conform to the current period's presentation. The Company adjusted stockholders' equity to reflect the 1:15 Reverse Stock Split by reclassifying an amount equal to the par value of the shares eliminated by the split from common stock to the additional paid-in capital during the first quarter of fiscal 2016, resulting in no net impact to stockholders' equity on our consolidated balance sheets. The Company's shares of common stock commenced trading on a split-adjusted basis on May 12, 2016. Proportional adjustments for the reverse stock split were made to the Company's outstanding stock options, warrants awards issued and available under and equity incentive plans for all periods presented.

Certain Risks and Uncertainties

Our prospects are subject to the risks and uncertainties frequently encountered by companies in the early stages of development and commercialization, especially those companies in rapidly evolving and technologically advanced industries such as the biotech/medical device field. Our future viability largely depends on our ability to complete development of new products and receive regulatory approvals for those products. No assurance can be given that our new products will be successfully developed, regulatory approvals will be granted, or acceptance of these products will be achieved. The development of medical devices for specific therapeutic applications is subject to a number of risks, including research, regulatory and marketing risks. There can be no assurance that our development stage products will overcome these hurdles and become commercially viable and/or gain commercial acceptance.

Liquidity and Going Concern

We incurred net losses of $22.0 million and $18.7 million for the years ended December 31, 2016 and 2015, respectively. We have an accumulated deficit of $379.1 million as of December 31, 2016. Additionally, we have used net cash of $19.5 million and $20.5 million to fund our operating activities for the years ended December 31, 2016 and 2015, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Further, our Loan and Security Agreement, or the Loan and Security Agreement, with Oxford Finance, LCC, or Oxford, as further described in Note 8, requires to maintain a minimum of $5.0 million in unrestricted cash and cash equivalents on hand to avoid an event of default under the Loan and Security Agreement. Based on our cash and cash equivalents on hand of approximately $12.6 million at December 31, 2016, and our obligation to make payments of principal of $0.6 million plus accrued interest in monthly installments, we estimate that we must raise additional capital and/or obtain a waiver or restructure the Loan and Security Agreement on or before May 2017 to avoid defaulting under our $5.0 million minimum cash/cash equivalents covenant.

To date, these operating losses have been funded primarily from outside sources of invested capital including our recently completed Lincoln Park Purchase Agreement with Lincoln Park Capital Fund, LLC ("Lincoln Park") and the Rights Offering (each defined below), our at-the-market ("ATM") equity facility, the Loan and Security Agreement and gross profits. We have had, and we will likely continue to have, an ongoing need to raise additional cash from outside sources to fund our future clinical development programs and other operations.

On June 15, 2016, we closed a rights offering originally filed under Form S-1 registration statement in April 2016 (the "Rights Offering"). Pursuant to the Rights Offering, we sold an aggregate of 6,704,852 units consisting of a total of 6,704,852 shares of common stock and 3,352,306 warrants, with each warrant exercisable for one share of common stock at an exercise price of $3.06 per share, resulting in total gross proceeds to Cytori of $17.1 million. See Note 11 for further discussion on the Rights Offering.

On December 22, 2016, we entered into a purchase agreement and a registration rights agreement, with Lincoln Park pursuant to which we have the right to sell to Lincoln Park and Lincoln Park is obligated to purchase up to $20.0 million in amounts of shares, of the Company's common stock, over the 30-month period commencing on the date that a registration statement, which the Company filed with the Securities and Exchange Commission (the "SEC") on December 30, 2016. See Note 11 for further discussion on the Lincoln Park agreement.

Pursuant to these securities transactions and related equity issuances, as well as anticipated gross profits and potential outside sources of capital, we believe we have sufficient cash to fund operations through Q2 2017. We continue to seek additional capital through product revenues, strategic transactions, including extension opportunities under our awarded U.S. Department of Health and Human Service's Biomedical Advanced Research and Development Authority ("BARDA") contract, and from other financing alternatives. Without additional capital, current working capital and cash generated from sales will not provide adequate funding for research, sales and marketing efforts and product development activities at their current levels. If sufficient capital is not raised, we will at a minimum need to significantly reduce or curtail our research and development and other operations, and this could negatively affect our ability to achieve corporate growth goals.

Should we be unable to raise additional cash from outside sources, this will have a material adverse impact on our operations.

The accompanying consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from uncertainty related to its ability to continue as a going concern.

Reclassifications

Certain immaterial reclassifications have been made to certain of the prior years' consolidated financial statements to conform to the current year presentation.

2. Summary of Significant Accounting Policies

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, reviewing goodwill and intangible assets for impairment, determining the assumptions used in measuring share-based compensation expense, measuring accretion expense related to our acquisition of the joint venture, and valuing allowances for doubtful accounts and inventory reserves.

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.

Cash and cash equivalents

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Cash and cash equivalents includes cash in readily available checking and savings accounts. We held no investments as of December 31, 2016 and 2015. We maintain our cash at insured financial institutions.

Restricted Cash

Restricted cash consists of cash invested in a certificate of deposit used as collateral for the issuance of a letter of credit pursuant to a lease agreement entered into on April 2, 2010 (amended November 4, 2011) for leasing of property at 3020 and 3030 Callan Road, San Diego, California. The lease agreement required us to execute a letter of credit for $0.4 million naming the landlord as a beneficiary. It is required by the landlord that we maintain $0.4 million as restricted cash for the duration of the lease, which expires October 31, 2017.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company periodically assesses the collectability of accounts receivable on a specific customer basis considering factors such as evaluation of collectability, historical collection experience, the age of accounts receivable and other currently available evidence of the collectability, and records an allowance for doubtful accounts for the estimated uncollectible amount. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories include the cost of material, labor, and overhead related to Celution devices, consumable kits, and reagents, and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market. We periodically evaluate our on-hand stock and make appropriate provisions for any stock deemed excess or obsolete. Manufacturing costs resulting from lower than "normal" production levels are expensed as incurred.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation expense, which includes the amortization of capitalized leasehold improvements, is provided for on a straight-line basis over the estimated useful lives of the assets, or the life of the lease, whichever is shorter, and range from three to five years. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is included in operations. Maintenance and repairs are charged to operations as incurred.

Impairment

We assess certain of our long-lived assets, such as property and equipment and intangible assets other than goodwill, for potential impairment when there is a change in circumstances that indicates carrying values of assets may not be recoverable. Such long-lived assets are deemed to be impaired when the undiscounted cash flows expected to be generated by the asset (or asset group) are less than the asset's carrying amount. Any required impairment loss would be measured as the amount by which the asset's carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and a charge to operating expense. We recognized no impairment losses during any of the periods presented in these financial statements.

Goodwill and Intangibles

Goodwill is reviewed for impairment annually or more frequently if indicators of impairment exist. We perform our impairment test annually during the fourth quarter. The impairment evaluation is performed assuming the Company operates in a single operating segment and reporting unit. First the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If deemed necessary, a two-step test is used to identify the potential impairment and to measure the amount of goodwill impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; otherwise, there is an indication that goodwill may be impaired and the amount of the loss, if any, is measured by performing

step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. There was no indication of impairment of goodwill for all periods presented.

Separable intangible assets that have finite useful lives are amortized over their respective useful lives.

As part of the May 2013 acquisition of the Joint Venture (see Note 4), we acquired intangible assets which consisted primarily of contractual license rights that had previously enabled the Joint Venture to conduct development and manufacturing activities pertaining to certain aspects of Cytori's Celution technology. The useful life of the identifiable intangible assets was estimated based on the assumed future economic benefit expected to be received from the assets. The technology was valued at $9.4 million and is being amortized on a straight-line basis over a useful life of eleven years, commensurate with the expected cash flows. The amortization expense was $0.6 million and $0.4 million for the years ended December 31, 2016 and 2015, respectively, and was included in cost of product revenue on the consolidated statements of operations. The estimated aggregate amortization expense will be $1.2 million for 2017, $1.2 million for 2018 and $6.0 million thereafter. Accumulated amortization on the intangible assets was $1.2 million as of December 31, 2016 and $0.6 million as of December 31, 2015.

The changes in the carrying amounts of finite-life intangible assets and goodwill for the years ended December 31, 2016 and 2015 are as follows (in thousands):

	December 31, 2016
Other intangibles, net:	
Beginning balance	$ 9,031
Increase	—
Amortization	(584)
Ending balance	8,447
Goodwill, net:	
Beginning balance	3,922
Increase (decrease)	—
Ending balance	3,922
Total goodwill and other intangibles, net	$ 12,369

	December 31, 2015
Other intangibles, net:	
Beginning balance	$ 9,415
Increase	13
Amortization	(397)
Ending balance	9,031
Goodwill, net:	
Beginning balance	3,922
Increase (decrease)	—
Ending balance	3,922
Total goodwill and other intangibles, net	$ 12,953

Warrant Liability

In connection with the October 2014 Securities Purchase Agreement, the Company issued common stock purchase warrants (the "October 2014 Warrants") to certain institutional investors with certain exercise price reset features. Each warrant had an initial exercise price of $0.5771 per share, was exercisable six months and one day after the date of issuance and was to expire five years from the date on which it was initially exercisable. Pursuant to the second closing of the May 2015 Securities Purchase Agreement, the exercise price of these warrants was reset to $0.3263. The initial fair value of the liability associated with these warrants was $10.0 million and it decreased to $3.3 million as of December 17, 2015 when these warrants were cashless exercised by all holders.

In May 2015, the Company entered into a Securities Purchase Agreement with certain institutional investors pursuant to which the Company agreed to sell up to $25 million of units, with each unit consisting of one share of its common stock and one warrant to purchase one share of its common stock, in a registered direct offering. The May 2015 Securities Purchase Agreement contemplated two closings, the first of which occurred on May 8, 2015, the second of which occurred upon satisfaction of certain conditions precedent, including, but not limited to, receipt of required stockholder approval, on August 27, 2015. Each warrant issued at the initial closing (the "May 2015 Warrants") had an initial exercise price of $1.02 per share, was exercisable six months and one day after the date of issuance and expires five years from the date on which it is initially

exercisable. Each warrant issued at the second closing (the "August 2015 Warrants") had an initial exercise price of $0.401 per share, and was to expire five years from the date of issuance. The initial fair value of the liability associated with the May 2015 Warrants was $14.3 million and it decreased to $5.0 million as of December 17, 2015 when these warrants were cashless exercised by all holders. The initial fair value of the liability associated with the August 2015 Warrants was $1.6 million, and it decreased to $1.5 million as of December 17, 2015, when these warrants were cashless exercised by all holders.

On December 17, 2015, the Company and the holders of October 2014 Warrants agreed to amend the October 2014 Warrants pursuant to an Amendment to Common Stock Purchase Warrant (the "2014 Amendment"). Also on December 17, 2015, the Company and the holders of the May 2015 Warrants and the August 2015 Warrants (collectively the "2015 Warrants") agreed to amend the 2015 Warrants pursuant to an Amendment to Series A-1 Warrant to Purchase Common Stock and Amendment to Series A-2 Warrant to Purchase Common Stock, respectively (the "2015 Amendment" and, together with the 2014 Amendment, the "Warrant Amendments"). The Warrant Amendments provide that the holders may exercise their warrants on a "cashless exercise" basis in whole on or prior to December 31, 2015, whereby each exercising holder of the amended 2015 Warrants would receive 0.75 shares for each warrant share exercised and each exercising holder of the amended 2014 Warrants would receive 0.69 shares for each warrant share exercised. In addition, the Warrant Amendments removed certain provisions which provided that the exercise price of the Warrants would be reset in the event of certain equity issuances by the Company for a price below the exercise price of the Warrants as of the time of such issuance. All warrants were cashless exercised on or before December 31, 2015.

The warrants were not traded in an active securities market and, as such, the estimated fair value as of their exercise date on December 17, 2015 was determined by using the Monte Carlo option pricing model. The 2014 and 2015 warrants were settled on or prior to December 31, 2015.

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. We evaluate customers that have not developed a sufficient payment history with us or for whom a letter of credit is not in place at the time of the transaction and defer revenues until collectability is reasonably assured.

For all sales, we use a binding purchase order or a signed agreement as evidence of an arrangement. If the other revenue recognition criteria are met, 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 where all revenue recognition criteria are not met, revenue is deferred and related inventory remains on our books.

Concentration of Significant Customers & Geographical Sales

For the year ended December 31, 2016, our sales were concentrated with respect to two distributors and three direct customers, which comprised 65% of our product revenue recognized. Two direct customers accounted for 57% of total outstanding accounts receivable (excluding receivables from BARDA) as of December 31, 2016.

For the year ended December 31, 2015, our sales were concentrated with respect to one distributor and four direct customers, which comprised 63% of our product revenue recognized. Two direct customers accounted for 73% of total outstanding accounts receivable (excluding receivables from BARDA) as of December 31, 2015.

Product revenues, classified by geographic location, are as follows (in thousands):

	Years ended December 31,			
	2016		2015	
	Product Revenues	% of Total	Product Revenues	% of Total
Americas	$ 936	20%	$ 982	20%
Japan	3,279	71%	2,394	50%
EMEA	379	8%	675	14%
Asia Pacific	62	1%	787	16%
Total product revenues	$ 4,656	100%	$ 4,838	100%

Development Revenues

We earn revenue for performing tasks under research and development agreements with governmental agencies like BARDA. 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. We recognized $6.7 million and $6.8 million in BARDA revenue for the years ended December 31, 2016 and 2015, respectively.

Research and Development

Research and development expenditures, which are charged to operations in the period incurred, include costs associated with the design, development, testing and enhancement of our products, regulatory fees, the purchase of laboratory supplies, and pre-clinical and clinical studies as well as salaries and benefits for our research and development employees.

Also included in research and development expenditures are costs incurred to support the government reimbursement contract, including $6.3 million and $6.3 million of qualified expenses that were incurred for the years ended December 31, 2016 and 2015, related to our government contract with BARDA.

Deferred Financing Costs and Other Debt-Related Costs

Deferred financing costs are capitalized, recorded as an offset to debt balances and amortized to interest expense over the term of the associated debt instrument using the effective interest method. If the maturity of the debt is accelerated because of default or early debt repayment, then the amortization would be accelerated.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income (loss) in the years in which those temporary differences are expected to be recovered or settled. Due to our history of losses, a full valuation allowance has been recognized against our deferred tax assets.

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. For the years ended December 31, 2016 and 2015, the Company has not recorded any interest or penalties related to income tax matters. The Company does not foresee any material changes to unrecognized tax benefits within the next twelve months.

Share-Based Compensation

We recognize the fair value of all share-based payment awards in our statements of operations over the requisite vesting period of each award, which approximates the period during which the employee and non-employee director is required to provide service in exchange for the award. We estimate the fair value of these options using the Black-Scholes option pricing model using assumptions for expected volatility, expected term, and risk-free interest rate. Expected volatility is based primarily on historical volatility and is computed using daily pricing observations for recent periods that correspond to the expected term of the options. The expected term is calculated based on historical data for and applied to all employee awards as a single group as we do not expect (nor does historical data suggest) substantially different exercise or post-vesting termination behavior amongst our employee population. The risk-free interest rate is the interest rate for treasury instruments with maturities that approximate the expected term.

Segment Information

For the years ended December 31, 2016 and 2015, all of our financial results relate to cell therapy, therefore we report our results in one operating segment.

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 years ended December 31, 2016 and 2015, as their inclusion would be antidilutive. Potentially dilutive securities excluded from the calculations of diluted loss per share were 4.2 million as of December 31, 2016, which includes 3.6 million outstanding warrants and 0.6 million options and restricted stock awards. Potentially dilutive securities excluded from the calculations of diluted loss per share were 12.3 million as of December 31, 2015.

Recent Accounting Pronouncements

In May 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-12, *Revenue from Contracts with Customers*, the amendment of which addressed narrow-scope improvements to the guidance on collectability, noncash consideration, and completed contracts at transition as well as providing a practical expedient for contract modifications. In April 2016 and March 2016, the FASB issued ASU No. 2016-10 and ASU No. 2016-08, respectively, the amendments of which further clarified aspects of Topic 606: identifying performance obligations and the licensing and implementation guidance and intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The FASB issued the initial release of Topic 606 in ASU No. 2014-09, which requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption of ASU 2016-10 is permitted but not before the original effective date (annual periods beginning after December 15, 2017). We are currently in the process of evaluating our various contracts and revenue streams subject to this update but have not completed our assessment and, therefore, have not yet concluded on whether the adoption of this update will have a material effect on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable that when, considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued, for both annual and interim periods. ASU 2014-15 also requires certain disclosures around management's plans and evaluation, as well as the plans, if any, that are intended to mitigate those conditions or events that will alleviate the substantial doubt. ASU 2014-15 is effective for annual reporting periods, and interim periods within those periods, ending after December 15, 2016. The Company adopted this guidance to assess going concern at December 31, 2016 and its liquidity disclosures reflect the requirements of the new standard.

In July 2015, FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. This update applies to companies that measure inventory on a first in, first out, or FIFO, or average cost basis. Under this update, companies are to measure their inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion. The amendments in this update are effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2016 with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-11 will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under this new guidance, at the commencement date, lessees will be required to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is not applicable for leases with a term of 12 months or less. The new standard is effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which involves several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of

awards as either equity or liabilities, and classification on the statement of cash flows. This new guidance will require all income tax effects of awards to be recognized as income tax expense or benefit in the income statement when the awards vest or are settled, as opposed to additional paid-in-capital where it is currently recorded. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting. All tax-related cash flows resulting from stock-based payments are to be reported as operating activities on the statement of cash flows. The guidance also allows a Company to make a policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. This new standard is effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2016, with early adoption permitted. We have elected to keep our policy consistent for the application of a forfeiture rate and, as such, the adoption of this standard will not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments*, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The new standard is effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. We do not anticipate that the adoption of ASU 2016-15 will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this update should be applied using a retrospective transition method to each period presented. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. The adoption of this standard will change the presentation of our statement of cash flows to include our restricted cash balance. We are assessing whether to adopt the new guidance early in 2017.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Clarifying the Definition of a Business*, which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those periods. Early adoption is permitted for acquisition or deconsolidation transactions occurring before the issuance date or effective date and only when the transactions have not been reported in issued or made available for issuance financial statements. We do not expect the adoption to have any significant impact on our consolidated financial statements, and we are in the process of determining whether to adopt the new guidance early.

In February 2017, the FASB recently issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not anticipate that the adoption of ASU 2017-04 will have a material impact on our consolidated financial statements.

3. Agreement with Lorem Vascular

On October 29, 2013, we entered into an agreement with Lorem Vascular to commercialize Cytori Cell Therapy (OICH-D3) for the cardiovascular, renal and diabetes markets, in China, Hong Kong, Malaysia, Singapore and Australia (License/Supply Agreement), and a Common Stock Purchase Agreement. On January 30, 2014, we entered into the Amended and Restated License/Supply Agreement with Lorem Vascular (the "Restated Agreement") which restated the License/Supply Agreement in its entirety and expanded the licensed field to all uses excepting alopecia (hair loss). Under the Restated Agreement, Lorem Vascular committed to pay up to $500 million in license fees in the form of revenue milestones. In addition, Lorem Vascular is required to pay us 30% of their gross profits in China, Hong Kong and Malaysia for the term of the agreement. In addition, Lorem Vascular has agreed to purchase the Cytori Celution® System and consumables under the Restated Agreement. Pursuant to the related Common Stock Purchase Agreement, Cytori sold Lorem Vascular 8.0 million shares of Cytori common stock at

$3.00 per share for a total of $24.0 million. The equity purchased was closed in two equal installments, in November 2013 and January 2014.

Lorem Vascular initially purchased approximately $1.8 million in Celution® devices and consumables in December 2013. In addition to this purchase, upon achieving regulatory clearance from the Chinese Food and Drug Administration ("CFDA"), Cytori's license agreement with Lorem Vascular obligates Lorem Vascular to purchase an opening order of 23 Celution Systems and 1,100 Celution Consumable Sets. Class I regulatory clearance was granted in April 2015. There were no business transactions with Lorem Vascular during the year ended December 31, 2016. As of December 31, 2015, Lorem Vascular has partially satisfied this purchase order.

4. Transactions with Olympus Corporation

Under our Joint Venture Termination Agreement ("Termination Agreement"), dated May 8, 2013, with Olympus Corporation ("Olympus"), we were required to pay Olympus a total purchase price of $6.0 million within two years of the date of the Termination Agreement. Pursuant to amendments to the Termination Agreement, dated April 30, 2015 and January 8, 2016, the Company's repayment obligations were extended through May 8, 2016. We made payments under the Termination Agreement totaling approximately $4.2 million through December 31, 2015, as well as separate payments of $0.5 million each in January 2016 and April 2016, and paid the remaining balance of $0.8 million before the May 8, 2016 due date. There were no outstanding obligations to Olympus as of December 31, 2016.

5. 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.

As of December 31, 2016 and 2015, we did not have any assets or liabilities measured at fair value presented on our balance sheets.

The 2014 and 2015 warrants included exercise price reset features (down-round protection) and were accounted for as liabilities, with changes in the fair value included in net loss for the respective periods. Because some of the inputs to our valuation model were either not observable or were not derived principally from or corroborated by observable market data by correlation or other means, the warrant liability was classified as Level 3 in the fair value hierarchy. All of these warrants were cashless exercised on or before December 31, 2015.

The following table summarizes the final valuation pertaining to the warrants that were previously included in our Level 3 warrant liabilities (in thousands):

Warrant liability	December 31, 2015
Balance as of December 31, 2014	$ 9,793
Additions to warrant liability	15,979
Exercised warrants	(18,104)
Change in fair value	(7,668)
Balance as of December 31, 2015	$ —

Financial Instruments

We disclose fair value information about all financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate fair value. The disclosures of estimated fair value of financial instruments at December 31, 2016 and 2015, 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.

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 December 31, 2016 and 2015, the aggregate fair value and the carrying value of the Company's long-term debt were as follows (in thousands):

	December 31, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Debt	$ 17,611	$ 17,637	$ 16,844	$ 16,681

Carrying value is net of debt discount of $1.2 million and $2.1 million as of December 31, 2016 and 2015, respectively.

The fair value of debt is classified as Level 3 in the fair value hierarchy as some of the inputs, primarily the effective interest rate, 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.

Nonfinancial Assets and Liabilities

We apply fair value techniques on a non-recurring basis associated with: (1) valuing potential impairment losses related to goodwill which are accounted for pursuant to the authoritative guidance for intangibles—goodwill and other; and (2) valuing potential impairment losses related to long-lived assets which are accounted for pursuant to the authoritative guidance for property, plant and equipment.

6. Composition of Certain Financial Statement Captions

Inventories, net

As of December 31, 2016 and 2015, inventories, net, were comprised of the following (in thousands):

	December 31,	
	2016	2015
Raw materials	$ 885	$ 1,009
Work in process	1,021	816
Finished goods	1,819	2,473
	$ 3,725	$ 4,298

Other Current Assets

As of December 31, 2016 and 2015, other current assets were comprised of the following (in thousands):

	December 31,	
	2016	2015
Prepaid supplies, current	$ 734	$ 995
Prepaid insurance	83	300
Other receivables	53	260
	$ 870	$ 1,555

Property and Equipment, net

As of December 31, 2016 and 2015, property and equipment, net, were comprised of the following (in thousands):

	December 31,	
	2016	2015
Manufacturing and development equipment	$ 4,256	$ 5,464
Office and computer equipment	1,953	1,939
Leasehold improvements	3,399	3,391
	9,608	10,794
Less accumulated depreciation	(8,451)	(9,163)
	$ 1,157	$ 1,631

Depreciation expense totaled $0.7 million and $0.7 million for the years ended December 31, 2016 and 2015, respectively.

Other Assets

As of December 31, 2016 and 2015, other assets were comprised of the following (in thousands):

	December 31,	
	2016	2015
Prepaid supplies, long-term	$ 1,838	$ 996
Deposits	498	525
	$ 2,336	$ 1,521

Accounts Payable and Accrued Expenses

As of December 31, 2016 and 2015, accounts payable and accrued expenses were comprised of the following (in thousands):

	December 31,	
	2016	2015
Accrued expenses	$ 1,752	$ 2,022
Accounts payable	1,332	1,009
Accrued payroll and bonus	989	1,058
Accrued legal fees	614	372
Accrued vacation	502	573
Accrued R&D studies	347	1,117
Deferred rent	215	221
Accrued accounting fees	121	315
	$ 5,872	$ 6,687

7. 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 is estimated based on current study progress. As of December 31, 2016, we have clinical research study obligations of $3.3 million, $3.2 million of which are expected to be complete within a year. Should the timing of the clinical trials change, the timing of the payment of these obligations would also change.

We lease facilities for our headquarters office location as well as international office locations. As of December 31, 2016, we have remaining lease obligations of $1.8 million, all of which is expected to be completed within a year. Rent expense, which includes common area maintenance, for the years ended December 31, 2016 and 2015 was $2.5 million and $2.5 million, respectively.

We are party to an agreement with Roche Diagnostics Corporation, our sole supplier of reagents, which requires us to make certain product purchase minimums. Pursuant to the agreement, as of December 31, 2016, we have a minimum purchase obligation as follows:

Years Ending December 31,	Obligation
2017	$ 1,074
2018	1,074
2019	1,473
2020	1,473
2021	1,473
Total	$ 6,567

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.

8. Long-term Obligations

On September 29, 2014 we entered into a 2nd Amendment to the 2013 Loan and Security Agreement (the "2013 Loan Agreement") with Oxford and Silicon Valley Bank. Pursuant to the amended 2013 Loan Agreement, and we were provided a conditional waiver of principal payments subject to meeting certain capital raise requirements, which we achieved in October. The waiver of principal payments continued through April 1, 2015 and we were then required to make payments of principal and accrued interest in equal monthly installments sufficient to amortize the Term Loan through the maturity date.

On May 29, 2015, we entered into the Loan and Security Agreement, dated May 29, 2015 (the "Loan and Security Agreement"), with Oxford, pursuant to which Oxford funded an aggregate principal amount of $17.7 million ("Term Loan"), subject to the terms and conditions set forth in the Loan and Security Agreement. The Term Loan accrues interest at a floating rate of at least 8.95% per annum, comprised of three-month LIBOR rate with a floor of 1.00% plus 7.95%. Pursuant to the Loan and Security Agreement, we were previously required to make interest only payments through June 1, 2016 and thereafter we were required to make payments of principal and accrued interest in equal monthly installments sufficient to amortize the Term loan through June 1, 2019, the maturity date. On February 23, 2016, we received an acknowledgement and agreement from Oxford related to the positive data on our U.S. ACT-OA clinical trial. As a result, pursuant to the Loan and Security Agreement, the period for which we are required to make interest-only payments was extended from July 1, 2016 to January 1, 2017. All unpaid principal and interest with respect to the Term Loan is due and payable in full on June 1, 2019. At maturity of the Term Loan, or earlier repayment in full following voluntary prepayment or upon acceleration, we are required to make a final payment in an aggregate amount equal to approximately $1.1 million. In connection with the Term Loan, on May 29, 2015, we issued to Oxford warrants to purchase an aggregate of 94,441 shares of our common stock at an exercise price of $10.35 per share. These warrants became exercisable as of November 30, 2015 and will expire on May 29, 2025 and, following the authoritative accounting guidance, are equity classified.

In connection with the Loan and Security Agreement, we prepaid all outstanding amounts under our prior loan agreement with Oxford and Silicon Valley Bank, at which time the Company's obligations under the prior loan agreement immediately terminated. We paid approximately $25.4 million to Oxford and Silicon Valley Bank, consisting of the then outstanding principal balance due of approximately $23.4 million, accrued but unpaid interest of approximately $0.2 million, final payment and other agency fees of approximately $1.8 million and other customary lender fees and expenses.

For Oxford, we accounted for this Term Loan as a debt modification. We retired $3.1 million of the principal of the previous loan and the corresponding unamortized fees were expensed. The remaining fees of $0.8 million were recorded as debt discount, and along with the new loan fees, are amortized as an adjustment of interest expense using the effective interest method. For Silicon Valley Bank, which did not participate in the Term Loan, the payoff of the loan was accounted for as debt extinguishment. Accordingly, a total loss on debt extinguishment of $0.3 million was recorded in 2015, which includes the unamortized fees and discounts along with final payment fees.

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 Oxford was calculated utilizing the Black-Scholes option pricing model. The Black-Scholes option-pricing model incorporates various and highly sensitive assumptions including expected volatility, expected term and risk-free interest rates. The expected volatility is based on the historical volatility of the Company's common

stock over the most recent period. The risk-free interest rate for period within the contractual life of the warrant is based on the U.S. Treasury yield in effect at the time of grant. We amortize the relative fair value of the warrants at the issuance date as a discount of $0.8 million over the term of the loan using the effective interest method, with an effective interest rate of 14.95%. The Term Loan is collateralized by a security interest in substantially all of the Company's existing and subsequently acquired assets, subject to certain exceptions set forth in the Loan and Security Agreement and excluding its intellectual property assets, which are subject to a negative pledge. The minimum liquidity covenant is $5 million. As of December 31, 2016 we were in compliance with the debt covenants.

Additional details relating to the outstanding Term Loan as of December 31, 2016 and 2015 are presented in the following table (in thousands):

Year ended December 31, 2016

Origination Date	Original Loan Amount	Interest Rate**	Current Monthly Payment*	Original Term	Remaining Principal (Face Value)
May 2015	$ 17,700	8.95%	$ 136	48 Months	$ 17,700

Year ended December 31, 2015

Origination Date	Original Loan Amount	Interest Rate**	Current Monthly Payment***	Original Term	Remaining Principal (Face Value)
May 2015	$ 17,700	8.95%	$ 136	48 Months	$ 17,700

* *Monthly payment as of December 2016, which reflects interest only*
** *3 month LIBOR rate with a floor of 1% plus 7.95%*

As of December 31, 2016, the future contractual principal and final fee payments on all of our debt and capital lease obligations are as follows (as thousands):

Years Ending December 31,	
2017	$ 7,080
2018	7,080
2019	4,629
Total	$ 18,789

Reconciliation of Face Value to Book Value as of December 31, 2016	
Total debt and lease obligations, including final payment fee (Face Value)	$ 18,789
Less: Debt discount	(1,152)
Total obligation	$ 17,637

Our interest expense for the years ended December 31, 2016 and 2015 was $2.6 million and $3.4 million, respectively. Interest expense is calculated using the effective interest method, therefore it is inclusive of non-cash amortization in the amount of $1.0 million and $1.0 million, respectively, related to the amortization of the debt discount related to the capitalized loan costs and accretion of final payment.

9. Income Taxes

Due to our net losses for the years ended December 31, 2016 and 2015, and since we have recorded a full valuation allowance against deferred tax assets, there was no provision or benefit for income taxes recorded. We recorded an immaterial amount pertaining to current foreign income tax provision expense for the year ended December 31, 2016 and no components of current or deferred federal or state income tax provisions for the years ended December 31, 2015.

A reconciliation of the total income tax provision tax rate to the statutory federal income tax rate of 34% for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Income tax expense (benefit) at federal statutory rate	(34.00)%	(34.00)%
Income tax expense (benefit) at state statutory rate	(3.41)%	(4.40)%
Mark to market permanent adjustment	0.00%	(13.91)%
Change in valuation allowance	16.75%	(7.45)%
Change in state rate	(0.06)%	(0.09)%
Permanent interest adjustments	0.16%	6.25%
Stock compensation	12.67%	20.43%
Transfer pricing	0.00%	18.49%
Research credit	(1.44)%	(2.37)%
Foreign rate differential	0.79%	0.69%
NOLs expiring and adjustments to NOL	6.00%	13.92%
Other, net	2.54%	2.44%
	0.00%	0.00%

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Allowances and reserves	$ 573	$ 673
Accrued expenses	701	951
Deferred revenue and gain-on-sale	33	39
Stock based compensation	1,947	4,547
Net operating loss carryforwards	125,182	119,000
Income tax credit carryforwards	7,764	7,437
Property and equipment, principally due to differences in depreciation	675	683
Other, net	15	16
	136,890	133,346
Valuation allowance	(134,873)	(131,187)
Total deferred tax assets, net of allowance	2,017	2,159
Deferred tax liabilities:		
Intangibles assets	(2,017)	(2,159)
Total deferred tax liability	(2,017)	(2,159)
Net deferred tax assets (liability)	$ —	$ —

We have established a valuation allowance against our net deferred tax assets due to the uncertainty surrounding the realization of such assets. We periodically evaluate the recoverability of the deferred tax assets. At such time as it is determined that it is more likely than not that deferred assets are realizable, the valuation allowance will be reduced. We have recorded a full valuation allowance of $134.9 million as of December 31, 2016 as we do not believe it is more likely than not our net deferred tax assets will be realized. We increased our valuation allowance by approximately $3.7 million during the year ended December 31, 2016.

At December 31, 2016, we had federal, and state tax loss carry forwards of approximately $344.2 million, and $158.1 million. The federal and state net operating loss carry forwards begin to expire in 2019 and 2017, respectively, if unused. At December 31, 2016, we had federal and state tax credit carry forwards of approximately $4.9 million and $4.4 million, respectively, after reduction for uncertain tax positions. The Company has not performed a formal research and development credit study with respect to these credits. The federal credits will begin to expire in 2018, if unused, and the state credits carry forward indefinitely.

Pursuant to the Internal Revenue Code ("IRC") of 1986, as amended, specifically IRC §382 and IRC §383, our ability to use net operating loss and R&D tax credit carry forwards ("tax attribute carry forwards") to offset future taxable income is limited if we experience a cumulative change in ownership of more than 50% within a three-year testing period. We have not completed an ownership change analysis pursuant to IRC Section 382 for taxable years ended after December 31, 2007. If ownership changes

within the meaning of IRC Section 382 are identified as having occurred subsequent to 2007, the amount of remaining tax attribute carry forwards available to offset future taxable income and income tax expense in future years may be significantly restricted or eliminated. Further, our deferred tax assets associated with such tax attributes could be significantly reduced upon realization of an ownership change within the meaning of IRC §382.

We recognize tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carry forwards resulting from windfall tax benefits. At December 31, 2016, deferred tax assets do not include $1.3 million of excess tax benefits from stock-based compensation.

The Company follows the provisions of income tax guidance which provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. The guidance requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company has not recognized any liability for uncertain tax positions as of December 31, 2016 and 2015.

Following is a tabular reconciliation of the unrecognized tax benefits activity during the years ended December 31, 2016 and 2015 (in thousands):

	2016	2015
Unrecognized Tax Benefits – Beginning	$ 1,987	$ 1,852
Gross increases – tax positions in prior period	1	—
Gross decreases – tax positions in prior period	(13)	—
Gross increase – current-period tax positions	87	135
Unrecognized Tax Benefits – Ending	$ 2,062	$ 1,987

The unrecognized tax benefit amounts are reflected in the determination of the Company's deferred tax assets. If recognized, none of these amounts would affect the Company's effective tax rate, since it would be offset by an equal reduction in the deferred tax asset valuation allowance. The Company does not foresee material changes to its liability for uncertain tax benefits within the next twelve months.

The Company's material tax jurisdictions are United States and California. The Company is currently not under examination by the Internal Revenue Service or any other taxing authority.

The Company's tax years for 1998 (federal) and 1997 (CA) and forward can be subject to examination by the United States and California tax authorities due to the carry forward of net operating losses and research development credits.

10. Employee Benefit Plan

We implemented a 401(k) retirement savings and profit sharing plan (the "Plan") effective January 1, 1999. We may make discretionary annual contributions to the Plan, which is allocated to the profit sharing accounts based on the number of years of employee service and compensation. At the sole discretion of the Board of Directors, we may also match the participants' contributions to the Plan. We made no discretionary or matching contributions to the Plan in 2016 or 2015.

11. Stockholders' Equity

Preferred Stock

We have authorized 5 million shares of $0.001 par value preferred stock. Our Board of Directors is authorized to designate the terms and conditions of any preferred stock we issue without further action by the common stockholders. There were 13,500 shares of Series A 3.6% Convertible Preferred Stock that had been issued at December 31, 2016 and 2015, none of which were outstanding as of either date.

All outstanding shares of the Series A 3.6% Convertible Preferred Stock were converted into common stock during the fourth quarter of 2014 and the first quarter of 2015 at the option of the holders. The fair value of the common stock into which the Series A 3.6% Convertible Preferred Stock was convertible on the date of issuance exceeded the proceeds allocated to the preferred stock, resulting in the beneficial conversion feature that we recognized as a dividend to the preferred stockholders and, accordingly, an adjustment to net loss to arrive at net loss allocable to common stockholders. Certain shares of Series A 3.6% Convertible Preferred Stock were not convertible until stockholder approval, which occurred in January 2015. As a result, a dividend for the beneficial conversion feature of $0.7 million was recorded during the quarter ended March 31, 2015.

In connection with the 3.6% Convertible Preferred Stock outstanding at December 31, 2014, we declared a cash dividend of $0.07 million. The cash dividend was paid in January and April 2015.

Common Stock

In May 2015, the Company entered into a Securities Purchase Agreement with certain institutional investors pursuant to which the Company agreed to sell up to $25.0 million of units, with each unit consisting of one share of its common stock and one warrant to purchase one share of its common stock, in a registered direct offering. The purchase and sale of the units took place in two separate closings. At the initial closing, which took place on May 8, 2015, the Company received approximately $17.4 million in net proceeds from the sale of units. The second closing occurred on August 27, 2015 upon satisfaction of certain conditions, including, without limitation, stockholder vote, and the Company received approximately $2.1 million in net proceeds from the sale of 500,000 units of the 1,000,000 units available for sale at the second closing.

On December 17, 2015, the Company and the holders of October 2014 warrants agreed to amend the October 2014 Warrants pursuant to an Amendment to Common Stock Purchase Warrant (the "2014 Amendment"). Also on December 17, 2015, the Company and the holders of the May 2015 Warrants and the August 2015 Warrants (collectively the "2015 Warrants") agreed to amend the 2015 Warrants pursuant to an Amendment to Series A-1 Warrant to Purchase Common Stock and Amendment to Series A-2 Warrant to Purchase Common Stock, respectively (the "2015 Amendment" and, together with the 2014 Amendment, the "Warrant Amendments"). The Warrant Amendments provided that the holders may exercise their warrants on a "cashless exercise" basis in whole on or prior to December 31, 2015, whereby each exercising holder of the amended 2015 Warrants would receive 0.75 shares for each warrant share exercised and each exercising holder of the amended 2014 Warrants would receive 0.69 shares for each warrant share exercised. In addition, the Warrant Amendments removed certain provisions which provided that the exercise price of the Warrants would be reset in the event of certain equity issuances by the Company for a price below the exercise price of the Warrants at the time of such issuance. All 2014 Warrants and all 2015 Warrants were cashless exercised on or before December 31, 2015.

During 2016, we sold 1,840,982 shares of our common stock under an at-the-market offering program ("ATM"), receiving total net proceeds of approximately $4.4 million. During 2015, we sold 5,800,000 shares of our common stock under the ATM program, receiving total net proceeds of approximately $7.2 million.

Pursuant to a registration statement on Form S-1, originally filed on April 6, 2016, as amended, and declared effective by the SEC on May 26, 2016, and related prospectus (as supplemented), the Company registered, offered and sold to its participating stockholders of record as of the announced May 20, 2016 record date, one non-transferable subscription right for each share of common stock held by each stockholder as of the record date. Each right entitled the holder thereof to purchase one unit at the subscription price of $2.55 per unit, composed of one share of common stock and 0.5 of a warrant, with each whole warrant exercisable to purchase one share of common stock at an exercise price of $3.06 per share for 30 months from the date of issuance. Pursuant to the Rights Offering, which closed on June 15, 2016, the Company sold an aggregate of 6,704,852 units, resulting in total net proceeds to the Company of $15.3 million, respectively. The warrants issued pursuant to the Rights Offering are currently listed on NASDAQ under the symbol "CTYXW." Based on the relevant authoritative accounting guidance, the warrants were equity classified at the issuance date. Upon notice to the warrant holders, the warrants may be redeemed by the Company at $0.01 per warrant prior to their expiration and exercise if the Company's common stock closes above $7.65 per share for 10 consecutive trading days.

On December 22, 2016, we entered into the Lincoln Park Purchase Agreement pursuant to which we have the right to sell to Lincoln Park and Lincoln Park is obligated to purchase up to $20.0 million in amounts of shares, of our common stock, over the 30-month period commencing on the date that a registration statement, which we filed with the SEC in December 2016. We may direct Lincoln Park, at its sole discretion and subject to certain conditions, to purchase up to 100,000 shares of common stock on any business day but in no event will the amount of a single Regular Purchase (as defined in the Lincoln Park Purchase Agreement) exceed $1.0 million. The purchase price of shares of common stock related to the Regular Purchases will be based on the prevailing market prices of such shares at the time of sales. Our sales of shares of common stock to Lincoln Park under the Lincoln Park Purchase Agreement are limited to no more than the number of shares that would result in the beneficial ownership by Lincoln Park and its affiliates, at any single point in time, of more than 9.99% of the then outstanding shares of the common stock. There are no trading volume requirements or restrictions under the Lincoln Park Purchase Agreement. There is no upper limit on the price per share that Lincoln Park must pay for common stock under a Regular Purchase or an accelerated purchase and in no event will shares be sold to Lincoln Park on a day our closing price is less than the floor price of $0.50 per share as set forth in the Purchase Agreement. On December 22, 2016, we issued to Lincoln Park 127,419 shares of common stock with a market value on the date of issuance of approximately $0.2 million as commitment shares in consideration for entering into the Lincoln Park Purchase Agreement. We will issue up to an additional 382,258 shares of common stock on a pro rata basis to Lincoln Park only as and when shares are sold under the Lincoln Park Purchase Agreement to Lincoln Park. To date, we have sold no shares under the Lincoln Park Purchase Agreement with Lincoln Park.

12. Stock-based Compensation

In August 2014, we adopted the 2014 Equity Incentive Plan (the "2014 Plan"), which provides our employees, directors and consultants the opportunity to purchase our common stock in the form of options (incentive or non-qualified), stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance units, cash-based awards other stock-based awards, and deferred compensation awards. The 2014 Plan initially provides for issuance of 265,000 shares of our common stock. In May 2016, the Company amended the 2014 Plan to add 333,333 shares to its share pool. In August 2015, the Company amended the 2014 Plan to add 301,800 shares to its share pool. In addition, the amendment increased the number of "incentive stock options" which may be issued under the 2014 Plan by an identical amount.

On December 29, 2015, we adopted the 2015 New Employee Incentive Plan (the "2015 Plan"). Awards under the 2015 Plan may only be made to an employee who has not previously been an employee or member of the Board of any parent or subsidiary, or following a bona fide period of non-employment by the Company or a parent or subsidiary, if he or she is granted such award in connection with his or her commencement of employment with the Company or a subsidiary and such grant is an inducement material to his or her entering into employment with the Company or such subsidiary. The 2015 Plan provides for issuance of 66,666 shares.

As of December 31, 2016, there are 525,965 shares of common stock remaining and available for future issuances under the 2014 Plan, which is exclusive of securities to be issued upon an exercise of outstanding options, warrants, and rights.

Stock Options

Generally, options issued under the 2014 Plan, are subject to four-year vesting, and have a contractual term of 10 years. Most options contain one of the following two vesting provisions:

- 12/48 of a granted award will vest after one year of service, while an additional 1/48 of the award will vest at the end of each month thereafter for 36 months, or
- 1/48 of the award will vest at the end of each month over a four-year period.

A summary of activity for the year ended December 31, 2016 is as follows:

	Options	Weighted Average Exercise Price
Balance as of January 1, 2016	573,727	$ 44.85
Granted	347,407	$ 2.73
Expired	(23,979)	$ 104.11
Cancelled/forfeited	(261,043)	$ 32.07
Balance as of December 31, 2016	636,112	$ 24.39

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance as of December 31, 2016	636,112	$ 24.39	7.38	$ —
Vested and expected to vest at December 31, 2016	598,135	$ 25.72	7.27	$ —
Exercisable at December 31, 2016	286,358	$ 47.76	5.54	$ —

There were no stock options exercised in 2016 or 2015.

The fair value of each option awarded during the year ended December 31, 2016 and 2015 was estimated on the date of grant using the Black-Scholes-Merton option valuation model based on the following weighted-average assumptions:

	Years ended December 31, 2016	2015
Expected term	6.0 years	6.0 years
Risk-free interest rate	1.75%	1.58%
Volatility	77.56%	75.07%
Dividends	—	—
Resulting weighted average grant date fair value	$ 1.84	$ 4.50

The weighted average risk-free interest rate represents the interest rate for treasury constant maturity instruments published by the Federal Reserve Board. If the term of available treasury constant maturity instruments is not equal to the expected term of an employee option, we use the weighted average of the two Federal Reserve securities closest to the expected term of the employee option.

The dividend yield has been assumed to be zero as we (a) have never declared or paid any dividends and (b) do not currently anticipate paying any cash dividends on our outstanding shares of common stock in the foreseeable future.

Restricted Stock Awards

Generally, restricted stock awards issued under the 2014 Plan are subject to a vesting period that coincides with the fulfillment of service requirements for each award and have a contractual term of 10 years. These awards are amortized to compensation expense over the estimated vesting period based upon the fair value of our common stock on the award date.

A summary of activity for the year ended December 31, 2016 is as follows:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Balance as of January 1, 2016	31,196	$ 12.15
Vested/Released	(11,568)	$ 15.18
Cancelled/forfeited	(19,113)	$ 10.03
Balance as of December 31, 2016	515	$ 64.52

The following summarizes the total compensation cost recognized for the stock options and restricted stock awards in the accompanying financial statements (in thousands):

	Years ended December 31,	
	2016	2015
Total compensation cost for share-based payment arrangements recognized in the statement of operations (net of tax of $0)	$ 1,080	$ 2,041

As of December 31, 2016, the total compensation cost related to non-vested stock options and stock awards not yet recognized for all our plans is approximately $1.0 million, which is expected to be recognized as a result of vesting under service conditions over a weighted average period of 1.58 years.

To settle stock options and restricted stock awards, we will issue new shares of our common stock. At December 31, 2016, we have an aggregate of 49,708,768 shares authorized and available to satisfy option exercises under our plans.

13. Quarterly Information (unaudited)

The following unaudited quarterly financial information includes, in management's opinion, all the normal and recurring adjustments necessary to fairly state the results of operations and related information for the periods presented (in thousands):

	For the three months ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Product revenues	$ 1,333	$ 1,126	$ 731	$ 1,466
Gross profit	766	541	113	521
Development revenues	1,585	1,699	1,879	1,561
Operating expenses	(7,448)	(8,464)	(6,789)	(5,670)
Other expense, net	(242)	(181)	(587)	(1,330)
Net income (loss)	$ (5,339)	$ (6,405)	$ (5,384)	$ (4,918)
Beneficial conversion feature for convertible preferred stock	—	—	—	—
Net income (loss) allocable to common stock holders	(5,339)	(6,405)	(5,384)	(4,918)
Basic and diluted net loss per share	$ (0.41)	$ (0.43)	$ (0.26)	$ (0.24)

	For the three months ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Product revenues	$ 902	$ 1,614	$ 766	$ 1,556
Gross profit	305	318	264	765
Development revenues	1,444	1,847	1,710	1,820
Operating expenses	(22,745)	3,626	16	(4,656)
Other expense, net	(961)	(1,342)	(470)	(685)
Net income (loss)	$ (21,957)	$ 4,449	$ 1,520	$ (2,756)
Beneficial conversion feature for convertible preferred stock	(661)	—	—	—
Net income (loss) allocable to common stock holders	(22,618)	4,449	1,520	(2,756)
Basic and diluted net loss per share	$ (3.19)	$ 0.45	$ 0.15	$ (0.25)

14. Subsequent Events

Azaya Therapeutics, Inc. Assets

On February 15, 2017 (the "Closing Date"), Cytori completed the acquisition from Azaya Therapeutics, Inc. ("Azaya") of substantially all of the assets and the assumption of certain of liabilities, pursuant to an Asset Purchase Agreement. Pursuant to the Acquisition, Cytori has acquired the rights, title and interest in and to (i) Azaya's ATI-0918 drug candidate, a generic bioequivalent formulation of DOXIL/CAELYX, a chemotherapy drug that is a liposomal encapsulation of doxorubicin (ATI-0918); (ii) Azaya's ATI-1123 drug candidate, a liposomal formulation of docetaxel (ATI-1123); and (iii) certain equipment, inventory and other assets necessary to develop, manufacture, test and validate ATI-0918 and ATI-1123.

Under the terms of the Purchase Agreement, at the closing of the Acquisition, the Company (i) issued 1,173,241 of shares of its common stock, par value, $0.001 per share , in Azaya's name, (A) 879,931 of which will be delivered to Azaya promptly after the Closing, and (B) 293,310 of which will be deposited into a 15-month escrow pursuant to a standard escrow agreement; and (ii) assumed the obligation to pay approximately $2.0 million of Azaya's existing trade payables, which payments the Company intends to make at or within thirty days after the Closing. The price per share was $1.7047, which price was equal to the volume weighted average closing price of the shares on the Nasdaq Capital Market over the ten consecutive trading days ending on the trading date immediately prior to the date of the Closing Date.

In addition, as of the Closing Date, the Company assumed obligations to: (i) pay Azaya fixed commercialization milestone payments based upon achievement of certain net sales milestones for ATI-0918; (ii) make certain earn-out payments to Azaya equal to a mid-single-digit percentage of net sales of ATI-0918; and (iii) make certain earn-out payments to Azaya equal to a low single-digit percentage of net sales of any product (each a "Patented Product"), including ATI-1123, that practices a claim in the related patent assigned by Azaya to the Company (the "ATI-1123 Patent"). Cytori's aggregate earn-out payment obligations to Azaya from global net sales of both ATI-0918 and any Patented Product will not exceed $100.0 million (the "Earn-Out Cap").

Further, the Purchase Agreement provides that if Cytori enters into certain assignments, licenses or other transfers of rights to a Patented Product or the ATI-1123 Patent, the Company will pay Azaya a percentage in the low to mid-teens of the consideration received by the Company, provided, that Cytori's aggregate payment obligation to Azaya for any such assignment, license or other transfer of rights will not exceed $50.0 million.

If the Company or its successors, sublicenses or transferees sells a competing product to ATI-0918 at any time prior to satisfaction of the Earn-Out Cap, other than because ATI-0918 fails to receive marketing authorization from the European Medicines Agency within a certain period of time or fails to generate a minimum threshold of net sales within a pre-determined amount of time, then 50% of the net sales of such competing product would be deemed to be net sales of ATI-0918 under the Purchase Agreement for purposes of calculating commercialization milestone payments and earn-out payments.

Both the Company and Azaya agreed to customary representations, warranties and covenants in the Purchase Agreement. Each party also agreed to customary indemnification obligations, provided, that Azaya's maximum liability to the Company for breaches of Azaya's representations and warranties in the Purchase Agreement and any ancillary agreements entered into in connection therewith, is limited to $3.9 million, subject to limited exceptions.

Lease Agreement

On February 27, 2017, Cytori entered into a Lease Agreement (the "Lease") with 6262 Lusk Investors LLC, a California limited liability company ("Landlord"), for approximately 29,499 square feet of office space for the Company's corporate headquarters in San Diego, California. The initial term of the Lease is 63 months, and may be extended upon mutual agreement of the Company and the Landlord. The Lease is scheduled to commence on November 1, 2017 date, unless the premises are earlier occupied by the Company or the commencement date is delayed to allow for substantial completion of tenant improvements.

Under the Lease, the Company will be obligated to pay base rent as follows (in thousands):

- Year 1: $761;
- Year 2: $784;
- Year 3: $807;
- Year 4: $832;
- Year 5: $857;
- Months 61-63: $74 per month ($882 annualized base rent).

In addition to the base rent, the Company will also be obligated under the Lease to make certain payments for operating expenses, property taxes, insurance, insurance deductibles and other amounts.

In connection with the Lease, the Company issued a letter of credit, or Letter of Credit, in favor of the Landlord in the initial principal amount of $0.1 million, which Letter of Credit will increase to $0.3 million on June 1, 2017, and to $0.5 million on the commencement date. The Letter of Credit will remain in effect for the term of the Lease.

The Company has agreed to customary indemnifications of the Landlord and its affiliates arising out of the Company's use of the rented premises, breaches of the Company's obligations under the Lease and similar matters (except to the extent arising out of the Landlord's gross negligence or willful misconduct).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) 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 Annual Report on Form 10-K. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Annual Report were effective.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and our Board of Directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this annual report on Form 10-K based on the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2016 based on the COSO criteria.

This report does not include an attestation report on internal control over financial reporting by the Company's independent registered public accounting firm since the Company is a smaller reporting company under the rules of the SEC.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth biographical information regarding our directors as of February 28, 2017

DIRECTORS AND BUSINESS EXPERIENCE

Name	Age	Position
David M. Rickey	61	Chairman of the Board
Marc H. Hedrick, MD	54	President and Chief Executive Officer and Director
Richard J. Hawkins	68	Director
Paul W. Hawran	64	Director
Gary A. Lyons	65	Director
Ronald A. Martell	55	Director
Gail K. Naughton, Ph.D.	61	Director

David M. Rickey has served on our Board since November 1999 and has served as the Chairman of our Board since June 2013. Mr. Rickey was previously President and Chief Executive Officer of Applied Micro Circuits Corporation, or AMCC, a publicly-held company that provides high-performance, high-bandwidth silicon solutions for optical networks, from February 1996 to March 2005. Mr. Rickey served on the Board of AMCC from February 1996 to March 2005, and as its Chairman from August 2000 to March 2005. Mr. Rickey also served as a director of AMI Semiconductor, Inc. from 2000 to 2006 and was a director of Netlist, Inc. from 2005 to 2008, as well as several private technology companies. He holds a B.S. from Marietta College, a B.S. from Columbia University and an M.S. from Stanford University. Mr. Rickey's qualifications to sit on our Board include his extensive executive experience and his service on other public company boards and committees.

Marc H. Hedrick, M.D. was appointed as Chief Executive Officer of the Company in April 2014. He was appointed as President of the Company in May 2004, and joined us as Chief Scientific Officer and Medical Director in October 2002. Dr. Hedrick has also served as a member of our Board since October 2002. In December 2000, Dr. Hedrick co-founded and served as President and Chief Executive Officer and Director of StemSource, Inc., a privately-held company specializing in stem cell research and development, which was acquired by us in 2002. He is a plastic surgeon and is a former Associate Professor of Surgery and Pediatrics at the University of California, Los Angeles, or UCLA. From 1998 until 2005, he directed the Laboratory of Regenerative Bioengineering and Repair for the Department of Surgery at UCLA. Dr. Hedrick earned his M.D. degree from University of Texas Southwestern Medical School, Dallas and an M.B.A. from UCLA Anderson School of Management. Dr. Hedrick's qualifications to sit on our Board include his experience as a general, vascular and plastic surgeon; his academic appointments and achievements in the life sciences; his executive and managerial experience in stem cell research and scientific product development; and his foundational knowledge and experience of and contributions to our technology and operations. In addition, Dr. Hedrick has extensive global experience and familiarity with the cell therapy and regenerative medical industry.

Richard J. Hawkins has served on our Board since December 2007. In 1982, Mr. Hawkins founded Pharmaco, a clinical research organization, or CRO, that merged with the predecessor of PPD-Pharmaco in 1991 and is one of the largest CROs in the world today. In 1992, Mr. Hawkins co-founded Sensus Drug Development Corporation, or SDDC, a privately-held company focused on the treatment of drugs to treat endocrine disorders, which developed and received regulatory approval for SOMAVERT®, a growth hormone antagonist approved for the treatment of acromegaly, which is now marketed by Pfizer, Inc., and he served as Chairman of SDDC until 2000. In 1994, Mr. Hawkins co-founded Corning Biopro, a contract protein manufacturing firm, where he served on the Board until Corning BioPro's sale to Akzo-Nobel, N.V., a publicly-held producer of paints, coatings and specialty chemicals, in 2000. In September 2003 Mr. Hawkins founded LabNow, Inc., a privately held company that develops lab-on-a-chip sensor technology, where he served as the Chairman and CEO until October 2009. Mr. Hawkins has served on the Board of SciClone Pharmaceuticals, Inc., a publicly-held specialty pharmaceutical company, since October 2004. In February 2011, Mr. Hawkins became CEO, and is currently CEO, of Lumos Pharma, Inc., a privately-held pharmaceutical company. He served on the Presidential Advisory Committee for the Center for Nano and Molecular Science and Technology at the University of Texas in Austin, and was inducted into the Hall of Honor for the College of Natural Sciences at the University of Texas. Mr. Hawkins graduated cum laude with a B.S. in Biology from Ohio University. Mr. Hawkins's qualifications to sit on our Board include his executive experience working with life sciences companies, his extensive experience in pharmaceutical research and development, his knowledge, understanding and experience in the regulatory development and approval process and his service on other public company boards and committees.

Paul W. Hawran has served on our Board since February 2005. Mr. Hawran has held various executive, strategic, financial and operational positions in the health care industry for over 30 years. Mr. Hawran was a founder and President and CEO of Ascendant MDx, a molecular diagnostic testing company focused on women's health care, through June 2013. Prior to Ascendant MDx, Mr. Hawran was the Chief Financial Officer of Sequenom, Inc., a publicly traded genetics company, from April 2007 to September 2009, served on their Board from August 2006 to February 2007 and was the Chairman of the Audit Committee of the Board. Mr. Hawran also served as a Founder, Executive Vice President and Chief Financial Officer of Neurocrine Biosciences, or Neurocrine, a publicly traded company engaged in pharmaceutical drug development, from May 1993 through September 2006, and as a Senior Advisor to Neurocrine from September 2006 through April 2007. Mr. Hawran was employed by SmithKline Beecham (now Glaxo SmithKline) from July 1984 to May 1993, most recently as Vice President and Treasurer. Prior to joining SmithKline Beecham in 1984, he held various financial positions at Warner Communications (now Time Warner) involving corporate finance and financial planning and forecasting. Mr. Hawran earned a B.S. in Finance from St. John's University and an M.S. in Taxation from Seton Hall University. He is a Certified Public Accountant (currently inactive) and is a member of the American Institute of Certified Public Accountants. Mr. Hawran's qualifications to sit on our Board include his executive experience in life sciences industries, his extensive experience in strategic and corporate finance and planning, his status as an audit committee financial expert within the meaning of Item 407(d)(5) of SEC Regulation S-K and his service on other public company boards and committees

Gary A. Lyons has served on our Board since October 2013. Mr. Lyons has served on the Board of Neurocrine Biosciences, Inc., or Neurocrine, since 1993 and served as the President and Chief Executive Officer of Neurocrine from 1993 through January 2008. Prior to joining Neurocrine, Mr. Lyons held a number of senior management positions at Genentech, Inc., including Vice President of Business Development and Vice President of Sales. Mr. Lyons has served on the Boards of Rigel Pharmaceuticals, Inc., a publicly-held biotechnology company, since October 2005 (and as Chairman since November 2014); Vical Incorporated, a publicly-held biopharmaceutical company, since 1997; and Retrophin, Inc., a publicly-held biopharmaceutical company, since 2014 (and as Chairman since May 2016). Mr. Lyons was previously a director of PDL BioPharma, Inc., Poniard Pharmaceuticals, Inc., Neurogesx, KaloBios Pharmaceuticals, Inc. and Facet Biotech Corporation. Mr. Lyons holds a B.S. in Marine Biology from the University of New Hampshire and an M.B.A. from Northwestern University's J.L. Kellogg Graduate School of Management. Mr. Lyons' qualifications to sit on our Board include his executive experience working with life sciences companies, his extensive experience in pharmaceutical business development, his knowledge, understanding and experience in the regulatory development and approval process and his service on other public company boards and committees.

Ronald A. Martell has served on our Board since December 2016. Mr. Martell has more than 25 years' experience building and managing unique businesses in the biotech industry. Mr. Martell is currently a founder of Achieve Life Sciences, ORCA BioSystems, Inc. and Cetya Therapeutics, Inc. Most recently he served as Chief Executive Officer of Sevion Therapeutics and Executive Chairman of KaloBios Pharmaceuticals, Inc. Prior to Sevion, Mr. Martell was President and CEO of NeurogesX and sold the company's assets to Acorda Therapeutics. Prior to NeurogesX he was Chief Executive Officer of Poniard Pharmaceuticals. Before joining Poniard he served in the capacity of the Office of the CEO and as Senior Vice President of Commercial Operations at ImClone Systems. Mr. Martell built ImClone Systems' Commercial Operations and field sales force to market and commercialize Erbitux® with partners Bristol-Myers Squibb and Merck KGaA. Prior to joining ImClone Systems, Mr. Martell worked for 10 years at Genentech, Inc., or Genentech, in a variety of positions, the last of which was Group Manager, Oncology Products. At Genentech, he was responsible for the launch of Herceptin® for metastatic HER-2 positive breast cancer and Rituxan® for non-Hodgkin's lymphoma. Mr. Martell began his career at Roche Pharmaceuticals. Mr. Martell's qualifications to sit on our Board include his executive experience working for life sciences companies, his extensive experience in pharmaceutical business development, his knowledge, understanding of and experience in developing and commercializing pharmaceutical products, and his service on other public company boards and committees.

Gail K. Naughton, Ph.D., has served on our Board since July 2014. Dr. Naughton is the founder of Histogen, Inc., or Histogen, a private regenerative medicine company developing innovative therapies based upon the products of cells grown under simulated embryonic conditions. She has served as Histogen's Chief Executive Officer and Chairman of the Board since the company's inception in 2007. Prior to that, Dr. Naughton held key management positions, including President, Chief Operating Officer and Director, at Advanced Tissue Sciences, a company which she co-founded and was co-inventor of the core technology. Dr. Naughton has also served on the Board of C.R. Bard, Inc. since July 2004. Dr. Naughton holds a B.S. in Biology from St. Francis College as well as a Master's in Histology and a Ph.D. from New York University Medical Center. She also holds an EMBA from the Anderson School of Business at the University of California, Los Angeles. Dr. Naughton's qualifications to sit on our Board include her extensive executive experience, her in-depth knowledge of the healthcare industry and regenerative medicine technology, and her service on other public company boards and committees.

EXECUTIVE OFFICERS AND BUSINESS EXPERIENCE

The following table sets forth biographical information regarding our executive officers as of February 28, 2017.

Name	Age	Position(s)
Marc H. Hedrick, M.D.[(1)]	54	President, Chief Executive Officer and Director
Tiago Girão	37	Vice President, Finance & Chief Financial Officer
John Harris	48	Vice President and General Manager of Cell Therapy
Mark Marino, M.D.	57	Senior Vice President and Chief Medical Officer
Jeremy Hayden	47	General Counsel, Chief Compliance Officer, Secretary and Vice President of Business Development

(1) See "Directors and Business Experience" above for biographical information regarding Dr. Hedrick.

Tiago Girão joined us as Vice President of Finance and Chief Financial Officer in September 2014. Mr. Girão joined us from NuVasive, Inc., or NuVasive, a publicly-held medical device company, where he last served as International Controller from February 2014 to August 2014. Prior to his position as International Controller, he served as NuVasive's Director of Financial Reporting from March 2012 to February 2014. In his position as Director of Financial Reporting, Mr. Girao managed a team responsible for all corporate technical accounting and SEC-related matters for Nuvasive. Prior to joining NuVasive, Mr. Girão served as Senior Manager, Assurance at KPMG, LLP from October 2004 to March 2012. Prior to joining KPMG, Mr. Girão was a senior accountant for Ernst &Young in Brazil from October 2000 to August 2004. Mr. Girão is a certified public accountant with over 15 years' experience in the accounting, finance and reporting for U.S. and public companies and substantial experience in global finance and operations.

John D. Harris has served as our Vice President and General Manager of Cell Therapy since he joined us in October 2015. Mr. Harris has over 20 years' experience in medical device and biotechnology, most recently serving as the Vice President and General Manager of Becton Dickinson's operations in Japan. Prior to Becton Dickinson, Mr. Harris held business development, product development, and marketing and sales leadership roles with Tyco Electronics (now TE Connectivity Corp.), Delphi Automotive, Sorenson Medical, Kimberly-Clark Healthcare and Ballard Medical Products. Mr. Harris is a member of the Board of Governors of the American Chamber of Commerce in Japan (ACCJ) and a member of the Executive Committee of the American Medical Device & Diagnostics Association, where he chairs the Regenerative Medicine Working Group. Mr. Harris holds Master of Business Administration and Bachelor of Arts degrees from the University of Utah.

Mark Marino, M.D. joined us as Senior Vice President of Medical Affairs in May 2016, and was also appointed as Chief Medical Officer of the Company in August 2016. Before joining us, Dr. Marino served as Senior Vice President of Early Clinical Development for Turing Pharmaceuticals from November 2015 to May 2016. Prior to Turing, Dr. Marino served as Executive Director of Clinical Development at Daiichi-Sankyo from September 2012 to February 2013, and then as Vice President of Clinical Development at Daiichi-Sankyo from February 2013 to November 2015. Prior to Daiichi-Sankyo, Dr. Marino held various senior clinical positions at Archimedes Pharma, Inc., MannKind Corporation and Hoffman-LaRoche from August 2006 to September 2012. Dr. Mario also previously served as Chief of the Department of Pharmacology at the Walter Reed Army Institute of Research as well as Associate Professor of Medicine at the Uniformed Services University of the Health Sciences and a staff physician at the Walter Reed Army Medical Center. Dr. Marino received his medical degree from the Albert Einstein School of Medicine and his specialty training in internal medicine at the Eisenhower Army Medical Center and sub-specialty training in Clinical Pharmacology at the Uniformed Services University of the Health Sciences.

Jeremy B. Hayden joined us as General Counsel and Vice President of Business Development in July 2015. Prior to joining us, Mr. Hayden served as Assistant General Counsel at Volcano Corporation, a publicly-held medical device company that was acquired by Koninklijke Philips N.V in early 2015. Prior to Volcano Corporation, Mr. Hayden practiced corporate and securities law at several national and international law firms, including Mintz Levin Cohn Ferris Glovsky & Popeo, P.C. and McKenna Long & Aldridge, LLP (now Dentons). Mr. Hayden received his A.B. in Politics from Princeton University and his J. D. from the University of Michigan Law School.

CORPORATE GOVERNANCE

During 2016:

- the Board held eleven meetings and took action via unanimous written consent six times;
- the Audit Committee met eight times and took action via unanimous written consent one time;
- the Compensation Committee met two times and took action via unanimous written consent one times;
- the Governance and Nominating Committee met three times and did not take any actions via unanimous written consent;
- the Executive Committee met one time did not take action via unanimous written consent; and
- the sub-committee of the Executive Committee, comprised of our Chairman and our CEO, took action via unanimous written consent two times.

Each member of the Board attended seventy-five percent (75%) or more of the aggregate of (i) the total number of Board meetings held during the period of such member's service and (ii) the total number of meetings of committees of the Board on which such member served, during the period of such member's service, other than Richard Hawkins, who attendance rate was slightly under 75% due to the fact that we were required to reschedule certain calendared Board and Committee meetings to dates and times that precluded Mr. Hawkins' attendance.

All Board members are encouraged to attend our annual meetings of stockholders in person. However, in 2016, our stockholder meeting date did not coincide with our regularly scheduled quarterly Board meeting. Mr. Rickey, our Chairman, and Dr. Hedrick attended our 2016 Annual Meeting of Stockholders.

Board Independence

The Board has determined that Dr. Naughton and Messrs. Hawkins, Hawran, Lyons, Martell and Rickey are "independent" under the rules of the NASDAQ Stock Market. Under applicable SEC and the NASDAQ rules, the existence of certain "related person" transactions above certain thresholds between a director and the Company are required to be disclosed and preclude a finding by the Board that the director is independent. The Board is not able to consider Dr. Hedrick, our President and Chief Executive Officer, independent, as a result of his employment with us during his tenure as one of our directors.

Board of Directors Leadership Structure

Our bylaws and governance principles provide the Board with the flexibility to combine or separate the positions of Chairman and Chief Executive Officer. Historically, these positions have been separate. Our Board believes that the separation of these positions strengthens the independence of our Board and allows us to have a Chairman focused on the leadership of the Board while allowing our Chief Executive Officer to focus more of his time and energy on managing our operations. The Board currently believes this structure works well to meet the leadership needs of the Board and of the Company. Dr. Hedrick, our President and Chief Executive Officer, has comprehensive industry expertise and is able to devote substantial time to the Company, and Mr. Rickey, our Chairman, is able to devote focus on longer term and strategic matters, and to provide related leadership to the Board. As a result, we do not currently intend to combine these positions; however a change in this leadership structure could be made if the Board determined it was in the best long-term interests of stockholder based upon a departure of either our Chief Executive Officer or Chairman. For example, if the two roles were to be combined, we believe that the independence of the majority of our directors, and the three fully independent Board committees, would provide effective oversight of our management and the Company.

The Board's Role in Risk Oversight

The Board's role in risk oversight includes assessing and monitoring risks and risk management. The Board reviews and oversees strategic, financial and operating plans and holds management responsible for identifying and moderating risk in accordance with those plans. The Board fulfills its risk oversight function by reviewing and assessing reports from members of management on a regular basis regarding material risks faced by us Company and applicable mitigation strategy and activity. The reports cover the critical areas of operations, sales and marketing, development, regulatory and quality affairs, intellectual property, clinical development, legal and financial affairs. The Board and its Committees (described below) consider these reports; discuss matters with management and identify and evaluate any potential strategic or operational risks, and appropriate activity to address those risks.

Board Committees

The Board has standing Audit, Compensation, Executive, and Governance and Nominating Committees. All members of the Compensation Committee, Audit Committee, and Governance and Nominating Committee are independent directors.

Compensation Committee

The Compensation Committee currently consists of Mr. Lyons (Chairman), Dr. Naughton and Mr. Rickey. In May 2016, Tommy Thompson, a former director, stepped down as the Chairman (and a member) of our Compensation Committee. Mr. Lyons replaced Mr. Thompson as Chairman of the Compensation Committee, and Mr. Rickey joined the Compensation Committee to fill the vacancy created by Mr. Thompson's departure. Each of the members of our Compensation Committee is independent as defined by NASDAQ, a "Non-Employee Director" as defined by rule 16b-3(b)(3)(i) of the Securities Exchange Act of 1934, as amended, and an "outside director" as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee Chairman is responsible for setting the Committee's calendar and meeting agenda.

The Compensation Committee is responsible for developing and implementing compensation programs for our executive officers and other employees, subject only to the discretion of the full Board. More specifically, our Compensation Committee establishes base salary rates for each of the Company's officers, and administers our 2004 Equity Incentive Plan, our 2014 Equity Incentive Plan, our Executive Management Incentive Compensation Plan, our 2011 Employee Stock Purchase Plan and our 2015 New Employee Incentive Plan. The Compensation Committee establishes the compensation and benefits for our Chief Executive Officer and other executive officers, and also reviews the relationship between our performance and our compensation policies as well as assessing any risks associated with our compensation policies. In addition, the Compensation Committee reviews, and advises the Board on director compensation matters and on, regional and industry-wide compensation practices and trends in order to assess the adequacy of our executive compensation programs. The charter of the Compensation Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under Investor Relations – Corporate Governance.

Our CEO attends some of the meetings of the Compensation Committee upon invitation, but does not participate in the executive sessions of the Compensation Committee.

Audit Committee

Our Audit Committee currently consists of Mr. Hawran (Chairman), Mr. Hawkins and Mr. Lyons. At the outset of 2016, Mr. Hawran (Chairman), Mr. Thompson and Mr. Hawkins were the members of our Audit Committee. Upon Mr. Thompson's departure in May 2016, Mr. Lyons joined the Audit Committee. The Audit Committee is comprised solely of independent directors, as defined by NASDAQ. The Board has determined that Mr. Hawran is an "audit committee financial expert" within the meaning of Item 407(d)(5) of SEC Regulation S-K. The charter of the Audit Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under Investor Relations – Corporate Governance.

The Audit Committee selects our auditors, reviews the scope of the annual audit, approves the audit fees and non-audit fees to be paid to our auditors, and reviews our financial accounting controls with the staff and the auditors. The Audit Committee is also charged with review and oversight of management's enterprise risk management assessment.

Governance and Nominating Committee

Our Governance and Nominating Committee currently consists of Mr. Hawkins (Chairman), Mr. Martell and Dr. Naughton. Mr. Martell replaced Mr. Lyons as a member of Governance and Nominating Committee in December 2016. The Governance and Nominating Committee is comprised solely of independent directors, as defined by NASDAQ. The Governance and Nominating Committee interviews, evaluates, nominates and recommends individuals for membership on the Board, evaluates the effectiveness of the Board and its serving members, and recommends the structure, responsibility and composition of the committees of the Board. The Committee is also responsible for recommending guidelines and policies for corporate governance for adoption by the Board. The charter of the Governance and Nominating Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under Investor Relations – Corporate Governance.

Executive Committee

The Executive Committee is comprised of our Chief Executive Officer, Chairman of the Board, and Chairpersons of each committee of the Board. The Executive Committee currently consists of Dr. Hedrick, Mr. Rickey, Mr. Hawkins, Mr. Hawran, and Mr. Lyons.

The Executive Committee's responsibilities, when such responsibilities are not discharged by our full Board, include to evaluate and approve the material terms of any financing transactions or business transactions as well as to authorize and approve accompanying the issuance of stock and/or other equity securities. The Executive Committee also would be able to act on behalf of the full Board in urgent or exigent circumstances wherein it would be very difficult or impossible to assemble the full Board between regularly scheduled meetings. In 2016, our Executive Committee acted as a special pricing committee of the Board with respect to our rights offering financing, consummated in June 2016. The Sub-Committee of the Executive Committee, consists of our Chairman of the Board and our Chief Executive Officer, has the authority to approve corporate expenditures presented by our management in excess of $250,000 up to a maximum of $1,000,000 for a single corporate transaction.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics has been posted on our website at www.cytori.com. We intend to post amendments to this code, or any waivers of its requirements, on our website at www.cytori.com under Investor Relations – Corporate Governance, as permitted under SEC rules and regulations.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers, and persons or entities who own more than ten percent of our common stock, to file with the SEC reports of beneficial ownership and changes in beneficial ownership of our common stock. Those directors, officers, and stockholders are required by regulations to furnish us with copies of all forms they file under Section 16(a). Based solely upon a review of the copies of such reports furnished to us and written representations from such directors, officers, and stockholders, we believe that all such reports required to be filed during 2016 were filed on a timely basis.

Item 11. Executive Compensation

Our named executive officers for fiscal year 2016 are:

- Marc H. Hedrick, M.D., our President and Chief Executive Officer;
- Tiago Girao, our Chief Financial Officer; and
- John Harris, our Vice President and General Manager of Cell Therapy.

These individuals are collectively referred to in this discussion as the "named executive officers," or "NEOs." Investors are encouraged to read this discussion in conjunction with the compensation tables and related notes, which include more detailed information about the compensation of our NEOs for 2016 and 2015.

2016 Summary Compensation Table

The following table sets forth information concerning compensation earned during 2015 and 2016 for services rendered to us by our NEOs.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name and Principal Position	Year	Salary	Stock Awards[1]	Option Awards[2]	Non-Equity Incentive Plan Comp.[3]	All Other Comp-ensation[4]	Total
Marc H. Hedrick, M.D.,	2016	$450,000	—	$156,273	$146,250	—	$752,523
President and Chief Executive Officer	2015	$450,000	$ 80,172	$115,200	$200,475	—	$845,847
Tiago M. Girao,	2016	$265,000	—	$ 65,535	$ 79,560	—	$410,095
VP of Finance, Chief Financial Officer and Chief Accounting Officer	2015	$265,000	$ 40,086	$ 57,600	$ 69,563	—	$432,249
John Harris,	2016	$361,830[5]	—	$ 65,535	$ 64,365	$125,249[6]	$616,979
VP and General Manager of Cell Therapy	2015	$ 88,167[5]	—	$123,982	$ 25,988	$ 19,647[6]	$257,784

(1) This column represents the dollar amount of the aggregate grant date fair value of stock awards granted in 2015, computed in accordance with FASB ASC Topic 718. For information relating to the assumptions made by us in valuing the stock awards made to our NEOs in 2016, refer to Note 12 to our audited consolidated financial statements included in this Form 10-K. These amounts do not reflect the actual economic value that will be realized by our NEOs upon vesting of the stock awards or sale of the common stock underlying the stock. On May 26, 2015, the Compensation Committee granted performance-based RSUs and the grant date fair value in the table was calculated based on the probable achievement of the performance objectives applicable to such awards, which was estimated at "target" performance for this purpose. Had maximum achievement of the performance criteria been achieved, the full grant date fair value of the awards, assuming maximum achievement of the performance criteria, would have been 200% of the amount set forth in the table.

(2) This column represents the dollar amount of the aggregate grant date fair value of option awards, computed in accordance with FASB ASC Topic 718. For information relating to the assumptions made by us in valuing the option awards made to our NEOs in 2016 and 2015, refer to Note 12 to our audited consolidated financial statements included in this Form 10-K. These amounts do not reflect the actual economic value that will be realized by our NEOs upon vesting of the stock options, exercise of the stock options, or sale of the common stock underlying the stock options.

(3) The amounts in column (f) reflect the cash awards under our EMIC Plan, which is discussed in further detail below under the heading in the subsection entitled "*Executive Management Incentive Compensation Plan*" of the "Narrative Disclosure to Compensation Tables" below.

(4) Dollar value of the perquisites and other personal benefits for Dr. Hedrick and Mr. Girao were less than $10,000 for the year reported.

(5) We paid Mr. Harris in Japanese Yen. During 2015, and 2016 his salary was reported at the average exchange rate over the year, or 0.0083 and 0.0086 Japanese Yen to US dollar in 2015 and 2016, respectively.

(6) Per the terms of his employment offer letter with us, Mr. Harris was eligible to receive a housing allowance while on assignment in Japan up to a maximum of 13,900,000 Japanese Yen per year, including direct payment by us of Mr. Harris' local rent (not to exceed 1,100,000 Japanese Yen per month) and additional healthcare coverage. We paid these benefits in Japanese Yen, and we recorded them in 2015 and 2016 at the average exchange rate over the applicable year, or 0.0083 and 0.0086 Japanese Yen to U.S. dollar in 2015 and 2016, respectively. During 2015 and 2016, Mr. Harris' rent expense was $18,260 and $111,994, respectively, and cost of his additional health care coverage was $1,387 and $13,255, respectively.

Narrative Disclosures to Summary Compensation Table

Executive Compensation

In the process of determining compensation for our NEOs, the Compensation Committee considers the current financial position of the Company, the strategic goals of the Company and the performance of each of our NEOs. The Committee also benchmarks the various components (described below) of our compensation program for executives to compensation paid by other public companies in our defined peer group, compensation data from Radford Global Life Sciences Survey and BIOCOM Total Rewards Survey, historical review of all executive officer compensation, and recommendations from our CEO (other than for his own salary). From time to time the Committee engages the services of outside compensation consultants to provide compensation research, analysis and recommendations. The Committee has the sole authority to select, compensate and terminate its external advisors.

The Compensation Committee utilizes the following components of compensation (described further below) to strike an appropriate balance between promoting sustainable and excellent performance and discouraging any inappropriate short-sighted risk-taking behavior:

- Base salary;
- Annual long-term equity compensation;
- Personal benefits and perquisites; and
- Acceleration and severance agreements tied to changes on control of the Company.

Base Salaries

None of our NEOs received base salary increases for 2016. While the Compensation Committee had previously approved an increase in Mr. Girao's annual base salary from $265,000 to $300,000 for fiscal year 2016, at Mr. Girao's request, this salary increase was deferred. Commencing effective as of January 1, 2017, Mr. Girao's annual base salary was increased from $265,000 to $300,000.

In connection with determination of executive compensation for fiscal year 2017, the Compensation Committee directed Barney & Barney, LLC, its independent compensation consultant, to prepare an updated senior management compensation assessment. The Compensation Committee reviewed this assessment at its normally scheduled meeting in January 2017. Based on this assessment and including other data points and information considered by the Compensation Committee in its discretion, the Compensation Committee approved the following NEO base salaries for fiscal year 2017, which base salaries went into effect in March 2017: Dr. Hedrick: $510,000; Mr. Harris: $360,500; Mr. Girao: $309,000. The increases to Dr. Hedrick's and Mr. Girao's base salaries were made to move such salaries closer to or within the 50th and 60th percentile range of base salary compensation for similarly situated executive at our peer companies, per our corporate compensation philosophy. Our compensation analysis indicates that Dr. Hedrick's base salary is substantially closer to, but still below, this stated range, while Mr. Girao's base salary is now within this stated range. Mr. Harris' base salary remains above our stated range, but we believe that the Mr. Harris' actual duties and responsibilities, combined with his experience and skills (including Japanese linguistic and business/cultural fluency) are appropriately reflected in his base salary and other compensation.

Barney & Barney did not provide any services to us in 2016 beyond its engagement as an advisor to the Compensation Committee on compensation matters. After review and consultation with Barney & Barney, the Compensation Committee has determined that Barney & Barney is independent and there is no conflict of interest resulting from retaining Barney & Barney currently or during the year ended December 31, 2016. In reaching these conclusions, the Compensation Committee considered the factors set forth in Exchange Act Rule 10C-1 and NASDAQ listing standards.

Annual Bonuses (Executive Management Incentive Compensation Plan)

Our Compensation Committee adopted the Cytori Therapeutics Executive Management Incentive Compensation, or EMIC, plan to increase the performance-based component of our executives' compensation by linking their annual cash bonus payments to achievement of shorter-term performance goals. Target bonuses are reviewed annually and established as a percentage of the executives' base salaries, generally based upon seniority of the officer and targeted at or near the median of the peer group (with reference to our corporate compensation philosophy) and relevant survey data (including the Radford Global Life Sciences Survey and BIOcom Total Rewards Survey). Each year the Compensation Committee establishes corporate and individual objectives and respective target percentages, taking into account recommendations from our Chief Executive Officer as it relates to executive positions other than the Chief Executive Officer's compensation. Our Chief Executive Officer's EMIC plan is set by the Compensation Committee to align entirely with our overall corporate objectives, while the other NEOs are also provided individual goals that constitute a portion of their overall EMIC plans. After each fiscal year-end, our Chief Executive Officer provides the Compensation Committee with a written evaluation showing actual performance as compared to corporate and/or individual objectives, and the Compensation Committee uses that information, along with the overall corporate performance, to determine what percentage of each executive's bonus target will be paid out as a bonus for that year. Overall, we attempt to set the corporate and individual functional goals to be highly challenging yet attainable.

For 2016, the general corporate goals approved by the Board (upon recommendation of the Compensation Committee for purposes of executive compensation) were determined by the Compensation Committee to account for 100% of the target cash bonus amount payable under the EMIC plan for our Chief Executive Officer, Dr. Hedrick, and to account for 75% of the overall target bonus amount payable under the EMIC plans for our other NEOs. The Company's general corporate objectives included clinical, financial and operational objectives, including the achievement of certain enrollment goals for our STAR clinical trial; the achievement of certain year-end cash objectives, revenue goals and business development objectives; and various operational objectives.

The following individual objectives for the NEOs other than Dr. Hedrick expanded upon their particular functions in the overall corporate objectives and were to weighted as 25% of their respective overall target bonus amounts.

Mr. Girão's individual objectives included the achievement of certain investor-related, liquidity, and partner-related goals.

Mr. Harris's individual objectives included achievement of certain revenue, product utilization and business development/partnering goals.

Our NEOs' target bonuses for 2016 as a percentage of base salary were as follows: Dr. Hedrick, 50% (increased from 45% in 2015); Mr. Girao, 40% (increased from 30% in 2015); and Mr. Harris, 30% (unchanged from 2015, as Mr. Harris commenced employment with us in October 2015). The Compensation Committee, in its January 2017 meeting, evaluated our achievement in 2016 as compared to overall the corporate and individual objectives for the NEOs in the 2016 EMIC Plan described above. The Committee evaluated the overall results and then evaluated the NEOs' achievement relative to their own functional objectives and the results are tabulated in the table below:

Officer and Position	Target Bonus as a % of Salary	% of Target Bonus Awarded	Bonus Awarded as a % of Salary	Amount of 2016 Bonus Payable in 2017[1]
Marc H. Hedrick, M.D. President & CEO	50%	65.0%	32.5%	$ 109,688
Tiago M. Girao, Chief Financial Officer	40%	66.3%	26.5%[2]	$ 59,670[2]
John Harris VP & General Manager of Cell Therapy	30%	61.3%	18.4%	$ 48,274

(1) The 2016 bonus amounts are payable in 2017 in installments as follows: 50% of such amounts are payable on July 2, 2017, 25% of such amounts are payable on October 1, 2017 and the remaining 25% of such amounts are payable on January 1, 2018.

(2) Mr. Girao's 2016 bonus amount is based off of the increased base salary previously approved by the Compensation Committee for fiscal year 2016, but at Mr. Girao's request, this salary increase was deferred. Commencing effective as of January 1, 2017, Mr. Girao's annual base salary was increased from $265,000 to $300,000.

As part of its determination of target executive compensation for fiscal year 2017, the Compensation Committee determined bonus targets for our NEOs in consultation with Barney & Barney and with reference to Barney & Barney's senior management compensation assessment and other materials and information, as deemed necessary or appropriate by the Compensation Committee in its discretion. Upon completion of this review, the Compensation Committee approved target bonuses (as a percentage of base salary) for our NEOs for fiscal year 2017 as follows: Dr. Hedrick: 55%; Mr. Girao: 40%; Mr. Harris: 40%.

Long-Term Equity Compensation

We designed our long-term equity grant program to further align the interests of our executives with those of our stockholders and to reward the executives' longer-term performance. Historically, the Compensation Committee has granted individual option grant awards, although from time-to-time, to further increase the emphasis on compensation tied to performance, the Compensation Committee may grant other equity awards as allowed by the 2014 Equity Incentive Plan. The Compensation Committee grants stock options, restricted stock, restricted stock units and similar equity awards permitted under our plans based on its judgment as to whether the complete compensation packages to our executives, including prior equity awards, are appropriate and sufficient to retain and incentivize the executives and whether the grants balance long-term versus short-term compensation. The Compensation Committee also considers our overall performance as well as the individual performance of each NEO, and the potential dilutive effect of restricted stock awards, and the dilutive and overhang effect of the equity grant awards, and recommendations from the Chief Executive Officer (other than with respect to his own equity awards).

Stock options are granted with an exercise price equal to the fair market value of our common stock on the date of grant.

In January 2016, our NEOs were granted stock options to acquire shares of our common stock at an exercise price equal to the fair market value of our common stock on the Nasdaq Stock Market as of the date of grant, vesting in accordance with our standard four-year vesting schedules. Specifically, Dr. Hedrick, Mr. Girao and Mr. Harris were granted (on a post-split basis reflecting the 1-for-15 reverse stock split that we consummated in May 2016) options to purchase 55,613, 23,322 and 23,322 shares of our common stock, respectively.

In March 2017, as part of its determination of target executive compensation for fiscal year 2017, the Compensation Committee assessed long-term incentive compensation for our NEOs in consultation with Barney & Barney and with reference to Barney & Barney's senior management compensation assessment and other materials and information, as deemed necessary or appropriate by the Compensation Committee in its discretion. Upon completion of its review, the Compensation Committee granted stock options to our NEOs to acquire shares of our common stock at an exercise price equal to the fair market value of our common stock on the Nasdaq Stock Market as of the date of grant, such options to vest in accordance with our standard four-year vesting schedules (subject to the NEOs' continued service as of the applicable vesting dates). Specifically, Dr. Hedrick, Mr. Girao and Mr. Harris were granted options to purchase 96,350, 31,100 and 31,100 shares of our common stock, respectively.

Personal Benefits and Perquisites

All of our executives are eligible to participate in our employee benefit plans, including medical, dental, vision, life insurance, short-term and long-term disability insurance, flexible spending accounts, 401(k), and an Employee Stock Purchase Program (ESPP). These plans are available to all full-time employees. In keeping with our philosophy to provide total compensation that is competitive within our industry, we offer limited personal benefits and perquisites to executive officers that include supplemental long-term disability insurance. You can find more information on the amounts paid for these perquisites to or on behalf of our NEOs in our 2016 Summary Compensation Table.

Company Acquisition / Post-Termination Compensation

We have entered into individual change of control and severance agreements, or CIC Agreements, with each of our NEOs. The CIC Agreements provide for certain severance benefits to be paid to each of our NEOs in the event of his involuntary termination without cause, or due to the executive's resignation for good reason (including the Company's material breach of its obligations, material reduction in duties, responsibilities, compensation or benefits, or relocation by more than 30 miles without prior consent), provided such termination or resignation occurs in connection with an acquisition of the Company. Upon such termination or resignation in the event of an acquisition, Dr. Hedrick would receive a lump sum payment of 18 times his monthly base salary, and 18 times his monthly COBRA payments, and Mr. Girão and Mr. Harris would each receive a lump sum payment of 12 times his monthly base salary, and 12 times his monthly COBRA payments. Notwithstanding the foregoing, these NEOs' employment may be terminated for cause (including extended disability, repudiation of their CIC Agreements, conviction of a plea of no contest to certain crimes or misdemeanors, negligence that materially harms us, failure to perform material duties without cure, drug or alcohol use that materially interferes with performance, and chronic unpermitted absence) without triggering an obligation for us to pay severance benefits under the CIC Agreements.

In addition, under the CIC Agreements, any unvested stock options granted to each of the above named executive officers would vest in full upon (1) the date of the executive's termination under the circumstances described above following entry into an acquisition agreement (subject to the actual consummation of the acquisition) or (2) consummation of an acquisition.

In all events, each NEO's entitlement to the benefits described above is expressly conditioned upon his execution and delivery to us of a CIC Agreement and a general release of claims, in the form attached to each CIC Agreement.

Outstanding Equity Awards at December 31, 2016

The following table sets forth information regarding outstanding equity awards held by our NEOs as of December 31, 2016.

	Option Awards					Stock Awards	
Name	Option Grant Date [1]	Number of Securities Underlying Unexercised Options (#) Exercisable[5]	Number of Securities Underlying Unexercised Options (#) Un-Exercisable [2][5]	Option Exercise Price ($)[5]	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Marc H. Hedrick, M.D., President and Chief Executive Officer	2/26/2007	3,332	—	$ 81.60	2/26/2017	—	—
	1/31/2008	4,000	—	$ 77.10	1/31/2018	—	—
	1/29/2009	5,000	—	$ 72.00	1/29/2019	—	—
	2/05/2010	7,333	—	$ 100.65	2/05/2020	—	—
	1/27/2011	3,666	—	$ 83.55	1/27/2021	—	—
	1/26/2012	7,666	—	$ 51.60	1/26/2022	—	—
	1/31/2013	11,968	254	$ 41.10	1/31/2023	—	—
	1/31/2013	5,984	127	$ 75.00	1/31/2023	—	—
	4/11/2014	13,068	5,932	$ 35.70	4/11/2024	—	—
	8/21/2014	6,666	—[3]	$ 21.00	8/21/2024	—	—
	1/30/2015	7,675	8,325	$ 7.20	1/30/2025	—	—
	1/04/2016	13,904	41,709	$ 2.81	1/04/2026		
Tiago M. Girao, VP of Finance Chief Financial Officer	9/2/2014	5,840[4]	4,160	$ 20.40	9/2/2024	—	—
	1/30/2015	3,841[4]	4,159	$ 7.20	1/30/2025	—	—
	1/04/2016	5,831	17,491	$ 2.81	1/04/2026	—	—
John Harris, VP and General Manager Cell Therapy	11/11/2015	6,516[4]	15,817	$ 5.55	11/11/2025	—	—
	1/04/2016	5,831[4]	17,491	$ 2.81	1/04/2026	—	—

(1) For a better understanding of this table, we have included an additional column showing the grant date of the stock options.

(2) Unless otherwise provided, stock options are subject to four-year vesting, and have a contractual term of 10 years from the date of grant. Awards presented in this table contain one of the following two vesting provisions:

- With respect to an initial stock option grant to an employee, 25% of the shares subject to the award vest on the one-year anniversary of the vesting start date, while an additional 1/48th of the remaining option shares vest at the end of each month thereafter for 36 consecutive months, or
- With respect to stock option grants made to an employee after one full year of employment, 1/48th of the shares subject to the award vest at the end of each month over a four-year period, as measured from the vesting start date.

(3) The August 2014 stock option awards vested to 50% of the shares subject to such awards after one year of service and the additional 50% vested on the second anniversary of the grant.

(4) These options were granted during the first year of the NEO's employment and thus were subject to the following vesting schedule: 25% of the shares subject to the award vest on the one-year anniversary of the vesting start date, while an additional 1/48th of the remaining option shares vest at the end of each month thereafter for 36 consecutive months.

(5) We consummated a 1-for-15 reverse stock split in May 2016. The amounts set forth in this column reflect this 1-for-15 reverse stock split.

Director Compensation

Generally, our Board believes that the level of director compensation should be based on time spent carrying out Board and committee responsibilities and be competitive with comparable companies. In addition, the Board believes that a significant portion of director compensation should align director interests with the long-term interests of stockholders. The Board makes changes in its director compensation practices only upon the recommendation of the Compensation Committee, and discussion and approval by the Board.

The following table summarizes director compensation awarded to, earned by or paid to our non-employee directors who served on our Board during fiscal year 2016.

(a)	(b)	(c)	(d)	(e)
Director Name[1]	Fees Earned or Paid in Cash[2] ($)	Stock Awards ($)	Option Awards[3][4][5] ($)	Total ($)
David M. Rickey, Chairman	$ 66,667	—	$ 10,082	$ 76,749
Richard J. Hawkins	$ 55,000	—	$ 10,082	$ 65,082
Paul W. Hawran	$ 50,000	—	$ 10,082	$ 60,082
Gary A. Lyons	$ 60,000	—	$ 10,082	$ 70,082
Gail K. Naughton, Ph.D.	$ 50,000	—	$ 10,082	$ 60,082
Tommy G. Thompson[6]	$ 13,750	—	$ 10,082	$ 23,832
Ronald A. Martell[7]	—	—	—	—

(1) Dr. Hedrick is not included in this table as he is an employee of ours and receives no extra compensation for his service as a director. The compensation received by Dr. Hedrick in his capacity as an employee is set forth in the 2016 Summary Compensation Table and further described in the "Narrative Disclosures to Summary Compensation Table" above

(2) In fiscal year 2016, (i) each non-employee director received a $30,000 retainer for service on our Board; (ii) each Compensation Committee, Governance and Nominating Committee and Audit Committee member received a $10,000 retainer for Committee service; (iii) the Chairman of the Board received an additional annual stipend of $30,000; (iv) the Chairman of the Audit Committee received an additional annual stipend of $15,000; and (v) the Chairmen of the Compensation Committee and the Governance and Nominating Committee each received an additional annual stipend of $15,000, respectively. Executive Committee members were exempt from receiving committee fees.

(3) Column (d) represents the grant date fair value of the option awards, computed in accordance with FASB ASC Topic 718, granted to our non-employee directors during 2016. For additional information on the valuation assumptions with respect to the 2016 grants, refer to Note 12 to our audited consolidated financial statements included in this Annual Report, regarding assumptions underlying valuation of equity awards. These amounts do not reflect the actual economic value that will be realized by our non-employee directors upon vesting of the stock options, exercise of the stock options or sale of the common stock underlying the stock.

(4) On January 4, 2016, our non-employee directors were awarded options to purchase 3,588 shares of our common stock. These options vested on the first anniversary of the date of grant. These option amounts reflect a 1-for 15 reverse stock split consummated by us on May 10, 2016.

(5) As of December 31, 2016, our non-employee directors held the following aggregate options: Mr. Rickey: 12,727 option shares; Richard Hawkins: 14,728 option shares; Paul Hawran: 12,728 option shares; Mr. Lyons: 6,654 option shares; Ronald Martell: None; Dr. Naughton: 6,654 option shares.

(6) Mr. Thompson stepped down from our Board in May 2016.

(7) Mr. Martell joined our Board in mid-December 2016, and did not receive any compensation for his brief service in 2016.

Director Compensation Program

In October 2016, the Compensation Committee approved a Director Compensation Program for fiscal year 2017, as subsequently amended. The materials elements of the 2017 Director Compensation Program are as follows:

- $40,000 annual cash retainer for Board members (an increase from $30,000 in 2016);
- $30,000 annual cash retainer for the Chairman of the Board (no change from 2016);
- $20,000 annual cash retainer for the Chairman of the Audit Committee (no change from 2016);
- $15,000 annual cash retainer for the Chairman of our Compensation Committee and Governance and Nominating Committee (no change from 2016);
- $10,000 annual cash retainer for each non-Chairman committee member (no change from 2016);
- *Initial grants for new directors*: Initial option grant, upon commencement of services, to purchase 50,000 shares of our common stock, vesting over two years in equal, annual installments as measured from the grant date;
- *Annual grants for existing directors*: Recurring option grants to purchase 25,000 shares of our common stock, vesting in one installment on the first anniversary of the grant date.

In January 2017, the Board granted options to our non-employee directors for fiscal year 2017 in accordance with the terms of the Director Compensation Program described immediately above, including approval of an initial option grant to Ron Martell in connection with his commencement of service as a Board member.

The Compensation Committee believes that these enhancements to the Director Compensation Program allow us to remain aligned with director compensation practices at our peer companies.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information under the heading "Equity Compensation Plan Information" in Part II, Item 5 is incorporated herein by reference.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding ownership of our Common Stock as of February 28, 2017 (or earlier date for information based on filings with the SEC) by (a) each person known to us to own more than 5% of the outstanding shares of our Common Stock, (b) each director and nominee for director, (c) our President and Chief Executive Officer, VP of Finance and Chief Financial Officer and each other NEO named in the compensation tables in this Annual Report on Form 10-K and (d) all directors and executive officers as a group.

The information in this table is based solely on statements in filings with the SEC or other reliable information. We believe, based on information provided to us, that each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder unless noted otherwise, subject to community property laws where applicable.

A total of 23,568,403 shares of our common stock were issued and outstanding as of February 28, 2017.

Name and Address of Beneficial Owner [1]	Number of Shares of Common Stock Owned [2]	Number of Shares of Common Stock Subject to Awards/Warrants Exercisable Within 60 Days [3]	Total Number of Shares of Common Stock Beneficially Owned [4]	Percent Ownership
Sabby Management, LLC.[5] 10 Mountainview Road, Suite 205 Upper Saddle River, NJ 07458	1,651,835	—	1,651,835	7.0%
Marc H. Hedrick, M.D.	78,133	111,739	189,872	*
Tiago M. Girao	14,084	20,067	34,151	*
John D. Harris	7,000	15,501	22,501	
David M. Rickey	95,231	22,935	118,166	*
Richard J. Hawkins	8,433	16, 405	24,838	*
Paul W. Hawran	8,236	12,727	20,963	*
Gary A. Lyons	4,357	7,604	11,961	*
Ronald A. Martell	—	—	—	*
Gail Naughton	2,400	6,654	9,054	*
All executive officers and directors as a group (11)[6]	221,517	224,833	446,350	1.9%

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares as of February 28, 2017.

(1) Unless otherwise indicated, the address of each of the named individuals is c/o Cytori Therapeutics, Inc., 3020 Callan Road, San Diego, CA 92121.

(2) Unless otherwise indicated, represents shares of outstanding common stock owned by the named parties as of February 28, 2017.

(3) Shares of common stock subject to stock options or warrants currently exercisable or exercisable within 60 days of February 28, 2017 are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person.

(4) The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities for which that person has a right to acquire beneficial ownership within 60 days.

(5) Based upon a Schedule 13G/A filed January 6, 2017, reporting beneficial ownership as of December 31, 2016. Sabby Healthcare Master Fund, Ltd. ("Sabby Healthcare") has shared voting and dispositive power with respect to 1,132,643 shares. Sabby Volatility Warrant Master Fund, Ltd. ("Sabby Volatility") has shared voting and dispositive power with respect to 519,192 shares. Sabby Management, LLC ("Sabby Management") serves as the investment manager of Sabby Healthcare and Sabby Volatility and has shared voting and dispositive power with respect to 1,651,835 of these shares. Hal Mintz, in his capacity as manager of Sabby Management, has shared voting and dispositive power with respect to 1,651,835 of these shares. Each of Sabby Management, LLC and Hal Mintz disclaim beneficial ownership over the securities owned except to the extent of their pecuniary interest therein. The address for Sabby Management is 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey 07458. The address for Mr. Mintz is c/o Sabby Management, LLC, 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey 07458.

(6) This aggregate amount includes 14,844 shares owned (or subject to options that are exercisable within sixty days of February 28, 2017) by Jeremy Hayden, General Counsel and Vice President of Business Development.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The following includes a summary of transactions since January 1, 2016 to which we have been a party in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or, to our knowledge, beneficial owners of more than 5% of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest. We also describe below certain other transactions with our directors, executive officers and 5% stockholders. We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, from unaffiliated third parties.

Rights Offering

In June 2016, we consummated a rights offering, or Rights Offering, to our stockholders of record (as of May 20, 2016) to subscribe for units at a subscription price of $2.55 per unit. Pursuant to the Rights Offering, we sold an aggregate of 6,704,852 units consisting of a total of 6,704,852 shares of common stock and 3,352,306 warrants to our stockholders, or Warrants, with each Warrant exercisable for one share of common stock at an exercise price of $3.06 per share. Certain of our directors participated in the Rights Offering and along with other participants in the Rights Offering, purchased common stock and Warrants to purchase our common stock. The Warrants trade on the Nasdaq Stock Market under the symbol "CYTXW."

Director and Officer Indemnification

Our amended and restated certificate of incorporation, as amended, and our amended and restated bylaws, as amended, provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law.

Stock Option Grants to Executive Officers and Directors

We have granted stock options to our executive officers and non-employee directors as more fully described elsewhere in this Annual Report.

The information under the heading "Board Independence" in Part III, Item 10 is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

On July 12, 2016, we notified KPMG, LLP, or KPMG, of its dismissal as our independent registered public accounting firm, effective as of that date. The decision to change independent registered public accounting firms was recommended by our Audit Committee and was approved by the Board.

On July 12, 2016, the Audit Committee appointed BDO USA, LLP, or BDO, as our independent registered public accounting firm for the fiscal year ending December 31, 2016, subject to completion of its standard client acceptance procedures (which were subsequently completed). The decision to engage BDO as our independent registered public accounting firm was recommended by the Audit Committee and approved by the Board.

The Audit Committee reviews and must pre-approve all audit and non-audit services performed by our independent registered public accounting firm, as well as the fees charged by it for such services. No fees charged by KPMG or BDO during 2016 were approved under the Regulation S-X Rule 2.01(c)(7)(i)(C) exception to the pre-approval requirement. In its review of non-audit service fees, the Audit Committee considers, among other things, the possible impact of the performance of such services on the accounting firm's independence.

The following table shows the aggregate fees paid or accrued by us for the audit and other services provided by KPMG for fiscal years ended December 31, 2016 and 2015, and provided by BDO for the fiscal year ended December 31, 2016.

	Fiscal Year Ended December 31,		
	BDO	KPMG	
	2016	2016	2015
Audit Fees [1]	$ 281,204	$ 261,400	$ 470,000
Audit Related Fees [2]	—	—	40,000
Tax Fees [3]	35,000	4,823	58,000
Total	$ 316,204	$ 266,223	$ 568,000

(1) Audit fees consist of fees for professional services performed by BDO USA, LLP and KPMG LLP for the audit of our annual financial statements included in this Form 10-K filing and review of financial statements included in our quarterly Form 10-Q filings, reviews of registration statements and issuances of consents, and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit related fees consist of fees for assurance and related services, performed by BDO USA, LLP and KPMG LLP that are reasonably related to the performance of the audit or review of our financial statements.

(3) Tax fees consist of fees for professional services performed by BDO USA LLP and KPMG LLP with respect to tax compliance, tax advice, tax consulting and tax planning.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

(a) (2) Financial Statement Schedules

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2016 and 2015
(in thousands)

	Balance at beginning of year	Additions (A)	Deductions (B)	Other (C)	Balance at end of year
Allowance for doubtful accounts					
Year ended December 31, 2016	$ 797	$ —	$ (630)	$ —	$ 167
Year ended December 31, 2015	$ 1,523	$ —	$ (709)	$ (17)	$ 797

(A) Includes charges to costs and expenses.

(B) Deductions for uncollectible accounts receivable includes payments collected and devices recovered from customers.

(C) Miscellaneous activity.

(a) (3) Exhibits

List of Exhibits required by Item 601 of Regulation S-K. See Item 15(b) below.

(b) Exhibits

The exhibits listed in the accompanying "Exhibit Index" are filed, furnished or incorporated by reference as part of this Annual Report, as indicated.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

CYTORI THERAPEUTICS, INC.

By: /s/ Marc H. Hedrick, MD
Marc. H. Hedrick, MD
President & Chief Executive Officer
March 24, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ David M. Rickey David M. Rickey	*Chairman of the Board of Directors*	March 24, 2017
/s/ Marc H. Hedrick, MD Marc H. Hedrick, MD	*President & Chief Executive Officer (Principal Executive Officer)*	March 24, 2017
/s/ Tiago M. Girão Tiago M. Girão	*VP of Finance and Chief Financial Officer (Principal Financial Officer)*	March 24, 2017
/s/ Paul W. Hawran Paul W. Hawran	*Director*	March 24, 2017
/s/ Gail K. Naughton, PhD Gail K. Naughton, PhD	*Director*	March 24, 2017
/s/ Richard J. Hawkins Richard J. Hawkins	*Director*	March 24, 2017
/s/ Gary A. Lyons Gary A. Lyons	*Director*	March 24, 2017
/s/ Ronald A. Martell Ronald A. Martell	*Director*	March 24, 2017

EXHIBIT INDEX

CYTORI THERAPEUTICS, INC.					
		Filed with this Form 10-K	Incorporated by Reference		
Exhibit Number	Exhibit Title		Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation.		10-K	000-32501 Exhibit 3.2	03/11/2016
3.2	Amended and Restated Bylaws of Cytori Therapeutics, Inc.		10-Q	000-32501 Exhibit 3.2	08/14/2003
3.3	Amendment to Amended and Restated Bylaws of Cytori Therapeutics, Inc.		8-K	001-34375 Exhibit 3.1	05/06/2014
3.4	Certificate of Designation of Preferences, Rights and Limitations of Series A 3.6% Convertible Preferred Stock		8-K	001-034375 Exhibit 3.1	10/08/2014
3.5	Certificate of Amendment to Amended and Restated Certificate of Incorporation, as amended		8-K	001-34375 Exhibit 3.1	05/10/2016
4.1	Warrant to Purchase Common Stock issued by the Company on October 14, 2008 in favor of Silicon Valley Bank, pursuant to the Loan and Security Agreement dated October 14, 2008.		10-K	000-32501 Exhibit 10.62	03/06/2009
4.2	Warrant to Purchase Common Stock issued by the Company on June 11, 2010 in favor of GE Capital Equity Investments, Inc., pursuant to the Amended and Restated Loan and Security Agreement dated June 11, 2010.		8-K	001-34375 Exhibit 10.73	06/17/2010
4.3	Warrant to Purchase Common Stock issued by the Company on June 11, 2010 in favor of Silicon Valley Bank, pursuant to the Amended and Restated Loan and Security Agreement dated June 11, 2010.		8-K	001-34375 Exhibit 10.74	06/17/2010
4.4	Warrant to Purchase Common Stock issued by the Company on June 11, 2010 in favor of Oxford Financial Corporation, pursuant to the Amended and Restated Loan and Security Agreement dated June 11, 2010.		8-K	001-34375 Exhibit 10.75	06/17/2010
4.5	Warrant to Purchase Common Stock issued by the Company on September 9, 2011 in favor of GE Capital Equity Investments, Inc., pursuant to the Amended and Restated Loan and Security Agreement dated September 9, 2011.		8-K	001-34375 Exhibit 10.84	09/15/2011
4.6	Warrant to Purchase Common Stock issued by the Company on September 9, 2011 in favor of Silicon Valley Bank, pursuant to the Amended and Restated Loan and Security Agreement dated September 9, 2011.		8-K	001-34375 Exhibit 10.85	09/15/2011
4.7	Warrant to Purchase Common Stock issued by the Company on September 9, 2011 in favor of Oxford Financial Corporation, pursuant to the Amended and Restated Loan and Security Agreement dated September 9, 2011.		8-K	001-34375 Exhibit 10.86	09/15/2011

4.8	Warrant to Purchase Common Stock issued by the Company on September 9, 2011 in favor of Oxford Financial Corporation, pursuant to the Amended and Restated Loan and Security Agreement dated September 9, 2011.		8-K	001-34375 Exhibit 10.87	09/15/2011
4.9	Warrant to Purchase Common Stock issued by the Company on June 28, 2013 in favor of Oxford Finance LLC pursuant to the Loan and Security Agreement dated June 28, 2013.		10-Q	001-34375 Exhibit 4.17	08/09/2013
4.10	Warrant to Purchase Common Stock issued by the Company on June 28, 2013 in favor of Oxford Finance LLC pursuant to the Loan and Security Agreement dated June 28, 2013.		10-Q	001-34375 Exhibit 4.18	08/09/2013
4.11	Warrant to Purchase Common Stock issued by the Company on June 28, 2013 in favor of Oxford Finance LLC pursuant to the Loan and Security Agreement dated June 28, 2013.		10-Q	001-34375 Exhibit 4.19	08/09/2013
4.12	Warrant to Purchase Common Stock issued by the Company on June 28, 2013 in favor of Oxford Finance LLC pursuant to the Loan and Security Agreement dated June 28, 2013.		10-Q	001-34375 Exhibit 4.20	08/09/2013
4.13	Warrant to Purchase Common Stock issued by the Company on June 28, 2013 in favor of Silicon Valley Bank pursuant to the Loan and Security Agreement dated June 28, 2013.		10-Q	001-34375 Exhibit 4.21	08/09/2013
4.14	Form of Warrant to Purchase Common Stock for Investors in the Units		8-K	001-34375 Exhibit 4.1	05/30/2014
4.15	Form of Warrant to Purchase Common Stock for Placement Agent of the Units		8-K	001-34375 Exhibit 4.2	05/30/2014
4.16	Form of Amendment to Warrant to Purchase Common Stock.		8-K	001-34375 Exhibit 4.1	09/08/2014
4.17	Form of Warrant to Purchase Common Stock.		8-K	001-34375 Exhibit 4.2	09/08/2014
4.18	Form of Warrant for Purchasers in the Units		8-K	001-034375 Exhibit 4.1	10/08/2014
4.19	Form of Initial Warrant to Purchase Common Stock		8-K	001-034375 Exhibit 4.1	05/05/2015
4.20	Form of Additional Warrant to Purchase Common Stock		8-K	001-034375 Exhibit 4.2	05/05/2015
4.21	Form of Pre-Funded Warrant to Purchase Common Stock		8-K	001-034375 Exhibit 4.3	05/05/2015
4.22	Amendment to Common Stock Purchase Warrant		10-K	001-34375 Exhibit 4.23	03/11/2015
4.23	Amendment to Series A-1 Warrant to Purchase Common Stock		10-K	001-34375 Exhibit 4.24	03/11/2015

4.24	Amendment to Series A-2 Warrant to Purchase Common Stock		10-K	001-34375 Exhibit 4.25	03/11/2015
4.25	Form of Non-Transferable Subscription Rights Certificate		S-1/A	333-210628 Exhibit 4.26	05/11/2016
4.26	Form of Series R Warrant underlying the Units		S-1/A	333-210628 Exhibit 4.27	05/11/2016
4.27	Form of Warrant Agreement between Cytori Therapeutics, Inc. and Broadridge Corporate Issuer Solutions, Inc.		S-1/A	333-210628 Exhibit 4.28	05/11/2016
10.1#	Amended and Restated 1997 Stock Option and Stock Purchase Plan.		10-K	000-32501 Exhibit 10.1	03/30/2001
10.2#	2004 Equity Incentive Plan of Cytori Therapeutics, Inc		8-K	000-32501 Exhibit 10.1	08/27/2004
10.3#	Form of Options Exercise and Stock Purchase Agreement Relating to the 2004 Equity Incentive Plan.		10-Q	000-32501 Exhibit 10.23	11/15/2004
10.4#	Form of Notice of Stock Options Grant Relating to the 2004 Equity Incentive Plan.		10-Q	000-32501 Exhibit 10.24	11/15/2004
10.5+	License & Royalty Agreement, effective August 23, 2007, by and between Olympus-Cytori, Inc. and Cytori Therapeutics, Inc.		10-Q	000-32501 Exhibit 10.49	11/13/2007
10.6	Common Stock Purchase Agreement, dated March 28, 2007, by and between Cytori Therapeutics, Inc. and Green Hospital Supply, Inc.		10-Q	000-32501 Exhibit 10.46	05/11/2007
10.7	Common Stock Purchase Agreement, dated February 8, 2008, by and between Green Hospital Supply, Inc. and Cytori Therapeutics, Inc.		8-K	000-32501 Exhibit 10.51	2/19/2008
10.8	Amendment No. 1, dated February 29, 2008, to Common Stock Purchase Agreement, dated February 8, 2008, by and between Green Hospital Supply, Inc. and Cytori Therapeutics, Inc.		8-K	000-32501 Exhibit 10.51	2/29/2008
10.9	Lease Agreement entered into on April 2, 2010, between HCP Callan Rd, LLC. and Cytori Therapeutics, Inc.		10-Q	001-34375 Exhibit 10.69	05/06/2010
10.10	Common Stock Purchase Agreement, dated December 6, 2010, by and among Cytori Therapeutics, Inc. and Astellas Pharma Inc.		8-K	001-34375 Exhibit 10.76	12/09/2010
10.11#	Form of Notice and Restricted Stock Award Agreement for grants of performance-based restricted stock awards under the 2004 Equity Incentive Plan.		8-K	001-34375 Exhibit 10.1	03/04/2011
10.12	First Amendment to Lease Agreement entered into on November 4, 2011, between HCP Callan Rd, LLC. and the Company.		10-Q	001-34375 Exhibit 10.88	11/08/2011
10.13#	2011 Employee Stock Purchase Plan		DEF 14A	001-34375 Appendix A	05/02/2011
10.14+	Contract HHSO100201200008C dated September 27, 2012, by and between the Company and the U.S. Department of Health and Human Services Biomedical Advanced Research and Development Authority.		8-K	001-34375 Exhibit 10.90	10/03/2012
10.15	Joint Venture Termination Agreement dated May 8, 2013 by and between the Company and Olympus Corporation.		10-Q	001-34375 Exhibit 10.91	05/10/2013
10.16+	Puregraft Sale-License-Supply Agreement, dated July 30, 2013, by and between the Company and Bimini Technologies LLC.		10-Q/A	001-34375 Exhibit 10.93	11/12/2013

10.17+	Amended and Restated License and Supply Agreement dated January 30, 2014, by and between the Company and Lorem Vascular Pty. Ltd.		8-K	001-34375 Exhibit 10.94	02/04/2014
10.18	Sales Agreement, dated May 12, 2014, by and between Cytori Therapeutics, Inc. and Cowen and Company, LLC.		8-K	001-34375 Exhibit 10.1	05/12/2014
10.19	Contract HHSO100201200008C Amendment No. 1 dated August 18, 2014, by and between the Company and the U.S. Department of Health and Human Services Biomedical Advanced Research and Development Authority.		8-K	001-34375 Exhibit 10.99	08/19/2014
10.20	Form of Securities Purchase Agreement by and between Cytori Therapeutics, Inc. and the Purchasers (as defined therein), dated as of October 8, 2014.		8-K	001-034375 Exhibit 10.1	10/08/2014
10.21	Amendment of Solicitation/Amendment of Contract, effective December 17, 2014, by and between ASPR-BARDA and Cytori Therapeutics, Inc	X			
10.22	Amendment of Solicitation/Modification of Contract, effective January 5, 2015, by and between ASPR-BARDA and Cytori Therapeutics, Inc	X			
10.23	Amendment One to the Securities Purchase Agreement, dated March 16, 2015, between the Company and certain institutional investors		10-Q	001-034375 Exhibit 10.1	05/11/2015
10.24	Form of Securities Purchase Agreement, dated May 5, 2015, by and among Cytori Therapeutics, Inc. and the investors named therein		8-K	001-034375 Exhibit 10.1	05/05/2015
10.25	Placement Agency Agreement, dated May 5, 2015, by and between Cytori Therapeutics, Inc. and Mizuho Securities USA Inc.		8-K	001-034375 Exhibit 10.2	05/05/2015
10.26	Amendment One to Joint Venture Termination Agreement, dated April 30, 2015, by and between Cytori Therapeutics, Inc. and Olympus Corporation		8-K	001-034375 Exhibit 10.1	05/05/2015
10.27	Loan and Security Agreement, dated May 29, 2015, by and between Cytori Therapeutics, Inc. and Oxford Finance, LLC		10-Q	001-034375 Exhibit 10.4	08/10/2015
10.28	Amendment One to the Securities Purchase Agreement between the Company and certain institutional investors dated May 5, 2015		10-K	001-034375 Exhibit 10.111	03/11/2016
10.29#	2015 New Employee Incentive Plan		8-K	001-034375 Exhibit 10.1	01/05/2016
10.30#	Form of Agreement for Acceleration and/or Severance		10-K	001-034375 Exhibit 10.113#	03/11/2016
10.31#	Form of Stock Option Agreement under the New Employee Incentive Plan.		S-8	333-210211 Exhibit 99.4	03/15/2016
10.32#	Form of Notice of Grant of Stock Option under the 2015 New Employee Incentive Plan.		S-8	333-210211 Exhibit 99.5	03/15/2016
10.33#	2014 Equity Incentive Plan of Cytori Therapeutics, Inc., as amended		DEF-14A	001-034375 Appendix A	03/16/2016
10.34	Amendment Two to Joint Venture Termination Agreement, dated January 8, 2016.		10-Q	001-34375 Exhibit 10.4	05/10/2016

10.35	Amendment of Solicitation/Amendment of Contract, effective April 1, 2016, by and between ASPR-BARDA and Cytori Therapeutics, Inc.		10-Q	001-34375 Exhibit 10.1	08/05/2016
10.36	Amendment of Solicitation/Amendment of Contract, effective September 9, 2016, by and between ASPR-BARDA and Cytori Therapeutics, Inc.		10-Q	001-34375 Exhibit 10.1	11/09/2016
10.37	Purchase Agreement between Cytori Therapeutics, Inc. and Lincoln Park Capital Fund, LLC, dated December 22, 2016.		8-K	001-34375 Exhibit 10.1	12/29/2016
10.38	Registration Rights Agreement between Cytori Therapeutics, Inc. and Lincoln Park Capital Fund, LLC, dated December 22, 2016.		8-K	001-34375 Exhibit10.2	12/29/2016
10.39#	Third Amendment to the Cytori Therapeutics, Inc. 2014 Equity Incentive Plan, dated January 26, 2017.	X			
10.40†	Asset Purchase Agreement by and between Cytori Therapeutics, Inc. and Azaya Therapeutics, Inc., effective Jan. 16, 2017.	X			
10.41	Lease Agreement, dated February 27, 2017, by and between 6262 Lusk Investors LLC and Cytori Therapeutics, Inc.	X			
10.42#	First Amendment to the Cytori Therapeutics, Inc. 2015 New Employee Incentive Plan, dated Jan. 26, 2017.	X			
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm	X			
23.2	Consent of KPMG, LLP, Independent Registered Public Accounting Firm	X			
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	X			
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	X			
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	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Schema Document	X			
101.CAL	XBRL Calculation Linkbase Document	X			
101.DEF	XBRL Definition Linkbase Document	X			
101.LAB	XBRL Label Linkbase Document	X			
101.PRE	XBRL Presentation Linkbase Document	X			

Indicates management contract or compensatory plan or arrangement.

\+ *Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.*

† *Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.*

Proxy Statement

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

CYTORI THERAPEUTICS, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 22, 2017

CYTORI THERAPEUTICS, INC.
Headquarters
3020 CALLAN RD
SAN DIEGO, CALIFORNIA 92121

Meeting Location:
CYTORI THERAPEUTICS, INC
3020 CALLAN RD
SAN DIEGO, CALIFORNIA 92121

Dear Cytori Therapeutics, Inc. Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of the stockholders of Cytori Therapeutics, Inc. (the "Annual Meeting"). The Annual Meeting will be held on May 22, 2017, commencing at 9:00 a.m., San Diego local time, at the Cytori Therapeutics, Inc. corporate offices, located at 3020 Callan Rd., San Diego, California 92121.

The meeting will be webcast live for those who are unable to attend in person. To access the webcast of the meeting, please visit the Investor Relations section of our corporate website at ir.cytori.com. To vote online, please see the instructions on the accompanying proxy card.

The items of business for the meeting are:

(i) Election of members of our Board of Directors for a one-year term;

(ii) Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the 2017 fiscal year;

(iii) Approval of the amendment and restatement of the Cytori Therapeutics, Inc. 2014 Equity Incentive Plan;

(iv) Non-binding advisory vote on the frequency of holding future non-binding advisory votes on executive officer compensation; and

(v) Transact such other business as may be properly brought before the meeting or any adjournment or postponement thereof.

The Board of Directors recommends the approval of each of these proposals.

We have attached a Proxy Statement that contains more information about these items and the Annual Meeting. Only stockholders that own stock at the close of business on March 23, 2017, the record date, can vote at the Annual Meeting. A list of our stockholders entitled to vote will be available for inspection by any stockholder at our offices in San Diego, during normal business hours for ten business days prior to the Annual Meeting. This list will also be available during the Annual Meeting.

As permitted by rules adopted by the U.S. Securities and Exchange Commission, we are using the Internet as our primary means of furnishing proxy materials to our stockholders. We will send our stockholders a notice with instructions for accessing the proxy materials and voting electronically over the Internet or by telephone. The notice also provides information on how stockholders may request paper copies of our proxy materials. For those stockholders who elect to receive their proxy materials in the mail, please review the Proxy Statement and Annual Report and vote using the enclosed proxy card.

We hope that you will find it convenient to attend the Annual Meeting in person. Whether or not you expect to attend, please vote electronically over the Internet or by telephone, or if you receive a proxy card in the mail, by mailing the completed proxy card to us to ensure your representation at the Annual Meeting and the presence of a quorum. If you decide to attend the meeting and wish to change your proxy vote, you may do so by voting in person at the Annual Meeting. If your shares are held in the name of a bank or broker, however, you must obtain a legal proxy from the bank or broker to attend the Annual Meeting and vote in person.

By Order of the Board of Directors,

MARC H. HEDRICK

President & Chief Executive Officer

San Diego, California, USA
April 10, 2017

YOUR VOTE IS IMPORTANT!

ALL STOCKHOLDERS ARE INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS POSSIBLE. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. FOR SPECIFIC INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, PLEASE REFER TO THE INSTRUCTIONS ON THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS (THE "NOTICE") YOU RECEIVED IN THE MAIL, THE QUESTION "WHAT DIFFERENT METHODS CAN I USE TO VOTE?" IN THIS PROXY STATEMENT, OR, IF YOU REQUESTED PRINTED PROXY MATERIALS, YOUR ENCLOSED PROXY CARD. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SUBMITTED YOUR PROXY OR VOTING INSTRUCTIONS.

Cytori Therapeutics, Inc.
3020 Callan Road
San Diego, CA 92121
(858) 458-0900

PROXY STATEMENT

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 22, 2017

This Proxy Statement and the Company's 2016 Annual Report are both available at www.proxyvote.com.

Cytori Therapeutics, Inc.
3020 Callan Road
San Diego, CA 92121
(858) 458-0900

PROXY STATEMENT

2017 ANNUAL MEETING OF STOCKHOLDERS

The 2016 Annual Report to Stockholders, including financial statements, is being made available to stockholders together with these proxy materials on or about April 10, 2017.

This Proxy Statement is being furnished in connection with the solicitation of proxies by and on behalf of our Board of Directors ("Board") to be used at our Annual Meeting of Stockholders to be held on May 22, 2017 at 9:00 a.m., San Diego local time ("Annual Meeting"), and at any adjournment or postponement of the Annual Meeting, for the purposes set forth in the accompanying notice of Annual Meeting.

We have fixed the close of business on March 23, 2017 as the record date for the determination of the stockholders entitled to notice of and to vote at the Annual Meeting. Only holders of record of shares of our common stock on that date are entitled to notice of and to vote at the Annual Meeting.

Questions and Answers about the Meeting and Voting

Q: What is a Proxy Statement and why has this Proxy Statement been provided to me?

A: A Proxy Statement is a document that the U.S. Securities and Exchange Commission ("SEC") regulations require us to give you when we ask you to sign a proxy card with regard to voting on proposals at the Annual Meeting. Among other things, a Proxy Statement describes those proposals and provides information about us. Our Board is soliciting your proxy to vote at the Annual Meeting and at any adjournment or postponement of the Annual Meeting. The Annual Meeting will be held at the Cytori Therapeutics, Inc. corporate offices, located at 3020 Callan Road, San Diego, California 92121. We will use the proxies received in connection with proposals to:

(i) Elect members of our Board for a one-year term;

(ii) Ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the 2017 fiscal year;

(iii) Approve the amendment and restatement of the Cytori Therapeutics, Inc. 2014 Equity Incentive Plan;

(iv) Provide a non-binding advisory vote on the frequency of holding future non-binding advisory votes on executive officer compensation; and

(v) Transact such other business as may be properly brought before the meeting or any adjournment or postponement thereof.

Q: Why did I receive a notice in the mail regarding Internet availability of proxy materials this year instead of a full set of proxy materials?

A: We provide access to our proxy materials on the Internet. Some stockholders (those who hold in "street name") will not receive printed copies of the proxy materials unless requested. Instead, these stockholders will receive a Notice of Internet Availability of Proxy Materials (the "Notice") that will instruct you as to how you may access and review the proxy materials on the Internet. The Notice explains how you may vote your proxy. If you

received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting printed materials included in the Notice.

Q: What is a proxy?

A: A proxy is your legal designation of another person to vote the stock you own. That designee is referred to as a proxy holder. Designation of a particular proxy holder can be effected by completion of a written proxy card, or by voting via the Internet or by telephone. Our President, Chief Executive Officer and Director, Marc H. Hedrick, M.D., our Chief Financial Officer, Tiago M. Girão, and our General Counsel, Jeremy B. Hayden, have each been designated as the proxy holders for the Annual Meeting.

Q: What is the difference between a stockholder of record and a beneficial owner who holds stock in street name?

A: You are a stockholder of record, or a "registered holder", if your shares are registered in your own name through our transfer agent. You are a beneficial owner of our stock in street name if you hold your shares through a broker, bank or other third party institution (in this situation, the banks, brokers, etc. are the stockholders of record).The vast majority of our stockholders are represented on our share register in the name of a bank, broker or other third party institution and not in their own name. If you have elected to hold your shares in certificate form, your name will appear directly on our register as a stockholder of record.

Q: What different methods can I use to vote?

A: If you are a registered holder and you are viewing this proxy over the Internet, you may vote electronically over the Internet. For those stockholders who receive a paper proxy in the mail, you may also vote electronically over the Internet or by telephone or by completing and mailing the proxy card provided. The website identified in our Notice provides specific instructions on how to vote electronically over the Internet. Those stockholders who receive a paper proxy by mail, and who elect to vote by mail, should complete and return the mailed proxy card in the prepaid and addressed envelope that was enclosed with the proxy materials.

If you are the beneficial owner of stock in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, you will receive instructions from your broker, bank or other nominee that must be followed in order for you to vote your shares. Your broker will be sending you a Notice which contains instructions on how to access the website and to vote your shares. If, however, you have elected to receive paper copies of our proxy materials from your brokerage firm, bank or other nominee, you will receive a voting instruction form. Please complete and return the enclosed voting instruction form in the addressed, postage paid envelope provided.

Stockholders who have previously elected to access our proxy materials and annual report electronically over the Internet will continue to receive an email, referred to in this Proxy Statement as an email notice, with information on how to access the proxy information and voting instructions.

Only proxy cards and voting instruction forms that have been signed, dated and timely returned and only proxies that have been timely voted electronically or by telephone will be counted in the quorum and voted. *The Internet and telephone voting facilities will close at 11:59 p.m. Eastern Time, May 21, 2017.*

Stockholders who vote over the Internet or by telephone need not return a proxy card or voting instruction form by mail, but may incur costs, such as usage charges, from telephone companies or Internet service providers.

You may also vote your shares in person at the Annual Meeting. If you are a registered holder, you may request a ballot at the Annual Meeting. If your shares are held in street name and you wish to vote in person at the meeting, you must obtain a proxy issued in your name from your broker, bank or other nominee and bring it with you to the Annual Meeting. We recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

If you receive more than one Notice, email notice, proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please vote your shares held in *each account* to ensure that all of your shares will be voted.

Q: What is the record date and what does it mean?

A: The record date for the 2017 Annual Meeting is March 23, 2017. The record date is established by our Board as required by Delaware General Corporation Law. Owners of our common stock at the close of business on the record date are entitled to receive notice of the meeting and to vote at the meeting and any adjournment or postponement of the meeting.

Q: How can I change my vote?

A: You may revoke your proxy and change your vote at any time before the final vote at the meeting. You can revoke a proxy by giving written notice or revocation to our Corporate Secretary, following the Internet voting instructions, delivering a later dated proxy, or voting in person at the meeting. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the meeting or specifically request in writing that your proxy be revoked.

Q: What are my voting choices when voting for director nominees and what vote is needed to elect directors?

A: In voting on the election of director nominees to serve until the 2018 Annual Meeting, stockholders may vote in favor of each nominee, or may withhold votes as to each nominee. In addition, if any other candidates are properly nominated at the meeting, stockholders of record who attend the meeting could vote for the other candidates. Directors will be elected by the affirmative vote of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the meeting, provided a quorum is present. Stockholders are not entitled to cumulative voting rights with respect to the election of directors. Abstentions are considered present and entitled to vote with respect to this proposal and will, therefore, be treated as votes "AGAINST" this proposal. Broker non-votes with respect to this proposal will not be considered as present and entitled to vote on this proposal, which will therefore reduce the number of affirmative votes needed to approve this proposal.

The Board recommends a vote "FOR" each of the director nominees identified in this Proxy Statement.

Q: What are my voting choices when voting to ratify the appointment of our independent registered public accounting firm, and what vote is needed to ratify the appointment?

A: In voting on the ratification of the appointment our independent registered public accounting firm, stockholders may vote in favor of or against the appointment, or may abstain from voting on the appointment. The affirmative vote of a majority of the shares of common stock present in person or represented by proxy and voting at the meeting is required to approve this proposal. Abstentions will be counted as present for purposes of determining a quorum and are considered shares present and entitled to vote and thus will have the effect of a vote "AGAINST" this proposal. Brokers have discretionary authority to vote on this proposal; broker non-votes will have no effect on this proposal.

The Board recommends a vote "FOR" ratification.

Q: What are my voting choices when voting to approve the amendment and restatement of our 2014 Equity Incentive Plan?

A: In voting on the approval of the amendment and restatement of our 2014 Equity Incentive Plan, stockholders may vote in favor of the approval or against the approval, or may abstain from voting. The affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on such proposal is required to approve this proposal. Abstentions are considered present and entitled to vote with respect to this proposal and will, therefore, be treated as votes "AGAINST" this proposal. Broker non-votes with respect to

this proposal will not be considered as present and entitled to vote on this proposal, which will therefore reduce the number of affirmative votes needed to approve this proposal.

The Board recommends a vote "FOR" approval of an amendment to our 2014 Equity Incentive Plan.

Q: What are my voting choices when voting, on an advisory basis, on the frequency of holding future non-binding advisory votes on executive officer compensation?

A: In voting, on an advisory basis, on the frequency of holding non-binding advisory votes on executive officer compensation, or "say-on-pay," stockholders may vote to have the say-on-pay vote every year, every two years, or every three years, or may abstain from voting. The option of every year, every two years or every three years that receives the affirmative vote of holders of a majority of shares present in person or by proxy and entitled to vote on the proposal will be the frequency recommended by stockholders for the advisory vote on the compensation of our executive officers, unless none of the frequency options receives a majority vote, in which case the option that receives the highest number of votes will be considered to be the frequency recommended by stockholders. Abstentions have the same effect as a vote against each of the frequency options. Broker non-votes are not counted for any purpose in determining which frequency option has been recommended by stockholders.

The Board recommends that stockholders vote to hold future non-binding stockholder advisory votes on executive officer compensation, or "say-on-pay" votes, "EVERY YEAR." **Stockholders are not voting to approve or disapprove the Board's recommendation. Stockholders may choose among the four choices (every year, every two years, every three years or abstain from voting) set forth above. The Board will consider any significant vote in favor of one frequency over the other options and will evaluate the appropriate next step**.

Q: How will a proxy get voted?

A: If you properly complete and return a proxy card or vote by Internet or by telephone, the designated proxy holders will vote your shares as you have directed. If you sign a proxy card but do not make specific choices or if you vote by Internet or telephone but do not make specific choices, the designated proxy holders will vote your shares as recommended by the Board as follows:

- "**FOR**" the election of each listed nominee for director;
- "**FOR**" ratification of BDO USA, LLP as our independent registered public accounting firm for the 2017 fiscal year;
- **"FOR"** approval of the amendment and restatement of the Cytori Therapeutics, Inc. 2014 Equity Incentive Plan; and
- for approval of the frequency of holding future non-binding advisory votes on executive officer compensation **EVERY YEAR**.

Q: How are abstentions and broker non-votes counted?

A: Abstentions and broker non-votes will be counted as present for purposes of determining a quorum. An abstention occurs when a stockholder withholds his or her vote by checking the "abstain" box on the proxy card or (if present and voting at the meeting) a ballot. A broker non-vote occurs when a broker, bank, or other stockholder of record, in nominee name or otherwise, exercising fiduciary powers submits a proxy for the Annual Meeting, but does not vote on a particular proposal because that holder does not have discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote those shares on routine matters, but not on non-routine matters. Routine matters include the ratification of the appointment of our independent registered public accounting firm. Non-routine matters include the election of directors and the other proposals in this proxy statement.

Q: Who pays for the solicitation of proxies?

A: We pay the entire cost of the solicitation of proxies. This includes preparation, assembly, printing, and mailing of the Notice, this Proxy Statement and any other information we send to stockholders. We may supplement our efforts to solicit your proxy in the following ways:

- We may contact you using the telephone or electronic communication;
- Our directors, officers or other regular employees may contact you personally; or
- We may hire agents for the sole purpose of contacting you regarding your proxy.

If we hire soliciting agents, we will pay them a reasonable fee for their services. We will not pay directors, officers or other regular employees any additional compensation for their efforts to supplement our proxy solicitation. We anticipate banks, brokerage houses and other custodians, nominees and fiduciaries will forward soliciting material to the beneficial owners of shares of common stock entitled to vote at the Annual Meeting and that we will reimburse those persons for their out-of-pocket expenses incurred in performing such services.

Q: What constitutes a quorum?

A: For business to be conducted at the Annual Meeting, a quorum must be present. A quorum exists when at least 33 ⅓ % of the holders of shares of our common stock issued, outstanding and entitled to vote are represented at the meeting. Shares of common stock represented in person or by proxy (including broker non-votes and shares that abstain or do not vote with respect to one or more of the matters to be voted upon) will be counted for the purpose of determining whether a quorum exists.

Q: How many votes may I cast? How many shares are eligible to be voted?

A: You may cast one vote for every share of our common stock that you owned on the record date. As of the record date, March 23, 2017, there were 23,672,429 shares of common stock outstanding, each of which is entitled to one vote.

Q: How will voting on any "other business" be conducted?

A: Although we do not know of any business to be considered at the Annual Meeting other than the proposals described in this Proxy Statement, if any additional business is presented at the Annual Meeting, your signed proxy card gives authority to the designated proxy holders to vote on such matters according to their best judgment.

Q: Where can I find the voting results of the Annual Meeting?

A: We will publish the final voting results in a current report on Form 8-K, which we expect to file with the SEC within four business days of the Annual Meeting. If the final voting results are unavailable in time to file a current report on Form 8-K with the SEC within four business days after the Annual Meeting, we intend to file a Form 8-K to disclose the preliminary results and, within four business days after the final results are known, we will file an additional current report on Form 8-K with the SEC to disclose the final voting results.

PROPOSAL #1

ELECTION OF DIRECTORS

The Board currently consists of eight (8) persons. On March 31, 2017, Paul W. Hawran notified the Board that he did not intend to stand for re-election at the Annual Meeting. Effective upon Mr. Hawran's departure, the size of the Board will be reduced to seven (7) directors. The Board, upon recommendation of our Governance and Nominating Committee, has nominated the following persons listed below for election as directors. The names of the seven (7) nominees for election as directors are set forth below (the ages shown are as of February 28, 2017). All of the nominees are currently serving as a member of our Board. All directors are elected annually and serve one-year terms until the next Annual Meeting, or until their respective successors are duly elected. All of the nominees listed below are expected to serve as directors if they are elected. If any nominee should decline or be unable to accept such nomination or to serve as a director, an event which our Board does not now expect, our Board reserves the right to nominate another person or to vote to reduce the size of our Board. If another person is nominated, the proxy holders intend to vote the shares to which the proxy relates for the election of the persons nominated by our Board.

For more information on nomination of directors, see "Director Nominations" below in the section entitled "Corporate Governance."

The Board recommends a vote "FOR" the nominees named below:

Director Nominees

Name	Age	Position
David M. Rickey	61	Chairman of the Board of Directors
Marc H. Hedrick, MD	54	President and Chief Executive Officer and Director
Richard J. Hawkins	68	Director
Gregg A. Lapointe	58	Director
Gary A. Lyons	65	Director
Ronald A. Martell	55	Director
Gail K. Naughton, Ph.D.	61	Director

David M. Rickey has served on our Board since November 1999 and has served as the Chairman of our Board since June 2013. Mr. Rickey was previously President and Chief Executive Officer of Applied Micro Circuits Corporation, or AMCC, a publicly-held company that provides high-performance, high-bandwidth silicon solutions for optical networks, from February 1996 to March 2005. Mr. Rickey served on the Board of AMCC from February 1996 to March 2005, and as its Chairman from August 2000 to March 2005. Mr. Rickey also served as a director of AMI Semiconductor, Inc. from 2000 to 2006 and was a director of Netlist, Inc. from 2005 to 2008, as well as several private technology companies. He holds a B.S. from Marietta College, a B.S. from Columbia University and an M.S. from Stanford University. Mr. Rickey's qualifications to sit on our Board include his extensive executive experience and his service on other public company boards and committees.

Marc H. Hedrick, M.D. was appointed as Chief Executive Officer of the Company in April 2014. He was appointed as President of the Company in May 2004, and joined us as Chief Scientific Officer and Medical Director in October 2002. Dr. Hedrick has also served as a member of our Board since October 2002. In December 2000, Dr. Hedrick co-founded and served as President and Chief Executive Officer and Director of StemSource, Inc., a privately-held company specializing in stem cell research and development, which was acquired by us in 2002. He is a plastic surgeon and is a former Associate Professor of Surgery and Pediatrics at the University of California, Los Angeles, or UCLA. From 1998 until 2005, he directed the Laboratory of Regenerative Bioengineering and Repair for the Department of Surgery at UCLA. Dr. Hedrick earned his M.D. degree from University of Texas Southwestern Medical School, Dallas and an M.B.A. from UCLA Anderson School of Management. Dr. Hedrick's qualifications to sit on our Board include his experience as a general, vascular and plastic surgeon; his academic appointments and achievements in the life sciences; his executive and managerial experience in stem cell research and scientific product development; and his foundational knowledge and experience of and contributions to our technology and operations. In addition, Dr. Hedrick has extensive global experience and familiarity with the cell therapy and regenerative medical industry.

Richard J. Hawkins has served on our Board since December 2007. In 1982, Mr. Hawkins founded Pharmaco, a clinical research organization, or CRO, that merged with the predecessor of PPD-Pharmaco in 1991 and is one of the largest CROs in the world today. In 1992, Mr. Hawkins co-founded Sensus Drug Development Corporation, or SDDC, a privately-held company focused on the treatment of drugs to treat endocrine disorders, which developed and received regulatory approval for SOMAVERT®, a growth hormone antagonist approved for the treatment of acromegaly, which is now marketed by Pfizer, Inc., and he served as Chairman of SDDC until 2000. In 1994, Mr. Hawkins co-founded Corning Biopro, a contract protein manufacturing firm, where he served on the Board until Corning BioPro's sale to Akzo-Nobel, N.V., a publicly-held producer of paints, coatings and specialty chemicals, in 2000. In September 2003 Mr. Hawkins founded LabNow, Inc., a privately held company that develops lab-on-a-chip sensor technology, where he served as the Chairman and CEO until October 2009. Mr. Hawkins has served on the Board of SciClone Pharmaceuticals, Inc., a publicly-held specialty pharmaceutical company, since October 2004. In February 2011, Mr. Hawkins became CEO, and is currently CEO, of Lumos Pharma, Inc., a privately-held pharmaceutical company. He served on the Presidential Advisory Committee for the Center for Nano and Molecular Science and Technology at the University of Texas in Austin, and was inducted into the Hall of Honor for the College of Natural Sciences at the University of Texas. Mr. Hawkins graduated cum laude with a B.S. in Biology from Ohio University. Mr. Hawkins's qualifications to sit on our Board include his executive experience working with life sciences companies, his extensive experience in pharmaceutical research and development, his knowledge, understanding and experience in the regulatory development and approval process and his service on other public company boards and committees.

Gregg A. Lapointe has served on our Board since March 2017. Mr. Lapointe is currently the Chief Executive Officer of Cerium Pharmaceuticals, Inc., a privately-held specialty pharmaceutical company. From April 2008 to March 2012, Mr. Lapointe served as Chief Executive Officer of Sigma-Tau Pharmaceuticals, Inc., a pharmaceutical company focused on rare disorders and the U.S. wholly-owned subsidiary of Sigma-Tau Finanziaria S.pA. He served as Chief Operating Officer of Sigma-Tau Pharmaceuticals, Inc. from November 2003 to March 2008. Mr. Lapointe also serves on the boards of SciClone Pharmaceuticals, Inc., a publicly-held specialty pharmaceutical company (since March 2009), Soligenix, Inc., a publicly-held biopharmaceutical company (since March 2009), Immunocellular Therapeutics, Ltd., a publicly held pharmaceutical company (since September 2015) and S1Biopharma, Inc. a privately held biopharmaceutical company. Mr. Lapointe previously served as a director of Raptor Pharmaceuticals Corp. from December 2014 until its acquisition by Horizon Pharma plc in October 2016. Mr. Lapointe is a Certified Public Accountant in the United States. He holds a Bachelor of Commerce degree from Concordia University of Montreal, a Graduate Diploma in Public Accountancy from McGill University of Montreal and an M.B.A. from Duke University. Mr. Lapointe's qualifications to sit on our Board include his substantial experience in finance, management and specialty drug commercialization, including operational experience as the CEO of a pharmaceutical development and sales organization.

Gary A. Lyons has served on our Board since October 2013. Mr. Lyons has served on the Board of Neurocrine Biosciences, Inc., or Neurocrine, since 1993 and served as the President and Chief Executive Officer of Neurocrine from 1993 through January 2008. Prior to joining Neurocrine, Mr. Lyons held a number of senior management positions at Genentech, Inc., including Vice President of Business Development and Vice President of Sales. Mr. Lyons has served on the Boards of Rigel Pharmaceuticals, Inc., a publicly-held biotechnology company, since October 2005 (and as Chairman since November 2014); Vical Incorporated, a publicly-held biopharmaceutical company, since 1997; and Retrophin, Inc., a publicly-held biopharmaceutical company, since 2014 (and as Chairman since May 2016). Mr. Lyons was previously a director of PDL BioPharma, Inc., Poniard Pharmaceuticals, Inc., Neurogesx, KaloBios Pharmaceuticals, Inc. and Facet Biotech Corporation. Mr. Lyons holds a B.S. in Marine Biology from the University of New Hampshire and an M.B.A. from Northwestern University's J.L. Kellogg Graduate School of Management. Mr. Lyons' qualifications to sit on our Board include his executive experience working with life sciences companies, his extensive experience in pharmaceutical business development, his knowledge, understanding and experience in the regulatory development and approval process and his service on other public company boards and committees.

Ronald A. Martell has served on our Board since December 2016. Mr. Martell has more than 25 years' experience building and managing unique businesses in the biotech industry. Mr. Martell is currently a founder of Achieve Life Sciences, ORCA BioSystems, Inc. and Cetya Therapeutics, Inc. Most recently he served as Chief Executive Officer of Sevion Therapeutics and Executive Chairman of KaloBios Pharmaceuticals, Inc. Prior to Sevion, Mr. Martell was President and CEO of NeurogesX, Inc. and sold the company's assets to Acorda

Therapeutics. Prior to NeurogesX he was Chief Executive Officer of Poniard Pharmaceuticals. Before joining Poniard he served as Senior Vice President of Commercial Operations at ImClone Systems. Mr. Martell built ImClone Systems' Commercial Operations and field sales force to market and commercialize Erbitux® with partners Bristol-Myers Squibb and Merck KGaA. Prior to joining ImClone Systems, Mr. Martell worked for ten years at Genentech, Inc., or Genentech, in a variety of positions, the last of which was Group Manager, Oncology Products. At Genentech, he was responsible for the launch of Herceptin® for metastatic HER-2 positive breast cancer and Rituxan® for non-Hodgkin's lymphoma. Mr. Martell began his career at Roche Pharmaceuticals. Mr. Martell's qualifications to sit on our Board include his executive experience working for life sciences companies, his extensive experience in pharmaceutical business development, his knowledge, understanding of and experience in developing and commercializing pharmaceutical products, and his service on other public company boards and committees.

Gail K. Naughton, Ph.D., has served on our Board since July 2014. Dr. Naughton is the founder of Histogen, Inc., or Histogen, a private regenerative medicine company developing innovative therapies based upon the products of cells grown under simulated embryonic conditions. She has served as Histogen's Chief Executive Officer and Chairman of the Board since the company's inception in 2007. Prior to that, Dr. Naughton held key management positions, including President, Chief Operating Officer and Director, at Advanced Tissue Sciences, a company which she co-founded and was co-inventor of the core technology. Dr. Naughton has also served on the Board of C.R. Bard, Inc. since July 2004. Dr. Naughton holds a B.S. in Biology from St. Francis College as well as a Master's in Histology and a Ph.D. from New York University Medical Center. She also holds an EMBA from the Anderson School of Business at the University of California, Los Angeles. Dr. Naughton's qualifications to sit on our Board include her extensive executive experience, her in-depth knowledge of the healthcare industry and regenerative medicine technology, and her service on other public company boards and committees.

Required Vote

The nominees will be elected by an affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote on such proposal, assuming a quorum is present. Abstentions are considered present and entitled to vote with respect to this proposal and will, therefore, be treated as votes against this proposal. Broker non-votes will not be considered as present and entitled to vote on this proposal, which will therefore reduce the number of affirmative votes needed to approve this proposal. Stockholders do not have cumulative voting rights in the election of directors.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINEES TO THE BOARD NAMED ABOVE.

PROPOSAL #2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee has selected BDO USA, LLP, or BDO, as our independent registered public accounting firm for the fiscal year ending December 31, 2017, and has further directed that we submit the selection of the independent registered public accounting firm for ratification by our stockholders at the Annual Meeting.

BDO has served as our independent registered public accounting firm since July 2016. Prior to commencement of BDO's services, KPMG, LLP, or KPMG, served as our independent registered public accounting firm. The selection of the independent registered public accounting firm is not required to be submitted for stockholder approval. However, if the stockholders do not ratify this selection, the Audit Committee will reconsider its selection of BDO. Even if the selection is ratified, our Audit Committee may direct the appointment of a different independent accounting firm at any time during the year if the Audit Committee determines that the change would be in the Company's best interests.

Representatives of BDO will be present at the Annual Meeting and will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from stockholders.

Additional information concerning the Audit Committee and BDO can be found in the "Audit Matters" section of this Proxy Statement.

Required Vote

The proposal to ratify the appointment of BDO requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal. Abstentions are considered present and entitled to vote with respect to this proposal and will, therefore, be treated as votes against this proposal. Because brokers have discretionary authority to vote on this proposal, we do not expect any broker non-votes in connection with this proposal.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE SELECTION OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2017.

PROPOSAL #3

APPROVAL OF AMENDMENT AND RESTATEMENT OF THE CYTORI THERAPEUTICS, INC. 2014 EQUITY INCENTIVE PLAN

Our stockholders are being asked to approve the amendment and restatement of the Cytori Therapeutics, Inc. 2014 Equity Incentive Plan. The Cytori Therapeutics, Inc. 2014 Equity Incentive Plan, as amended, as in effect prior to March 31, 2017 is referred to herein as the "2014 Plan." On March 31, 2017, our Board approved the amendment and restatement of the 2014 Plan, subject to stockholder approval. The amended and restated 2014 Plan is referred to herein as the "Restated Plan."

All share numbers in this proposal have been adjusted to reflect the 1-for-15 reverse stock split that was effected in May 2016.

Overview of Proposed Amendments and Key Features

Increase in Share Reserve; ISO Limit. Our Board believes that approval of Restated Plan is in the best interests of our Company and stockholders because the availability of an adequate number of shares reserved for issuance under our equity compensation plan is an important factor in attracting, motivating and retaining qualified individuals essential to our success. As of March 31, 2017, a total of 900,133 shares of our common stock were reserved under the 2014 Plan, the aggregate number of shares of common stock subject to awards under the 2014 Plan was 869,838 and 20,891 shares of common stock remained available under the 2014 Plan for future issuance.

Pursuant to the Restated Plan, an additional 2,000,000 shares will be reserved for issuance under the Restated Plan over the existing share reserve under the 2014 Plan.

On March 31, 2017, our Board granted to Gregg A. Lapointe, one of our non-employee directors, stock options to purchase an aggregate of 50,000 shares of our common stock under the Restated Plan, which awards were granted out of the proposed share reserve increase and are subject to stockholder approval of the Restated Plan (the "Contingent Options"). After giving effect to the Contingent Options, and assuming approval of this proposal, as of March 31, 2017, a total of 1,970,891 shares remained available for issuance under the Restated Plan. The Company may grant further awards to employees, including executive officers, and consultants under the Restated Plan prior to the Annual Meeting in the ordinary course of business, which awards will also be Contingent Options that are subject to stockholder approval of the Restated Plan. In the event stockholder approval of the Restated Plan is not obtained, all of the Contingent Options will automatically be forfeited, the Restated Plan will cease to be effective and the original 2014 Plan in effect prior to the adoption of the Restated Plan will continue in full force and effect.

Pursuant to the Restated Plan, the maximum number of shares of common stock that may be issued or transferred pursuant to incentive stock options ("ISOs"), as defined under Section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code"), under the Restated Plan shall be increased from 900,133 to 2,900,133 shares.

All of the foregoing numbers shall be subject to adjustment pursuant to the terms of the Restated Plan in the event of certain corporate events as described below under "Adjustments for Capital Structure Changes."

Extension of Term. The term of the Restated Plan will also be extended for a new ten-year term so that the Restated Plan will terminate on March 30, 2027. The 2014 Plan is currently set to terminate in February 2024.

Stockholder Approval Under Section 162(m) of the Code. Our stockholders are being asked to approve the Restated Plan to satisfy the stockholder approval requirements of Section 162(m) ("Section 162(m)") of the Code and to approve the material terms of the performance goals for awards that may be granted under the Restated Plan as required under Section 162(m). In general, Section 162(m) places a limit on the deductibility for federal income tax purposes of the compensation paid to our Chief Executive Officer or any of our three other most highly compensated executive officers (other than our Chief Financial Officer). Under Section 162(m), compensation paid to such persons in excess of $1 million in a taxable year generally is not deductible. However, compensation that qualifies as "performance-based" under Section 162(m) does not count against the $1 million deduction limitation.

One of the requirements of "performance-based" compensation for purposes of Section 162(m) is that the material terms of the plan under which compensation may be paid be disclosed to and approved by our public stockholders. For purposes of Section 162(m), the material terms include (1) the employees eligible to receive compensation, (2) a description of the business criteria on which the performance goals may be based and (3) the maximum amount of compensation that can be paid to an employee under the performance goals. Each of these aspects of the Restated Plan is discussed below, and stockholder approval of this Proposal 3 is intended to constitute approval of the material terms of the Restated Plan for purposes of the stockholder approval requirements of Section 162(m).

Stockholder approval of the Restated Plan is only one of several requirements under Section 162(m) that must be satisfied for amounts realized under the Restated Plan to qualify for the "performance-based" compensation exemption under Section 162(m), and submission of the material terms of the Restated Plan performance goals for stockholder approval should not be viewed as a guarantee that we will be able to deduct all compensation under the Restated Plan. Nothing in this Proposal 3 precludes us or the plan administrator from making any payment or granting awards that do not qualify for tax deductibility under Section 162(m).

Individual Award Limits. The Restated Plan imposes limits on the awards that may be granted to any person under the Restated Plan as follows:

- The maximum number of shares of our common stock that may be subject to one or more options or SARs granted to any one person pursuant to the Restated Plan during any fiscal year is 2,000,000 shares.

- The maximum number of shares of our common stock that may be subject to one or more awards (other than options or SARs) granted to any one person pursuant to the Restated Plan during any fiscal year is 2,000,000 shares.

- The maximum amount that may be paid under cash awards pursuant to the Restated Plan to any one participant during any fiscal year is $5,000,000.

The foregoing limits represent changes from the individual award limits under the 2014 Plan, which, after giving effect to our 1-for-15 reverse stock split effected in May 2016, were as follows: (1) under the 2014 Plan, no employee could be granted within any fiscal year one or more options or SARs intended to qualify as performance-based compensation to purchase more than 133,333 shares under options or to receive compensation calculated with reference to more than that number of SARs (this number was 200,000 for a newly hired employee); (2) under the 2014 Plan, no employee could be granted within any fiscal year one or more "full value" awards intended to qualify as performance-based compensation which, in the aggregate, could result in the employee receiving more than 100,000 shares for each fiscal year in a performance period for such award participant (this number was 133,333 for a newly hired employee); and (3) with respect to a performance-based award under the 2014 Plan payable in cash, the maximum amount was $5,000,000 for each fiscal year in the performance period for such award.

Non-Employee Director Compensation Limits. The Restated Plan continues the limits on non-employee director compensation as were in effect under the 2014 Plan. Under the Restated Plan, the total aggregate value of cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of awards granted to a non-employee director as compensation for services as a non-employee director during any calendar year under the Restated Plan may not exceed $500,000 (increased to $700,000 in the calendar year of a non-employee director's initial service as a non-employee director). The Board may make exceptions to this limit for individual non-employee directors in extraordinary circumstances, as the Board may determine in its discretion, provided that the non-employee director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee directors.

The Restated Plan does not amend the 2014 Plan in any material respect other than to reflect the changes described above.

Key Features Designed to Protect Stockholders' Interests

The design of the Restated Plan reflects our commitment to strong corporate governance and the desire to preserve stockholder value as demonstrated by the following features of the plan:

- *Independent administrator*. The Compensation Committee of the Board of Directors, which is comprised solely of non-employee directors, administers the Restated Plan.
- *No evergreen feature*. The maximum number of shares available for issuance under the Restated Plan is fixed and cannot be increased without stockholder approval.
    - *No Single-Trigger Vesting of Awards.* The Restated Plan does not have single-trigger accelerated vesting provisions for changes in control.
    - *Repricing and reloading prohibited*. Stockholder approval is required for any repricing, replacement, or buyout of underwater awards. In addition, no new awards are granted automatically upon the exercise or settlement of any outstanding award.
    - *Limitations on Dividend Payments on Awards.* Dividends and dividend equivalents may not be paid on awards subject to vesting conditions unless and until such conditions are met.
- *No discount awards; maximum term specified*. Stock options and stock appreciation rights must have an exercise price or base price no less than the fair market value on the date the award is granted and a term no longer than ten years' duration.
- *Award design flexibility*. Different kinds of awards may be granted under the Restated Plan, giving us the flexibility to design our equity incentives to compliment the other elements of compensation and to support the attainment of our strategic goals.
- *Share counting*. The number of shares remaining for grant under the Restated Plan is reduced by the gross number of shares subject to options and stock appreciation rights settled on a net basis, and shares withheld for taxes in connection with options or stock appreciation rights or tendered in payment of an option's exercise price are not recycled.
- *Non-employee director limits.* The Restated Plan contains a limit on the compensation that may be paid to any non-employee member of our Board in any calendar year.
- *Limitations on Grants*. As described below, the Restated Plan establishes limits on the number of shares for which awards may be granted to any person in any fiscal year and the maximum amount that may be paid in cash during any fiscal year with respect to cash-based awards.
- *No tax gross-ups*. The Restated Plan does not provide for tax gross-ups.
- *Fixed term*. The Restated Plan has a fixed term of ten years.

Shares Available Under the Plan and Historical Use of Equity

We have operated, and continue to operate in a challenging marketplace in which our success depends to a great extent on our ability to attract and retain employees, directors, and other service providers of the highest caliber. One of the tools our Board regards as essential in addressing these challenges is a competitive equity incentive program. Our equity incentive program is designed to provide a vehicle under which a variety of stock-based and other awards can be granted to service providers (including, employees, consultants, and directors) of our company (and its subsidiaries) which align the interests of award recipients with those of our stockholders, reinforce key goals and objectives that help drive stockholder value, and attract, motivate and retain experienced and highly qualified individuals who will contribute to our success.

Unless the Restated Plan is authorized and approved by our stockholders, the number of shares available for issuance under the 2014 Plan will be too limited to effectively achieve its purpose as an incentive and retention tool for employees, directors and consultants that benefits all of our stockholders. The proposed increase in the share reserve under the Restated Plan over the existing share reserve under the 2014 Plan will enable us to continue our policy of equity ownership by employees, directors and consultants as an incentive to contribute to our success. Without sufficient equity awards to effectively attract, motivate and retain employees, we may be forced to consider cash replacement alternatives to provide a market-competitive total compensation package necessary to attract, retain and motivate the individual talent critical to the future success of our company. These cash replacement alternatives would then reduce the cash available for other purposes. Our equity incentive program is broad-based. As of March 31, 2017, 38 of our approximately 65 employees had received grants of equity awards, all seven of our non-employee directors had received grants of equity awards and none of our consultants had received grants of equity awards. We have historically granted equity awards to consultants only under specific, limited circumstances.

The following table sets forth the number of awards outstanding under the 1997 Stock Option and Stock Purchase Plan (the "1997 Plan"), the 2004 Stock Option and Stock Purchase Plan (the "2004 Plan"), the 2014 Plan and the 2015 New Employee Incentive Plan (the "Inducement Plan"), as well as the number of shares which remain available for grant under the 2014 Plan and Inducement Plan, the number of shares we are asking stockholders to authorize for future issuance under the Restated Plan, and the Contingent Options granted under the Restated Plan subject to stockholder approval, along with the potential equity dilution represented by the outstanding shares and shares available for future awards as a percentage of the common shares outstanding (determined on a fully diluted basis), in each case as of March 31, 2017.

	Number of Shares	As a % of Shares Outstanding[1]	Dollar Value[2]
1997 Plan			
Options outstanding	4,450	0.02%	$ 7,031
Weighted average exercise price of outstanding options	$ 86.19		
Weighted average remaining term of outstanding options	0.31 years		
Restricted stock units outstanding	—	—	
2004 Plan			
Options outstanding	221,491	0.88%	$ 349,956
Weighted average exercise price of outstanding options	$ 56.53		
Weighted average remaining term of outstanding options	4.88 years		
Restricted stock units outstanding	515	*	$ 814
2014 Plan			
Options outstanding	869,838	3.45%	$ 1,372,344
Weighted average exercise price of outstanding options	$ 3.60		
Weighted average remaining term of outstanding options	9.35		
Restricted stock units outstanding	—	—	—
Shares Remaining Available for Issuance	20,891	*	$ 33,008
Inducement Plan			
Options outstanding	33,333	0.13%	$ 52,666
Weighted average exercise price of outstanding options	$ 2.18		
Weighted average remaining term of outstanding options	9.35 years		
Restricted stock units outstanding	—	—	$ —
Shares Remaining Available for Issuance	283,333	1.12%	$ 447,666
Restated Plan			
Proposed aggregate increase to share reserve	2,000,000	7.94%	$ 3,160,000
Contingent Options outstanding	50,000	0.20%	$ 79,000
Weighted average exercise price of Contingent Options	$ 1.58		
Weighted average remaining term of Contingent Options	10.0 years		
Shares remaining available for grant under Restated Plan assuming approval of the Restated Plan	1,970,891	7.82%	$ 3,114,008

* Less than 0.01%

(1) Based on 24,940,979 shares of our common stock outstanding as of March 31, 2017, determined on a fully diluted basis, meaning the total shares outstanding includes shares issuable under authorized and outstanding awards under our equity compensation plans and remaining shares available for issuance under our equity compensation plans (but excluding the 11,577 shares reserved for future issuance under our 2011 Employee Stock Purchase Plan as of such date).

(2) Based on the closing price of our common stock on March 31, 2017 of $1.58 per share.

At the 2016 Annual Meeting, our stockholders approved a 333,333 share increase (the "2016 Increase") to the share reserve under the 2014 Plan. The amount of this increase was carefully reviewed and analyzed with reference to a number of factors and within the context of our historical grant history and projected grants to existing and new employees. Though at the time of the 2016 Annual Meeting we believed that the 2016 Increase would be sufficient to last through mid-2017, the reverse stock split we completed in May 2016 had a materially greater negative impact on our stock price than anticipated. Thus, subsequent award grants to directors, executive officers and employees in the first quarter of 2017 consumed a larger portion of our available share reserve under the 2014 Plan than anticipated at the time of the 2016 Increase. However, the Compensation Committee deemed these grants necessary and appropriate based on relevant benchmarks for director and officer equity compensation, and as necessary and advisable to compensate our directors for their services and retain and incentivize executive management. Upon completion in March 2017 of our annual equity award grant-making process to directors, officers and employees, our remaining share reserve under the 2014 Plan was largely depleted.

Among the factors the Board considered in determining the appropriate size of the increase to the share reserve for the Restated Plan was the Company's recent stock price performance, its prior grant history and the range of potential uses of equity compensation for the next few years. Other factors considered by the Board include, but are not limited to, the ratio of the number of shares issued to employees relative to the total number of outstanding shares, the use of both time and performance-based vesting requirements, and a comparison of the Company's rate of burn of employee equity to industry/market cap peer companies. The Board also considered the availability of shares available for issuance to new employees under our Inducement Plan. The Inducement Plan currently has 316,666 shares reserved for issuance over the term of the plan, 283,333 of which were available for issuance as of March 31, 2017. With the Inducement Plan available for use with respect to new employee grants, the Board decreased the proposed requested increase to the existing share reserve under the 2014 Plan to reflect the number of equity awards that we anticipate will be eligible to be granted under the Inducement Plan. However, as the Inducement Plan can be used only for new employees' grants in connection with commencement of their employment with us, its impact on our aggregate anticipated director, officer and employee grants is relatively modest. Based on our analysis of the foregoing considerations and other relevant considerations, we believe that, after taking into account the proposed share increase, the Restated Plan's share reserve will be sufficient for us to make grants of equity incentive awards under the Restated Plan for approximately two years. Of course, however, changes in business practices, industry standards, our compensation strategy, or equity market performance could alter this projection. In addition, we are growing rapidly and as a result, our employee population is also growing. Accordingly, although the requested authorized share reserve is designed to accommodate equity compensation needs under a variety of scenarios for approximately two years, under some scenarios the reserve could prove to be insufficient for this period, in which case the stockholders would have the opportunity to either approve or disapprove any addition to the requested share reserve. We cannot predict our future equity grant practices, the future price of our shares or future hiring activity with any degree of certainty at this time, and the share reserve under the Restated Plan could last for a shorter or longer time.

The following table sets forth the number of shares we have granted (under our 2004 Plan, our 2014 Plan and our Inducement Plan) during our last three fiscal years and our annual and three-year average burn rate (calculated as (1) the gross number of shares subject to equity awards granted during the year divided by (2) the weighted average common shares outstanding for such year).

	Fiscal 2016	Fiscal 2015	Fiscal 2014	Three-Year Average
Stock Options Granted	347,407	144,514	203,833	231,918
Restricted Stock and Restricted Stock Units	—	36,101	7,716	14,606
Weighted average common shares outstanding	17,290,933	9,386,488	5,388,713	10,688,711
Burn Rate	2.01%	1.92%	3.93%	2.31%

In fiscal year 2016, the end of year overhang rate was approximately 6.61%. If the Restated Plan is approved, we expect our overhang at the end of 2017 will be approximately 14.87%. Overhang is calculated by dividing (1) the sum of the number of shares subject to equity awards outstanding at the end of the fiscal year plus shares remaining available for issuance for future awards under our equity compensation plans at the end of the fiscal year, by (2) the number of shares outstanding at the end of the fiscal year (which shares outstanding for purposes of this clause (2) will be deemed to include the total number of shares determined pursuant to clause (1) above).

In light of the factors described above, and the fact that the ability to continue to grant equity compensation is vital to our ability to continue to attract and retain employees in the extremely competitive labor markets in which we compete, our Board has determined that the size of the share reserve under the Restated Plan is reasonable and appropriate at this time. Our Board will not create a subcommittee to evaluate the risk and benefits for issuing shares under the Restated Plan.

Stockholder Approval Requirement for the Proposal

Stockholder approval of the Restated Plan is necessary in order for us to (1) meet the stockholder approval requirements of the NASDAQ Stock Market, (2) take tax deductions for certain compensation resulting from awards granted thereunder intended to qualify as performance-based compensation under Section 162(m) of the Code, as discussed above, and (3) grant ISOs thereunder.

If the Restated Plan is not approved by our stockholders, the Restated Plan will cease to be effective, the original 2014 Plan in effect prior to the approval of the Restated Plan by our Board will continue in full force and effect, and we may continue to grant awards under the 2014 Plan, subject to its terms, conditions and limitations, using the limited remaining shares available for issuance thereunder. In addition, if the Restated Plan is not approved by our stockholders, all of the Contingent Options subject to stockholder approval will terminate.

Summary of the Restated Plan

What follows is a summary of the material terms of the Restated Plan. This summary is qualified in its entirety by the specific language of the Restated Plan, which is attached as Appendix A to this Proxy Statement.

General. The purpose of the Restated Plan is to advance the interests of the Company and its stockholders by providing an incentive program that will enable the Company to attract and retain employees, consultants and directors and to provide them with an equity interest in the growth and profitability of the Company. These incentives are provided through the grant of stock options, SARs, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards, cash-based awards and deferred compensation awards.

Authorized Shares. Subject to certain equitable adjustments for capital structure changes, as described in more detail below, the maximum aggregate number of shares authorized for issuance under the Restated Plan is 2,900,133.

Share Counting. Each share subject to an award under the Restated Plan will reduce the number of shares remaining available for grant under the Restated Plan by one share.

If any award granted under the Restated Plan expires or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by the Company for not more than the participant's purchase price, any such shares reacquired or subject to a terminated award will again become available for issuance under the Restated Plan. Shares will not be treated as having been issued under the Restated Plan and will, therefore, not reduce the number of shares available for issuance to the extent an award is settled in cash. Shares that are withheld or reacquired by the Company in satisfaction of a tax withholding obligation for an option or stock appreciation right, or that are tendered in payment of the exercise price of an option will not be made available for new awards under the Restated Plan. Upon the exercise of a SAR or net-exercise of an option, the number of shares available under the Restated Plan will be reduced by the gross number of shares for which the award is exercised. Shares reacquired by the Company on the open market or otherwise using

cash proceeds from the exercise of options shall not be added to the shares of Stock authorized for grant under the Restated Plan.

Adjustments for Capital Structure Changes. Appropriate and proportionate adjustments will be made to the number of shares authorized under the Restated Plan, to the numerical limits on certain types of awards described below, and to outstanding awards in the event of any change in our common stock effected without receipt of consideration by us, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or similar change in our capital structure, or if we make a distribution to our stockholders in a form other than common stock (excluding normal cash dividends) that has a material effect on the fair market value of our common stock. In such circumstances, the Compensation Committee also has the discretion under the Restated Plan to adjust other terms of outstanding awards as it deems appropriate.

Other Award Limits. The maximum number of shares of our common stock that may be subject to one or more options or SARs granted to any one person pursuant to the Restated Plan during any fiscal year is 2,000,000 shares. The maximum number of shares of our common stock that may be subject to one or more awards (other than options or SARs) granted to any one person pursuant to the Restated Plan during any fiscal year is 2,000,000 shares. The maximum amount that may be paid under cash awards pursuant to the Restated Plan to any one participant during any fiscal year is $5,000,000.

In addition, to comply with applicable tax rules, the Restated Plan also limits to 2,900,133 the number of shares that may be issued upon the exercise of ISOs granted under the Restated Plan.

Under the Restated Plan, the total aggregate value of cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of awards granted to a non-employee director as compensation for services as a non-employee director during any calendar year under the Restated Plan may not exceed $500,000 (increased to $700,000 in the fiscal year of a non-employee director's initial service as a non-employee director). The Board may make exceptions to this limit for individual non-employee directors in extraordinary circumstances, as the Board may determine in its discretion, provided that the non-employee director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee directors.

All of the foregoing numbers shall be subject to adjustment pursuant to the terms of the Restated Plan in the event of certain corporate events as described below under "Adjustments for Capital Structure Changes."

Administration. The Restated Plan generally will be administered by the Compensation Committee of the Board, although the Board retains the right to appoint another of its committees to administer the Restated Plan or to administer the Restated Plan directly. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, administration of the Restated Plan must be by a committee comprised solely of two or more "outside directors" within the meaning of Section 162(m) of the Code. (For purposes of this summary, the term "Committee" will refer to any such duly appointed committee or the Board.) Subject to the provisions of the Restated Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion required by Section 162(m) of the Code or otherwise provided by the Restated Plan, amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award. The Restated Plan provides, subject to certain limitations, for indemnification by the Company of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the Restated Plan. All awards granted under the Restated Plan will be evidenced by a written or digitally signed agreement between the Company and the participant specifying the terms and conditions of the award, consistent with the requirements of the Restated Plan. The Committee will interpret the Restated Plan and awards granted thereunder, and all determinations of the Committee generally will be final and binding on all persons having an interest in the Restated Plan or any award.

Prohibition of Option and SAR Repricing. The Restated Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our stockholders, the Committee may

not provide for any of the following with respect to underwater options or stock appreciation rights: (1) either the cancellation of such outstanding options or stock appreciation rights in exchange for the grant of new options or stock appreciation rights at a lower exercise price or the amendment of outstanding options or stock appreciation rights to reduce the exercise price, (2) the issuance of new full value awards in exchange for the cancellation of such outstanding options or stock appreciation rights, or (3) the cancellation of such outstanding options or stock appreciation rights in exchange for payments in cash.

Eligibility. Awards may be granted to employees, directors and consultants of the Company or any present or future parent or subsidiary corporation or other affiliated entity of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of March 31, 2017, we had approximately 65 employees, including five executive officers, seven non-employee directors, and approximately 25 consultants who were eligible to participate in the Restated Plan. We historically have granted equity awards to consultants only under specific, limited circumstances.

Stock Options. The Committee may grant nonstatutory stock options, incentive stock options within the meaning of Section 422 of the Code, or any combination of these. The exercise price of each option may not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company (a "10% Stockholder") must have an exercise price equal to at least 110% of the fair market value of a share of common stock on the date of grant. The closing price of our common stock on the NASDAQ Stock Market on March 31, 2017 was $1.58 per share.

The Restated Plan provides that the option exercise price may be paid in cash, by check, or cash equivalent; by means of a broker-assisted cashless exercise; by means of a net-exercise procedure; by such other lawful consideration as approved by the Committee; or by any combination of these. Nevertheless, the Committee may restrict the forms of payment permitted in connection with any option grant. No option may be exercised unless the participant has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option, including, if permitted or required by the Company, through the participant's surrender of a portion of the option shares to the Company.

Options will become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the Restated Plan is ten years, provided that an incentive stock option granted to a 10% Stockholder must have a term not exceeding five years. Unless otherwise permitted by the Committee, an option generally will remain exercisable for three months following the participant's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for two years, but in any event the option must be exercised no later than its expiration date, and provided further that an option will terminate immediately upon a participant's termination for cause (as defined by the Restated Plan).

Options are nontransferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. However, a nonstatutory stock option may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by the Committee.

Stock Appreciation Rights. The Committee may grant stock appreciation rights (a "SAR"). A SAR is exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The exercise price of each SAR may not be less than the fair market value of a share of our common stock on the date of grant.

Upon the exercise of any SAR, the participant is entitled to receive an amount equal to the excess of the fair market value of the underlying shares of common stock as to which the right is exercised over the aggregate exercise price for such shares. At the Committee's discretion, payment of this amount upon the exercise of a SAR may be made in cash or shares of common stock. The maximum term of any SAR granted under the Restated Plan is ten years.

SARs are generally nontransferable by the participant other than by will or by the laws of descent and distribution, and are generally exercisable during the participant's lifetime only by the participant. If permitted by the Committee, a SAR may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by the Committee. Other terms of SARs are generally similar to the terms of comparable stock options.

Restricted Stock Awards. The Committee may grant restricted stock awards under the Restated Plan either in the form of a restricted stock purchase right, giving a participant an immediate right to purchase common stock, or in the form of a restricted stock bonus, in which stock is issued in consideration for services to the Company rendered by the participant. The Committee determines the purchase price payable under restricted stock purchase awards, which may be less than the then current fair market value of our common stock. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as the Committee specifies, including the attainment of one or more performance goals similar to those described below in connection with performance awards. Shares acquired pursuant to a restricted stock award may not be transferred by the participant until vested. Unless otherwise provided by the Committee, a participant will forfeit any shares of restricted stock as to which the vesting restrictions have not lapsed prior to the participant's termination of service. Unless otherwise determined by the Committee, participants holding restricted stock will have the right to vote the shares and to receive any dividends paid, except that dividends or other distributions will be subject to the same restrictions, including vesting conditions, as the original award.

Restricted Stock Units. The Committee may grant restricted stock units under the Restated Plan, which represent rights to receive shares of our common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to the Company. The Committee may grant restricted stock unit awards subject to the attainment of one or more performance goals similar to those described below in connection with performance awards, or may make the awards subject to vesting conditions similar to those applicable to restricted stock awards. Unless otherwise provided by the Committee, a participant will forfeit any restricted stock units which have not vested prior to the participant's termination of service. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the Committee may grant restricted stock units that entitle their holders to dividend equivalent rights, which are rights to receive additional restricted stock units for a number of shares whose value is equal to any cash dividends the Company pays. Any such dividend equivalent rights will be subject to the same vesting conditions as the underlying award.

Cash-Based Awards and Other Stock-Based Awards. The Committee may grant cash-based awards or other stock-based awards in such amounts and subject to such terms and conditions as the Committee determines. Cash-based awards will specify a monetary payment or range of payments, while other stock-based awards will specify a number of shares or units based on shares or other equity-related awards. Such awards may be subject to vesting conditions based on continued performance of service or subject to the attainment of one or more performance goals similar to those described above in connection with performance awards. Settlement of awards may be in cash or shares of common stock, as determined by the Committee. A participant will have no voting rights with respect to any such award unless and until shares are issued pursuant to the award. The committee may grant dividend equivalent rights with respect to other stock-based awards. Any such dividend equivalent rights will be subject to the same vesting conditions as the underlying award. The effect on such awards of the participant's termination of service will be determined by the Committee and set forth in the participant's award agreement.

Performance Awards. The Committee may grant performance awards subject to such conditions and the attainment of such performance goals over such periods as the Committee determines in writing and sets forth in a written agreement between the Company and the participant. These awards may be designated as performance shares or performance units, which consist of unfunded bookkeeping entries generally having initial values equal to the fair market value determined on the grant date of a share of common stock in the case of performance shares and a monetary value established by the Committee at the time of grant in the case of performance units. Performance awards will specify a predetermined amount of performance shares or performance units that may be earned by the participant to the extent that one or more performance goals are attained within a predetermined performance period. To the extent earned, performance awards may be settled in cash, shares of common stock (including shares of

restricted stock that are subject to additional vesting) or any combination thereof. In its discretion, the Committee may provide for a participant awarded performance shares of to receive dividend equivalent rights with respect to cash dividends paid on the Company's common stock. Any such dividend equivalent rights will be subject to the same vesting conditions as the underlying award. The Committee may provide for performance award payments in lump sums or installments. The Committee will determine whether performance awards are intended to constitute "performance-based compensation" within the meaning of Section 162(m) of the Code, in which case the applicable performance criteria will be selected from the list below in accordance with the requirements of Section 162(m) of the Code.

Performance-based compensation under Section 162(m). The Committee may issue performance-based awards that are intended to constitute "performance-based compensation" under Section 162(m). The Committee may also grant performance-based awards that are not intended to constitute "performance-based compensation" under Section 162(m).

In order to constitute "performance-based compensation" under Section 162(m) of the Code, in addition to certain other requirements, the relevant amounts must be payable only upon the attainment of pre-established, objective performance goals set by our compensation committee and linked to stockholder-approved performance criteria. Prior to the beginning of the applicable performance period or such later date as permitted under Section 162(m) of the Code, the Committee will establish one or more performance goals applicable to the award. Performance goals will be based on the attainment of specified target levels with respect to one or more measures of business or financial performance of the Company and each subsidiary corporation consolidated with the Company for financial reporting purposes, or such division or business unit of the Company as may be selected by the Committee. The Committee, in its discretion, may base performance goals applicable to awards intended to qualify as "performance-based compensation" under Section 162(m) on one or more of the following such measures: revenue; sales; expenses; operating income; gross margin; operating margin; earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization; pre-tax profit; net operating income; net income; economic value added; free cash flow; operating cash flow; balance of cash, cash equivalents and marketable securities; stock price; earnings per share; return on stockholder equity; return on capital; return on assets; return on investment; total stockholder return, employee satisfaction; employee retention; market share; customer satisfaction; product development; research and development expense; completion of an identified special project; and completion of a joint venture or other corporate transaction.

The target levels with respect to these performance measures may be expressed on an absolute basis or relative to an index, budget or other standard specified by the Committee. The degree of attainment of performance measures will be calculated in accordance with generally accepted accounting principles, if applicable, but prior to the accrual or payment of any performance award for the same performance period, and, according to criteria established by the Committee, excluding the effect (whether positive or negative) of changes in accounting standards or any extraordinary, unusual or nonrecurring item occurring after the establishment of the performance goals applicable to a performance award. For all awards intended to qualify as "performance-based compensation" for purposes of Section 162(m), such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m).

Following completion of the applicable performance period, the Committee will certify in writing the extent to which the applicable performance goals have been attained and the resulting value to be paid to the participant. The Committee retains the discretion to eliminate or reduce, but not increase, the amount that would otherwise be payable on the basis of the performance goals attained with respect to awards intended to qualify as performance-based awards under Section 162(m) of the Code. However, no such reduction may increase the amount paid to any other participant. The Committee may make positive or negative adjustments to award payments under awards that are not intended to qualify as "performance-based compensation" under Section 162(m) to participants other than covered employees to reflect the participant's individual job performance or other factors determined by the Committee.

Change in Control. Unless otherwise defined in a participant's award or other agreement with the Company, the Restated Plan provides that a "Change in Control" occurs upon (a) a person or entity (with certain exceptions described in the Restated Plan) becoming the direct or indirect beneficial owner of more than 50% of the Company's voting stock; (b) stockholder approval of a liquidation or dissolution of the Company; or (c) the occurrence of any of the following events upon which the stockholders of the Company immediately before the

event do not retain immediately after the event direct or indirect beneficial ownership of more than 50% of the voting securities of the Company, its successor or the entity to which the assets of the company were transferred: (i) a sale or exchange by the stockholders in a single transaction or series of related transactions of more than 50% of the Company's voting stock; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

If a Change in Control occurs, the surviving, continuing, successor or purchasing entity or its parent may, without the consent of any participant, either assume or continue outstanding awards or substitute substantially equivalent awards for its stock. If so determined by the Committee, stock-based awards will be deemed assumed if, for each share subject to the award prior to the Change in Control, its holder is given the right to receive the same amount of consideration that a stockholder would receive as a result of the Change in Control. In general, any awards which are not assumed, substituted for or otherwise continued in connection with a Change in Control or exercised or settled prior to the Change in Control will terminate effective as of the time of the Change in Control. Subject to the restrictions of Section 409A of the Code, the Committee may provide for the acceleration of vesting or settlement of any or all outstanding awards upon such terms and to such extent as it determines. The Restated Plan also authorizes the Committee, in its discretion and without the consent of any participant, to cancel each or any award denominated in shares of stock upon a Change in Control in exchange for a payment to the participant with respect each vested share (and each unvested share if so determined by the Committee) subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the Change in Control transaction over the exercise price per share, if any, under the award.

Amendment, Suspension or Termination. The Restated Plan will continue in effect until its termination by the Committee, provided that no awards may be granted under the Restated Plan following the tenth anniversary of the date the Restated Plan was adopted by the Board. The Committee may amend, suspend or terminate the Restated Plan at any time, provided that no amendment may be made without stockholder approval that would increase the maximum aggregate number of shares of stock authorized for issuance under the Restated Plan, change the class of persons eligible to receive incentive stock options or require stockholder approval under any applicable law. No amendment, suspension or termination of the Restated Plan may affect any outstanding award unless expressly provided by the Committee, and, in any event, may not have a materially adverse effect on an outstanding award without the consent of the participant unless necessary to comply with any applicable law, regulation or rule, including, but not limited to, Section 409A of the Code, or unless expressly provided in the terms and conditions governing the award.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the Restated Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

Incentive Stock Options. A participant recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an ISO qualifying under Section 422 of the Code. Participants who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option will normally recognize a capital gain or loss upon the sale of the shares equal to the difference, if any, between the sale price and the purchase price of the shares. If a participant satisfies such holding periods upon a sale of the shares, we will not be entitled to any deduction for federal income tax purposes. If a participant disposes of shares within two years after the date of grant or within one year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the option exercise date and the exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the participant upon the disqualifying disposition of the shares generally should be deductible by us for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

In general, the difference between the option exercise price and the fair market value of the shares on the date of exercise of an ISO is treated as an adjustment in computing the participant's alternative minimum taxable

income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to participants subject to the alternative minimum tax.

Nonstatutory Stock Options. Options not designated or qualifying as ISOs are nonstatutory stock options having no special tax status. A participant generally recognizes no taxable income upon receipt of such an option. Upon exercising a nonstatutory stock option, the participant normally recognizes ordinary income equal to the difference between the exercise price paid and the fair market value of the shares on the date when the option is exercised. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the exercise date, will be taxed as capital gain or loss. We generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

Stock Appreciation Rights. A Participant recognizes no taxable income upon the receipt of a stock appreciation right. Upon the exercise of a stock appreciation right, the participant generally will recognize ordinary income in an amount equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the exercise price. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant in connection with the exercise of the stock appreciation right, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock. A participant acquiring restricted stock generally will recognize ordinary income equal to the excess of the fair market value of the shares on the "determination date" over the price paid, if any, for such shares. The "determination date" is the date on which the participant acquires the shares unless the shares are subject to a substantial risk of forfeiture and are not transferable, in which case the determination date is the earlier of (i) the date on which the shares become transferable or (ii) the date on which the shares are no longer subject to a substantial risk of forfeiture (e.g., when they become vested). If the determination date follows the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to designate the date of acquisition as the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date on which the shares are acquired. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock Unit, Performance, Cash-Based and Other Stock-Based Awards. A participant generally will recognize no income upon the receipt of a restricted stock unit, performance share, performance unit, cash-based or other stock-based award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of settlement in an amount equal to the cash received and the fair market value of any substantially vested shares of stock received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of restricted stock, the participant generally will be taxed in the same manner as described above under "Restricted Stock." Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date (as defined above under "***Restricted Stock***"), will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

Section 162(m) Limitation. Section 162(m) denies a deduction to any publicly held corporation for compensation paid to certain "covered employees" in a taxable year to the extent that compensation to such covered employee exceeds $1,000,000. It is possible that compensation attributable to awards under the Restated Plan, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Qualified "performance-based compensation" is disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), compensation attributable to stock awards will generally qualify as performance-based compensation if (1) the award is granted by a compensation committee composed solely of two or more "outside directors," (2) the plan contains a per-employee limitation on the number of awards which may be granted during a specified period, (3) the material terms of the plan are disclosed to and approved by the stockholders, (4) for stock options and SARs, the amount of compensation an employee could receive is based solely on an increase in the value of the stock after the date of the grant (which requires that the exercise price of the option is not less than the fair market value of the stock on the date of grant), and for awards other than options and SARs, established performance criteria that must be met before the award actually will vest or be paid, and (5) in the case of awards other than stock options and SARs, the compensation committee has certified that the performance goals have been met prior to payment.

The Restated Plan is designed to permit our compensation committee to grant awards which may qualify as "performance-based compensation" under Section 162(m); however, awards granted under the Restated Plan will only be treated as "performance-based compensation" under Section 162(m) if the awards and the procedures associated with them comply with all other requirements of Section 162(m). As one of the factors in its decisions regarding grants under and administration of the Restated Plan, the compensation committee will consider the anticipated effect of Section 162(m). These effects will depend upon a number of factors, including not only whether the grants qualify for the performance exception, but also the timing of executives' vesting in or exercise of previously granted equity awards and receipt of other compensation. Furthermore, interpretations of and changes in the tax laws and other factors beyond the compensation committee's control may also affect the deductibility of compensation. For these and other reasons, the compensation committee may make grants that do not qualify for the performance exception and our tax deductions for those grants may be limited or eliminated as a result of the application of Section 162(m).

Plan Benefits

Plan Benefits. The following table shows the number of shares issued pursuant to awards or subject to awards issued as of February 28, 2017 under the 2014 Plan since its inception to the following individuals and groups:

Name and Position	Number of Shares Underlying Options Granted (#)	Number of Shares Underlying RSUs Granted (#)(2)
Marc H. Hedrick, M.D.		
President and Chief Executive Officer	71,613	8,000
Tiago Girão		
VP of Finance and Chief Financial Officer	41,322	4,000
John D. Harris		
Vice President and General Manager of Cell Therapy	45,655	—
All executive officers as a group (5 persons)	188,966	12,000
All directors who are not employees, as a group (6 persons) [(1)]	201,270	4,404
All employees as a group (excluding executive officers) (60 persons)	147,414	9,841

(1) Our non-employee directors are eligible to receive automatic equity awards under our director compensation policy, as described under the heading "Executive Compensation – Director Compensation" below.

(2) Reflects the target number of RSUs granted. The maximum number of RSUs was equal to 200% of target.

New Plan Benefits. On March 31, 2017, our Board granted the Contingent Options to Gregg A. Lapointe under the Restated Plan, subject to stockholder approval. The Contingent Options vest in two equal installments on each of the first two anniversaries of the date of Mr. Lapointe's appointment to the Board. The following table sets forth information pertaining to the Contingent Options granted under the Restated Plan. In the event stockholder approval of the Restated Plan is not obtained, all of the Contingent Options will be automatically forfeited.

Name and Position	Number of Shares Underlying Contingent Options Granted (#)

Marc H. Hedrick, M.D. President and Chief Executive Officer	—
Tiago Girão VP of Finance and Chief Financial Officer	—
John D. Harris Vice President and General Manager of Cell Therapy	—
All executive officers as a group (5 persons)	—
All directors who are not employees, as a group (7 persons) [(1)]	50,000
All employees as a group (excluding executive officers) (58 persons)	—

(1) Our non-employee directors are eligible to receive automatic equity awards under the Restated Plan under our director compensation policy, as described under the heading "Executive Compensation – Director Compensation" below.

The granting of all other future awards under the Restated Plan is subject to the discretion of the Board or the Committee, therefore, the benefits or amounts that any participant or group of participants may receive in the future under the Restated Plan are not currently determinable. The Committee may grant further awards to eligible individuals under the Restated Plan prior to the annual meeting in the ordinary course of business, which awards will also be Contingent Options that are subject to stockholder approval of the Restated Plan.

Vote Required

Approval of this proposal would require the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting. Abstentions are considered present and entitled to vote with respect to this proposal and will, therefore, be treated as votes against this proposal. Broker non-votes will have no effect on the outcome of this proposal.

Board Recommendation

The Board believes that the amendment and restatement of the 2014 Plan is in the best interests of Cytori and its stockholders for the reasons stated above. **Therefore, the Board unanimously recommends a vote "FOR" approval of the amendment and restatement of the 2014 Plan.**

PROPOSAL #4

NON-BINDING ADVISORY VOTE REGARDING FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, and related SEC regulations, we are required to provide our stockholders not less than once every six years with the opportunity to cast an advisory vote on the frequency at which future advisory "say on pay" votes on executive compensation will be proposed to our stockholders. We last provided our stockholders with the opportunity to vote on the frequency of future advisory "say on pay" votes on executive compensation at our 2011 annual meeting, at which time our stockholders voted that advisory "say on pay" votes on executive compensation would take place every three years. The most recent "say on pay" vote on executive compensation occurred at our 2015 annual meeting.

We are again asking stockholders to vote on whether future non-binding advisory "say on pay" votes on executive compensation should occur every year, every two years or every three years. After careful consideration of this proposal, our Board has determined that an advisory vote on executive officer compensation that occurs every year is the most appropriate alternative for us, and therefore our Board recommends that you vote for an advisory vote on executive compensation to occur every year. Even though our executive compensation programs stress long-term value creation and look at long-term performance, we still believe a one-year interval for the advisory vote on executive compensation is most appropriate.

This Proposal gives you the opportunity to express your views on the frequency of stockholder advisory votes regarding our executive officer compensation. The advisory vote by the stockholders on frequency is distinct from the advisory vote on the compensation of our executive officers; this Proposal deals with the issue of how frequently such a vote on such compensation should be presented to our stockholders.

In this regard, we are soliciting your vote on whether the compensation of our executive officers be submitted to stockholders for an advisory vote every year, every two years, or every three years. You may vote for one of these three alternatives or you may abstain from making a choice.

The vote on this Proposal is advisory and therefore not binding on us or our Board. However, we value your opinions and to the extent there is any significant vote in favor of one frequency over the other options, the Board will take this into account when considering how frequently we should conduct future advisory votes on the compensation of our executive officers. The Board may, however, decide that it is in the best interest of the Company and the stockholders to hold future advisory votes on executive compensation more or less frequently than the option that has been selected by the stockholders.

Required Vote and Board Recommendation

The option of every year, every two years or every three years that receives the affirmative vote of holders of a majority of shares present in person or by proxy and entitled to vote on the proposal will be the frequency recommended by stockholders for the advisory vote on the compensation of our executive officers, unless none of the frequency options receives a majority vote, in which case the option that receives the highest number of votes will be considered to be the frequency recommended by stockholders. Abstentions have the same effect as a vote against each of the frequency options. Broker non-votes are not counted for any purpose in determining which frequency option has been recommended by stockholders.

THE BOARD RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR A FREQUENCY OF "EVERY YEAR" FOR FUTURE NON-BINDING ADVISORY VOTES ON EXECUTIVE COMPENSATION.

CORPORATE GOVERNANCE

During the year ended December 31, 2016:

- the Board held eleven meetings and took action via unanimous written consent six times;
- the Audit Committee met eight times and took action via unanimous written consent one time;
- the Compensation Committee met two times and took action via unanimous written consent one time;
- the Governance and Nominating Committee met three times and did not take any actions via unanimous written consent;
- the Executive Committee met one time did not take action via unanimous written consent; and
- the sub-committee of the Executive Committee, comprised of our Chairman and our CEO, took action via unanimous written consent two times.

Each member of the Board attended seventy-five percent (75%) or more of the aggregate of (i) the total number of Board meetings held during the period of such member's service and (ii) the total number of meetings of committees of the Board on which such member served, during the period of such member's service, other than Richard Hawkins, whose attendance rate was slightly under 75% due to the fact that we were required to reschedule certain calendared Board and Committee meetings to dates and times that precluded Mr. Hawkins' attendance.

All Board members are encouraged to attend our annual meetings of stockholders in person. However, in 2016, our stockholder meeting date did not coincide with our regularly scheduled quarterly Board meeting. Mr. Rickey, our Chairman, and Dr. Hedrick attended our 2016 Annual Meeting of Stockholders.

Board Independence

The Board has determined that Dr. Naughton and Messrs. Hawkins, Hawran, Lapointe, Lyons, Martell and Rickey are "independent" under the rules of the NASDAQ Stock Market. Under applicable SEC and the NASDAQ rules, the existence of certain "related person" transactions above certain thresholds between a director and the Company are required to be disclosed and preclude a finding by the Board that the director is independent. The Board is not able to consider Dr. Hedrick, our President and Chief Executive Officer, independent, as a result of his employment with us during his tenure as one of our directors.

Board Leadership Structure

Our bylaws and governance principles provide the Board with the flexibility to combine or separate the positions of Chairman and Chief Executive Officer. Historically, these positions have been separate. Our Board believes that the separation of these positions strengthens the independence of our Board and allows us to have a Chairman focused on the leadership of the Board while allowing our Chief Executive Officer to focus more of his time and energy on managing our operations. The Board currently believes this structure works well to meet the leadership needs of the Board and of the Company. Dr. Hedrick, our President and Chief Executive Officer, has comprehensive industry expertise and is able to devote substantial time to the Company, and Mr. Rickey, our Chairman, is able to devote focus on longer term and strategic matters, and to provide related leadership to the Board. As a result, we do not currently intend to combine these positions; however a change in this leadership structure could be made if the Board determined it was in the best long-term interests of stockholder based upon a departure of either our Chief Executive Officer or Chairman. For example, if the two roles were to be combined, we believe that the independence of the majority of our directors, and the three fully independent Board committees, would provide effective oversight of our management and the Company.

The Board's Role in Risk Oversight

The Board's role in risk oversight includes assessing and monitoring risks and risk management. The Board reviews and oversees strategic, financial and operating plans and holds management responsible for identifying and moderating risk in accordance with those plans. The Board fulfills its risk oversight function by reviewing and

assessing reports from members of management on a regular basis regarding material risks faced by us Company and applicable mitigation strategy and activity. The reports cover the critical areas of operations, sales and marketing, development, regulatory and quality affairs, intellectual property, clinical development, legal and financial affairs. The Board and its Committees (described below) consider these reports; discuss matters with management and identify and evaluate any potential strategic or operational risks, and appropriate activity to address those risks.

Board Committees

The Board has standing Audit, Compensation, Executive, and Governance and Nominating Committees. All members of the Compensation Committee, Audit Committee, and Governance and Nominating Committee are independent directors.

Compensation Committee

The Compensation Committee currently consists of Mr. Lyons (Chairman), Dr. Naughton and Mr. Rickey. In May 2016, Tommy Thompson, a former director, stepped down as the Chairman (and a member) of our Compensation Committee. Mr. Lyons replaced Mr. Thompson as Chairman of the Compensation Committee, and Mr. Rickey joined the Compensation Committee to fill the vacancy created by Mr. Thompson's departure. Each of the members of our Compensation Committee is independent as defined by NASDAQ, a "Non-Employee Director" as defined by rule 16b-3(b)(3)(i) of the Securities Exchange Act of 1934, as amended, and an "outside director" as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee Chairman is responsible for setting the Committee's calendar and meeting agenda.

The Compensation Committee is responsible for developing and implementing compensation programs for our executive officers and other employees, subject only to the discretion of the full Board. More specifically, our Compensation Committee establishes base salary rates for each of the Company's officers, and administers our 2004 Equity Incentive Plan, our 2014 Equity Incentive Plan, our Executive Management Incentive Compensation Plan, our 2011 Employee Stock Purchase Plan and our 2015 New Employee Incentive Plan. The Compensation Committee establishes the compensation and benefits for our Chief Executive Officer and other executive officers, and also reviews the relationship between our performance and our compensation policies as well as assessing any risks associated with our compensation policies. In addition, the Compensation Committee reviews, and advises the Board on director compensation matters and on, regional and industry-wide compensation practices and trends in order to assess the adequacy of our executive compensation programs. The charter of the Compensation Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under Investor Relations – Corporate Governance.

Our CEO attends some of the meetings of the Compensation Committee upon invitation, but does not participate in the executive sessions of the Compensation Committee.

Audit Committee

Our Audit Committee currently consists of Mr. Hawran (Chairman), Mr. Hawkins and Mr. Lyons. At the outset of 2016, Mr. Hawran (Chairman), Mr. Thompson and Mr. Hawkins were the members of our Audit Committee. Upon Mr. Thompson's departure in May 2016, Mr. Lyons joined the Audit Committee. The Audit Committee is comprised solely of independent directors, as defined by NASDAQ. The Board has determined that Mr. Hawran is an "audit committee financial expert" within the meaning of Item 407(d)(5) of SEC Regulation S-K. Effective automatically upon Mr. Hawran's departure from the Board as of date of our Annual Meeting, Mr. Lapointe shall be appointed as a member and Chairperson of our Audit Committee. Mr. Lapointe has been deemed to be an independent director, as defined by NASDAQ, and the Board has further made the determined that Mr. Lapointe is an "audit committee financial expert" within the meaning of Item 407(d)(5) of SEC Regulation S-K. The charter of the Audit Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under Investor Relations – Corporate Governance.

The Audit Committee selects our auditors, reviews the scope of the annual audit, approves the audit fees and non-audit fees to be paid to our auditors, and reviews our financial accounting controls with the staff and the

auditors. The Audit Committee is also charged with review and oversight of management's enterprise risk management assessment.

Governance and Nominating Committee

Our Governance and Nominating Committee currently consists of Mr. Hawkins (Chairman), Mr. Martell and Dr. Naughton. Mr. Martell replaced Mr. Lyons as a member of Governance and Nominating Committee in December 2016. The Governance and Nominating Committee is comprised solely of independent directors, as defined by NASDAQ. The Governance and Nominating Committee interviews, evaluates, nominates and recommends individuals for membership on the Board, evaluates the effectiveness of the Board and its serving members, and recommends the structure, responsibility and composition of the committees of the Board. The Committee is also responsible for recommending guidelines and policies for corporate governance for adoption by the Board. The charter of the Governance and Nominating Committee has been established and approved by the Board, and a copy of the charter has been posted on our website at www.cytori.com under "Investor Relations – Corporate Governance."

Executive Committee

The Executive Committee is comprised of our Chief Executive Officer, Chairman of the Board, and Chairpersons of each committee of the Board. The Executive Committee currently consists of Dr. Hedrick, Mr. Rickey, Mr. Hawkins, Mr. Hawran, and Mr. Lyons. Effective automatically as of the Mr. Hawran's departure from the Board as of the date of Annual Meeting, Mr. Lapointe shall replace Mr. Hawran on the Executive Committee

The Executive Committee's responsibilities, when such responsibilities are not discharged by our full Board, include to evaluate and approve the material terms of any financing transactions or business transactions as well as to authorize and approve accompanying the issuance of stock and/or other equity securities. The Executive Committee also would be able to act on behalf of the full Board in urgent or exigent circumstances wherein it would be very difficult or impossible to assemble the full Board between regularly scheduled meetings. In 2016, our Executive Committee acted as a special pricing committee of the Board with respect to our rights offering financing, consummated in June 2016. The sub-committee of the Executive Committee, consists of our Chairman of the Board and our Chief Executive Officer, has the authority to approve corporate expenditures presented by our management in excess of $250,000 up to a maximum of $1,000,000 for a single corporate transaction.

DIRECTOR NOMINATIONS

Criteria for Board Membership

The Governance and Nominating Committee is responsible for annually reviewing the applicable skills and characteristics required of Board nominees with the Board in the context of current Board composition and our circumstances. In making its recommendations to the Board, the Governance and Nominating Committee considers, among other things, the qualifications of individual director candidates in light of the Board's membership criteria as set forth in our Corporate Governance Guidelines. The Governance and Nominating Committee may utilize a variety of sources, including stockholder recommendations, Board member recommendations, executive search firms, management recommendations or other reasonable means to identify director candidates.

The Governance and Nominating Committee considers candidates recommended by our Board and management, as well as candidates submitted by our stockholders (as discussed below). Board members or management that wish to recommend that a person be considered for Board membership are required to provide relevant qualifications and other information regarding the prospective candidate to the Governance and Nominating Committee along with their recommendations and reasons why such person should be considered. The Governance and Nominating Committee then, at its next regularly scheduled meeting, reviews each of the proposed candidates and determine whether or not to add such person to the proposed candidates list. In the event the Board determines to add an additional Board member, the Committee shall select candidates from this list in addition to candidates drawn from any search firm that the Committee deems necessary to retain for this purpose.

The criteria we use in selecting Board candidates include the candidate's integrity, business acumen, commitment, reputation among our various constituencies and communities, ability to make independent analytical inquiries, understanding of our business environment, and willingness to devote adequate time to Board duties. The Board has also determined that gender and ethnic diversity of the Board will be an important factor in evaluation of candidates. There are no other pre-established qualifications, qualities or skills at this time that any particular Director nominee must possess and nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law. The Governance and Nominating Committee does not assign specific weights to particular criteria, nor has it adopted a particular policy. Rather, the Board believes that the backgrounds and qualifications of the directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. The goal of the Governance and Nominating Committee is to assemble a Board that brings a variety of skills derived from high quality businesses and professional experience. The Governance and Nominating Committee seeks to ensure that at least a majority of the directors are independent under NASDAQ rules, and that members of the Company's Audit Committee meet the financial literacy and sophistication requirements under the NASDAQ rules, and at least one of them qualifies as an "audit committee financial expert" under the rules of the SEC.

Stockholder Nominees

The Governance and Nominating Committee is responsible for the consideration of any director candidates recommended by security holders, provided such nominations are made in accordance with our bylaws and applicable law. Any recommendations received from the security holders will be evaluated in the same manner that potential nominees suggested by Board members, management or other parties are evaluated. Any such nominations should be submitted to the Governance and Nominating Committee c/o the Secretary of the Company and should include the following information: (a) all information relating to such nominee that is required by the Company's Amended and Restated Bylaws ("Bylaws"), and that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) other appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted no later than the deadlines described in our Bylaws and under the caption, "Stockholder Proposals for the 2018 Annual Meeting" below.

STOCKHOLDER COMMUNICATION WITH THE BOARD

Stockholders may contact an individual director, the Board as a group, or a specified Board committee or group, including the independent directors as a group, by the following means:

- Mail:

  Chairman of the Board
  Cytori Therapeutics, Inc.
  3020 Callan Road
  San Diego, CA 92121
  CC: General Counsel

- E-mail: chairman@cytori.com

Each communication should specify the applicable addressee or addressees to be contacted as well as the general topic of the communication. The Chairman of the Board will initially receive and process communications before forwarding them to the addressee. Communications also may be referred to other departments within the Company. The Chairman of the Board generally will not forward to the directors a communication that he/she determines to be primarily commercial in nature or related to an improper or irrelevant topic, or that requests general information about us. Concerns about questionable accounting or auditing matters or possible violations of the Cytori Code of Business Conduct and Ethics should be reported pursuant to the procedures outlined in the Code of Business Conduct and Ethics, which are available on the Company's website in the Investor Relations section under "Corporate Governance Materials."

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics has been posted on our website at www.cytori.com. We intend to post amendments to this code, or any waivers of its requirements, on our website at www.cytori.com in the Investor Relations section under “Corporate Governance,” as permitted under SEC rules and regulations.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding ownership of our Common Stock as of February 28, 2017 (or earlier date for information based on filings with the SEC) by (a) each person known to us to own more than 5% of the outstanding shares of our Common Stock, (b) each director and nominee for director, (c) our President and Chief Executive Officer, VP of Finance and Chief Financial Officer and each other named executive officer, or NEO, named in the compensation tables appearing later in this Proxy Statement, and (d) all directors and executive officers as a group.

The information in this table is based solely on statements in filings with the SEC or other reliable information. We believe, based on information provided to us, that each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder unless noted otherwise, subject to community property laws where applicable.

A total of 23,568,403 shares of our common stock were issued and outstanding as of February 28, 2017.

Name and Address of Beneficial Owner [1]	Number of Shares of Common Stock Owned[2]	Number of Shares of Common Stock Subject to Awards/Warrants Exercisable Within 60 Days [3]	Total Number of Shares of Common Stock Beneficially Owned [4]	Percent Ownership
Sabby Management, LLC. [5]	1,651,835	—	1,651,835	7.0%
10 Mountainview Road, Suite 205				
Upper Saddle River, NJ 07458				
Marc H. Hedrick, MD	78,133	111,739	189,872	*
Tiago M. Girão	14,084	20,067	34,151	*
John D. Harris	7,000	15,501	22,501	*
David M. Rickey	95,231	22,935	118,166	*
Richard J. Hawkins	8,433	16, 405	24,838	*
Paul W. Hawran	8,236	12,727	20,963	*
Gregg A. Lapointe	—	—	—	*
Gary A. Lyons	4,357	7,604	11,961	*
Ronald A. Martell	—	—	—	*
Gail K. Naughton, Ph.D.	2,400	6,654	9,054	*
All executive officers and directors as a group (11) [6]	221,517	224,833	446,350	1.9 %

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares as of February 28, 2017.

(1) Unless otherwise indicated, the address of each of the named individuals is c/o Cytori Therapeutics, Inc., 3020 Callan Road, San Diego, CA 92121.

(2) Unless otherwise indicated, represents shares of outstanding common stock owned by the named parties as of February 28, 2017.

(3) Shares of common stock subject to stock options or warrants currently exercisable or exercisable within 60 days of February 28, 2017 are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person.

(4) The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities for which that person has a right to acquire beneficial ownership within 60 days.

(5) Based upon a Schedule 13G/A filed January 6, 2017, reporting beneficial ownership as of December 31, 2016. Sabby Healthcare Master Fund, Ltd. ("Sabby Healthcare") has shared voting and dispositive power with respect to 1,132,643 shares. Sabby Volatility Warrant Master Fund, Ltd. ("Sabby Volatility") has shared voting and dispositive power with respect to 519,192 shares. Sabby Management , LLC ("Sabby Management") serves as the investment manager of Sabby Healthcare and Sabby Volatility and has shared voting and dispositive power with respect to 1,651,835 of these shares. Hal Mintz, in his capacity as manager of Sabby Management, has shared voting and dispositive power with respect to 1,651,835 of these shares. Each of Sabby Management, LLC and Hal Mintz disclaim beneficial ownership over the

securities owned except to the extent of their pecuniary interest therein. The address for Sabby Management is 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey 07458. The address for Mr. Mintz is c/o Sabby Management, LLC, 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey 07458.

(6) This aggregate amount includes 14,844 shares owned (or subject to options that are exercisable within sixty days of February 28, 2017) by Jeremy Hayden, General Counsel and Vice President of Business Development.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions

The following includes a summary of transactions since January 1, 2016 to which we have been a party in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or, to our knowledge, beneficial owners of more than 5% of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest. We also describe below certain other transactions with our directors, executive officers and 5% stockholders. We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, from unaffiliated third parties.

Rights Offering

In June 2016, we consummated a rights offering, or Rights Offering, to our stockholders of record (as of May 20, 2016) to subscribe for units at a subscription price of $2.55 per unit. Pursuant to the Rights Offering, we sold an aggregate of 6,704,852 units consisting of a total of 6,704,852 shares of common stock and 3,352,306 warrants to our stockholders, or Warrants, with each Warrant exercisable for one share of common stock at an exercise price of $3.06 per share. Certain of our directors participated in the Rights Offering and along with other participants in the Rights Offering, purchased common stock and Warrants to purchase our common stock. The Warrants trade on the Nasdaq Stock Market under the symbol “CYTXW.”

Director and Officer Indemnification

Our amended and restated certificate of incorporation, as amended, and our amended and restated bylaws, as amended, provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law.

Equity Award Grants to Executive Officers and Directors

We have granted equity awards to our executive officers and non-employee directors as more fully described elsewhere in this Proxy Statement.

The information under the heading “Board Independence” in this Proxy Statement is incorporated herein by reference.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers, and persons or entities who own more than ten percent of our common stock, to file with the SEC reports of beneficial ownership and changes in beneficial ownership of our common stock. Those directors, officers, and stockholders are required by regulations to furnish us with copies of all forms they file under Section 16(a). Based solely upon a review of the copies of such reports furnished to us and written representations from such directors, officers, and stockholders, we believe that all such reports required to be filed during 2016 were filed on a timely basis.

EXECUTIVE OFFICERS

The following table sets forth biographical information regarding our executive officers as of February 28, 2017.

Name	Age	Position(s)
Marc H. Hedrick, M.D.[(1)]	54	President, Chief Executive Officer and Director
Tiago M. Girão	37	Vice President of Finance and Chief Financial Officer
Mark Marino, M.D.	57	Senior Vice President and Chief Medical Officer
John D. Harris	48	Vice President and General Manager of Cell Therapy
Jeremy Hayden.	47	General Counsel, Chief Compliance Officer, Secretary and Vice President of Business Development

(1) See "Proposal No. 1 Election of Directors" for biographical information regarding Dr. Hedrick.

Tiago M. Girão joined us as Vice President of Finance and Chief Financial Officer in September 2014. Mr. Girão joined us from NuVasive, Inc., or NuVasive, a publicly-held medical device company, where he last served as International Controller from February 2014 to August 2014. Prior to his position as International Controller, he served as NuVasive's Director of Financial Reporting from March 2012 to February 2014. In his position as Director of Financial Reporting, Mr. Girão managed a team responsible for all corporate technical accounting and SEC-related matters for Nuvasive. Prior to joining NuVasive, Mr. Girão served as Senior Manager, Assurance at KPMG, LLP from October 2004 to March 2012. Prior to joining KPMG, Mr. Girão was a senior accountant for Ernst &Young in Brazil from October 2000 to August 2004. Mr. Girão is a certified public accountant with over 15 years' experience in the accounting, finance and reporting for U.S. and public companies and substantial experience in global finance and operations.

John D. Harris has served as our Vice President and General Manager of Cell Therapy since he joined us in October 2015. Mr. Harris has over 20 years' experience in medical device and biotechnology, most recently serving as the Vice President and General Manager of Becton Dickinson's operations in Japan. Prior to Becton Dickinson, Mr. Harris held business development, product development, and marketing and sales leadership roles with Tyco Electronics (now TE Connectivity Corp.), Delphi Automotive, Sorenson Medical, Kimberly-Clark Healthcare and Ballard Medical Products. Mr. Harris is a member of the Board of Governors of the American Chamber of Commerce in Japan (ACCJ) and a member of the Executive Committee of the American Medical Device & Diagnostics Association, where he chairs the Regenerative Medicine Working Group. Mr. Harris holds Master of Business Administration and Bachelor of Arts degrees from the University of Utah.

Mark Marino, M.D. joined us as Senior Vice President of Medical Affairs in May 2016, and was also appointed as Chief Medical Officer of the Company in August 2016. Before joining us, Dr. Marino served as Senior Vice President of Early Clinical Development for Turing Pharmaceuticals from November 2015 to May 2016. Prior to Turing, Dr. Marino served as Executive Director of Clinical Development at Daiichi-Sankyo from September 2012 to February 2013, and then as Vice President of Clinical Development at Daiichi-Sankyo from February 2013 to November 2015. Prior to Daiichi-Sankyo, Dr. Marino held various senior clinical positions at Archimedes Pharma, Inc., MannKind Corporation and Hoffman-LaRoche from August 2006 to September 2012. Dr. Marino also previously served as Chief of the Department of Pharmacology at the Walter Reed Army Institute of Research as well as Associate Professor of Medicine at the Uniformed Services University of the Health Sciences and a staff physician at the Walter Reed Army Medical Center. Dr. Marino received his medical degree from the Albert Einstein School of Medicine and his specialty training in internal medicine at the Eisenhower Army Medical Center and sub-specialty training in Clinical Pharmacology at the Uniformed Services University of the Health Sciences.

Jeremy B. Hayden joined us as General Counsel and Vice President of Business Development in July 2015. Prior to joining us, Mr. Hayden served as Assistant General Counsel at Volcano Corporation, a publicly-held medical device company that was acquired by Koninklijke Philips N.V in early 2015. Prior to Volcano Corporation, Mr. Hayden practiced corporate and securities law at several national and international law firms, including Mintz Levin Cohn Ferris Glovsky & Popeo, P.C. and McKenna Long & Aldridge, LLP (now Dentons). Mr. Hayden received his A.B. in Politics from Princeton University and his J. D. from the University of Michigan Law School.

EXECUTIVE COMPENSATION

Our named executive officers, or NEOs, for fiscal year 2016 are:

- Marc H. Hedrick, M.D., our President and Chief Executive Officer;
- Tiago M. Girão, our Vice President of Finance and Chief Financial Officer; and
- John D. Harris, our Vice President and General Manager of Cell Therapy.

Investors are encouraged to read the compensation discussion below in conjunction with the compensation tables and related notes, which include more detailed information about the compensation of our NEOs for 2016 and 2015.

2016 Summary Compensation Table

The following table sets forth information concerning compensation earned during 2015 and 2016 for services rendered to us by our NEOs.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name and Principal Position	**Year**	**Salary**	**Stock Awards [1]**	**Option Awards [2]**	**Non-Equity Incentive Plan Comp. [3]**	**All Other Compensation [4]**	**Total**
Marc H. Hedrick, M.D., ... President and Chief Executive Officer.....	2016	$ 450,000	—	$ 156,273	$ 146,250	—	$752,523
	2015	$ 450,000	$ 80,172	$ 115,200	$ 200,475	—	$845,847
Tiago M. Girão, ... VP of Finance, Chief Financial Officer and Chief Accounting Officer	2016	$ 265,000	—	$ 65,535	$ 79,560	—	$410,095
	2015	$ 265,000	$ 40,086	$ 57,600	$ 69,563	—	$432,249
John D. Harris,..... VP and General Manager of Cell Therapy.....	2016	$ 361,830[5]	—	$ 65,535	$ 64,365	$ 125,249[6]	$616,979
	2015	$ 88,167[5]	—	$ 123,982	$ 25,988	$ 19,647[6]	$257,784

(1) This column represents the dollar amount of the aggregate grant date fair value of stock awards granted in 2015, computed in accordance with FASB ASC Topic 718. For information relating to the assumptions made by us in valuing the stock awards made to our NEOs in 2016, refer to Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 24, 2017. These amounts do not reflect the actual economic value that will be realized by our NEOs upon vesting of the stock awards or sale of the common stock underlying the stock. On May 26, 2015, the Compensation Committee granted performance-based RSUs and the grant date fair value in the table was calculated based on the probable achievement of the performance objectives applicable to such awards, which was estimated at "target" performance for this purpose. Had maximum achievement of the performance criteria been achieved, the full grant date fair value of the awards, assuming maximum achievement of the performance criteria, would have been 200% of the amount set forth in the table.

(2) This column represents the dollar amount of the aggregate grant date fair value of option awards, computed in accordance with FASB ASC Topic 718. For information relating to the assumptions made by us in valuing the option awards made to our NEOs in 2016 and 2015, refer to Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 24, 2017. These amounts do not reflect the actual economic value that will be realized by our NEOs upon vesting of the stock options, exercise of the stock options, or sale of the common stock underlying the stock options.

(3) The amounts in column (f) reflect the cash awards under our EMIC Plan, which is discussed in further detail below under the heading in the subsection entitled "*Annual Bonuses (Executive Management Incentive Compensation Plan)*" of the "Narrative Disclosure to Compensation Tables" below.

(4) Dollar value of the perquisites and other personal benefits for Dr. Hedrick and Mr. Girão were less than $10,000 for the year reported.

(5) We paid Mr. Harris in Japanese Yen. During 2015, and 2016 his salary was reported at the average exchange rate over the year, or 0.0083 and 0.0086 Japanese Yen to US dollar in 2015 and 2016, respectively.

(6) Per the terms of his employment offer letter with us, Mr. Harris was eligible to receive a housing allowance while on assignment in Japan up to a maximum of 13,900,000 Japanese Yen per year, including direct payment by us of Mr. Harris' local rent (not to exceed 1,100,000

Japanese Yen per month) and additional healthcare coverage. We paid these benefits in Japanese Yen, and we recorded them in 2015 and 2016 at the average exchange rate over the applicable year, or 0.0083 and 0.0086 Japanese Yen to U.S. dollar in 2015 and 2016, respectively. During 2015 and 2016, Mr. Harris' rent expense was $18,260 and $111,994, respectively, and cost of his additional health care coverage was $1,387 and $13,255, respectively.

Narrative Disclosures to Summary Compensation Table

In the process of determining compensation for our NEOs, the Compensation Committee considers our current financial position, our strategic goals and the performance of each of our NEOs. The Compensation Committee also benchmarks the various components (described below) of our compensation program for executives to compensation paid by other public companies in our defined peer group, compensation data from Radford Global Life Sciences Survey and BIOCOM Total Rewards Survey, historical review of all executive officer compensation, and recommendations from our Chief Executive Officer (other than for his own salary). From time to time the Compensation Committee engages the services of outside compensation consultants to provide compensation research, analysis and recommendations. The Compensation Committee has the sole authority to select, compensate and terminate its external advisors.

The Compensation Committee utilizes the following components of compensation (described further below) to strike an appropriate balance between promoting sustainable and excellent performance and discouraging any inappropriate short-sighted risk-taking behavior:

- Base salary;
- Annual long-term equity compensation;
- Personal benefits and perquisites; and
- Acceleration and severance agreements tied to changes on control of the Company.

Base Salaries

None of our NEOs received base salary increases for 2016. While the Compensation Committee had previously approved an increase in Mr. Girão's annual base salary from $265,000 to $300,000 for fiscal year 2016, at Mr. Girão's request, this salary increase was deferred. Commencing effective as of January 1, 2017, Mr. Girão's annual base salary was increased from $265,000 to $300,000.

In connection with determination of executive compensation for fiscal year 2017, the Compensation Committee directed Barney & Barney, LLC, its independent compensation consultant, to prepare an updated senior management compensation assessment. The Compensation Committee reviewed this assessment at its normally scheduled meeting in January 2017. Based on this assessment and including other data points and information considered by the Compensation Committee in its discretion, the Compensation Committee approved the following NEO base salaries for fiscal year 2017, which base salaries went into effect in March 2017: Dr. Hedrick: $510,000; Mr. Harris: $360,500; Mr. Girão: $309,000. The increases to Dr. Hedrick's and Mr. Girão's base salaries were made to move such salaries closer to or within the 50th and 60th percentile range of base salary compensation for similarly situated executive at our peer companies, per our corporate compensation philosophy. Our compensation analysis indicates that Dr. Hedrick's base salary is substantially closer to, but still below, this stated range, while Mr. Girão's base salary is now within this stated range. Mr. Harris' base salary remains above our stated range, but we believe that the Mr. Harris' actual duties and responsibilities, combined with his experience and skills (including Japanese linguistic and business/cultural fluency) are appropriately reflected in his base salary and other compensation.

Barney & Barney did not provide any services to us in 2016 beyond its engagement as an advisor to the Compensation Committee on compensation matters. After review and consultation with Barney & Barney, the Compensation Committee has determined that Barney & Barney is independent and there is no conflict of interest resulting from retaining Barney & Barney currently or during the year ended December 31, 2016. In reaching these conclusions, the Compensation Committee considered the factors set forth in Exchange Act Rule 10C-1 and NASDAQ listing standards.

Annual Bonuses (Executive Management Incentive Compensation Plan)

Our Compensation Committee adopted the Cytori Therapeutics Executive Management Incentive Compensation, or EMIC, plan to increase the performance-based component of our executives' compensation by linking their annual cash bonus payments to achievement of shorter-term performance goals. Target bonuses are reviewed annually and established as a percentage of the executives' base salaries, generally based upon seniority of the officer and targeted at or near the median of the peer group (with reference to our corporate compensation philosophy) and relevant survey data (including the Radford Global Life Sciences Survey and BIOcom Total Rewards Survey). Each year the Compensation Committee establishes corporate and individual objectives and respective target percentages, taking into account recommendations from our Chief Executive Officer as it relates to executive positions other than the Chief Executive Officer's compensation. Our Chief Executive Officer's EMIC plan is set by the Compensation Committee to align entirely with our overall corporate objectives, while the other NEOs are also provided individual goals that constitute a portion of their overall EMIC plans. After each fiscal year-end, our Chief Executive Officer provides the Compensation Committee with a written evaluation showing actual performance as compared to corporate and/or individual objectives, and the Compensation Committee uses that information, along with the overall corporate performance, to determine what percentage of each executive's bonus target will be paid out as a bonus for that year. Overall, we attempt to set the corporate and individual functional goals to be highly challenging yet attainable.

For 2016, the general corporate goals approved by the Board (upon recommendation of the Compensation Committee for purposes of executive compensation) were determined by the Compensation Committee to account for 100% of the target cash bonus amount payable under the EMIC plan for our Chief Executive Officer, Dr. Hedrick, and to account for 75% of the overall target bonus amount payable under the EMIC plans for our other NEOs. The Company's general corporate objectives included clinical, financial and operational objectives, including the achievement of certain enrollment goals for our STAR clinical trial; the achievement of certain year-end cash objectives, revenue goals and business development objectives; and various operational objectives.

The following individual objectives for the NEOs other than Dr. Hedrick expanded upon their particular functions in the overall corporate objectives and were to weighted as 25% of their respective overall target bonus amounts.

Mr. Girão's individual objectives included the achievement of certain investor-related, liquidity, and partner-related goals.

Mr. Harris's individual objectives included achievement of certain revenue, product utilization and business development/partnering goals.

Our NEOs' target bonuses for 2016 as a percentage of base salary were as follows: Dr. Hedrick, 50% (increased from 45% in 2015); Mr. Girão, 40% (increased from 30% in 2015); and Mr. Harris, 30% (unchanged from 2015, as Mr. Harris commenced employment with us in October 2015). The Compensation Committee, in its January 2017 meeting, evaluated our achievement in 2016 as compared to overall the corporate and individual objectives for the NEOs in the 2016 EMIC Plan described above. The Committee evaluated the overall results and then evaluated the NEOs' achievement relative to their own functional objectives and the results are tabulated in the table below:

Officer and Position	Target Bonus as a % of Salary	% of Target Bonus Awarded	Bonus Awarded as a % of Salary	Amount of 2016 Bonus Payable in 2017[1]
Marc H. Hedrick, M.D., President and CEO	50%	65.0%	32.5%	$109,688
Tiago M. Girão, Vice President of Finance and Chief Financial Officer	40%	66.3%	26.5%[2]	$ 59,670[2]
John D. Harris, VP & General Manager of Cell Therapy	30%	61.3%	18.4%	$ 48,274

(1) The 2016 bonus amounts are payable in 2017 in installments as follows: 50% of such amounts are payable on July 2, 2017, 25% of such amounts are payable on October 1, 2017 and the remaining 25% of such amounts are payable on January 1, 2018.

(2) Mr. Girão's 2016 bonus amount is based off of the increased base salary previously approved by the Compensation Committee for fiscal year 2016, but at Mr. Girão's request, this salary increase was deferred. Commencing effective as of January 1, 2017, Mr. Girão's annual base salary was increased from $265,000 to $300,000.

As part of its determination of target executive compensation for fiscal year 2017, the Compensation Committee determined bonus targets for our NEOs in consultation with Barney & Barney and with reference to Barney & Barney's senior management compensation assessment and other materials and information, as deemed necessary or appropriate by the Compensation Committee in its discretion. Upon completion of this review, the Compensation Committee approved target bonuses (as a percentage of base salary) for our NEOs for fiscal year 2017 as follows: Dr. Hedrick: 55%; Mr. Girão: 40%; Mr. Harris: 40%.

Long-Term Equity Compensation

We designed our long-term equity grant program to further align the interests of our executives with those of our stockholders and to reward the executives' longer-term performance. Historically, the Compensation Committee has granted individual option grant awards, although from time-to-time, to further increase the emphasis on compensation tied to performance, the Compensation Committee may grant other equity awards as allowed by the 2014 Equity Incentive Plan. The Compensation Committee grants stock options, restricted stock, restricted stock units and similar equity awards permitted under our plans based on its judgment as to whether the complete compensation packages to our executives, including prior equity awards, are appropriate and sufficient to retain and incentivize the executives and whether the grants balance long-term versus short-term compensation. The Compensation Committee also considers our overall performance as well as the individual performance of each NEO, and the potential dilutive effect of restricted stock awards, and the dilutive and overhang effect of the equity grant awards, and recommendations from the Chief Executive Officer (other than with respect to his own equity awards).

Stock options are granted with an exercise price equal to the fair market value of our common stock on the date of grant.

In January 2016, our NEOs were granted stock options to acquire shares of our common stock at an exercise price equal to the fair market value of our common stock on the Nasdaq Stock Market as of the date of grant, vesting in accordance with our standard four-year vesting schedules. Specifically, Dr. Hedrick, Mr. Girão and Mr. Harris were granted (on a post-split basis reflecting the 1-for-15 reverse stock split that we consummated in May 2016) options to purchase 55,613, 23,322 and 23,322 shares of our common stock, respectively.

In March 2017, as part of its determination of target executive compensation for fiscal year 2017, the Compensation Committee assessed long-term incentive compensation for our NEOs in consultation with Barney & Barney and with reference to Barney & Barney' s senior management compensation assessment and other materials and information, as deemed necessary or appropriate by the Compensation Committee in its discretion. Upon completion of its review, the Compensation Committee granted stock options to our NEOs to acquire shares of our common stock at an exercise price equal to the fair market value of our common stock on the Nasdaq Stock Market as of the date of grant, such options to vest in accordance with our standard four-year vesting schedules (subject to the NEOs' continued service as of the applicable vesting dates). Specifically, Dr. Hedrick, Mr. Girão and Mr. Harris were granted options to purchase 96,350, 31,100 and 31,100 shares of our common stock, respectively.

Personal Benefits and Perquisites

All of our executives are eligible to participate in our employee benefit plans, including medical, dental, vision, life insurance, short-term and long-term disability insurance, flexible spending accounts, 401(k), and an Employee Stock Purchase Program (ESPP). These plans are available to all full-time employees. In keeping with our philosophy to provide total compensation that is competitive within our industry, we offer limited personal benefits and perquisites to executive officers that include supplemental long-term disability insurance. You can find more information on the amounts paid for these perquisites to or on behalf of our NEOs in our 2016 Summary Compensation Table.

Company Acquisition / Post-Termination Compensation

We have entered into individual change of control and severance agreements, or CIC Agreements, with each of our NEOs. The CIC Agreements provide for certain severance benefits to be paid to each of our NEOs in the event of his involuntary termination without cause, or due to the executive's resignation for good reason (including the Company's material breach of its obligations, material reduction in duties, responsibilities, compensation or benefits, or relocation by more than 30 miles without prior consent), provided such termination or resignation occurs in connection with an acquisition of the Company. Upon such termination or resignation in the event of an acquisition, Dr. Hedrick would receive a lump sum payment of 18 times his monthly base salary, and 18 times his monthly COBRA payments, and Mr. Girão and Mr. Harris would each receive a lump sum payment of 12 times his monthly base salary, and 12 times his monthly COBRA payments. Notwithstanding the foregoing, these NEOs' employment may be terminated for cause (including extended disability, repudiation of their CIC Agreements, conviction of a plea of no contest to certain crimes or misdemeanors, negligence that materially harms us, failure to perform material duties without cure, drug or alcohol use that materially interferes with performance, and chronic unpermitted absence) without triggering an obligation for us to pay severance benefits under the CIC Agreements.

In addition, under the CIC Agreements, any unvested stock options granted to each of the above named executive officers would vest in full upon (1) the date of the executive's termination under the circumstances described above following entry into an acquisition agreement (subject to the actual consummation of the acquisition) or (2) consummation of an acquisition.

In all events, each NEO's entitlement to the benefits described above is expressly conditioned upon his execution and delivery to us of a CIC Agreement and a general release of claims, in the form attached to each CIC Agreement.

Outstanding Equity Awards at December 31, 2016

The following table sets forth information regarding outstanding equity awards held by our NEOs as of December 31, 2016.

	Option Awards					Stock Awards	
Name	Option Grant Date (1)	Number of Securities Underlying Unexercised Options (#)Exercisable (5)	Number of Securities Underlying Unexercised Options (#) Un-Exercisable (2)(5)	Option Exercise Price ($) (5)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Marc H. Hedrick, M.D., President and Chief Executive Officer	2/26/2007	3,332	—	$81.60	2/26/2017	—	—
	1/31/2008	4,000	—	$77.10	1/31/2018	—	—
	1/29/2009	5,000	—	$72.00	1/29/2019	—	—
	2/05/2010	7,333	—	$100.65	2/05/2020	—	—
	1/27/2011	3,666	—	$83.55	1/27/2021	—	—
	1/26/2012	7,666	—	$51.60	1/26/2022	—	—
	1/31/2013	11,968	254	$41.10	1/31/2023	—	—
	1/31/2013	5,984	127	$75.00	1/31/2023	—	—
	4/11/2014	13,068	5,932	$35.70	4/11/2024	—	—
	8/21/2014	6,666	—	$21.00	8/21/2024	—	—
	1/30/2015	7,675	8,325	$7.20	1/30/2025	—	—
	1/04/2016	13,904	41,709	$2.81	1/04/2026		
Tiago M. Girão, VP of Finance Chief Financial Officer	9/2/2014	5,840 (4)	4,160	$20.40	9/2/2024	—	—
	1/30/2015	3,841 (4)	4,159	$7.20	1/30/2025	—	—
	1/04/2016	5,831	17,491	$2.81	1/04/2026	—	—
John Harris, VP and General Manager Cell Therapy	11/11/2015	6,516(4)	15,817	$5.55	11/11/2025	—	—
	1/04/2016	5,831(4)	17,491	$2.81	1/04/2026	—	—

(1) For a better understanding of this table, we have included an additional column showing the grant date of the stock options.

(2) Unless otherwise provided, stock options are subject to four-year vesting, and have a contractual term of 10 years from the date of grant. Awards presented in this table contain one of the following two vesting provisions:

- With respect to an initial stock option grant to an employee, 25% of the shares subject to the award vest on the one-year anniversary of the vesting start date, while an additional 1/48th of the remaining option shares vest at the end of each month thereafter for 36 consecutive months, or

- With respect to stock option grants made to an employee after one full year of employment, 1/48th of the shares subject to the award vest at the end of each month over a four-year period, as measured from the vesting start date.

(3) The August 2014 stock option awards vested as to 50% of the shares subject to such awards after one year of service and the additional 50% vested on the second anniversary of the grant.

(4) These options were granted during the first year of the NEO's employment and thus were subject to the following vesting schedule: 25% of the shares subject to the award vest on the one-year anniversary of the vesting start date, while an additional 1/48th of the remaining option shares vest at the end of each month thereafter for 36 consecutive months.

(5) We consummated a 1-for-15 reverse stock split in May 2016. The amounts set forth in this column reflect this 1-for-15 reverse stock split.

Director Compensation

Generally, our Board believes that the level of director compensation should be based on time spent carrying out Board and committee responsibilities and be competitive with comparable companies. In addition, the Board believes that a significant portion of director compensation should align director interests with the long-term interests of stockholders. The Board makes changes in its director compensation practices upon the recommendation of the Compensation Committee, and discussion and approval by the Board.

The following table summarizes director compensation awarded to, earned by or paid to our non-employee directors who served on our Board during fiscal year 2016.

(a)	(b)	(c)	(d)	(e)
Director Name [1]	**Fees Earned or Paid in Cash** [2] **($)**	**Stock Awards ($)**	**Option Awards** [3][4][5] **($)**	**Total ($)**
David M. Rickey, Chairman	$ 66,667	—	$ 10,082	$ 76,749
Richard J. Hawkins	$ 55,000	—	$ 10,082	$ 65,082
Paul W. Hawran	$ 50,000	—	$ 10,082	$ 60,082
Gary A. Lyons	$ 60,000	—	$ 10,082	$ 70,082
Gail K. Naughton, Ph.D.	$ 50,000	—	$ 10,082	$ 60,082
Tommy G. Thompson [6]	$ 13,750	—	$ 10,082	$ 23,832
Ronald A. Martell [7]	—	—	—	—

(1) Dr. Hedrick is not included in this table as he is an employee of ours and receives no extra compensation for his service as a director. The compensation received by Dr. Hedrick in his capacity as an employee is set forth in the 2016 Summary Compensation Table and further described in the "Narrative Disclosures to Summary Compensation Table" above

(2) In fiscal year 2016, (i) each non-employee director received a $30,000 retainer for service on our Board; (ii) each Compensation Committee, Governance and Nominating Committee and Audit Committee member received a $10,000 retainer for Committee service; (iii) the Chairman of the Board received an additional annual stipend of $30,000; (iv) the Chairman of the Audit Committee received an additional annual stipend of $15,000; and (v) the Chairmen of the Compensation Committee and the Governance and Nominating Committee each received an additional annual stipend of $15,000, respectively. Executive Committee members were exempt from receiving committee fees.

(3) Column (d) represents the grant date fair value of the option awards, computed in accordance with FASB ASC Topic 718, granted to our non-employee directors during 2016. For additional information on the valuation assumptions with respect to the 2016 grants, refer to Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 24, 2017, regarding assumptions underlying valuation of equity awards. These amounts do not reflect the actual economic value that will be realized by our non-employee directors upon vesting of the stock options, exercise of the stock options or sale of the common stock underlying the stock.

(4) On January 4, 2016, our non-employee directors were awarded options to purchase 3,588 shares of our common stock. These options vested on the first anniversary of the date of grant. These option amounts reflect a 1-for 15 reverse stock split consummated by us on May 10, 2016.

(5) As of December 31, 2016, our non-employee directors held the following aggregate options: Mr. Rickey: 12,727 option shares; Richard Hawkins: 14,728 option shares; Paul Hawran: 12,728 option shares; Mr. Lyons: 6,654 option shares; Ronald Martell: None; Dr. Naughton: 6,654 option shares.

(6) Mr. Thompson stepped down from our Board in May 2016.

(7) Mr. Martell joined our Board in mid-December 2016, and did not receive any compensation for his brief service in 2016.

Director Compensation Program

In October 2016, the Compensation Committee approved a Director Compensation Program for fiscal year 2017, as subsequently amended. The materials elements of the 2017 Director Compensation Program are as follows:

- $40,000 annual cash retainer for Board members (an increase from $30,000 in 2016);
- $30,000 annual cash retainer for the Chairman of the Board (no change from 2016);
- $20,000 annual cash retainer for the Chairman of the Audit Committee (no change from 2016);
- $15,000 annual cash retainer for the Chairman of our Compensation Committee and Governance and Nominating Committee (no change from 2016);
- $10,000 annual cash retainer for each non-Chairman committee member (no change from 2016);
- *Initial grants for new directors* : Initial option grant, upon commencement of services, to purchase 50,000 shares of our common stock, vesting over two years in equal, annual installments as measured from the grant date;
- *Annual grants for existing directors* : Recurring option grants to purchase 25,000 shares of our common stock, vesting in one installment on the first anniversary of the grant date.

In January 2017, the Board granted options to our non-employee directors for fiscal year 2017 in accordance with the terms of the Director Compensation Program described immediately above, including approval of an initial option grant to Ron Martell in connection with his commencement of service as a Board member.

The Compensation Committee believes that these enhancements to the Director Compensation Program allow us to remain aligned with director compensation practices at our peer companies.

Equity Compensation Plan Information

The following table gives information as of December 31, 2016 about shares of our common stock that may be issued upon the exercise of outstanding options, warrants and rights and shares remaining available for issuance under all of our equity compensation plans:

Plan Category	Number of securities to be Issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders[(1)]	7,782	$ 84.23	—
Equity compensation plans not approved by security holders[(2)]	230,748	$ 56.75	—
Equity compensation plans not approved by security holders[(3)]	364,764	$ 4.64	525,965
Equity compensation plans not approved by security holders[(4)]	33,333	$ 2.18	33,333
Total	636,627	$ 24.37	559,298

(1) The 1997 Stock Option and Stock Purchase Plan expired in October 2007.

(2) The 2004 Stock Option and Stock Purchase Plan expired in August 2014.

(3) See Proposal #3 above for a description of our 2014 Equity Incentive Plan. Also includes [●] shares available for issuance under our 2011 Employee Stock Purchase Plan.

(4) See Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 24, 2017 for a description of our 2015 New Employee Incentive Plan.

AUDIT MATTERS

Report of the Audit Committee

The duties and responsibilities of the Audit Committee are set forth in its written charter, a copy which is available on the Company's website. Under the guidance of a written charter adopted by the Board, the purpose of the Audit Committee is to oversee the accounting and financial reporting processes of the Company and audits of its financial statements. The responsibilities of the Audit Committee include appointing and providing for the compensation of the Company's registered public accounting firm. Each of the members of the Audit Committee meets the independence requirements of NASDAQ.

Management has primary responsibility for the system of internal controls over financial reporting, disclosure controls and procedures, and for preparing the Company's consolidated financial statements. The independent registered public accounting firm has the responsibility to express an opinion on the financial statements based on an audit conducted in accordance with generally accepted auditing standards.

In this context and in connection with the audited financial statements contained in the Company's Annual Report on Form 10-K, the Audit Committee provided the following report:

The Audit Committee has reviewed and discussed the Company's audited financial statements for the year ended December 31, 2016 with the Company's management and the Company's independent registered public accounting firm, BDO USA, LLP ("BDO"). The Audit Committee has discussed with BDO the matters required to be discussed by Auditing Standard No. 16, "Communication with Audit Committees," as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received the written disclosures and the letter from BDO required by the applicable requirements of the Public Company Accounting Oversight Board Rule 3526, Communication with Audit Committees Concerning Independence regarding BDO's communications with the Audit Committee concerning independence, discussed with BDO their independence, and concluded that the non-audit services performed by BDO are compatible with maintaining their independence. BDO advised the audit committee that BDO was and continues to be independent accountants with respect to the Company. Based upon the Audit Committee's review and discussions as noted above, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the Securities and Exchange Commission.

Respectfully submitted,
Paul W. Hawran (Chairman)
Richard J. Hawkins
Gary A. Lyons

Principal Accountant Fees and Services

On July 12, 2016, we notified KPMG, LLP, or KPMG, of its dismissal as our independent registered public accounting firm, effective as of that date. The decision to change independent registered public accounting firms was recommended by our Audit Committee and was approved by the Board.

The audit reports of KPMG on our financial statements as of and for the years ended December 31, 2015 and 2014 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that the reports contained a separate paragraph stating that our recurring losses from operations and liquidity position raise substantial doubt about our ability to continue as a going concern.

During the two fiscal years ended December 31, 2015 and 2014, and the subsequent interim period through July 12, 2016, the date of KPMG's dismissal, there were no: (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference in connection with its opinion to the subject matter of the disagreement, or (2) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

KPMG's letter to the SEC stating its agreement with the statements in the foregoing paragraphs was filed as Exhibit 16.1 to our Current Report on Form 8-K filed with the SEC on July 14, 2016.

On July 12, 2016, the Audit Committee appointed BDO USA, LLP, or BDO, as our independent registered public accounting firm for the fiscal year ending December 31, 2016, subject to completion of its standard client acceptance procedures (which were subsequently completed). The decision to engage BDO as our independent registered public accounting firm was recommended by the Audit Committee and approved by the Board.

The Audit Committee reviews and must pre-approve all audit and non-audit services performed by our independent registered public accounting firm, as well as the fees charged by it for such services. No fees charged by KPMG or BDO during 2016 were approved under the Regulation S-X Rule 2.01(c)(7)(i)(C) exception to the pre-approval requirement. In its review of non-audit service fees, the Audit Committee considers, among other things, the possible impact of the performance of such services on the accounting firm's independence.

The following table shows the aggregate fees paid or accrued by us for the audit and other services provided by KPMG for fiscal years ended December 31, 2016 and 2015, and provided by BDO for the fiscal year ended December 31, 2016.

	Fiscal Year Ended December 31,		
	BDO	KPMG	
	2016	2016	2015
Audit Fees (1)	$ 281,204	$ 261,400	$ 470,000
Audit Related Fees (2)	—	—	40,000
Tax Fees (3)	35,000	4,823	58,000
Total	$ 316,204	$ 266,223	$ 568,000

(1) Audit fees consist of fees for professional services performed by BDO and KPMG for the audit of our annual financial statements included in this Form 10-K filing and review of financial statements included in our quarterly Form 10-Q filings, reviews of registration statements and issuances of consents, and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit related fees consist of fees for assurance and related services, performed by BDO and KPMG that are reasonably related to the performance of the audit or review of our financial statements.

(3) Tax fees consist of fees for professional services performed by BDO and KPMG with respect to tax compliance, tax advice, tax consulting and tax planning.

OTHER MATTERS

As of the time of preparation of this Proxy Statement, neither the Board nor management intends to bring before the meeting any business other than the matters referred to in the Notice of Annual Meeting and this Proxy Statement. If any other business should be properly brought before the meeting, or any adjournment or postponement thereof, the persons named in the proxy will vote on such matters according to their best judgment.

Stockholders Sharing the Same Address

In accordance with notices previously sent to many stockholders who hold their shares through a bank, broker or other holder of record (a "street-name stockholder") and share a single address, only one Notice of Availability of Proxy Materials is being delivered to that address unless contrary instructions from any stockholder at that address were received. This practice, known as "householding," is intended to reduce our printing and postage costs. However, any such street-name stockholder residing at the same address who wishes to receive a separate copy of this Proxy Statement or accompanying Annual Report to Stockholders may request a copy by contacting the bank, broker or other holder of record, or the Company by telephone at: (858) 458-0900. The voting instruction sent to a street-name stockholder should provide information on how to request (1) householding of future Company materials or (2) separate materials if only one set of documents is being sent to a household. If it does not, a stockholder who would like to make one of these requests should contact us as indicated above.

Stockholder Proposals for the 2018 Meeting

Stockholders interested in submitting a proposal for consideration at our 2018 Annual Meeting must do so by sending such proposal to our Corporate Secretary at Cytori Therapeutics, Inc., 3020 Callan Road, San Diego, CA 92121, Attention: Corporate Secretary. Under the SEC's proxy rules, the deadline for submission of proposals to be included in our proxy materials for the 2018 Annual Meeting is December 11, 2017. Accordingly, for a stockholder proposal to be considered for inclusion in our proxy materials for the 2018 Annual Meeting, any such stockholder proposal must be received by our Corporate Secretary on or before December 11, 2017 and comply with the procedures and requirements set forth in Rule 14a-8 under the Securities Exchange Act of 1934, as well as the applicable requirements of our bylaws. . Our bylaws require advance notice of business to be brought before a stockholders' meeting, including nominations of persons for election as directors. To be timely, notice to our Corporate Secretary must be received at our principal executive offices not less than 120 days prior to the anniversary date of the preceding year's proxy statement and must contain specified information concerning the matters to be brought before such meeting and concerning the stockholder proposing such matters. Any stockholder proposal received after December 11, 2017 will be considered untimely, and will not be included in our proxy materials; provided, however, that in the event we hold the 2018 Annual Meeting of stockholders more than 30 days before or after the one-year anniversary date of the 2017 Annual Meeting, a proposal must be received by us a reasonable time before the proxy solicitation is made.

By Order of the Board of Directors,

MARC H. HEDRICK
President and Chief Executive Officer

APPENDIX A
AMENDED AND RESTATED
2014 EQUITY INCENTIVE PLAN
OF
CYTORI THERAPEUTICS, INC.

2014 EQUITY INCENTIVE PLAN
of
CYTORI THERAPEUTICS, INC.

(As Amended and Restated March 31, 2017)

2014 Equity Incentive Plan
Of
Cytori Therapeutics, Inc.

(As Amended and Restated March 31, 2017)

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 **Establishment.** This Plan constitutes an amendment and restatement of the 2014 Equity Incentive Plan of Cytori Therapeutics, Inc. (as amended to date, the "***Original Plan***"), which was first approved by the Board on February 27, 2014, and approved by the stockholders of the Company on July 31, 2014, as amended by the Board on June 12, 2015, which amendment was approved by the stockholders of the Company on August 13, 2015, and as further amended by the Board on March 3, 2016, which amendment was approved by the stockholders of the Company on May 10, 2016, and as further amended by the Board on January 26, 2017. This amended and restated Plan was approved by the Board on March 31, 2017 (the "***Restatement Effective Date***"), subject to stockholder approval.

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Purchase Rights, Restricted Stock Bonuses, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, Other Stock-Based Awards, and Deferred Compensation Awards.

1.3 **Term of Plan.** The Plan shall continue in effect until its termination by the Committee; provided, however, that all Awards shall be granted, if at all, on or before ten (10) years from the Restatement Effective Date.

1.4 **Stockholder Approval**. This Plan shall be submitted for the approval of the Company's stockholders within twelve (12) months after the Restatement Effective Date. Awards may be granted or awarded prior to such stockholder approval of this Plan; provided that no shares of Stock shall be issued upon the exercise, vesting, distribution or payment of any such Awards prior to the time when the Plan is approved by the Company's stockholders; and, provided, further, that if such approval has not been obtained at the end of said 12-month period, all Awards previously granted or awarded under the Plan on or after the Restatement Effective Date and subject to such stockholder approval shall thereupon be canceled and become null and void and the Original Plan, as in effect prior to the Restatement Effective Date, and all Awards thereunder granted prior to the Restatement Effective Date, shall continue in full force and effect on the terms and conditions as in effect immediately prior to the Restatement Effective Date.

2. DEFINITIONS AND CONSTRUCTION.

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "***Affiliate***" means (i) a parent entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) a subsidiary entity, other than a Subsidiary Corporation, that is controlled by the Company directly or indirectly through one or more intermediary entities. For this purpose, the terms "parent," "subsidiary," "control" and "controlled by" shall have the meanings assigned such terms for the purposes of registration of securities on Form S-8 under the Securities Act.

(b) "***Award***" means any Option, Stock Appreciation Right, Restricted Stock Purchase Right, Restricted Stock Bonus, Restricted Stock Unit, Performance Share, Performance Unit, Cash-Based Award, Other Stock-Based Award or Deferred Compensation Award granted under the Plan.

(c) "***Award Agreement***" means a written or electronic agreement between the Company and a Participant setting forth the terms, conditions and restrictions applicable to an Award. Award Agreements evidencing Awards intended to qualify as Performance-Based Compensation shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m). Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

(d) "***Board***" means the Board of Directors of the Company.

(e) "***Cash-Based Award***" means an Award denominated in cash and granted pursuant to Section 11.

(f) "***Cashless Exercise***" means a Cashless Exercise as defined in Section 6.3(b)(i).

(g) "***Cause***" means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between a Participant and a Participating Company applicable to an Award, any of the following: (i) the Participant's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any Participating Company documents or records; (ii) the Participant's material failure to abide by a Participating Company's code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) the Participant's unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of a Participating Company (including, without limitation, the Participant's improper use or disclosure of a Participating Company's confidential or proprietary information); (iv) any intentional act by the Participant which has a material detrimental effect on a Participating Company's reputation or business; (v) the Participant's repeated failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (vi) any material breach by the Participant of any employment, service, non-disclosure, non-competition,

non-solicitation or other similar agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vii) the Participant's conviction (including any plea of guilty or *nolo contendere*) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant's ability to perform his or her duties with a Participating Company.

(h) "***Change in Control***" means the occurrence of any one or a combination of the following:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total Fair Market Value or total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of Directors; provided, however, that a Change in Control shall not be deemed to have occurred if such degree of beneficial ownership results from any of the following: (A) an acquisition by any person who on the Restatement Effective Date is the beneficial owner of more than fifty percent (50%) of such voting power, (B) any acquisition directly from the Company, including, without limitation, pursuant to or in connection with a public offering of securities, (C) any acquisition by the Company, (D) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (E) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a "***Transaction***") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 2.1(ff)(iii), the entity to which the assets of the Company were transferred (the "***Transferee***"), as the case may be; or

(iii) approval by the stockholders of a plan of complete liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple acquisitions of the voting securities of the Company and/or multiple Ownership Change Events are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

(i) "***Code***" means the Internal Revenue Code of 1986, as amended, and any applicable regulations or administrative guidelines promulgated thereunder.

(j) "***Committee***" means the Compensation Committee and such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board. If, at any time, there is no committee of the Board then authorized or properly constituted to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(k) "***Company***" means Cytori Therapeutics, Inc., a Delaware corporation, or any successor corporation thereto.

(l) "***Consultant***" means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on Form S-8 under the Securities Act.

(m) "***Covered Employee***" means, at any time the Plan is subject to Section 162(m), any Employee who is or may reasonably be expected to become a "covered employee" as defined in Section 162(m), or any successor statute.

(n) "***Deferred Compensation Award***" means an Award granted to a Participant pursuant to Section 12.

(o) "***Director***" means a member of the Board.

(p) "***Disability***" means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

(q) "***Dividend Equivalent Right***" means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award (other than an Option or SAR) held by such Participant. Notwithstanding anything to the contrary contained in the Plan, no dividends or Dividend Equivalent Rights that are paid prior to the vesting of any Award subject to Vesting Conditions shall be paid to a Participant with respect to such Award unless and until such Vesting Conditions are subsequently satisfied and the Award vests.

(r) "***Employee***" means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion, whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the terms of the Plan as of the time of the Company's determination of whether or not the individual is an Employee, all such

determinations by the Company shall be final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual's status as an Employee.

(s) "***ERISA***" means the Employee Retirement Income Security Act of 1974 and any applicable regulations or administrative guidelines promulgated thereunder.

(t) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

(u) "***Fair Market Value***" means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or quotation system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded or quoted prior to the relevant date.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value of a share of Stock on the basis of the opening, closing, or average of the high and low sale prices of a share of Stock on such date or the preceding trading day, the actual sale price of a share of Stock received by a Participant, any other reasonable basis using actual transactions in the Stock as reported on a national or regional securities exchange or quotation system, or on any other basis consistent with the requirements of Section 409A. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan to the extent consistent with the requirements of Section 409A.

(iii) If, on such date, the Stock is not listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse, and in a manner consistent with the requirements of Section 409A.

(v) "***Full Value Award***" means any Award settled in Stock, other than (i) an Option, (ii) a Stock Appreciation Right, or (iii) a Restricted Stock Purchase Right or an Other Stock-Based Award under which the Company will receive monetary consideration equal to the Fair Market Value (determined on the effective date of grant) of the shares subject to such Award.

(w) "***Incentive Stock Option***" means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(x) "***Insider***" means an Officer, Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(y) "***Net Exercise***" means a Net Exercise as defined in Section 6.3(b)(ii).

(z) "***Nonemployee Director***" means a Director who is not an Employee.

(aa) "***Nonemployee Director Award***" means any Award granted to a Nonemployee Director.

(bb) "***Nonstatutory Stock Option***" means an Option not intended to be (as set forth in the Award Agreement) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(cc) "***Officer***" means any person designated by the Board as an officer of the Company.

(dd) "***Option***" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(ee) "***Other Stock-Based Award***" means an Award denominated in shares of Stock and granted pursuant to Section 11.

(ff) "***Ownership Change Event***" means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company's then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(gg) "***Parent Corporation***" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(hh) "***Participant***" means any eligible person who has been granted one or more Awards.

(ii) "***Participating Company***" means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(jj) "***Participating Company Group***" means, at any point in time, the Company and all other entities collectively which are then Participating Companies.

(kk) "***Performance Award***" means an Award of Performance Shares or Performance Units.

(ll) "***Performance Award Formula***" means, for any Award, a formula or table established by the Committee pursuant to Section 10.3 which provides the basis for computing the value of an Award at one or more levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.

(mm) "***Performance-Based Compensation***" means compensation under an Award that is intended to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Code paid to Covered Employees.

(nn) "***Performance Goal***" means a performance goal established by the Committee pursuant to Section 10.3.

(oo) "***Performance Period***" means a period established by the Committee pursuant to Section 10.3 at the end of which one or more Performance Goals are to be measured.

(pp) "***Performance Share***" means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Share, as determined by the Committee, based upon attainment of applicable Performance Goal(s).

(qq) "***Performance Unit***" means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon attainment of applicable Performance Goal(s).

(rr) "***Restricted Stock Award***" means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.

(ss) "***Restricted Stock Bonus***" means Stock granted to a Participant pursuant to Section 8.

(tt) "***Restricted Stock Purchase Right***" means a right to purchase Stock granted to a Participant pursuant to Section 8.

(uu) "***Restricted Stock Unit***" means a right granted to a Participant pursuant to Section 9 to receive on a future date or event a share of Stock or cash in lieu thereof, as determined by the Committee.

(vv) "***Rule 16b-3***" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(ww) "***SAR***" or "***Stock Appreciation Right***" means a right granted to a Participant pursuant to Section 7 to receive payment, for each share of Stock subject to such

Award, of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the Award over the exercise price thereof.

(xx) "***Section 162(m)***" means Section 162(m) of the Code.

(yy) "***Section 409A***" means Section 409A of the Code.

(zz) "***Section 409A Deferred Compensation***" means compensation provided pursuant to an Award that constitutes nonqualified deferred compensation within the meaning of Section 409A.

(aaa) "***Securities Act***" means the Securities Act of 1933, as amended.

(bbb) "***Service***" means a Participant's employment or service with the Participating Company Group, whether as an Employee, a Director or a Consultant. Unless otherwise provided by the Committee, a Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service shall not be deemed to have been interrupted or terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, unless otherwise provided by the Committee, if any such leave taken by a Participant exceeds ninety (90) days, then on the ninety-first (91st) day following the commencement of such leave the Participant's Service shall be deemed to have terminated, unless the Participant's right to return to Service is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, an unpaid leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the business entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(ccc) Subject to the provisions of Section 409A, the term "***Short-Term Deferral Period***" means the 2½ month period ending on the later of (i) the 15th day of the third month following the end of the Participant's taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company's taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture. For this purpose, the term "substantial risk of forfeiture" shall have the meaning provided by Section 409A.

(ddd) "***Stock***" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3.

(eee) "***Subsidiary Corporation***" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(fff) "***Ten Percent Owner***" means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(ggg) "***Trading Compliance Policy***" means the written policy of the Company pertaining to the purchase, sale, transfer or other disposition of the Company's equity securities by Directors, Officers, Employees or other service providers who may possess material, nonpublic information regarding the Company or its securities.

(hhh) "***Vesting Conditions***" mean those conditions established in accordance with the Plan prior to the satisfaction of which an Award or shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant's monetary purchase price, if any, for such shares upon the Participant's termination of Service.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any Award Agreement or of any other form of agreement or other document employed by the Company in the administration of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or such Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or Award Agreement or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in the administration of the Plan shall be paid by the Company.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided that the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 **Committee Complying with Section 162(m).** If the Company is a "publicly held corporation" within the meaning of Section 162(m), the Board shall establish a Committee of "outside directors" within the meaning of Section 162(m) to approve the grant of any Award intended to qualify as Performance-Based Compensation.

3.5 **Powers of the Committee.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, including, but not limited to the prohibitions on Option or SAR repricings set forth in Section 3.6, the Committee shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock, units or monetary value to be subject to each Award;

(b) to determine the type of Award granted;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Measures, Performance Period, Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant's termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award will be settled in shares of Stock, cash, other property or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, or cancel any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

(i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the

laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(j) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.6 **Option or SAR Repricing**. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs having exercise prices per share greater than the then Fair Market Value of a share of Stock (*"**Underwater Awards**"*) and the grant in substitution therefore of new Options or SARs having a lower exercise price, Full Value Awards, or payments in cash, or (b) the amendment of outstanding Underwater Awards to reduce the exercise price thereof. This Section shall not apply to adjustments pursuant to the assumption of or substitution for an Option or SAR in a manner that would comply with Section 424(a) or Section 409A of the Code or to an adjustment pursuant to Section 4.3.

3.7 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, to the extent permitted by applicable law, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.3, as of the Restatement Effective Date, the maximum number of shares of Stock that may be issued under the Plan pursuant to Awards shall be equal to two million nine hundred thousand one hundred thirty-three (2,900,133) shares. Shares of Stock that may be issued under the Plan pursuant to Awards shall consist of authorized or reacquired shares of Stock or any combination thereof.

4.2 **Share Counting.**

(a) If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company for an amount not greater than the Participant's purchase price, then in each case the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations applicable to SARs and Options pursuant to Section 17.2, shall not again be available for issuance under the Plan. Shares withheld by the Company in satisfaction of tax withholding obligations described in Section 17.2 with respect to Full Value Awards, shall again be available for issuance under the Plan. Upon payment in shares of Stock pursuant to the exercise of a SAR, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares subject to the SAR. If the exercise price of an Option is paid by means of a Net-Exercise, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised. Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options shall not be added to the shares of Stock authorized for grant under this Plan.

(b) Any shares of Stock that again become available for grant pursuant to this Section shall be added back as one (1) share of Stock for every one share subject to an Award.

4.3 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, the Award limits set forth in Section 5.3, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "***New Shares***"), the Committee may unilaterally amend the outstanding Awards to provide that such Awards are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise or purchase price per share of, the outstanding Awards shall be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award.

The Committee in its discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive. Unless otherwise determined by the Committee, no adjustment or action described in this Section 4.3 or in any other provision of the Plan shall be authorized to the extent it would (i) with respect to Awards which are granted to Covered Employees and are intended to qualify as Performance-Based Compensation, cause such Awards to fail to so qualify as Performance-Based Compensation, (ii) cause the Plan to violate Section 422(b)(1) of the Code, (iii) result in short-swing profits liability under Section 16 of the Exchange Act or violate the exemptive conditions of Rule 16b-3 of the Exchange Act, or (iv) cause an Award to fail to be exempt from or comply with Section 409A.

4.4 **Assumption or Substitution of Awards.** The Committee may, without affecting the number of shares of Stock reserved or available hereunder, authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate, subject to compliance with Section 409A and any other applicable provisions of the Code. In addition, subject to compliance with applicable laws, and listing requirements, shares available for grant under a stockholder approved plan of an acquired company (as appropriately adjusted to reflect the transaction) may be used for awards under the Plan to individuals who were not Employees or Directors of the Participating Company Group prior to the transaction and shall not reduce the share reserve set forth above. Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options shall not be added to the shares of Stock authorized for grant under this Plan.

5. ELIGIBILITY, PARTICIPATION AND AWARD LIMITATIONS.

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors.

5.2 **Participation in the Plan.** Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Award Limitations.**

(a) ***Incentive Stock Option Limitations.***

(i) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed two million nine hundred thousand one hundred thirty-three (2,900,133) shares.

(ii) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a

Parent Corporation or a Subsidiary Corporation (each being an *"**ISO-Qualifying Corporation**"*). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option.

(iii) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

(b) ***Section 162(m) Award Limits.*** Notwithstanding any provision in the Plan to the contrary, and subject to adjustment as provided in Section 4.3:

(i) Options and SARs. The maximum aggregate number of shares of Stock with respect to one or more Options or SARs that may be granted to any one person during any fiscal year of the Company shall be two million (2,000,000) shares of Stock.

(ii) Other Awards. The maximum aggregate number of shares of Stock with respect to one or more Awards (other than Options or SARs) that may be granted to any one person during any fiscal year of the Company shall be two million (2,000,000) shares of Stock.

(iii) Cash Awards. The maximum aggregate amount of cash that may be paid to any one person during any fiscal year of the Company with respect to one or more Awards payable in cash (including Cash-Based Awards) shall be five million dollars ($5,000,000).

(iv) Cancelled Awards. Any cancelled Awards shall continue to count against the foregoing limits to the extent required by Section 162(m).

(c) ***Limit on Awards to Nonemployee Directors***. Notwithstanding any other provision of the Plan to the contrary, the Board may establish compensation for Nonemployee Directors from time to time, subject to the limitations in the Plan. The Board will from time to time determine the terms, conditions and amounts of all such Nonemployee Director compensation in its discretion and pursuant to the exercise of its business judgment, taking into account such factors, circumstances and considerations as it shall deem relevant from

time to time, provided that the sum of any cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of Awards granted to a Nonemployee Director as compensation for services as a Nonemployee Director during any calendar year of the Company may not exceed $500,000 (increased to $700,000 in the calendar year of his or her initial service as a Nonemployee Director). The Board may make exceptions to this limit for individual Nonemployee Directors in extraordinary circumstances, as the Board may determine in its discretion, provided that the Nonemployee Director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving Nonemployee Directors.

6. STOCK OPTIONS.

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner that would qualify under the provisions of Section 409A or 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option and (c) no Option granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable until at least six (6) months following the date of grant of such Option (except in the event of such Employee's death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, each Option shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 **Payment of Exercise Price.**

(a) ***Forms of Consideration Authorized.*** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Committee and subject to the limitations contained in Section 6.3(b), by means of (1) a Cashless Exercise, or (2) a Net Exercise; (iii) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iv) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) ***Limitations on Forms of Consideration.***

(i) **Cashless Exercise.** A "***Cashless Exercise***" means the delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

(ii) **Net Exercise.** A "***Net Exercise***" means the delivery of a properly executed exercise notice followed by a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to a Participant upon the exercise of an Option by the largest whole number of shares having a Fair Market Value that does not exceed the aggregate exercise price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued.

6.4 **Effect of Termination of Service.**

(a) ***Option Exercisability.*** Subject to earlier termination of the Option as otherwise provided by this Plan and unless otherwise provided by the Committee, an Option shall terminate immediately upon the Participant's termination of Service to the extent that it is then unvested and shall be exercisable after the Participant's termination of Service to the extent it is then vested only during the applicable time period determined in accordance with this Section and thereafter shall terminate. Except as otherwise provided in the Award Agreement, or other agreement governing the Option, and subject to Section 6.2 above, vested Options shall remain exercisable following a termination of Service as follows:

(i) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for

vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of two (2) years after the date on which the Participant's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Award Agreement evidencing such Option (the "***Option Expiration Date***").

(ii) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of two (2) years after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(iii) **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option shall terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

(iv) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of ninety (90) days after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) ***Extension if Exercise Prevented.*** Notwithstanding the foregoing, other than with respect to a termination of Service for Cause, and subject to the requirements of Section 409A, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 15 below because such exercise would violate applicable securities laws, the Option shall remain exercisable until the later of (i) thirty (30) days after the date such exercise first would no longer violate applicable securities laws or (ii) the end of the applicable time period under Section 6.4(a), but in any event no later than the Option Expiration Date.

6.5 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. An Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option may be assignable or transferable subject to the applicable limitations, described in the General Instructions to Form S-8 under the Securities Act; provided that no consideration may be

received for any transfer. An Incentive Stock Option shall not be assignable or transferable in any manner.

7. STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 **Exercise Price.** The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that the exercise price per share subject to a SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR. Notwithstanding the foregoing, a SAR may be granted with an exercise price lower than the minimum exercise price set forth above if such SAR is granted pursuant to an assumption or substitution for another stock appreciation right in a manner that would qualify under the provisions of Section 409A of the Code.

7.2 **Exercisability and Term of SARs.** SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that (i) no SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR, and (ii) no SAR granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable until at least six (6) months following the date of grant of such SAR (except in the event of such Employee's death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of a SAR, each SAR shall terminate ten (10) years after the effective date of grant of the SAR, unless earlier terminated in accordance with its provisions.

7.3 **Exercise of SARs.** Upon the exercise of a SAR, the Participant (or the Participant's legal representative or other person who acquired the right to exercise the SAR by reason of the Participant's death) shall be entitled to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price. Payment of such amount shall be made in cash, shares of Stock, or any combination thereof as determined by the Committee, in a lump sum upon the date of exercise of the SAR. When payment is to be made in shares of Stock, the number of shares to be issued shall be determined on the basis of the Fair Market Value of a share of Stock on the date of exercise of the SAR. For purposes of Section 7, a SAR shall be deemed exercised on the date on which the Company receives notice of exercise from the Participant.

7.4 **Effect of Termination of Service.** Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee, a SAR shall be exercisable after a Participant's termination of Service only to the extent and during the

applicable time period determined in accordance with Section 6.4 (treating the SAR as if it were an Option) and thereafter shall terminate.

7.5 **Transferability of SARs.** During the lifetime of the Participant, a SAR shall be exercisable only by the Participant or the Participant's guardian or legal representative. A SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Award, a SAR may be assignable or transferable subject to the applicable limitations, described in the General Instructions to Form S-8 under the Securities Act; provided that no consideration may be received for any transfer.

8. RESTRICTED STOCK AWARDS.

Restricted Stock Awards shall be evidenced by Award Agreements specifying whether the Award is a Restricted Stock Bonus or a Restricted Stock Purchase Right and the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 **Types of Restricted Stock Awards Authorized.** Restricted Stock Awards may be granted in the form of either a Restricted Stock Bonus or a Restricted Stock Purchase Right. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If a Restricted Stock Award is intended to qualify as Performance-Based Compensation, the Committee shall follow the procedures set forth in Sections 10.3 through 10.5 applicable to Awards intended to qualify as Performance-Based Compensation.

8.2 **Purchase Price.** The purchase price for shares of Stock issuable under each Restricted Stock Purchase Right shall be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares of Stock pursuant to a Restricted Stock Bonus, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to a Restricted Stock Award.

8.3 **Purchase Period.** A Restricted Stock Purchase Right shall be exercisable within a period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Restricted Stock Purchase Right.

8.4 **Payment of Purchase Price.** Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Restricted Stock Purchase Right shall be made (a) in cash, by check or in cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (c) by any combination thereof.

8.5 **Vesting and Restrictions on Transfer.** Shares issued pursuant to any Restricted Stock Award may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event or as provided in Section 8.8. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to such Restricted Stock Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then satisfaction of the Vesting Conditions automatically shall be determined on the next trading day on which the sale of such shares would not violate the Trading Compliance Policy. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.6 **Voting Rights; Dividends and Distributions.** Except as provided in this Section, Section 8.5 and any Award Agreement, during any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares; provided, however, that such dividends and distributions shall vest and become nonforfeitable only if the underlying shares of Stock subject to the Restricted Stock Award become vested (including, but not limited to, the satisfaction of any performance related Vesting Condition). In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the Award Agreement evidencing a Restricted Stock Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or Disability), then (a) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Restricted Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant's

termination of Service and (b) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant's termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

8.8 **Nontransferability of Restricted Stock Award Rights.** Rights to acquire shares of Stock pursuant to a Restricted Stock Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

9. RESTRICTED STOCK UNIT AWARDS.

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 **Grant of Restricted Stock Unit Awards.** Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If a Restricted Stock Unit Award is intended to qualify as Performance-Based Compensation, the Committee shall follow procedures set forth in Sections 10.3 through 10.5 applicable to Awards intended to qualify as Performance-Based Compensation.

9.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Restricted Stock Unit Award.

9.3 **Vesting.** Restricted Stock Unit Awards may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Unit Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to the Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then the satisfaction of the Vesting Conditions automatically shall be determined on the first to occur of (a) the next trading day on which the sale of such shares would not violate the Trading

Compliance Policy or (b) the later of (i) last day of the calendar year in which the original vesting date occurred or (ii) the last day of the Company's taxable year in which the original vesting date occurred.

9.4 **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Such Dividend Equivalent Rights, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions, including any Vesting Conditions, and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

9.5 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Restricted Stock Unit Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or Disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

9.6 **Settlement of Restricted Stock Unit Awards.** The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion (but in any event within the Short-Term Deferral Period, except as otherwise provided by the Committee or consistent with the requirements of Section 409A), and set forth in the Award Agreement, one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 9.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any. If permitted by the Committee, the Participant may elect,

consistent with the requirements of Section 409A, to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section, and such deferred issuance date(s) and amount(s) elected by the Participant shall be set forth in the Award Agreement. Notwithstanding the foregoing, the Committee, in its discretion, may provide for settlement of any Restricted Stock Unit Award by payment to the Participant in cash of an amount equal to the Fair Market Value on the payment date of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

9.7 **Nontransferability of Restricted Stock Unit Awards.** The right to receive shares pursuant to a Restricted Stock Unit Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. PERFORMANCE AWARDS.

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 **Types of Performance Awards Authorized.** Performance Awards may be granted in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial monetary value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.3, on the effective date of grant of the Performance Share, and each Performance Unit shall have an initial monetary value established by the Committee at the time of grant. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award or any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right), the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Award to be paid to the Participant. Unless otherwise permitted in

compliance with the requirements under Section 162(m) with respect to each Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right), the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each such Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula applicable to an Award intended to result in the payment of Performance-Based Compensation shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation) of the terms of such Award, including, if applicable, the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 **Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained ("***Performance Targets***") with respect to one or more measures of business or financial performance (each, a "***Performance Measure***"), subject to the following:

(a) ***Performance Measures.*** Performance Measures shall be calculated in accordance with the Company's financial statements, or, if such terms are not used in the Company's financial statements, they shall be calculated in accordance with generally accepted accounting principles, a method used generally in the Company's industry, or in accordance with a methodology established by the Committee prior to the grant of the Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right)). Performance Measures shall be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. Unless otherwise determined by the Committee prior to the grant of the Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right)), the Performance Measures applicable to the Award shall be calculated prior to the accrual of expense for the Award for the same Performance Period and excluding the effect (whether positive or negative) on the Performance Measures of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant's rights with respect to a Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right)). Performance Measures may be one or more of the following, as determined by the Committee: (i) revenue; (ii) sales; (iii) expenses; (iv) operating income; (v))gross margin; (vi) operating margin; (vii) earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization; (vii) pre-tax profit; (ix) net operating income; (x) net income; (xi) economic value added; (xii) free cash flow; (xiii) operating cash flow; (xiv) balance of cash, cash equivalents and marketable securities; (xv) stock price; (xvi) earnings per share; (xvii) return on stockholder equity; (xviii) return on capital; (xix)

return on assets; (xx) return on investment; (xxi) total stockholder return; (xxii) employee satisfaction; (xxiii) employee retention; (xxiv) market share; (xxv) customer satisfaction; (xxvi) product development; (xxvii) research and development expenses; (xxviii) completion of an identified special project; and (xxix) completion of a joint venture or other corporate transaction.

(b) ***Performance Targets.*** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right)) determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value, an increase or decrease in a value, or as a value determined relative to an index, budget or other standard selected by the Committee.

10.5 **Settlement of Performance Awards.**

(a) ***Determination of Final Value.*** As soon as practicable following the completion of the Performance Period applicable to a Performance Award (and any other Award intended to result in the payment of Performance-Based Compensation (other than an Option or Stock Appreciation Right)), the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) ***Discretionary Adjustment of Award Formula.*** In its discretion, and other than with respect to Awards intended to qualify as Performance-Based Compensation, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a Covered Employee to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. In determining amounts payable under Awards intended to qualify as Performance-Based Compensation (other than an Option or Stock Appreciation Right), unless otherwise provided under an Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce (but not increase) some or all of the value of the Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant's Award that is intended to qualify as Performance-Based Compensation.

(c) ***Effect of Leaves of Absence.*** Unless otherwise required by law or a Participant's Award Agreement, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days in unpaid leaves of absence during a Performance Period shall be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on an unpaid leave of absence.

(d) ***Notice to Participants.*** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

(e) **General Provisions Applicable to Performance-Based Compensation**. The Committee may, in its sole discretion, (i) determine whether an Award (including a Performance Award) is intended to qualify as Performance-Based Compensation and (ii) at any time after any such determination, alter such intent for any or no reason. If the Committee, in its sole discretion, decides to grant an Award that is intended to qualify as Performance-Based Compensation (other than an Option or Stock Appreciation Right), then the provisions of Sections 10.3 through 10.5 shall control over any contrary provision contained in the Plan that are inconsistent with such intention; provided that, if after such decision the Committee alters such intention for any reason, the provisions of Sections 10.3 through 10.5 shall no longer control over any other provision contained in the Plan. The Committee, in its sole discretion, may (i) grant Awards to eligible individuals that are based on Performance Measures or any such other criteria and goals as the Committee shall establish, but that do not satisfy the requirements of Sections 10.3 through 10.5 and that are not intended to qualify as Performance-Based Compensation and (ii) subject any Awards intended to qualify as Performance-Based Compensation to additional conditions and restrictions unrelated to any Performance Measures or Performance Goals (including, without limitation, continued employment or Service requirements) to the extent such Awards otherwise satisfy the requirements of Sections 10.3 through 10.5 with respect to the Performance Goals applicable thereto.

(f) **Additional Limitations**. Notwithstanding any other provision of the Plan and except as otherwise determined by the Committee, any Award which is intended to qualify as Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code or any regulations or rulings issued thereunder that are requirements for qualification as Performance-Based Compensation, and the Plan and the applicable Award Agreement shall be deemed amended to the extent necessary to conform to such requirements. Unless otherwise provided in the applicable Award Agreement and only to the extent otherwise permitted by Section 162(m) of the Code, as to an Award that is intended to qualify as Performance-Based Compensation (other than an Option or Stock Appreciation Right), the Participant must be employed by the Company or a Participating Company throughout the Performance Period.

10.6 **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), but in any event within the Short-Term Deferral Period (except as otherwise provided by the Committee or consistent with the requirements of Section 409A), payment shall be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment shall be made in a lump sum. If permitted by the Committee, the Participant may elect, consistent with the requirements of Section 409A, to defer receipt of all or any portion of the payment to be made to the Participant

pursuant to this Section, and such deferred payment date(s) elected by the Participant shall be set forth in the Award Agreement. If any payment is to be made on a deferred basis, the Committee may, but shall not be obligated to, provide for the payment during the deferral period of Dividend Equivalent Rights or interest. If payment is to be made in shares of Stock, the number of such shares shall be determined by dividing the final value of the Performance Award by the Fair Market Value of a share of Stock determined by the method specified in the Award Agreement. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 8.5. Any shares subject to Vesting Conditions shall be evidenced by an appropriate Award Agreement and shall be subject to the provisions of Sections 8.5 through 8.8 above.

10.7 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date the Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date on which the Performance Shares are settled or the date on which they are forfeited. Such Dividend Equivalent Rights, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares (rounded down to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalent Rights shall be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee. Settlement of Dividend Equivalent Rights may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.6. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals and Vesting Conditions as are applicable to the Award.

10.8 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Performance Award or in the Participant's employment agreement, if any, referencing such Awards, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) ***Death or Disability.*** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 10.6.

(b) ***Other Termination of Service.*** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety.

10.9 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. CASH-BASED AWARDS AND OTHER STOCK-BASED AWARDS.

Cash-Based Awards and Other Stock-Based Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. Award Agreements evidencing Cash-Based Awards and Other Stock-Based Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 **Grant of Cash-Based Awards**. Subject to the provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms and conditions, including the achievement of performance criteria, as the Committee may determine.

11.2 **Grant of Other Stock-Based Awards**. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted securities, stock-equivalent units, stock appreciation units, securities or debentures convertible into common stock or other forms determined by the Committee) in such amounts and subject to such terms and conditions as the Committee shall determine. Other Stock-Based Awards may be made available as a form of payment in the settlement of other Awards or as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock-Based Awards may involve the transfer of actual shares of Stock to Participants, or payment in cash or otherwise of amounts based on the value of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

11.3 **Value of Cash-Based and Other Stock-Based Awards**. Each Cash-Based Award shall specify a monetary payment amount or payment range as determined by the

Committee. Each Other Stock-Based Award shall be expressed in terms of shares of Stock or units based on such shares of Stock, as determined by the Committee. The Committee may require the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. If the Committee exercises its discretion to establish performance criteria, the final value of Cash-Based Awards or Other Stock-Based Awards that will be paid to the Participant will depend on the extent to which the performance criteria are met. If the grant of any Cash-Based Award or Other Stock-Based Award is intended to qualify as Performance-Based Compensation, the Committee shall follow procedures set forth in Sections 10.3 through 10.5 applicable to Awards intended to qualify as Performance-Based Compensation.

11.4 **Payment or Settlement of Cash-Based Awards and Other Stock-Based Awards**. Payment or settlement, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash, shares of Stock or other securities or any combination thereof as the Committee determines. The determination and certification of the final value with respect to any Cash-Based Award or Other Stock-Based Award intended to result in Performance-Based Compensation shall comply with the requirements applicable to Performance Awards set forth in Sections 10.3 through 10.5 applicable to Awards intended to qualify as Performance-Based Compensation. To the extent applicable, payment or settlement with respect to each Cash-Based Award and Other Stock-Based Award shall be made in compliance with the requirements of Section 409A.

11.5 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Other Stock-Based Awards until the date of the issuance of such shares of Stock (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), if any, in settlement of such Award. However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Other Stock-Based Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Such Dividend Equivalent Rights, if any, shall be subject to the same Vesting Conditions and performance criteria, if any, as are applicable to the underlying Award and shall be paid in accordance with the provisions set forth in Section 9.4. Dividend Equivalent Rights shall not be granted with respect to Cash-Based Awards. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Other Stock-Based Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of such Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions and performance criteria, if any, as are applicable to the Award.

11.6 **Effect of Termination of Service**. Each Award Agreement evidencing a Cash-Based Award or Other Stock-Based Award shall set forth the extent to which the

Participant shall have the right to retain such Award following termination of the Participant's Service. Such provisions shall be determined in the discretion of the Committee, need not be uniform among all Cash-Based Awards or Other Stock-Based Awards, and may reflect distinctions based on the reasons for termination, subject to the requirements of Section 409A, if applicable.

11.7 **Nontransferability of Cash-Based Awards and Other Stock-Based Awards.** Prior to the payment or settlement of a Cash-Based Award or Other Stock-Based Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. The Committee may impose such additional restrictions on any shares of Stock issued in settlement of Cash-Based Awards and Other Stock-Based Awards as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such shares of Stock are then listed and/or traded, or under any state securities laws or foreign law applicable to such shares of Stock.

12. DEFERRED COMPENSATION AWARDS.

12.1 **Establishment of Deferred Compensation Award Programs**. This Section 12 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. If the Committee determines that any such program may constitute an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA, the Committee shall adopt and implement such program through a separate subplan to this Plan. Eligibility to participate in such subplan shall be limited to Directors and a select group of management or highly compensated employees, and the Committee shall take all additional actions required to qualify such subplan as a "top-hat" unfunded deferred compensation plan, including filing with the U.S. Department of Labor within 120 days following the adoption of such subplan a notice pursuant to Department of Labor Regulations Section 2520.104-23.

12.2 **Terms and Conditions of Deferred Compensation Awards**. Deferred Compensation Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. Award Agreements evidencing Deferred Compensation Awards may incorporate all or any of the terms of the Plan by reference and, except as provided below, shall comply with and be subject to the terms and conditions applicable to the appropriate form of Award as set forth in the applicable section of this Plan.

(a) ***Limitation on Elections.*** Notwithstanding any Participant's prior election to reduce cash compensation pursuant to a program established in accordance with this Section 12, no Deferred Compensation Award may be granted to the Participant after termination of the Plan or termination of the Participant's Service, and any such cash compensation shall be paid at the normal time and in accordance with the terms of the applicable cash compensation arrangement.

(b) ***Election Irrevocable.*** A Participant's election to reduce cash compensation pursuant to a program established in accordance with this Section 12 shall become

irrevocable on the last day of the calendar year prior to the year in which the services are to be rendered with respect to which such cash compensation would otherwise become payable, or at the time otherwise required by Section 409A.

(c) ***Vesting.*** Deferred Compensation Awards may be fully vested at grant or may be subject to such Vesting Conditions as the Committee determines.

13. **STANDARD FORMS OF AWARD AGREEMENT.**

13.1 **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. No Award or purported Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement, which execution may be evidenced by electronic means.

13.2 **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

14. **CHANGE IN CONTROL.**

14.1 **Effect of Change in Control on Awards.** Subject to the requirements and limitations of Section 409A, if applicable, the Committee may provide for any one or more of the following:

(a) ***Accelerated Vesting.*** In its discretion, the Committee may provide in the grant of any Award or at any other time may take such action as it deems appropriate to provide for acceleration of the exercisability, vesting and/or settlement in connection with a Change in Control of each or any outstanding Award or portion thereof and shares acquired pursuant thereto upon such conditions, including termination of the Participant's Service prior to, upon, or following such Change in Control, and to such extent as the Committee shall determine.

(b) ***Assumption, Continuation or Substitution.*** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the *"**Acquiror**"*), may, without the consent of any Participant, assume or continue the Company's rights and obligations under each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror's stock, as applicable. For purposes of this Section, if so determined by the Committee in its discretion, an Award denominated in shares of Stock shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were

offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each share of Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. Any Award or portion thereof which is not assumed, substituted for, or otherwise continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

(c) ***Cash-Out of Outstanding Stock-Based Awards.*** The Committee may, in its discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award denominated in shares of Stock or portion thereof outstanding immediately prior to the Change in Control and not previously exercised or settled shall be canceled in exchange for a payment with respect to each vested share (and each unvested share, if so determined by the Committee) of Stock subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control, reduced (but not below zero) by the exercise or purchase price per share, if any, under such Award. In the event such determination is made by the Committee, an Award having an exercise or purchase price per share equal to or greater than the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control may be canceled without payment of consideration to the holder thereof. Except as otherwise provided by the Committee, payment pursuant to this Section (reduced by applicable withholding taxes, if any) shall be made to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards.

14.2 **Federal Excise Tax Under Section 4999 of the Code.**

(a) ***Excess Parachute Payment.*** In the event that any acceleration of vesting pursuant to an Award and any other payment or benefit received or to be received by a Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an "excess parachute payment" under Section 280G of the Code, the Participant, subject to compliance with applicable law (including, but not limited to the rules imposed by Section 409A), may elect to reduce the amount of any acceleration of vesting called for under the Award in order to avoid such characterization.

(b) ***Determination by Independent Accountants.*** To aid the Participant in making any election called for under Section 14.2(a), no later than the date of the occurrence of any event that might reasonably be anticipated to result in an "excess parachute payment" to the Participant as described in Section 14.2(a), the Company may request a determination in writing by independent public accountants selected by the Company (the

*"**Accountants**"*). As soon as practicable thereafter, the Accountants shall determine and report to the Company and the Participant the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make their required determination. The Company shall bear all fees and expenses the Accountants charge in connection with their services contemplated by this Section.

15. **COMPLIANCE WITH SECURITIES LAW.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award, or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

16. **COMPLIANCE WITH SECTION 409A.**

16.1 **Awards Subject to Section 409A.** The Company intends that Awards granted pursuant to the Plan shall either be exempt from or comply with Section 409A, and the Plan shall be so construed. The provisions of this Section 16 shall apply to any Award or portion thereof that constitutes or provides for payment of Section 409A Deferred Compensation. To the extent that the Committee determines that any Award granted under the Plan is Section 409A Deferred Compensation, the Plan, and the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A. In that regard, to the extent any Award under the Plan or any other compensatory plan or arrangement of the Company or any of the Participating Companies is Section 409A Deferred Compensation, and such Award or other amount is payable on account of a Participant's termination of Service (or any similarly defined term), then such Award or amount shall only be paid to the extent such termination of Service qualifies as a "separation from service" as defined in Section 409A,

16.2 **Installment Payments**. It is the intent of this Plan that any right of a Participant to receive installment payments (within the meaning of Section 409A) shall, for all purposes of Section 409A, be treated as a right to a series of separate payments.

16.3 **Required Delay in Payment to Specified Employee Pursuant to Separation from Service.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, except as otherwise permitted by Section 409A, no payment in settlement of an Award providing for Section 409A Deferred Compensation may be made to a Participant who is a "specified employee" (as defined by Section 409A) on account of his or her termination of Service (or any similarly defined term) before the date (the "***Delayed Payment Date***") that is six (6) months after the date of such Participant's separation from service, or, if earlier, the date of the Participant's death. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date shall be accumulated and paid on the Delayed Payment Date.

16.4 **Payment Upon Change in Control.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, to the extent that any amount constituting Section 409A Deferred Compensation would become payable under this Plan by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A. Any Award which constitutes Section 409A Deferred Compensation and which would vest and otherwise become payable upon a Change in Control as a result of the failure of the Acquiror to assume, continue or substitute for such Award in accordance with Section 14.1(b) shall vest to the extent provided by such Award but shall be converted automatically at the effective time of such Change in Control into a right to receive, in cash on the date or dates such award would have been settled in accordance with its then existing settlement schedule (or as required by Section 409A), an amount or amounts equal in the aggregate to the intrinsic value of the Award at the time of the Change in Control.

16.5 **Prohibition of Acceleration of Payments.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, this Plan does not permit the acceleration of the time or schedule of any payment under an Award providing Section 409A Deferred Compensation, except as permitted by Section 409A.

16.6 **No Representation Regarding Section 409A Compliance**. Notwithstanding any other provision of the Plan, the Company makes no representation that Awards shall be exempt from or comply with Section 409A. No Participating Company shall be liable for any tax, penalty or interest imposed on a Participant by Section 409A.

17. TAX WITHHOLDING.

17.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, to make adequate provision for, the federal, state, local and foreign taxes (including social insurance), if any, required by law to be withheld by any Participating Company with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

17.2 **Withholding in or Directed Sale of Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of any Participating Company. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company may require a Participant to direct a broker, upon the vesting, exercise or settlement of an Award, to sell a portion of the shares subject to the Award determined by the Company in its discretion to be sufficient to cover the tax withholding obligations of any Participating Company and to remit an amount equal to such tax withholding obligations to such Participating Company in cash.

18. AMENDMENT, SUSPENSION OR TERMINATION OF PLAN.

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.3), (b) no change in the class of persons eligible to receive Incentive Stock Options, (c) any amendment to Section 3.6, and (d) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule, including the rules of any stock exchange or quotation system upon which the Stock may then be listed or quoted. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. Except as provided by the next sentence, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant. Notwithstanding any other provision of the Plan to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A.

19. MISCELLANEOUS PROVISIONS.

19.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

19.2 **Forfeiture Events.**

(a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Service for Cause or any act by a Participant, whether before or after termination of Service, that would constitute Cause for termination of Service.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company for (i) the amount of any payment in settlement of an Award received by such Participant during the twelve- (12-) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement, and (ii) any profits realized by such Participant from the sale of securities of the Company during such twelve- (12-) month period. In addition, to the extent claw-back or similar provisions applicable to Awards are required by applicable law, listing standards and/or policies adopted by the Company, Awards granted under the Plan shall be subject to such provisions.

19.3 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

19.4 **Rights as Employee, Consultant or Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

19.5 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.3 or another provision of the Plan.

19.6 **Delivery of Title to Shares.** Subject to any governing rules or regulations, the Company shall issue or cause to be issued the shares of Stock acquired pursuant to an Award and shall deliver such shares to or for the benefit of the Participant by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Stock to the Participant in certificate form.

19.7 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

19.8 **Retirement and Welfare Plans**. Neither Awards made under this Plan nor shares of Stock or cash paid pursuant to such Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under any Participating Company's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant's benefit. In addition, unless a written employment agreement or other service agreement references Awards, a general reference to "benefits" in such agreement shall not be deemed to refer to Awards granted hereunder.

19.9 **Beneficiary Designation.** Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

19.10 **Severability**. If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

19.11 **No Constraint on Corporate Action.** Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or another Participating Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or another Participating Company to take any action which such entity deems to be necessary or appropriate.

19.12 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be considered unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

19.13 **Choice of Law.** Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of Delaware, without regard to its conflict of law rules.

CORPORATE OFFICERS

MARC H. HEDRICK, M.D.
President and Chief Executive Officer

TIAGO GIRAO
Vice President of Finance and Chief Financial Officer

MARK MARINO, M.D.
Senior Vice President and Chief Medical Officer

JOHN HARRIS
Vice President and General Manager of Cell Therapy

JEREMY HAYDEN
General Counsel and Vice Prsident of Business Development

BOARD OF DIRECTORS

DAVID M. RICKEY
Chairman of the Board

RICHARD J. HAWKINS
Director

PAUL W. HAWRAN*
Director

MARC H. HEDRICK, M.D.
President and Director

GREGG A. LAPOINTE
Director

GARY A. LYONS
Director

RONALD A. MARTELL
Director

GAIL K. NAUGHTON, PH.D.
Director

*Not standing for re-election at the 2017 Annual Stockholder Meeting

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STOCKHOLDER INFORMATION

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NOTICE OF ANNUAL MEETING
May 22, 2017, 9 AM PT
Cytori Therapeutics, Inc.
3020 Callan Road
San Diego, CA 92121

Cautionary Statement Regarding Forward-Looking Statements

This report includes forward-looking statements that involve known and unknown risks and uncertainties. All statements, other than historical facts are forward looking statements. Such statements, including statements regarding: status and results of potential, ongoing and completed clinical trials; regulatory status and strategies, including submission timelines and outcomes; manufacture of our products; our financial condition, forecasts and operating results, including statements regarding revenue, expenses and cash burn; our ability to generate product or development revenues and the sources of such revenues; future opportunities (including potential markets and market sizes); and our pre-commercialization activities (including partnering efforts and early access to our cell therapy); are subject to risks and uncertainties that could cause our actual results and financial position to differ materially. Some of these risks include: the novelty of our cell therapy technology and early stage product pipeline; the level of future interest in our products and technologies; pre-clinical, clinical and regulatory uncertainties such as those associated with the ACT-OA Trial, STAR, SCLERADEC-I and SCLERADEC-II and ATI-0918 clinical trials (including risks regarding timing and completion of enrollment, collection and results of clinical data, and regulatory review of clinical data for approval purposes); final clinical outcomes; our continuing ability to access the capital on acceptable terms (or at all); our ability to service our debt and other material obligations; our abilites to meet cost and revenue goals; our ability to identify strategic partners to help develop and commercialize our products; dependence on third party approvals and performance; our ability to integrate and develop acquired assets; potential litigation; potential threats or challenges to our intellectual property (and ownership thereof); performance and acceptance of our products in the marketplace; presence or introduction of competing technologies and products (whether or not deemed by the market to be superior to ours); unexpected costs and expenses; our reliance on key personnel; the right of the U.S. Federal Government to cut or terminate further support of the thermal burn injury program; and other risks and uncertainties described under the "Risk Factors" in the Annual Report on Form 10-K enclosed herewith and Cytori's other filings with the Securities and Exchange Commission.

There may be events in the future that we are unable to predicts, or over which we have no control, and our business, financial condition, results of operations and prospects may change in the future. Except as required by law, we assume no responsibility to update or revise any forward-looking statements to reflect events, trends or circumstances after the date of this report.

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