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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o **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 0-32501

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**

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 ("the Exchange Act") 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer ☒

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

Yes o No ☒

As of October 31, 2007, there were 24,039,259 shares of the registrant's common stock outstanding.

CYTORI THERAPEUTICS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying consolidated condensed balance sheet of Cytori Therapeutics, Inc. and subsidiaries (the Company) as of September 30, 2007, the related consolidated condensed statements of operations and comprehensive loss for the three-month and nine-month periods ended September 30, 2007 and 2006, and the consolidated condensed statements of cash flows for the nine-month periods ended September 30, 2007 and 2006. These consolidated condensed financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated condensed financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Cytori Therapeutics, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations and comprehensive loss, stockholders' deficit, and cash flows for the year then ended (not presented herein); and in our report dated March 29, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2006, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
San Diego, California
November 9, 2007

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

	As of September 30, 2007	As of December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 17,939,000	$ 8,902,000
Short-term investments, available-for-sale	994,000	3,976,000
Accounts receivable, net of allowance for doubtful accounts of $1,000 and $2,000 in 2007 and 2006, respectively	31,000	225,000
Inventories, net	—	164,000
Other current assets	788,000	711,000
Total current assets	19,752,000	13,978,000
Property and equipment held for sale, net	—	457,000
Property and equipment, net	3,639,000	4,242,000
Investment in joint venture	77,000	76,000
Other assets	425,000	428,000
Intangibles, net	1,134,000	1,300,000
Goodwill	3,922,000	4,387,000
Total assets	$ 28,949,000	$ 24,868,000
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,901,000	$ 5,587,000
Current portion of long-term obligations	692,000	999,000
Total current liabilities	5,593,000	6,586,000
Deferred revenues, related party	18,748,000	23,906,000
Deferred revenues	2,379,000	2,389,000
Option liability	1,000,000	900,000
Long-term deferred rent	547,000	741,000
Long-term obligations, less current portion	444,000	1,159,000
Total liabilities	28,711,000	35,681,000
Commitments and contingencies	—	—
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding in 2007 and 2006	—	—
Common stock, $0.001 par value; 95,000,000 shares authorized; 25,801,091 and 21,612,243 shares issued and 23,928,257 and 18,739,409 shares outstanding in 2007 and 2006, respectively	26,000	22,000
Additional paid-in capital	128,458,000	103,053,000
Accumulated deficit	(121,452,000)	(103,460,000)
Treasury stock, at cost	(6,794,000)	(10,414,000)
Accumulated other comprehensive income	—	1,000
Amount due from exercises of stock options	—	(15,000)
Total stockholders' equity (deficit)	238,000	(10,813,000)
Total liabilities and stockholders' equity (deficit)	$ 28,949,000	$ 24,868,000

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Product revenues	$ —	$ 133,000	$ 792,000	$ 1,087,000
Cost of product revenues	—	383,000	422,000	1,341,000
Gross profit (loss)	—	(250,000)	370,000	(254,000)
Development revenues:				
Development, related party	3,362,000	—	5,158,000	683,000
Development	—	1,000	10,000	149,000
Research grant and other	11,000	350,000	65,000	413,000
	3,373,000	351,000	5,233,000	1,245,000
Operating expenses:				
Research and development	5,193,000	5,552,000	14,583,000	16,749,000
Sales and marketing	613,000	610,000	1,678,000	1,584,000
General and administrative	3,177,000	3,181,000	9,777,000	10,005,000
Change in fair value of option liabilities	—	(374,000)	100,000	(3,514,000)
Total operating expenses	8,983,000	8,969,000	26,138,000	24,824,000
Operating loss	(5,610,000)	(8,868,000)	(20,535,000)	(23,833,000)
Other income (expense):				
Gain on sale of assets	—	—	1,858,000	—
Interest income	302,000	158,000	849,000	537,000
Interest expense	(33,000)	(47,000)	(128,000)	(158,000)
Other expense, net	18,000	(7,000)	(37,000)	(13,000)
Equity gain (loss) from investment in joint venture	(5,000)	(3,000)	1,000	(68,000)
Total other income	282,000	101,000	2,543,000	298,000
Net loss	(5,328,000)	(8,767,000)	(17,992,000)	(23,535,000)
Other comprehensive gain (loss) – unrealized holding gain (loss)	—	6,000	(1,000)	(18,000)
Comprehensive loss	$ (5,328,000)	$ (8,761,000)	$ (17,993,000)	$ (23,553,000)
Basic and diluted net loss per common share	$ (0.22)	$ (0.53)	$ (0.80)	$ (1.48)
Basic and diluted weighted average common shares	23,903,082	16,641,423	22,502,133	15,891,674

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	For the Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (17,992,000)	$ (23,535,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,227,000	1,605,000
Inventory provision	70,000	70,000
Reversal of warranty provision	(54,000)	—
Increase (reduction) in allowance for doubtful accounts	1,000	(5,000)
Change in fair value of option liabilities	100,000	(3,514,000)
Stock-based compensation expense	1,762,000	2,652,000
Gain on sale of assets	(1,858,000)	—
Equity (gain) loss from investment in joint venture	(1,000)	68,000
Non-cash charge related to stock issued for license amendment, related party	—	487,000
Increases (decreases) in cash caused by changes in operating assets and liabilities:		
Accounts receivable	193,000	718,000
Inventories	—	(22,000)
Other current assets	(94,000)	(160,000)
Other assets	3,000	5,000
Accounts payable and accrued expenses	(632,000)	(966,000)
Deferred revenues, related party	(5,158,000)	11,817,000
Deferred revenues	(10,000)	(149,000)
Long-term deferred rent	(194,000)	258,000
Net cash used in operating activities	(22,637,000)	(10,671,000)
Cash flows from investing activities:		
Proceeds from sale and maturity of short-term investments	25,479,000	53,264,000
Purchases of short-term investments	(22,498,000)	(50,278,000)
Proceeds from sale of assets	3,175,000	—
Costs from sale of assets	(305,000)	—
Purchases of property and equipment	(437,000)	(3,014,000)
Investment in joint venture	—	(150,000)
Net cash provided by (used in) investing activities	5,414,000	(178,000)
Cash flows from financing activities:		
Principal payments on long-term obligations	(1,022,000)	(714,000)
Proceeds from exercise of employee stock options and warrants	1,381,000	819,000
Proceeds from sale of common stock and warrants	21,500,000	16,352,000
Costs from sale of common stock	(1,599,000)	—
Proceeds from sale of treasury stock	6,000,000	—
Net cash provided by financing activities	26,260,000	16,457,000
Net increase in cash and cash equivalents	9,037,000	5,608,000
Cash and cash equivalents at beginning of period	8,902,000	8,007,000
Cash and cash equivalents at end of period	$ 17,939,000	$ 13,615,000
Supplemental disclosure of cash flows information:		
Cash paid during period for:		
Interest	$ 131,000	$ 160,000
Taxes	2,000	1,000

SEE NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. Our consolidated condensed balance sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of Cytori Therapeutics, Inc., and our subsidiaries (the Company), have been included. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to our consolidated financial statements for the year ended December 31, 2006 and footnotes thereto which were included in our Annual Report on Form 10-K, dated April 2, 2007.

2. Use of Estimates

The preparation of consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America of America 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. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated condensed financial statements in the periods they are determined to be necessary.

Our most significant estimates and critical accounting policies involve recognizing revenue, evaluating goodwill for impairment, accounting for product line dispositions, valuing the Put option (see note 12), determining the assumptions used in measuring share-based compensation expense, valuing our deferred tax assets, and assessing how to report our investment in Olympus-Cytori, Inc.

3. Segment Information

We operate as two distinct operating segments – (a) Regenerative cell technology and (b) MacroPore Biosurgery. In the past, our resources were managed on a consolidated basis. However, in an effort to better reflect our focus and significant progress in the development of regenerative therapies, we evaluate and report our financial results in two segments.

Our regenerative cell technology segment is developing and seeks to commercialize regenerative cell therapies for cardiovascular disease, aesthetic and reconstructive surgery, and many other serious, chronic, and life-threatening conditions and disorders. We plan to commercialize these therapies through the sale of the Celution™ System, a device that quickly removes regenerative cells from a patient's own adipose tissue, and its related single-use consumables. We have also developed a regenerative cell banking platform for use in hospitals and clinics that will preserve regenerative cells harvested using our Celution™ System for potential future use.

Our MacroPore Biosurgery unit manufactured and distributed the HYDROSORB™ family of bioresorbable spine and orthopedic implants, which we sold to the Kensey Nash Corporation ("Kensey Nash") in May 2007 (see note 14); it also develops Thin Film bioresorbable implants for sale in Japan through Senko Medical Trading Company ("Senko"), which has exclusive distribution rights to these products in Japan.

We measure the success of each operating segment based on operating profits and losses and, additionally, in the case of the regenerative cell technology segment, the achievement of key research objectives. In arriving at our operating results for each segment, we use the same accounting policies as those used for our consolidated company and as described throughout this note. However, segment operating results exclude allocations of company-wide general and administrative costs and changes in fair value of our option liabilities.

The following tables provide information regarding the performance and assets of our operating segments:

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Regenerative cell technology	$ 3,373,000	$ 350,000	$ 5,223,000	$ 1,096,000
MacroPore Biosurgery	—	134,000	802,000	1,236,000
Total revenues	$ 3,373,000	$ 484,000	$ 6,025,000	$ 2,332,000
Segment gains (losses):				
Regenerative cell technology	$ (2,313,000)	$ (5,491,000)	$ (10,677,000)	$ (16,006,000)
MacroPore Biosurgery	(120,000)	(570,000)	19,000	(1,336,000)
General and administrative expenses	(3,177,000)	(3,181,000)	(9,777,000)	(10,005,000)
Change in fair value of option liabilities	—	374,000	(100,000)	3,514,000
Total operating loss	$ (5,610,000)	$ (8,868,000)	$ (20,535,000)	$ (23,833,000)

	As of September 30, 2007	As of December 31, 2006
Assets:		
Regenerative cell technology	$ 24,370,000	$ 9,792,000
MacroPore Biosurgery	—	1,758,000
Corporate assets	4,579,000	13,318,000
Total assets	$ 28,949,000	$ 24,868,000

4. Short-Term Investments

We invest excess cash in highly liquid debt instruments of financial institutions and corporations with strong credit ratings and in United States of America government obligations. We have established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

We evaluate our investments in accordance with the provisions of Statement of Financial Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Based on our intent, our investment policies, and our ability to liquidate debt securities, we classify short-term investment securities within current assets. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income (loss) within stockholders’ equity. The amortized cost basis of debt securities is periodically adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included as a component of interest income or interest expense. The amortized cost basis of securities sold is based on the specific identification method and all such realized gains and losses are recorded as a component within other income (expense). Based on such evaluation, management has determined that all investment securities (other than those classified as cash equivalents) are properly classified as available-for-sale.

We review the carrying values of our investments and write down such investments to estimated fair value by a charge to the statements of operations when the severity and duration of a decline in the value of an investment is considered to be other than temporary. The cost of securities sold or purchased is recorded on the trade date.

At September 30, 2007, the excess of carrying cost over the fair value of our short-term investments is immaterial.

5. Summary of Significant Accounting Policies

Inventories

Inventories include the cost of material, labor, and overhead, and are stated at the lower of average 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. We expense excess manufacturing costs, that is, costs resulting from lower than “normal” production levels.

The majority of our inventory was included with the sale in the second quarter of our spine and orthopedic implant product line to Kensey Nash (see note 14 for a description of this sale). Our remaining inventory at September 30, 2007 consists only of raw materials related to our Thin Film products. During the third quarter of 2007, we recorded a provision of $70,000 for this inventory, as we determined it unlikely to be converted into finished goods and ultimately sold. This provision is reflected as a component of research and development expense rather than as cost of product revenues due to the inventory’s relationship to Thin Film products, for which we have not yet achieved commercialization. During the second quarter of 2006, we also recorded a provision of $70,000 for excess raw materials related to our spine and orthopedic products.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation expense is provided for on a straight-line basis over the estimated useful lives of the assets, or the life of the lease (as applicable), whichever is shorter, and range from three to seven 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 is included in operations. Maintenance and repairs are charged to operations as incurred.

Revenue Recognition

Product Sales

Before the disposal of our bioresorbable spine and orthopedic product line in May 2007, we sold our (non-Thin Film) MacroPore Biosurgery products to Medtronic, Inc. under a distribution agreement dated January 5, 2000 and amended December 22, 2000 and October 8, 2002, as well as a development and supply agreement dated January 5, 2000 and amended December 22, 2000 and September 30, 2002. These revenues are classified as product revenues in our statements of operations.

We recognized revenue on product sales to Medtronic only after both (a) the receipt of a purchase order from Medtronic and (b) shipment of ordered products to Medtronic, as title and risk of loss pass upon shipment.

In the past, we would occasionally offer Medtronic extended payment terms. In these circumstances, we did not recognize revenues under these arrangements until the payment became due or was received, if that occurred earlier. Moreover, we warranted that our products were free from manufacturing defects at the time of shipment. We recorded reserves for the estimated costs we may incur under our warranty program for products previously sold.

License/Distribution Fees

If separable under Emerging Issues Task Force Issue (EITF) No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”), we recognize any upfront payments received from license/distribution agreements as revenues ratably over the period in which the customer benefits from the license/distribution agreement.

To date, we have not received any upfront license payments that are separable under EITF 00-21. Accordingly, such license revenues have been combined with other elements, such as research and development activities, for purposes of revenue recognition. For instance, we account for the license fees and milestone payments under the distribution agreement with Senko as a single unit of accounting. Similarly, we have attributed the upfront fees received under the arrangements with Olympus Corporation, a related party, to a combined unit of accounting comprising a license we granted to Olympus-Cytori, Inc. (the “Joint Venture”), a related party, as well as development services we agreed to perform for this entity.

In the first quarter of 2006, we granted Olympus an exclusive right to negotiate a commercialization collaboration for the use of adipose regenerative cells for a specific therapeutic area outside of cardiovascular disease. In exchange for this right, we received $1,500,000 from Olympus, which is non-refundable but may be applied towards any definitive commercial collaboration in the future. As part of this agreement, Olympus will conduct market research and pilot clinical studies in collaboration with us over a 12 to 18 month period for the therapeutic area. The $1,500,000 payment was received in the second quarter of 2006 and recorded as deferred revenues, related party. The deferred revenues, related party, will be recognized as revenue in the statements of operations either (i) in connection with other consideration received as part of a definitive commercial collaboration in the future, or (ii) when the exclusive negotiation period expires.

In the third quarter of 2004, we entered into a distribution agreement with Senko. Under this agreement, we granted to Senko an exclusive license to sell and distribute certain Thin Film products in Japan and received a $1,500,000 upfront license fee from them in return for this right. We have recorded the $1,500,000 received as a component of deferred revenues in the accompanying balance sheet. Half of the license fee is refundable if the parties agree commercialization is not achievable and a proportional amount is refundable if we terminate the arrangement, other than for material breach by Senko, before three years post-commercialization.

No license/distribution fees have been recognized in the three and nine month periods ended September 30, 2007 and 2006.

Research and Development

We earn revenue for performing tasks under research and development agreements with both commercial enterprises, such as Olympus and Senko, and governmental agencies like the National Institutes of Health ("NIH"). Revenue earned under development agreements is classified as either research grant or development revenues in our statements of operations, depending on the nature of the arrangement. Revenues derived from reimbursement of direct out-of-pocket expenses for research costs associated with grants are recorded in compliance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent", and EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred". In accordance with the criteria established by these EITF Issues, we record grant revenue for the gross amount of the reimbursement. The costs associated with these reimbursements are reflected as a component of research and development expense in the consolidated condensed statements of operations.

Additionally, research arrangements we have with commercial enterprises such as Olympus and Senko are considered a key component of our central and ongoing operations. Accordingly, the inflows from such arrangements are presented as revenues in the consolidated condensed statements of operations.

We received a total of $22,000,000 from Olympus and Olympus-Cytori, Inc. during 2005 in two separate but related transactions (see note 12). Approximately $4,689,000 of this amount related to common stock that we issued, as well as options we granted, to Olympus. Moreover, during the first quarter of 2006, we received $11,000,000 from the Joint Venture upon achieving the CE Mark on the Celution™ System. Considering the $4,689,000 initially allocated to the common stock issued and the two options, we recorded upfront fees totaling $28,311,000 as deferred revenues, related party. In exchange for these proceeds, we agreed to (a) provide Olympus-Cytori, Inc. an exclusive and perpetual license to our therapeutic device technology, including the Celution™ System and certain related intellectual property, and (b) provide future development contributions related to commercializing the Celution™ System (see note 12). As noted above, the license and development contributions are not separable under EITF 00-21. Accordingly, we will recognize the $28,311,000 allocated to deferred revenues, related party, using a proportional performance methodology- that is, as we complete substantive milestones related to the development component of the combined accounting unit. As of September 30, 2007, we have recognized $11,063,000 of the deferred revenues, related party as development revenues of which $3,362,000 and $5,158,000 was recognized in the three and nine months ended September 30, 2007, respectively. All related development costs are expensed as incurred and are included in research and development expense in the consolidated condensed statements of operations.

In the third quarter of 2004, we entered into a distribution agreement with Senko. Under this agreement, we granted to Senko an exclusive license to sell and distribute certain Thin Film products in Japan. We have also earned or will be entitled to earn additional payments under the distribution agreement based on achieving the following defined research and development milestones:

- In 2004, we received a non-refundable payment of $1,250,000 from Senko after filing an initial regulatory application with the Japanese Ministry of Health, Labour and Welfare ("MHLW") related to the Thin Film product line. We initially recorded this payment as deferred revenues of $1,250,000.

- Upon the achievement of commercialization (i.e., regulatory approval by the MHLW), we will be entitled to an additional nonrefundable payment of $250,000.

Of the amounts received and deferred, we recognized development revenues of $0 and $10,000 in the three and nine month periods ended September 30, 2007, and $1,000 and $149,000 in the three and nine month periods ended September 30, 2006, respectively, representing the fair value of the completed milestones relative to the fair value of the total efforts expected to be necessary to achieve regulatory approval by the MHLW. As noted above, the license and the milestone components of the Senko distribution agreement are accounted for as a single unit of accounting. This single element includes a $1,500,000 license fee which is potentially refundable. We have recognized, and will continue to recognize, the non-contingent fees allocated to this combined deliverable as we complete performance obligations under the distribution agreement with Senko. Accordingly, we expect to recognize approximately $1,129,000 (consisting of the remaining $879,000 in deferred revenues plus a non-refundable payment of $250,000 to be received upon commercialization) in revenues associated with this milestone arrangement once commercialization is achieved. We will not recognize the potentially refundable portion of the fees until the right of refund expires.

6. Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," we assess certain 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. During the three and nine months ended September 30, 2007 and 2006, we had no impairment losses associated with our long-lived assets.

7. Share-Based Compensation

During the first quarter of 2007, we issued to our officers and directors stock options to purchase up to 410,000 shares of our common stock, with four-year graded vesting for our officers and 24-month graded vesting for our directors. The grant date fair value of option awards granted to our officers and directors was $3.82 and $3.70 per share, respectively. The resulting share-based compensation expense of $1,480,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

During the second quarter of 2007, we made company-wide stock option grants to our non-executive employees to purchase up to 213,778 shares of our common stock, subject to a four-year graded vesting schedule. The grant date fair value for the awards was $3.66. The resulting share-based compensation expense of $739,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

Of the $1,762,000 charge to stock-based compensation for the nine months ended September 30, 2007, $64,000 related to award modifications for the termination of the full-time employment of our Vice President of Research, Regenerative Cell Technology, and two less senior employees. The charge reflects the incremental fair value of (a) the accelerated unvested stock options and (b) the extended vested stock options (over the fair value of the original awards at the modification date). There will be no further charges related to these modifications.

8. Income Taxes

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109 ("SFAS 109"), "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

We adopted the provisions of FIN 48 on January 1, 2007. There were no unrecognized tax benefits as of the date of adoption. There are no unrecognized tax benefits as of September 2007 that would, if recognized, affect the effective tax rate.

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $0 accrued for interest and penalties on our balance sheet as of September 30, 2007 and December 31, 2006, and have recognized $0 in interest and/or penalties in our statements of operations for the three and nine months ended September 30, 2007.

With limited exception, we are subject to taxation only in the U.S. and California jurisdictions. Our tax years for 1997 and forward are subject to examination by the U.S. and California tax authorities due to the carryforward of unutilized net operating losses and research and development credits.

The adoption of FIN 48 did not impact our financial condition, results of operations, or cash flows. At January 1, 2007, we had net deferred tax assets of $38,505,000. The deferred tax assets are primarily composed of federal and state tax net operating loss carryforwards and federal and state research and development ("R&D") credit carryforwards. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset our deferred tax assets. Additionally, the future utilization of our net operating loss and R&D credit carryforwards to offset future taxable income may be subject to a substantial annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. We have not yet determined whether such an ownership change has occurred, however, the Company is currently working to complete a Section 382/383 analysis regarding potential limitations as to the use of the net operating losses and research and development credits. Similarly, we plan to complete an R&D credit analysis regarding the calculation of the R&D credit. When these analyses are completed, we may need to update the amount of unrecognized tax benefits we have reported under FIN 48. Therefore, we expect that the unrecognized tax benefits may change within 12 months of this reporting date. At this time, we cannot estimate how much the unrecognized tax benefits may change. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate in the foreseeable future.

9. Loss per Share

We compute loss per share based on the provisions of SFAS No. 128, "Earnings 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 from the calculation of diluted loss per share attributable to common stockholders for the three and nine months ended September 30, 2007 and 2006, as their inclusion would be antidilutive. Potentially dilutive common shares excluded from the calculations of diluted loss per share were 7,859,325 for the three and nine month periods ended September 30, 2007 and 8,082,846 for the three and nine months ended September 30, 2006, respectively.

10. Commitments and Contingencies

We have entered into agreements, which have provisions for cancellation, with various clinical research organizations for pre-clinical and clinical development studies. Under the terms of these agreements, the vendors provide a variety of services including conducting pre-clinical development research, enrolling patients, recruiting 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 schedules of pre-clinical and clinical studies in progress. As of September 30, 2007, we have pre-clinical research study obligations of $135,000 (which are expected to be fully completed within a year) and clinical research study obligations of $5,670,000 ($3,781,000 of which are expected to be completed within a year).

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

Refer to note 11 for a discussion of our commitments and contingencies related to our interactions with the University of California.

Refer to note 12 for a discussion of our commitments and contingencies related to our transactions with Olympus, including (a) our obligation to the Joint Venture in future periods and (b) certain put and call rights embedded in the arrangements with Olympus.

11. License Agreement

On October 16, 2001, StemSource, Inc. entered into an exclusive worldwide license agreement with the Regents of the University of California ("UC"), licensing all of UC's rights to certain pending patent applications being prosecuted by UC and (in part) by the University of Pittsburgh, for the life of these patents, with the right of sublicense. The exclusive license relates to an issued patent ("Patent 6,777,231") and various pending applications relating to adipose-derived stem cells. In November 2002, we acquired StemSource, and the license agreement was assigned to us.

The agreement, which was amended and restated in September 2006 to better reflect our business model, calls for various periodic payments until such time as we begin commercial sales of any products utilizing the licensed technology. Upon achieving commercial sales of products or services covered by the UC license agreement, we will be required to pay variable earned royalties based on the net sales of products sold. Minimum royalty amounts will increase annually with a plateau in 2015. In addition, there are certain due diligence milestones that are required to be reached as a result of the agreement. Failure to fulfill these milestones may result in a reduction of or loss of the specific rights to which the effected milestone relates.

In connection with the amendment of the agreement in the third quarter of 2006, we agreed to issue 100,000 shares of our common stock to UC in the fourth quarter of 2006. At the time the agreement was reached, our shares were trading at $4.87 per share. The expense was charged to general and administrative expense.

Additionally, we are obligated to reimburse UC for patent prosecution and other legal costs on any patent applications contemplated by the agreement. In particular, the University of Pittsburgh filed a lawsuit in the fourth quarter of 2004, naming all of the inventors who had not assigned their ownership interest in Patent 6,777,231 to the University of Pittsburgh. It was seeking a determination that its assignors, rather than UC's assignors, are the true inventors of Patent 6,777,231. This lawsuit has subjected us to and could continue to subject us to significant costs and, if the University of Pittsburgh wins the lawsuit, our license rights to this patent could be nullified or rendered non-exclusive with respect to any third party that might license rights from the University of Pittsburgh.

On August 9, 2007, the United States District Court granted the University of Pittsburgh's motion for Summary Judgment in part, determining that the University of Pittsburgh's assignees were properly named as inventors on Patent 6,777,231, and that all other inventorship issues shall be determined according to the facts presented at trial.

We are not named as a party to the lawsuit, but our president, Marc Hedrick, is one of the inventors identified on the patent and therefore is a named individual defendant. We are providing substantial financial and other assistance to the defense of the lawsuit.

During the three and nine months ended September 30, 2007, we expensed $353,000 and $954,000, respectively, for legal fees related to this license. For the same periods in 2006, we expensed $335,000 and $1,701,000, respectively. These expenses have been classified as general and administrative expense in the accompanying financial statements. We believe that the amount accrued as of September 30, 2007 of $1,137,000 is a reasonable estimate of our liability for the expenses incurred through September 30, 2007.

12. Transactions with Olympus Corporation

Initial Investment by Olympus Corporation in Cytori

In the second quarter of 2005, we entered into a common stock purchase agreement (the "Purchase Agreement") with Olympus under which we received $11,000,000 in cash proceeds.

Under this agreement, we issued 1,100,000 shares of common stock to Olympus. In addition, we also granted Olympus an immediately exercisable option to acquire 2,200,000 shares of our common stock at $10 per share, which expired on December 31, 2006. Before its expiration, we accounted for this grant as a liability in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" because from the date of grant through the expiration, we would have been required to deliver listed common stock to settle the option shares upon exercise.

The $11,000,000 in total proceeds we received in the second quarter of 2005 exceeded the sum of (i) the market value of our stock as well as (ii) the fair value of the option at the time we entered into the share purchase agreement. The $7,811,000 difference between the proceeds received and the fair values of our common stock and option liability is recorded as a component of deferred revenues, related party, in the accompanying balance sheet. This difference was recorded as deferred revenue, since conceptually, the excess proceeds represent a prepayment for future contributions and obligations of Cytori for the benefit of the Joint Venture (see below), rather than an additional equity investment in Cytori. The recognition of this deferred amount will require the achievement of service related milestones, under a proportional performance methodology. If and as such revenues are recognized, deferred revenue will be decreased.

In August 2006, we received an additional $11,000,000 from Olympus for the issuance of approximately 1,900,000 shares of our common stock at $5.75 per share under the shelf registration statement filed in May 2006. The purchase price was determined by our closing price on August 9, 2006.

As of September 30, 2007, Olympus holds approximately 12.6% of our issued and outstanding shares. Additionally, Olympus has a right, which it has not yet exercised, to designate a director to serve on our Board of Directors.

Formation of the Olympus-Cytori Joint Venture

On November 4, 2005, we entered into a joint venture and other related agreements (the "Joint Venture Agreements") with Olympus. The Joint Venture is owned equally by Olympus and us.

Under the Joint Venture Agreements:

- Olympus paid $30,000,000 for its 50% interest in the Joint Venture. Moreover, Olympus simultaneously entered into a License/Joint Development Agreement with the Joint Venture and us to develop a second generation commercial system and manufacturing capabilities.

- We licensed our device technology, including the Celution™ System and certain related intellectual property, to the Joint Venture for use in future generation devices. These devices will process and purify regenerative cells residing in adipose tissue for various therapeutic clinical applications. In exchange for this license, we received a 50% interest in the Joint Venture, as well as an initial $11,000,000 payment from the Joint Venture; the source of this payment was the $30,000,000 contributed to the Joint Venture by Olympus. Moreover, upon receipt of a CE Mark for the first generation Celution™ System in January 2006, we received an additional $11,000,000 development milestone payment from the Joint Venture.

We have determined that the Joint Venture is a variable interest entity ("VIE") pursuant to FASB Interpretation No. 46 (revised 2003), "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51" ("FIN 46R"), but that Cytori is not the VIE's primary beneficiary. Accordingly, we have accounted for our interests in the Joint Venture using the equity method of accounting, since we can exert significant influence over the Joint Venture's operations. At September 30, 2007, the carrying value of our investment in the Joint Venture is $77,000.

We are under no obligation to provide additional funding to the Joint Venture, but may choose to do so. In the first quarter of 2006, we contributed $150,000 to the Joint Venture.

Put/Calls and Guarantees

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

As of November 4, 2005, the fair value of the Put was determined to be $1,500,000. At September 30, 2007 and December 31, 2006, the fair value of the Put was $1,000,000 and $900,000, respectively. Fluctuations in the Put value are recorded in the statements of operations as a component of change in fair value of option liabilities. The Put itself, which is perpetual, has been recorded as a long-term liability in the caption Option liability in the consolidated condensed balance sheet.

The valuations of the Put were completed using an option pricing theory-based simulation analysis (i.e., a Monte Carlo simulation). The valuations are based on assumptions as of the valuation date with regard to the market value of Cytori and the estimated fair value of the Joint Venture, the expected correlation between the values of Cytori and the Joint Venture, the expected volatility of Cytori and the Joint Venture, the bankruptcy recovery rate for Cytori, the bankruptcy threshold for Cytori, the probability of a change of control event for Cytori, and the risk-free interest rate.

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

	September 30, 2007	December 31, 2006	November 4, 2005
Expected volatility of Cytori	60.00%	66.00%	63.20%
Expected volatility of the Joint Venture	60.00%	56.60%	69.10%
Bankruptcy recovery rate for Cytori	21.00%	21.00%	21.00%
Bankruptcy threshold for Cytori	$ 9,680,000	$ 10,110,000	$ 10,780,000
Probability of a change of control event for Cytori	2.38%	1.94%	3.04%
Expected correlation between fair values of Cytori and the Joint Venture in the future	99.00%	99.00%	99.00%
Risk-free interest rate	4.59%	4.71%	4.66%

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

Olympus-Cytori Joint Venture

The Joint Venture has exclusive access to our technology for the development, manufacture, and supply of the devices (second generation and beyond) for all therapeutic applications. Once a second generation Celution™ System is developed and approved by regulatory agencies, the Joint Venture may sell such systems exclusively to us at a formula-based transfer price; we have retained marketing rights to the second and all subsequent generation devices for all therapeutic applications of adipose regenerative cells.

As part of the various agreements with Olympus, we will be required, following commercialization of the Celution™ System, to provide monthly forecasts to the Joint Venture specifying the quantities of each category of devices that we intend to purchase over a rolling six-month period. Although we are not subject to any minimum purchase requirements, we are obliged to buy a minimum percentage of the products forecasted by us in such reports. Since we can effectively control the number of devices we will agree to purchase and because no commercial devices have yet been developed to trigger the forecast requirement, we estimate that the fair value of this guarantee is de minimis as of September 30, 2007.

In August 2007 we entered into a License and Royalty Agreement ("Royalty Agreement") with the Joint Venture which provides us the ability to commercially launch Cytori's Celution™ System earlier than we could have otherwise done so under the terms of the Joint Venture Agreements. The Royalty Agreement allows for the sale of the Cytori system until such time as the Joint Venture's products are commercially available, subject to a reasonable royalty that will be payable to the Joint Venture for all such sales.

Deferred revenues, related party

As of September 30, 2007, the deferred revenues, related party account primarily consists of the consideration we have received in exchange for contributions and obligations that we have agreed to on behalf of Olympus and the Joint Venture (less any amounts that we have recognized as revenues in accordance with our policies set out in note 5). These contributions include completing pre-clinical and clinical studies, product development and seeking certain regulatory approvals and/or clearances toward commercialization of the Celution™ System. Our obligations also include maintaining the exclusive and perpetual license to our device technology, including the Celution™ System and certain related intellectual property.

Pursuant to EITF 00-21, we have concluded that the license and development services must be accounted for as a single unit of accounting. Refer to note 5 for a full description of our revenue recognition policy.

13. Common Stock

In February 2007, we completed a registered direct public offering of units consisting of common stock and warrants. We received net proceeds of $19,901,000 from the sale of units consisting of 3,746,000 shares of common stock and 1,873,000 common stock warrants (with an exercise price of $6.25 per share and a five-year exercisability period) under our shelf registration statement.

In April 2007, we sold 1,000,000 shares of unregistered common stock out of our treasury stock to Green Hospital Supply, Inc. for $6,000,000 cash. We agreed to seek Securities and Exchange Commission registration of the shares for resale if so requested. The sale agreement contains no registration payment arrangements within the scope of FASB Staff Position EITF 00-19-2, "Accounting for Registration Payment Arrangements."

14. Gain on Sale of Assets, Spine and Orthopedics Product Line

In May 2007, we sold to Kensey Nash our intellectual property rights and tangible assets related to our bioresorbable spine and orthopedic surgical implant product line, a part of our MacroPore Biosurgery business. Excluded from the sale were any rights to our Japan Thin Film product line.

We received $3,175,000 in cash proceeds related to the disposition. The assets comprising the spine and orthopedic product line transferred to Kensey Nash were as follows:

	Carrying Value Prior to Disposition
Inventory	$ 94,000
Other current assets	17,000
Assets held for sale	436,000
Goodwill	465,000
	$ 1,012,000

We incurred expenses of $109,000 in connection with the sale during the second quarter of 2007. As part of the disposition agreement, we were required to provide training to Kensey Nash representatives in all aspects of the manufacturing process related to the transferred spine and orthopedic product line, and to act in the capacity of a product manufacturer from the point of sale through August 2007. Because of these additional manufacturing requirements, we deferred $196,000 of the gain related to the outstanding manufacturing requirements, and we recognized $1,858,000 as a gain on sale in the statement of operations during the second quarter of 2007. These manufacturing requirements were completed in August as planned, and the associated costs were classified against the deferred balance, reducing it to zero. As of September 30, 2007, no further costs or adjustments relating to this product line sale are anticipated.

The revenues and expenses related to the spine and orthopedic product line transferred to Kensey Nash for the three and nine months ended September 30, 2007 and 2006 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$ —	$ 133,000	$ 792,000	$ 1,087,000
Cost of product revenues	—	(383,000)	(422,000)	(1,341,000)
Research & development	—	(239,000)	(113,000)	(848,000)
Sales & marketing	—	(10,000)	(21,000)	(148,000)

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that may be deemed "forward-looking statements" within the meaning of United States of America securities laws. All statements, other than statements of historical fact, that address activities, events or developments that we intend, expect, project, believe or anticipate will 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. The forward-looking statements included in this report are also subject to a number of material risks and uncertainties, including but not limited to the risks described under the "Risk Factors" section in Part II below.

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

Overview

Regenerative Cell Technology

Cytori is developing the Celution™ System, an innovative medical device that removes patients' regenerative cells from their own fat tissue so that these cells can be delivered to the same patient in about an hour. The commercialization model will be based on the sale of the system and related single-use therapeutic sets that are tailored to each therapeutic application. We are focused initially on bringing applications to market for reconstructive surgery, cardiovascular disease and cell banking. Our success is dependent upon our ability to conduct well-designed clinical trials that demonstrate patient benefit and support reimbursement and physician adoption. We will also need to seek regulatory clearances for the Celution™ System around the world, and build out our commercialization and manufacturing infrastructure.

The following are our major initiatives over the next 18 months:

- Launch our Celution™ System-based cell preservation ("cell banking") product in Japan;
- Initiate a limited market introduction of the Celution™ System in Europe for reconstructive surgery;
- Advance and expand our clinical development product pipeline; and
- Make continued progress in our corporate partnering efforts.

The major milestones, on which to measure our success over this time, are the following:

- Completion of enrollment for the APOLLO and PRECISE safety and feasibility trials for heart attack and chronic myocardial ischemia, respectively;
- Announcement of the outcome of the investigator-initiated breast reconstruction safety study in Japan;
- Initiation of a multi-center breast reconstruction claims expansion and reimbursement trial in Europe;
- Expansion of the Celution™ System distribution network for reconstructive surgery;
- Completion of the internal manufacture build-out for the Celution™ System to meet anticipated product demand in 2008 and early 2009; and
- Pursuance of commercialization partners for the Celution™ System in select therapeutic areas.

StemSource™ Cell Bank

In the third quarter of 2007, Cytori entered into a partnership to commercialize our StemSource™ Cell Bank, which includes Cytori's Celution™ System, to hospitals throughout Japan. Cytori recently received regulatory approval in Japan on the Celution™ System for use in medical laboratories for stem cell collection and preservation procedures. This was a critical milestone required for Green Hospital Supply to begin commercialization. The first cell banks are expected to be installed by the first quarter of 2008.

Under the agreement, Green Hospital Supply will be the exclusive Japanese provider of both the StemSource™ banking platform and the Celution™ System for stem and regenerative cell banking. Cytori retains exclusive rights for both products in other countries.

Breast Reconstruction

During the first nine months of 2007, we continued to make progress toward our commercial launch of the Celution™ System. Our goal is to make the Celution™ System available on a targeted basis in Europe in early 2008 for reconstructive surgery. This will be followed by a broader launch, when we achieve reimbursement for reconstruction of breast tissue following a partial mastectomy (lumpectomy) in breast cancer patients based on results from two-planned post-marketing studies.

This year, we have entered distribution agreements for Belgium, China, Greece, Israel, Italy, Korea, Luxembourg, Portugal, Spain, Taiwan, and The Netherlands to prepare for the launch of our Celution™ System. In parallel, we are building out our internal manufacturing capabilities so that we will be able to meet anticipated demand in 2008 and 2009 until the Olympus-Cytori Joint Venture, described below, is expected to fulfill device manufacturing.

Based on preliminary results and other data, we are planning two post-marketing studies, designated as the RESTORE II and VENUS studies, which will further evaluate the use of adipose-derived stem and regenerative cells processed via Celution™ System for reconstruction of breast tissue following a partial mastectomy. RESTORE II will evaluate up to 70 patients at multiple European trial sites. VENUS will be a 20 patient single center adjunct to RESTORE II in patients with more severe damage and contour defects resulting from a partial mastectomy.

Breast reconstruction in partial mastectomy patients represents an important market for which there are few, if any, available treatment options. In Europe, there are an estimated 300,000 patients diagnosed with breast cancer each year of which an estimated 60% are considered eligible for a partial mastectomy. Approximately 3,000,000 women in Europe are already diagnosed with breast cancer.

Cardiovascular Disease

In January 2007, we initiated a clinical trial of adipose-derived regenerative cells, processed via the Celution™ System, for chronic myocardial ischemia, a severe form of coronary artery disease. Enrollment for this trial remains on track and results are expected to be reported in the second half of 2008.

We expect to start a clinical trial of adipose-derived regenerative cells, processed via the Celution™ System, in heart attack patients later in 2007. This trial is designed as a 48-patient double-blind, placebo-controlled, dose-escalation safety and feasibility study. The patients will be evaluated six months after treatment.

The American Heart Association estimates that in the United States of America, there are approximately 1.2 million heart attacks each year and more than 5.2 million people suffer from a form of chronic heart disease. Given the size of this market and the favorable pre-clinical data demonstrating functional improvement, cardiovascular disease represents a very important application for our Celution™ System and we believe that outcome of the clinical data from these safety and feasibility studies could have a significant impact on our future operations.

Olympus Partnership

On November 4, 2005, we entered into a strategic development and manufacturing joint venture agreement and other related agreements ("JV Agreements") with Olympus Corporation ("Olympus"). As part of the terms of the JV Agreements, we formed a joint venture, Olympus-Cytori, Inc. (the "Joint Venture"), to develop and manufacture future generation devices based on our Celution™ System.

Under the Joint Venture Agreements:

- Olympus paid $30,000,000 for its 50% interest in the Joint Venture. Moreover, Olympus simultaneously entered into a License/Joint Development Agreement with the Joint Venture and us to develop a second generation commercial system and manufacturing capabilities.

- We licensed our device technology, including the Celution™ System and certain related intellectual property, to the Joint Venture for use in future generation devices. These devices will process and purify regenerative cells residing in adipose tissue for various therapeutic clinical applications. In exchange for this license, we received a 50% interest in the Joint Venture, as well as an initial $11,000,000 payment from the Joint Venture; the source of this payment was the $30,000,000 contributed to the Joint Venture by Olympus. Moreover, upon receipt of a CE Mark for the first generation Celution™ System in January 2006, we received an additional $11,000,000 development milestone payment from the Joint Venture.

Put/Calls and Guarantees

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

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

Olympus-Cytori Joint Venture

The Joint Venture currently has exclusive access to our technology for the development, manufacture, and supply of the devices (second generation and beyond) for all therapeutic applications. Once a second generation Celution™ System is developed and approved by regulatory agencies, the Joint Venture may sell such systems exclusively to us at a formula-based transfer price; we have retained marketing rights to the second and all subsequent generation devices for all therapeutic applications of adipose regenerative cells.

We have worked closely with Olympus' team of scientists and engineers to design future generations of the Celution™ System that contain certain product enhancements and that can be manufactured in a streamlined manner. For the remainder of 2007, the Joint Venture will continue its efforts with the goal of scale-up manufacturing available in late 2008 or early 2009.

In August 2007 we entered into a License and Royalty Agreement ("Royalty Agreement") with the Joint Venture which provides us the ability to commercially launch Cytori's Celution™ System earlier than we could have otherwise done so under the terms of the Joint Venture Agreements. The Royalty Agreement allows for the sale of the Cytori system until such time as the Joint Venture's products are commercially available, subject to a reasonable royalty that will be payable to the Joint Venture for all such sales.

We account for our investment in the Joint Venture under the equity method of accounting.

Other Related-Party Transactions

In a separate agreement entered into on February 23, 2006, we granted Olympus an exclusive right to negotiate a commercialization collaboration for the use of adipose regenerative cells for a specific therapeutic area outside of cardiovascular disease. In exchange for this right, we received a $1,500,000 payment from Olympus. As part of this agreement, Olympus will conduct market research and pilot clinical studies in collaboration with us over a 12 to 18 month period for the therapeutic area.

In the third quarter of 2006, we received net proceeds of $16,219,000 from the sale of common stock pursuant to a shelf registration statement, of which $11,000,000 of common stock was purchased by Olympus.

MacroPore Biosurgery

Spine and orthopedic products

We have completed our transition away from the bioresorbable spine and orthopedic surgical implant business for which we were originally founded. We sold our product line to Kensey Nash Corporation ("Kensey Nash") in the second quarter of 2007.

Thin Film Japan Distribution Agreement

In 2004, we sold the majority of our Thin Film business to MAST Biosurgery, AG ("MAST").

We retained all rights to Thin Film business in Japan (subject to a purchase option of MAST, which expired in May 2007), and we received back from MAST a license of all rights to Thin Film technologies in the:

- Spinal field, exclusive at least until 2012, and
- Field of regenerative medicine, non-exclusive on a perpetual basis.

In the third quarter of 2004, we entered into a distribution agreement with Senko. Under this agreement, we granted to Senko an exclusive license to sell and distribute certain Thin Film products in Japan. Specifically, the license covers Thin Film products with the following indications:

- Anti-adhesion,
- Soft tissue support, and
- Minimization of the attachment of soft tissues.

The distribution agreement with Senko commences upon "commercialization." In simplest terms, commercialization occurs when one or more Thin Film product registrations are completed with the Japanese Ministry of Health, Labour and Welfare ("MHLW"). We are currently in the process of seeking approval from the MHLW, meaning that commercialization has not yet occurred.

Following commercialization, the distribution agreement has a duration of five years and is renewable for an additional five years after reaching mutually agreed minimum purchase guarantees.

We received a $1,500,000 upfront license fee from Senko. We have recorded the $1,500,000 received as a component of deferred revenues in the accompanying consolidated condensed balance sheet. Half of the license fee is refundable if the parties agree commercialization is not achievable and a proportional amount is refundable if we terminate the arrangement, other than for material breach by Senko, before three years post-commercialization.

Under the distribution agreement, we will also be entitled to earn additional payments from Senko based on achieving defined milestones. On September 28, 2004, we notified Senko of completion of the initial regulatory application to the MHLW for the Thin Film product. As a result, we became entitled to a nonrefundable payment of $1,250,000, which we received in October 2004 and recorded as a component of deferred revenues. We recognized $0 and $10,000 in development revenues during the three and nine months ended September 30, 2007, respectively. We recognized $1,000 and $149,000 in development revenues during the three and nine months ended September 30, 2006, respectively.

Liquidity

As our regenerative cell technology business is still in the development stage and requires large amounts of cash, it is important that we maintain sufficient liquidity to support our future cash needs. As of September 30, 2007, we had cash and cash equivalents and short-term investments on hand of $18,933,000, which was primarily derived from:

- Approximately $19,901,000 that was raised from an equity offering of common stock and warrants in February 2007, net of fees and expenses, and
- $6,000,000 we received in the second quarter of 2007 from the sale of 1,000,000 shares of common stock to Green Hospital Supply, Inc.

Moreover, during the second quarter of 2007, we received $3,175,000 from the sale of our spine and orthopedic product line to Kensey Nash.

Results of Operations

Our overall net loss for the three and nine months ended September 30, 2007 was $5,328,000 and $17,992,000, which was driven by $5,193,000 and $14,583,000 in research and development expenses and $3,177,000 and $9,777,000 in general and administrative expenses, respectively. This compares to a net loss of $8,767,000 and $23,535,000 during the three and nine months ended September 30, 2006, respectively. The net loss for the third quarter and for the nine months ended September 30, 2007 reflects expenses related to preparations for regenerative cell technology commercialization, including build-out of our manufacturing capability, as well as costs associated with clinical trials. The losses for these periods were offset in part by the recognition of development revenue in the second and third quarters of 2007, as well as by the recognition of a gain on the sale of our bioresorbable spine and orthopedic implant product line in the second quarter of 2007. We expect our net operating loss for 2007 will be approximately $25,000,000.

Product revenues

Product revenues in 2007 and 2006 relate to our MacroPore Biosurgery segment and consisted of revenues from our spine and orthopedic products. The following table summarizes the components for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Spine and orthopedics products	$ —	$ 133,000	$ (133,000)	—	$ 792,000	$ 1,087,000	$ (295,000)	(27.1%)
% attributable to Medtronic	—	100%			100%	100%		

Spine and orthopedic product revenues represent sales of bioresorbable implants used in spine and orthopedic surgical procedures. We sold this line of business to Kensey Nash in May 2007.

The future. We expect to have product revenues related to our MacroPore Biosurgery segment again when commercialization of the Thin Film products in Japan occurs and we begin Thin Film shipments to Senko.

We expect to generate product revenues during 2008 related to our regenerative cell therapy segment from the sale of our Celution™ devices and single-use consumables related to breast reconstructive surgery as well as from our August 2007 commercialization agreement with Green Hospital Supply, Inc. for regenerative cell banking in Japan.

Cost of product revenues

Cost of product revenues relates to spine and orthopedic products in our MacroPore Biosurgery segment and includes material, manufacturing labor, overhead costs, and an inventory provision, if applicable. The following table summarizes the components of our cost of revenues for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Cost of product revenues	$ —	$ 368,000	$ (368,000)	—	$ 403,000	$ 1,208,000	$ (805,000)	(66.6)%
Inventory provision	—	—	—	—	—	70,000	(70,000)	—
Share-based compensation	—	15,000	(15,000)	—	19,000	63,000	(44,000)	(69.8)%
Total cost of product revenues	$ —	$ 383,000	$ (383,000)	—	$ 422,000	$ 1,341,000	$ (919,000)	(68.5)%
Total cost of product revenues as % of product revenues	—	288.0%			53.3%	123.4%		

MacroPore Biosurgery:

- The decrease in cost of product revenues for the three and nine months ended September 30, 2007 as compared to the same periods in 2006 was due to a decrease in production of MacroPore Biosurgery spine and orthopedic products, followed by our sale of the product line in May 2007.

- Cost of product revenues includes approximately $0 and $19,000 of share-based compensation expense for the three and nine months ended September 30, 2007, respectively. Share-based compensation expense for the three and nine months ended September 30, 2006 was $15,000 and $63,000, respectively. For further details, see share-based compensation discussion below.

- During the third quarter of 2007, we recorded a provision of $70,000 for Thin Film raw materials inventory, as we determined it was unlikely to be ultimately sold. This provision is reflected as a component of research and development expense rather than as cost of product revenues due to the inventory's relationship to Thin Film products, for which we have not yet achieved commercialization. During the second quarter of 2006, we recorded a provision of $70,000 for excess raw materials related to spine and orthopedic products.

The future. We expect to incur costs related to our products once commercialization is achieved for our Japan Thin Film product line, and once manufacturing of our Celution™ device begins. Such manufacturing activities may begin on a limited scale as early as the fourth quarter of 2007.

Development revenues

The following table summarizes the components of our development revenues for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Regenerative cell technology:								
Development (Olympus)	$ 3,362,000	$ —	$ 3,362,000	—	$ 5,158,000	$ 683,000	$ 4,475,000	655.2%
Research grant (NIH)	—	303,000	(303,000)	—	—	310,000	(310,000)	—
Regenerative cell storage services and other	11,000	47,000	(36,000)	(76.6)%	65,000	103,000	(38,000)	(36.9)%
Total regenerative cell technology	3,373,000	350,000	3,023,000	863.7%	5,223,000	1,096,000	4,127,000	376.6%
MacroPore Biosurgery:								
Development (Senko)	—	1,000	(1,000)	—	10,000	149,000	(139,000)	(93.3)%
Total development revenues	$ 3,373,000	$ 351,000	$ 3,022,000	861.0%	$ 5,233,000	$ 1,245,000	$ 3,988,000	320.3%

Regenerative cell technology:

- We recognize deferred revenues, related party, as development revenue when certain performance obligations are met (i.e., using a proportional performance approach). During the three and nine months ended September 30, 2007, we recognized $3,362,000 and $5,158,000 of revenue associated with our arrangements with Olympus, respectively. The revenue recognized in the second quarter of 2007 was a result of completion of a preclinical study. Revenue was recognized in the third quarter of 2007 due to the completion of a development milestone. During the three and nine months ended September 30, 2006, we recognized $0 and $683,000, respectively, of revenue associated with our arrangements with Olympus. The revenue recognized in the first quarter of 2006 was a result of completion of a pre-clinical study and a development milestone upon receipt of a CE Mark for the first generation Celution™ System.

- The research grant revenue in 2006 related to a now-completed agreement with NIH. Under this arrangement, the NIH reimbursed us for "qualifying expenditures" related to research on Adipose-Derived Cell Therapy for Myocardial Infarction. Our policy is to recognize revenues under the NIH grant arrangement as the lesser of (i) qualifying costs incurred (and not previously recognized), plus our allowable grant fees for which we are entitled to funding or (ii) the amount determined by comparing the outputs generated to date versus the total outputs expected to be achieved under the research arrangement.

  During the three and nine months ended September 30, 2006, we incurred $393,000 and $479,000 in expenditures, of which $303,000 and $310,000 were qualified. We recorded a total of $303,000 and $310,000 in revenues for the three and nine months ended September 30, 2006, respectively, which include allowable grant fees as well as cost reimbursements. Our work under this NIH agreement was completed in 2006; as a result, there were no comparable revenues or costs in 2007.

MacroPore Biosurgery:

Under a distribution agreement with Senko we are entitled to earn payments based on achieving the following defined milestones:

- Upon notifying Senko of completion of the initial regulatory application to the MHLW for the Thin Film product, we were entitled to a nonrefundable payment of $1,250,000. We so notified Senko on September 28, 2004, received payment in October 2004, and recorded deferred revenues of $1,250,000. As of September 30, 2007, of the amount deferred, we have recognized development revenues of $371,000 ($10,000 in 2007, $152,000 in 2006, $51,000 in 2005, and $158,000 in 2004).

- Under this agreement, we also received a $1,500,000 license fee that was recorded as a component of deferred revenues in the accompanying balance sheet. We are also entitled to a nonrefundable payment of $250,000 once we achieve commercialization. Because the $1,500,000 in license fees is potentially refundable, such amounts will not be recognized as revenues until the refund rights expire. Specifically, half of the license fee is refundable if the parties agree commercialization is not achievable and a proportional amount is refundable if we terminate the arrangement, other than for material breach by Senko, before three years post-commercialization.

The future. We expect to continue to recognize revenues from our regenerative cell technology segment during 2007 as we complete certain phases of our Joint Venture and other Olympus product development performance obligations. If we are successful in achieving certain milestone points related to these activities, we could recognize approximately $686,000 in revenues during the remainder of 2007. The exact timing of when amounts will be reported in revenue will depend on internal factors (for instance, our ability to complete certain contributions and obligations that we have agreed to perform) as well as external considerations, including obtaining certain regulatory clearances and/or approvals related to the Celution™ System. The cash for these contributions and obligations was received when the agreement was signed and no further related cash payments will be made to us.

We will continue to recognize revenue from the Thin Film development work we are performing on behalf of Senko, based on the relative fair value of the milestones completed as compared to the total efforts expected to be necessary to obtain regulatory clearance from the MHLW. We are still awaiting regulatory clearance from the MHLW in order for initial commercialization to occur. Accordingly, we may recognize approximately $1,129,000 (consisting of $879,000 in deferred revenues plus a non-refundable payment of $250,000 to be received upon commercialization) in revenues associated with this milestone arrangement when regulatory approval is achieved. Moreover, we expect to recognize $500,000 per year associated with deferred Senko license fees over a three-year period following commercialization as the refund rights associated with the license payment expire.

Research and development expenses

Research and development expenses include costs associated with the design, development, testing and enhancement of our products, regulatory fees, the purchase of laboratory supplies, pre-clinical studies and clinical studies. The following table summarizes the components of our research and development expenses for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Regenerative cell technology:								
Regenerative cell technology	$ 3,224,000	$ 2,805,000	$ 419,000	14.9%	$ 9,298,000	$ 9,785,000	$ (487,000)	(5.0)%
Development milestone (Joint Venture)	1,727,000	1,866,000	(139,000)	(7.4)%	4,560,000	4,732,000	(172,000)	(3.6)%
Research grants (NIH)	—	302,000	(302,000)	—	—	388,000	(388,000)	—
Share-based compensation	165,000	296,000	(131,000)	(44.3)%	492,000	837,000	(345,000)	(41.2)%
Total regenerative cell technology	5,116,000	5,269,000	(153,000)	(2.9)%	14,350,000	15,742,000	(1,392,000)	(8.8)%
MacroPore Biosurgery:								
Bioresorbable polymer implants	—	235,000	(235,000)	—	111,000	824,000	(713,000)	(86.5)%
Development milestone (Senko)	77,000	45,000	32,000	71.1%	120,000	159,000	(39,000)	(24.5)%
Share-based compensation	—	3,000	(3,000)	—	2,000	24,000	(22,000)	(91.7)%
Total MacroPore Biosurgery	77,000	283,000	(206,000)	(72.8)%	233,000	1,007,000	(774,000)	(76.9)%
Total research and development expenses	$ 5,193,000	$ 5,552,000	$ (359,000)	(6.5)%	$ 14,583,000	$ 16,749,000	$ (2,166,000)	(12.9)%

Regenerative cell technology:

- Regenerative cell technology expenses relate to the development of a technology platform that involves using adipose tissue as a source for autologous regenerative cells for therapeutic applications. These expenses, in conjunction with our continued development efforts related to our Celution™ System, result primarily from the broad expansion of our research and development efforts enabled by the funding we received from Olympus in 2005 and 2006 and from other investors in 2006 and 2007. Labor-related expenses, not including share-based compensation, increased by $73,000 for the three months and decreased by $157,000 for the nine months ended September 30, 2007, respectively as compared to the same periods in 2006. Professional services expense decreased by $461,000 and $823,000 for the three and nine months ended September 30, 2007 as compared to the same periods in 2006. This was due to decreased use of consultants and temporary labor during these periods. Pre-clinical and clinical study expense increased by $101,000 for the three months and decreased $388,000 for the nine months ended September 30, 2007 as compared to the same periods in 2006. Both fluctuations were due primarily to a transition in focus from pre-clinical studies to clinical studies. Rent and utilities expense decreased by $100,000 and $259,000 in the three and nine months ended September 30, 2007 as compared to same periods in 2006 primarily due to the termination of leases at our Top Gun location in San Diego, CA. However, expenses for repairs and maintenance increased by $122,000 and $316,000 for the three and nine months ended September 30, 2007, as compared to the same periods in 2006.

- Expenditures related to the Joint Venture with Olympus, which are included in the variation analysis above, include costs that are necessary to support the commercialization of future generation devices based on our Celution™ System. These development activities, which began in November 2005, include performing pre-clinical and clinical studies, seeking regulatory approval, and performing product development related to therapeutic applications for adipose regenerative cells for multiple large markets. For the three and nine months ended September 30, 2007, costs associated with the development of the device were $1,727,000 and $4,560,000, respectively. For the three and nine months ended September 30, 2006 costs associated with the development of the device were $1,866,000 and $4,732,000, respectively. The three and nine months ended September 30, 2007 expenses were composed of $758,000 and $2,477,000 in labor and related benefits, $665,000 and $1,195,000 in consulting and other professional services, $158,000 and $499,000 in supplies and $146,000 and $390,000, respectively, in other miscellaneous expense. The comparable expenses for the three and nine months ended September 30, 2006 were composed of $712,000 and $2,217,000 in labor and related benefits, $714,000 and $1,452,000 in consulting and other professional services, $335,000 and $774,000 in supplies and $105,000 and $289,000, respectively, in other miscellaneous expense.

- In 2004, we entered into an agreement with the NIH to reimburse us for up to $950,000 (Phase I $100,000 and Phase II $850,000) in "qualifying expenditures" related to research on Adipose-Derived Cell Therapy for Myocardial Infarction. For the three and nine months ended September 30, 2006, we incurred $393,000 and $479,000 of direct expenses relating entirely to Phase II ($90,000 and $169,000 of which were not reimbursed, respectively). Our work under this NIH agreement was completed during 2006; as a result, there were no comparable costs in 2007.

- Share-based compensation for the regenerative cell technology segment of research and development was $165,000 and $492,000 for the three and nine months ended September 30, 2007, respectively. Share-based compensation was $296,000 and $837,000 for the three and nine months ended September 30, 2006, respectively. See share-based compensation discussion below for more details.

MacroPore Biosurgery:

- Labor and related benefits expense, not including share-based compensation, decreased by $86,000 and $263,000 for the three and nine months ended September 30, 2007 as compared to the same periods in 2006. This was due to a redistribution of labor resources from one business segment to the other, as well as to termination of spine and orthopedics product research upon sale of that product line in May 2007.

- Under a distribution agreement with Senko, we are responsible for the completion of the initial regulatory application to the MHLW and commercialization of the Thin Film product line in Japan. Commercialization occurs when one or more Thin Film product registrations are completed with the MHLW. During the three and nine months ended September 30, 2007, we incurred $7,000 and $120,000, respectively, of expenses related to this regulatory and registration process. We incurred $45,000 and $159,000, respectively, of expenses for the same periods in 2006. Additionally, during the third quarter of 2007, we recorded a provision of $70,000 for Thin Film raw material inventory, as we determined it was unlikely to be ultimately sold. This provision is reflected as a component of research and development expense rather than as cost of product revenues due to the inventory's relationship to Thin Film products, for which we have not yet achieved commercialization.

- Share-based compensation for the MacroPore Biosurgery segment of research and development for the three and nine months ended September 30, 2007 was $0 and $2,000, respectively. Share-based compensation was $3,000 and $24,000, respectively, for the three and nine months ended September 30, 2006. See share-based compensation discussion below for more details.

The future. Our strategy is to continue our research and development efforts in the regenerative cell field and we anticipate expenditures in this area of research to total approximately $20,000,000 to $22,000,000 in 2007. We are working to develop therapies for cardiovascular disease as well as new approaches for aesthetic and reconstructive surgery, gastrointestinal disorders and spine and orthopedic conditions. We are also developing a regenerative cell banking platform for use in hospitals and clinics that will preserve harvested regenerative cells for potential future use. The expenditures have related and will continue to primarily relate to developing therapeutic applications and conducting pre-clinical and clinical studies on adipose-derived regenerative cells.

Sales and marketing expenses

Sales and marketing expenses include costs of marketing personnel, tradeshows, physician training, and promotional activities and materials. Before the sale of our spine and orthopedic implant product line in May 2007, Medtronic was responsible for the distribution, marketing, and sales support of our spine and orthopedic devices. The following table summarizes the components of our sales and marketing expenses for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Regenerative cell technology:								
International sales and marketing	$ 508,000	$ 310,000	$ 198,000	63.9%	$ 1,355,000	$ 910,000	$ 445,000	48.9%
Share-based compensation	62,000	263,000	(201,000)	(76.4)%	196,000	451,000	(255,000)	(56.5)%
Total regenerative cell technology	570,000	573,000	(3,000)	(0.5)%	1,551,000	1,361,000	190,000	14.0%
MacroPore Biosurgery:								
General corporate marketing	—	10,000	(10,000)	—	21,000	140,000	(119,000)	(85.0)%
International sales and marketing	43,000	27,000	16,000	59.3%	106,000	74,000	32,000	43.2%
Share-based compensation	—	—	—	—	—	9,000	(9,000)	—
Total MacroPore Biosurgery	43,000	37,000	6,000	16.2%	127,000	223,000	(96,000)	(43.0)%
Total sales and marketing expenses	$ 613,000	$ 610,000	$ 3,000	0.5%	$ 1,678,000	$ 1,584,000	$ 94,000	5.9%

Regenerative Cell Technology:

- International sales and marketing expenditures for the three and nine months ended September 30, 2007 and 2006 relate primarily to salary expenses for employees involved in sales and marketing activities relating to our Celution™ System. The main emphasis of these newly-formed functions is to seek strategic alliances and/or co-development partners for our regenerative cell technology.

- Share-based compensation for the regenerative cell segment of sales and marketing for the three and nine months ended September 30, 2007 was $62,000 and $196,000, respectively. Share-based compensation for the regenerative cell segment of sales and marketing for the three and nine months ended September 30, 2006 was $263,000 and $451,000, respectively. See share-based compensation discussion below for more details.

MacroPore Biosurgery:

- General corporate marketing expenditures relate to expenditures for maintaining our corporate image and reputation within the research and surgical communities relevant to bioresorbable implants. Expenditures in this area declined to $0 in 2007 as we focused more on our regenerative cell technology business and exited from our spine and orthopedic implant business.

- International sales and marketing expenditures relate to costs associated with developing an international bioresorbable Thin Film distributor and supporting a bioresorbable Thin Film sales office in Japan.

- Share-based compensation for the MacroPore Biosurgery segment of sales and marketing for the three and nine months ended September 30, 2007 was $0. Share-based compensation for the MacroPore Biosurgery segment of sales and marketing for the three and nine months ended September 30, 2006 was $0 and $9,000, respectively. See share-based compensation discussion below for more details.

The future. We expect sales and marketing expenditures related to the regenerative cell technology to increase as we continue to expand our pursuit of strategic alliances and co-development partners, as well as market our Celution™ System, which is expected to be commercialized in 2008.

General and administrative expenses

General and administrative expenses include costs for administrative personnel, legal and other professional expenses, and general corporate expenses. The following table summarizes the general and administrative expenses for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
General and administrative	$ 2,797,000	$ 2,979,000	$ (182,000)	(6.1)%	$ 8,724,000	$ 8,737,000	(13,000)	(0.1)%
Share-based compensation	380,000	202,000	178,000	88.1%	1,053,000	1,268,000	(215,000)	(17.0)%
Total general and administrative expenses	$ 3,177,000	$ 3,181,000	$ (4,000)	(0.1)%	$ 9,777,000	$10,005,000	$ (228,000)	(2.3)%

- An overall decrease (excluding stock-based compensation) occurred during the third quarter and first nine months of 2007 as compared to the same periods in 2006. This resulted primarily from a decrease in legal costs related to the University of Pittsburg patent lawsuit for the three and nine month periods ended September 30, 2007 as compared to the same periods ended September 30, 2006.

- We have incurred substantial legal expenses in connection with the University of Pittsburgh's lawsuit. Although we are not litigants and are not responsible for any settlement costs, if the University of Pittsburgh wins the lawsuit our license rights to the patent in question could be nullified or rendered non-exclusive. The amended license agreement we signed with UC in the third quarter of 2006 clarified that we are responsible for patent prosecution and litigation costs related to this lawsuit. In the three and nine months ended September 30, 2007, we expensed $353,000 and $954,000, respectively, for legal fees related to this license. For the same periods in 2006, we expensed $335,000 and $1,701,000, respectively. Our legal expenses related to this lawsuit will fluctuate depending upon the activity incurred during each period.

- Share-based compensation related to general and administrative expense for the three and nine months ended September 30, 2007 was $380,000 and $1,053,000, respectively. Share-based compensation related to general and administrative expense for the same periods in 2006 was $202,000 and $1,268,000, respectively. See share-based compensation discussion below for more details.

The future. We expect general and administrative expenses of approximately $12,000,000 in 2007. We will seek ways to minimize the ratio of these expenses to research and development expenses.

We expect to continue to incur substantial legal expenses in connection with the University of Pittsburgh's lawsuit at least through December 2007.

Share-based compensation expenses

We adopted SFAS 123R on January 1, 2006. The following table summarizes the components of our share-based compensation for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Regenerative cell technology:								
Research and development-related	$ 165,000	$ 296,000	(131,000)	(44.3)%	$ 492,000	$ 837,000	$ (345,000)	(41.2)%
Sales and marketing-related	62,000	263,000	(201,000)	(76.4)%	196,000	451,000	(255,000)	(56.5)%
Total regenerative cell technology	227,000	559,000	(332,000)	(59.4)%	688,000	1,288,000	(600,000)	(46.6)%
MacroPore Biosurgery:								
Cost of product revenues	—	15,000	(15,000)	—	19,000	63,000	(44,000)	(69.8)%
Research and development – related	—	3,000	(3,000)	—	2,000	24,000	(22,000)	(91.7)%
Sales and marketing - related	—	—	—	—	—	9,000	(9,000)	—
Total MacroPore Biosurgery	—	18,000	(18,000)	—	21,000	96,000	(75,000)	(78.1)%
General and administrative-related	380,000	202,000	178,000	88.1	1,053,000	1,268,000	(215,000)	(17.0)%
Total share-based compensation	$ 607,000	$ 779,000	$ (172,000)	(22.1)%	$ 1,762,000	$ 2,652,000	$ (890,000)	(33.6)%

During the first quarter of 2007, we issued to our officers and directors stock options to purchase up to 410,000 shares of our common stock, with a four-year vesting schedule for our officers and 24-month graded vesting for our directors. The grant date fair value of option awards granted to our officers and directors was $3.82 and $3.70 per share, respectively. The resulting share-based compensation expense of $1,480,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

During the second quarter of 2007, we made company-wide stock option grants to our non-executive employees to purchase up to 213,778 shares of our common stock, subject to a four-year graded vesting schedule. The grant date fair value for the awards was $3.66 per share. The resulting share-based compensation expense of $739,000, net of estimated forfeitures, will be recognized as expense over the respective vesting periods.

Of the $1,762,000 charge to stock-based compensation for the nine months ended September 30, 2007, $64,000 related to award modifications for the termination of the full-time employment of our Vice President of Research, Regenerative Cell Technology, and two less senior employees. The charge reflects the incremental fair value of (a) the accelerated unvested stock options and (b) the extended vested stock options (over the fair value of the original awards at the modification date). There will be no further charges related these modifications.

The future. We expect to continue to grant options (which will result in an expense) to our employees 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 September 30, 2007, the total compensation cost related to non-vested stock options not yet recognized for all our plans is approximately $4,555,000. These costs are expected to be recognized over a weighted average period of 1.58 years.

Gain on sale of assets

The following is a table summarizing the gain on sale of assets from the disposal of our bioresorbable spine and orthopedic surgical implant product line for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Gain on sale of assets	$ —	$ —	$ —	—	$ 1,858,000	$ —	$ 1,858,000	—
Total gain on sale of assets	$ —	$ —	$ —	—	$ 1,858,000	$ —	$ 1,858,000	—

- In May 2007, we sold to Kensey Nash our intellectual property rights and tangible assets related to our spine and orthopedic bioresorbable implant product line, a part of our MacroPore Biosurgery business. Excluded from the sale was our Japan Thin Film product line. We received $3,175,000 in cash related to the disposition. The assets comprising the spine and orthopedic product line transferred to Kensey Nash were as follows:

	Carrying Value Prior to Disposition
Inventory	$ 94,000
Other current assets	17,000
Assets held for sale	436,000
Goodwill	465,000
	$ 1,012,000

- We incurred expenses of $109,000 in connection with the sale during the second quarter of 2007. As part of the disposition agreement, we were required to provide training to Kensey Nash representatives in all aspects of the manufacturing process related to the transferred spine and orthopedic product line, and to act in the capacity of a product manufacturer from the point of sale through August 2007. Because of these additional manufacturing requirements, we deferred $196,000 of the gain related to the outstanding manufacturing requirements, and we recognized $1,858,000 as a gain on sale in the statement of operations during the second quarter of 2007. These manufacturing requirements were completed in August as planned, and the associated costs were classified against the deferred balance, reducing it to zero. As of September 30, 2007, no further costs or adjustments relating to this product line sale are anticipated.

· The revenues and expenses related to the spine and orthopedic product line transferred to Kensey Nash for the three and nine months ended September 30, 2007 and 2006 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$ —	$ 133,000	$ 792,000	$ 1,087,000
Cost of product revenues	—	(383,000)	(422,000)	(1,341,000)
Research & development	—	(239,000)	(113,000)	(848,000)
Sales & marketing	—	(10,000)	(21,000)	(148,000)

Change in fair value of option liabilities

The following is a table summarizing the change in fair value of option liabilities for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Change in fair value of option liability	$ —	$ (574,000)	$ 574,000	—	$ —	$ (3,714,000)	$ 3,714,000	—
Change in fair value of put option liability	—	200,000	(200,000)	—	100,000	200,000	(100,000)	(50.0)%
Total change in fair value of option liabilities	$ —	$ (374,000)	$ 374,000	—	$ 100,000	$ (3,514,000)	$ 3,614,000	102.8%

· We granted Olympus an option to acquire 2,200,000 shares of our common stock, which expired December 31, 2006. The exercise price of the option shares was $10 per share. We had accounted for this grant as a liability because had the option been exercised, we would have been required to deliver listed shares of our common stock to settle the option shares. In accordance with EITF 00-19, the fair value of this option was re-measured at the end of each quarter, using the Black-Scholes option pricing model, with the movement in fair value reported in the statements of operations as a change in fair value of option liabilities.

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

The valuations of the Put were completed using an option pricing theory-based simulation analysis (i.e., a Monte Carlo simulation). The valuations are based on assumptions as of the valuation date with regard to the market value of Cytori and the estimated fair value of the Joint Venture, the expected correlation between the values of Cytori and the Joint Venture, the expected volatility of Cytori and the Joint Venture, the bankruptcy recovery rate for Cytori, the bankruptcy threshold for Cytori, the probability of a change of control event for Cytori, and the risk-free interest rate.

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

	September 30, 2007	December 31, 2006	November 4, 2005
Expected volatility of Cytori	60.00%	66.00%	63.20%
Expected volatility of the Joint Venture	60.00%	56.60%	69.10%
Bankruptcy recovery rate for Cytori	21.00%	21.00%	21.00%
Bankruptcy threshold for Cytori	$ 9,680,000	$ 10,110,000	$ 10,780,000
Probability of a change of control event for Cytori	2.38%	1.94%	3.04%
Expected correlation between fair values of Cytori and the Joint Venture in the future	99.00%	99.00%	99.00%
Risk-free interest rate	4.59%	4.71%	4.66%

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

Income taxes

On July 13, 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

We adopted the provisions of FIN 48 on January 1, 2007. There were no unrecognized tax benefits as of the date of adoption. There are no unrecognized tax benefits included in the balance sheet that would, if recognized, affect the effective tax rate.

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $0 accrued for interest and penalties on our balance sheet as of September 30, 2007 and December 31, 2006, and have recognized $0 in interest and/or penalties in our statements of operations for the three and nine months ended September 30, 2007.

With limited exception, we are subject to taxation in the U.S. and California jurisdictions. Our tax years for 1997 and forward are subject to examination by the U.S. and California tax authorities due to the carryforward of unutilized net operating losses and research and development credits.

The adoption of FIN 48 did not impact our financial condition, results of operations or cash flows. At January 1, 2007, we had net deferred tax assets of $38,505,000. The deferred tax assets are primarily composed of federal and state tax net operating loss carryforwards and federal and state R&D credit carryforwards. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset our deferred tax asset. Additionally, the future utilization of our net operating loss and R&D credit carryforwards to offset future taxable income may be subject to a substantial annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. We have not yet determined whether such an ownership change has occurred, however, the Company is currently working to complete a Section 382/383 analysis regarding potential limitations as to the use of the net operating losses and research and development credits. Similarly, we plan to complete an R&D credit analysis regarding the calculation of the R&D credit. When these analyses are completed, we may need to update the amount of unrecognized tax benefits we have reported under FIN 48. Therefore, we expect that the unrecognized tax benefits may change within 12 months of this reporting date. At this time, we cannot estimate how much the unrecognized tax benefits may change. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate in the foreseeable future.

Financing items

The following table summarizes interest income, interest expense, and other income and expense for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Interest income	$ 302,000	$ 158,000	$ 144,000	91.1%	$ 849,000	$ 537,000	$ 312,000	58.1%
Interest expense	(33,000)	(47,000)	14,000	(29.8)%	(128,000)	(158,000)	30,000	(19.0)%
Other income (expense)	18,000	(7,000)	25,000	(357.1)%	(37,000)	(13,000)	(24,000)	184.6%
Total	$ 287,000	$ 104,000	$ 183,000	176.0%	$ 684,000	$ 366,000	318,000	86.9%

- Interest income increased for the three and nine months ended September 30, 2007 due to an increased cash balance available for investment.

- Interest expense decreased in 2007 as compared to 2006 due to lower principal balances on our long-term equipment-financed borrowings partially offset by an additional promissory note of approximately $600,000 executed in December 2006.

- The changes in other income (expense) in the three and nine months ended September 30, 2007 as compared to the same periods in 2006 resulted primarily from changes in foreign currency exchange rates.

The future. Interest income earned in 2007 will be dependent on our levels of funds available for investment as well as general economic conditions. We expect interest expense to remain relatively consistent during the remainder of 2007.

Equity gain (loss) from investment in Joint Venture

The following table summarizes our equity loss from investment in joint venture for the three and nine months ended September 30, 2007 and 2006:

	For the three months ended September 30,				For the nine months ended September 30,			
	2007	2006	$ Differences	% Differences	2007	2006	$ Differences	% Differences
Equity gain (loss) in investment	$ (5,000)	$ (3,000)	$ (2,000)	66.7%	$ 1,000	$ (68,000)	$ 69,000	(101.5)%

The losses relate entirely to our 50% equity interest in the Joint Venture, which we account for using the equity method of accounting. We experienced a small gain with relation to this investment during the second quarter of 2007. This was due to an adjustment to an estimated expense.

The future. We do not expect to recognize significant losses from the activities of the Joint Venture in the foreseeable future. Over the next two to three years, the Joint Venture is expected to incur labor costs related to the development of our second generation commercial system as well as general and administrative expenses. Though we have no obligation to do so, we and Olympus plan to jointly fund the Joint Venture to cover any costs should the Joint Venture deplete its cash balance.

Liquidity and Capital Resources

Short-term and long-term liquidity

The following is a summary of our key liquidity measures at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006	$ Differences	% Differences
Cash and cash equivalents	$ 17,939,000	$ 8,902,000	$ 9,037,000	101.5%
Short-term investments, available for sale	994,000	3,976,000	(2,982,000)	(75.0)%
Total cash and cash equivalents and short-term investments, available for sale	$ 18,933,000	$ 12,878,000	$ 6,055,000	47.0%
Current assets	$ 19,752,000	$ 13,978,000	$ 5,774,000	41.3%
Current liabilities	5,593,000	6,586,000	(993,000)	(15.1)%
Working capital	$ 14,159,000	$ 7,392,000	$ 6,767,000	91.5%

In order to provide greater financial flexibility and liquidity, and in view of the substantial cash needs of our regenerative cell business, we have an ongoing need to raise additional capital. In the third quarter of 2006, we received net proceeds of $16,219,000 from the sale of common stock pursuant to a shelf registration statement, of which Olympus purchased $11,000,000; the remaining shares were purchased by other institutional investors. Additionally, in the first quarter of 2007, we received net proceeds of $19,901,000 from the sale of units consisting of 3,746,000 shares of common stock and 1,873,000 common stock warrants (with an exercise price of $6.25 per share) under the shelf registration statement. In the second quarter of 2007, we received net proceeds of $6,000,000 from the sale of 1,000,000 shares of common stock to Green Hospital Supply, Inc. in a private placement. Also in the second quarter of 2007, we successfully divested our spine and orthopedic product line to Kensey Nash for gross proceeds of $3,175,000.

With consideration of these endeavors as well as existing funds, cash generated by operations, and other accessible sources of financing, we believe our cash position is adequate to satisfy our working capital, capital expenditures, debt service, and other financial commitments at least through September 30, 2008. Management actively monitors cash expenditures we incur as we progress toward our goals of product commercialization and sales in an effort to match projected expenditures to available cash flow.

From inception to September 30, 2007, we have financed our operations primarily by:

- Issuing our stock in pre-IPO transactions, in our 2000 initial public offering in Germany, and upon stock option exercises,
- Generating revenues,
- Selling the bioresorbable implant CMF product line in September 2002,
- Selling the bioresorbable implant Thin Film product line (except for the territory of Japan), in May 2004,

- Entering into a distribution agreement for the distribution rights to Thin Film in Japan, in which we received an upfront license fee in July 2004 and an initial development milestone payment in October 2004,
- Obtaining a modest amount of capital equipment long-term financing,
- Issuing 1,100,000 shares of common stock to Olympus under a Stock Purchase Agreement which closed in May 2005,
- Entering into a collaborative arrangement with Olympus in November 2005, including the formation of a joint venture called Olympus-Cytori, Inc.,
- Receiving funds in exchange for granting Olympus an exclusive right to negotiate in February 2006,
- Receiving net proceeds of $16,219,000 from the sale of common stock under our shelf registration statement in August 2006,
- Receiving net proceeds of $19,901,000 from the sale of common stock and common stock warrants under the shelf registration statement in February 2007,
- Receiving net proceeds of $6,000,000 from the common stock private placement to Green Hospital Supply, Inc., in April 2007, and
- Receiving gross proceeds of $3,175,000 from the sale of our bioresorbable spine and orthopedic surgical implant product line to Kensey Nash in May 2007.

We don't expect significant capital expenditures during the remainder of 2007; however, if necessary, we may borrow under our Amended Master Security Agreement.

Any excess funds will be invested in short-term available-for-sale investments.

Our cash requirements for 2007 and beyond will depend on numerous factors, including the resources we devote to developing and supporting our investigational cell therapy products, market acceptance of any developed products, regulatory approvals, and other factors. We expect to incur research and development expenses at high levels in our regenerative cell platform for an extended period of time and have therefore positioned ourselves to expand our cash position through actively pursuing co-development and marketing agreements, research grants, and licensing agreements related to our regenerative cell technology platform.

The following summarizes our contractual obligations and other commitments at September 30, 2007, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Long-term obligations	$ 1,136,000	$ 692,000	$ 444,000	$ —	$ —
Interest commitment on long-term obligations	113,000	89,000	24,000	—	—
Operating lease obligations	3,802,000	1,370,000	2,432,000	—	—
Pre-clinical research study obligations	135,000	135,000	—	—	—
Clinical research study obligations	5,670,000	3,781,000	1,889,000	—	—
Total	$ 10,856,000	$ 6,067,000	$ 4,789,000	$ —	$ —

Cash (used in) provided by operating, investing, and financing activities for the nine months ended September 30, 2007 and 2006 is summarized as follows:

	For the nine months ended September 30,	
	2007	**2006**
Net cash used in operating activities	$ (22,637,000)	$ (10,671,000)
Net cash provided by (used in) investing activities	5,414,000	(178,000)
Net cash provided by financing activities	26,260,000	16,457,000

Operating activities

Net cash used in operating activities for both periods presented resulted primarily from expenditures related to our regenerative cell research and development efforts.

Research and development efforts, other operational activities, and a comparatively small amount of product sales generated an operating loss of $20,535,000 for the nine months ended September 30, 2007. The operating cash impact of this loss was $22,637,000, after adjusting for the gain on sale of our spine and orthopedic product line (considered an investing activity), the recognition of non-cash development revenue, the consideration of non-cash share-based compensation of $1,762,000, other adjustments for material non-cash activities, such as depreciation and amortization, and changes in working capital due to timing of product shipments (accounts receivable) and payment of liabilities.

Research and development efforts, other operational activities, and a comparatively small amount of product sales generated an operating loss of $23,833,000 for the nine months ended September 30, 2006. The operating cash impact of this loss was $10,671,000, after adjusting for the $11,817,000 we received from Olympus in the first half of the year. Other adjustments include material non-cash activities, such as depreciation and amortization, changes in the fair value of the Olympus option liabilities, share-based compensation expense, and equity loss from investment in Joint Venture, as well as changes in working capital due to the timing of product shipments (accounts receivable) and payment of liabilities.

Investing activities

Net cash provided by investing activities for the nine months ended September 30, 2007 resulted primarily from proceeds from the sale of our spine and orthopedics bioresorbable implant product line to Kensey Nash.

Net cash used in investing activities for the nine months ended September 30, 2006 resulted primarily from expenditures for leasehold improvements, offset in part by the net proceeds from the sale of short-term investments.

Capital spending is essential to our product innovation initiatives and to maintain our operational capabilities. For the nine months ended September 30, 2007 and 2006, we used cash to purchase $437,000 and $3,014,000, respectively, of property and equipment, primarily to support the research and development of the regenerative cell technology platform. The high level of 2006 capital spending was caused primarily by expenditures for leasehold improvements made to our new Callan Road facilities.

Financing Activities

The net cash provided by financing activities for the nine months ended September 30, 2007 related mainly to the issuance of 3,746,000 shares of our common stock and 1,873,000 common stock warrants in a registered-direct public offering in exchange for approximately $21,500,000 ($19,901,000 net of direct offering costs) as well as the private issuance of 1,000,000 shares of common stock to Green Hospital Supply, Inc. for $6,000,000.

The net cash provided by financing activities for the nine months ended September 30, 2006 related mainly to the issuance of 2,918,255 shares of our common stock in a registered-direct public offering in exchange for $16,352,000. In addition, cash provided by financing activities reflects the exercise of employee stock options offset by the principal payments on long-term obligations.

Critical Accounting Policies and Significant Estimates

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

We derive our revenue from a number of different sources, including but not limited to:

- Fees for achieving certain defined milestones under research and/or development arrangements,
- Product sales, and
- Payments under license or distribution agreements.

A number of our revenue-generating arrangements are relatively simple in nature, meaning that there is little judgment necessary with regard to the timing of when we recognize revenues or how such revenues are presented in the financial statements.

However, we have also entered into more complex arrangements, including but not limited to our contracts with Olympus and Senko. Moreover, some of our non-recurring transactions, such as our disposition of the majority of our Thin Film business to MAST, contain elements that relate to our product revenue-producing activities.

As a result, some of our most critical accounting judgments relate to the identification, timing, and presentation of revenue-related activities. These critical judgments are discussed further in the paragraphs that follow.

Multiple-elements

Some of our revenue-generating arrangements contain a number of distinct revenue streams, known as "elements." For example, our distribution agreement with Senko contains direct or indirect future revenue streams related to:

- A distribution license fee (which was paid at the outset of the arrangement),
- Milestone payments for achieving commercialization of the Thin Film product line in Japan,
- Training for representatives of Senko,
- Sales of Thin Film products to Senko, and
- Payments in the nature of royalties on future product sales made by Senko to its end customers.

EITF 00-21 governs whether each of the above elements in the arrangement should be accounted for individually, or whether the entire contract should be treated as a single unit of accounting.

EITF 00-21 indicates that individual elements may be separately accounted for only when:

- The delivered element has stand-alone value to the customer,
- There is objective evidence of the fair value of the remaining undelivered elements, and
- If the arrangement contains a general right of return related to any products delivered, and delivery of the remaining goods and services is probable and within the complete control of the seller.

In the case of the Senko distribution agreement, we determined that (a) the milestone payments for achieving commercialization and (b) the future sale of Thin Film products to Senko were "separable" elements. That is, each of these elements, upon delivery, will have stand-alone value to Senko and there will be objective evidence of the fair value of any remaining undelivered elements at that time. The arrangement does not contain any general right of return, and so this point is not relevant to our analysis.

On the other hand, we concluded that (a) the upfront distribution license fee, (b) the revenues from training for representatives of Senko, and (c) the payments in the form of royalties on future product sales are not separable elements under EITF 00-21.

In arriving at our conclusions, we had to consider whether our customer, Senko, would receive stand-alone value from each delivered element. We also, in some cases, had to consider whether there was objective evidence to support the fair value of certain undelivered elements. Finally, we had to make assumptions about how the non-separable elements of the arrangement are earned, particularly the estimated period over which Senko will benefit from the arrangement (refer to the "Recognition" discussion below for further background).

We also agreed to performance elements under the November 4, 2005 agreements we signed with Olympus, including:

- Granting the Joint Venture (which Olympus is considered to control) and maintaining an exclusive and perpetual manufacturing license to our device technology, including the Celution™ System and certain related intellectual property; and

- Completing certain pre-clinical and clinical studies, assisting with product development and seeking certain regulatory approvals and/or clearances toward commercialization of the Celution™ System.

We concluded that the license and development services must be accounted for as a single unit of accounting. In reaching this conclusion, we determined that the license would not have stand-alone value to the Joint Venture. This is because Cytori is the only party that could be reasonably expected to perform certain development contributions and obligations, including pre-clinical and clinical studies, certain agreed regulatory filings, and product development assistance, necessary for the Joint Venture to derive any value from the license.

Recognition

Besides determining whether to account separately for components of a multiple-element arrangement, we also use judgment in determining the appropriate accounting period in which to recognize revenues that we believe (a) have been earned and (b) are realizable. The following describes the recognition issue with regard to upfront license fees and milestones that we have considered during the reporting period:

- As part of the Senko distribution agreement, we received an upfront license fee upon execution of the arrangement, which, as noted previously, was not separable under EITF 00-21. Accordingly, the license has been combined with the development (milestones) element to form a single accounting unit. This single element of $3,000,000 in fees includes $1,500,000 which is potentially refundable. We have recognized, and will continue to recognize, the non-contingent fees allocated to this combined element as revenues as we complete each of the performance obligations associated with the milestones component of this combined deliverable. Note that the timing of when we have recognized revenues to date does not correspond with the cash we received upon achieving certain milestones. For example, the first such milestone payment for $1,250,000 became payable to us when we filed a commercialization application with the Japanese regulatory authorities. However, we determined that the payment received was not commensurate with the level of effort expended, particularly when compared with other steps we believe are necessary to commercialize the Thin Film product line in Japan. Accordingly, we did not recognize the entire $1,250,000 received as revenues, but instead initially classified this amount as deferred revenues. Approximately $371,000 ($10,000 in 2007, $152,000 in 2006, $51,000 in 2005, and $158,000 in 2004) has been recognized to date as development revenues based on our estimates of the level of effort expended for completed milestones as compared with the total level of effort we expect to incur under the arrangement to successfully achieve regulatory approval of the Thin Film product line in Japan. These estimates were subject to judgment and there may be changes in estimates regarding the total level of effort as we continue to seek regulatory approval. In fact, there can be no assurance that commercialization in Japan will ever be achieved, as we have yet to receive approval from the MHLW.

- We also received upfront fees as part of the Olympus arrangements (although, unlike in the Senko agreement, these fees were non-refundable). Specifically, in exchange for an upfront fee, we granted the Joint Venture an exclusive, perpetual license to certain of our intellectual property and agreed to perform additional development activities. This upfront fee has been recorded in the liability account entitled deferred revenues, related party, on our consolidated balance sheet. Similar to the Senko agreement, we have elected an accounting policy to recognize revenues from the combined license/development accounting unit as we perform our obligations under the agreements, as this represents our final obligation underlying the combined accounting unit. Specifically, we have recognized revenues from the license/development accounting unit using a “proportional performance” methodology, resulting in the derecognition of amounts recorded in the deferred revenues, related party account as we complete various obligations/milestones (“Milestones”) underlying the development services. For instance, we have recognized and will continue to recognize some of the deferred revenues, related party, as revenues, related party, when we complete a pre-clinical trial or obtain a specified regulatory approval. Determining what portion of the deferred revenues, related party balance to recognize as each Milestone is completed involves substantial judgment. In allocating the balance of the deferred revenues, related party, to various Milestones, we had in-depth discussions with our operations personnel regarding the relative value of each Milestone to the Joint Venture and Olympus. We also considered the cost of completing each Milestone relative to the total costs we plan to incur in completing all of the development activities, since we believe that the relative cost of completing a Milestone is a reasonable proxy for its fair value. The accounting policy described above could result in revenues being recorded in an earlier accounting period than had other judgments or assumptions been made by us.

Goodwill Impairment Testing

In late 2002, we purchased StemSource, Inc. and recognized over $4,600,000 in goodwill associated with the acquisition, of which $3,922,000 remains on our balance sheet as of September 30, 2007. As required by Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), we must test this goodwill at least annually for impairment as well as when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. Moreover, this testing must be performed at a level of the organization known as the reporting unit. A reporting unit is at least the same level as a company's operating segments, and sometimes even one level lower. Our two reporting units are, in fact, our two operating segments.

Specifically, the process for testing goodwill for impairment under SFAS 142 involves the following steps:

- Company assets and liabilities, including goodwill, are allocated to each reporting unit for purposes of completing the goodwill impairment test.
- The carrying value of each reporting unit – that is, the sum of all of the net assets allocated to the reporting unit – is then compared to its fair value.
- If the fair value of the reporting unit is lower than its carrying amount, goodwill may be impaired – additional testing is required.

When we last completed our goodwill impairment testing in 2006, the fair values of our two reporting units each exceeded their respective carrying values. Accordingly, we determined that none of our reported goodwill was impaired.

The application of the goodwill impairment test involves a substantial amount of judgment. For instance, SFAS 142 requires that assets and liabilities be assigned to a reporting unit if both of the following criteria are met:

- The asset will be employed in or the liability relates to the operations of a reporting unit.
- The asset or liability will be considered in determining the fair value of the reporting unit.

We developed mechanisms to assign company-wide assets like shared property and equipment, as well as company-wide obligations such as borrowings under our GE loan facility, to our two reporting units. In some cases, certain assets were not allocable to either reporting unit and were left unassigned.

The most complex and challenging asset to assign to each reporting unit was our acquired goodwill. As noted previously, all of our recorded goodwill was generated in connection with our acquisition of StemSource in 2002. However, when we first acquired StemSource, we determined that a portion of the goodwill related to the MacroPore Biosurgery reporting unit. The amount of goodwill allocated represented our best estimate of the synergies (notably future cost savings from shared research and development activities) that the MacroPore Biosurgery reporting unit would obtain by virtue of the acquisition.

Finally, we estimated the fair value of our reporting units by using various estimation techniques.

- In particular, in 2006, we estimated the fair value of our MacroPore Biosurgery reporting unit based on an equal weighting of the market values of comparable enterprises and discounted projections of estimated future cash flows. Clearly, identifying comparable companies and estimating future cash flows as well as appropriate discount rates involve judgment.
- We estimated the fair value of our regenerative cell reporting unit solely using an income approach, as we believe there are no comparable enterprises on which to base a valuation. The assumptions underlying this valuation method involve a substantial amount of judgment, particularly since our regenerative cell business has yet to generate any revenues and does not have a commercially viable product.

Again, the manner in which we assigned assets, liabilities, and goodwill to our reporting units, as well as how we determined the fair value of such reporting units, involves significant uncertainties and estimates. The judgments employed may have an effect on whether a goodwill impairment loss is recognized.

Variable Interest Entity (Olympus-Cytori Joint Venture)

FASB Interpretation No. 46 (revised 2003), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN 46R") requires a variable interest entity ("VIE") to be consolidated by its primary beneficiary. Evaluating whether an entity is a VIE and determining its primary beneficiary involves significant judgment.

In concluding that the Olympus-Cytori Joint Venture was a VIE, we considered the following factors:

- Under FIN 46R, an entity is a VIE if it has insufficient equity to finance its activities. We recognized that the initial cash contributed to the Joint Venture formed by Olympus and Cytori ($30,000,000) would be completely utilized by the first quarter of 2006. Moreover, it was highly unlikely that the Joint Venture would be able to obtain the necessary financing from third-party lenders without additional subordinated financial support – such as personal guarantees by one or both of the Joint Venture stockholders. Accordingly, the Joint Venture will require additional financial support from Olympus and Cytori to finance its ongoing operations, indicating that the Joint Venture is a VIE. In fact, in the first quarter of 2006, we contributed $150,000 each to fund the Joint Venture's ongoing operations.

- Moreover, Olympus has a contingent put option that would, in specified circumstances, require Cytori to purchase Olympus's interests in the Joint Venture for a fixed amount of $22,000,000. Accordingly, Olympus is protected in some circumstances from absorbing all expected losses in the Joint Venture. Under FIN 46R, this means that Olympus may not be an "at-risk" equity holder, although Olympus clearly has decision rights over the operations of the Joint Venture.

Because the Joint Venture is undercapitalized, and because one of the Joint Venture's decision makers may be protected from losses, we have determined that the Joint Venture is a VIE under FIN 46R.

As noted previously, a VIE is consolidated by its primary beneficiary. The primary beneficiary is defined in FIN 46R as the entity that would absorb the majority of the VIE's expected losses or be entitled to receive the majority of the VIE's residual returns (or both).

Significant judgment was involved in determining the primary beneficiary of the Joint Venture. Under FIN 46R, we believe that Olympus and Cytori are "de facto agents" and, together, will absorb more than 50% of the Joint Venture's expected losses and residual returns. Ultimately, we concluded that Olympus, and not Cytori, was the party most closely related with the joint venture and, hence, its primary beneficiary. Our conclusion was based on the following factors:

- The business operations of the Joint Venture will be most closely aligned to those of Olympus (i.e., the manufacture of devices), and

- Olympus controls the Board of Directors, as well as the day-to-day operations of the Joint Venture.

The application of FIN 46R involves substantial judgment. Had we consolidated the Joint Venture, though, there would be no effect on our net loss or shareholders' equity at December 31, 2006 or for the year then ended. However, certain balance sheet and income statement captions would have been presented in a different manner. For instance, we would not have presented a single line item entitled investment in joint venture in our balance sheet, but instead would have performed a line by line consolidation of each of the Joint Venture's accounts into our financial statements.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 157 will have a significant effect on our consolidated condensed financial statements.

In March 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 states that nonrefundable advance payments for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the goods are delivered or the related services are performed. The guidance is effective for all periods beginning after December 15, 2007. We are currently in the process of evaluating whether the adoption of EITF 07-3 will have a significant effect on our consolidated condensed financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a significant effect on our consolidated condensed financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Exposure

We are not subject to market risk due to fluctuations in interest rates on our long-term obligations as they bear a fixed rate of interest. Our exposure relates primarily to short-term investments. These short-term investments, reported at an aggregate fair market value of $994,000 as of September 30, 2007, consist primarily of investments in debt instruments of financial institutions and corporations with strong credit ratings and United States government obligations. These securities are subject to market rate risk as their fair value will fall if market interest rates increase. If market interest rates were to increase immediately and uniformly by 100 basis points from the levels prevailing at September 30, 2007, for example, and assuming average investment duration of seven months, the fair value of the portfolio would not decline by a material amount. We do not use derivative financial instruments to mitigate the risk inherent in these securities. However, we do attempt to reduce such risks by generally limiting the maturity date of such securities, diversifying our investments, and limiting the amount of credit exposure with any one issuer. While we do not always have the intent, we do currently have the ability to hold these investments until maturity and, therefore, believe that reductions in the value of such securities attributable to short-term fluctuations in interest rates would not materially affect our financial position, results of operations, or cash flows. Changes in interest rates would, of course, affect the interest income we earn on our cash balances after re-investment.

Foreign Currency Exchange Rate Exposure

Our exposure to market risk due to fluctuations in foreign currency exchange rates relates primarily to our cash balances in Europe and Japan. Transaction gains or losses resulting from cash balances and revenues have not been significant in the past and we are not engaged in any hedging activity in the Euro, the Yen or other currencies. Based on our cash balances and revenues derived from markets other than the United States of America for the quarter ended September 30, 2007, a hypothetical 10% adverse change in the Euro or Yen against the U.S. dollar would not result in a material foreign currency exchange loss. Consequently, we do not expect that reductions in the value of such sales denominated in foreign currencies resulting from even a sudden or significant fluctuation in foreign exchange rates would have a direct material impact on our financial position, results of operations, or cash flows.

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

Under our Japanese Thin Film agreement with Senko, we would receive payments in the nature of royalties based on Senko's net sales, which would be Yen denominated.

Item 4. Controls and Procedures

Christopher J. Calhoun, our Chief Executive Officer, and Mark E. Saad, our Chief Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in Securities Exchange Act Rule 13a-15(e)), have concluded that as of September 30, 2007, our disclosure controls and procedures are effective.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we have been involved in routine litigation incidental to the conduct of our business. As of September 30, 2007, we were not a party to any material legal proceeding. We are not formally a party to the University of Pittsburgh patent litigation. However, we are responsible for reimbursing certain related litigation costs (see note 11).

Item 1A. Risk Factors

In analyzing our company, you should consider carefully the following risk factors together with all of the other information included in this quarterly report on Form 10-Q. Factors that could adversely affect our business, operating results, and financial condition, as well as adversely affect the value of an investment in our common stock, include those discussed below, as well as those discussed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere throughout this quarterly report on Form 10-Q.

We are subject to the following significant risks, among others:

We will need to raise more cash in the future

We have almost always had negative cash flows from operations. Our regenerative cell business will continue to result in a substantial requirement for research and development expenses for several years, during which it could bring in no significant cash and/or revenues. There can be no guarantee that adequate funds for our operations from any additional debt or equity financing, our operating revenues, arrangements with distribution partners, or from other sources will be available when needed or on terms attractive to us. The inability to obtain sufficient funds would require us to delay, scale back, or eliminate some or all of our research or product development programs, manufacturing operations, clinical studies or regulatory activities, or to license third parties to commercialize products or technologies that we would otherwise seek to develop ourselves, thus having a substantial negative effect on our results of operations and financial condition.

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

We have incurred net operating losses in each year since we started doing business. As our focus on our regenerative cell technology has increased, these losses have resulted primarily from expenses associated with our research and development activities and general and administrative expenses. Losses related to our development of regenerative cell technology are expected to keep us in a loss position on a consolidated basis for several years. We anticipate that our recurring operating expenses will be at high levels for the next few years, due to the continued need to fund our regenerative cell technology clinical research program as well as additional pre-clinical research.

Our business strategy is high-risk

We are focusing our resources and efforts primarily on our regenerative cell technology and its cash needs for research and development activities. This is a high-risk strategy because there can be no assurance that our regenerative cell technology will ever be developed into commercially viable products (commercial risk), that we will be able to preclude other companies from depriving us of market share and profit margins by selling products based on our inventions and developments (legal risk), that we will be able to successfully manage a company in a different business and on a different scale than we have operated in the past (operational risk), that we will be able to achieve the desired therapeutic results using regenerative cells (scientific risk), or that our cash resources will be adequate to develop the regenerative cell technology until it becomes profitable, if ever (financial risk). We are using our cash in one of the riskiest industries in the economy (strategic risk). This may make our stock an unsuitable investment for some investors.

We must keep our joint venture with Olympus operating smoothly

Our regenerative cell business cannot succeed on the current timelines unless our joint venture collaboration with Olympus goes well. We have given Olympus-Cytori, Inc. an exclusive license to our regenerative cell therapeutic device technology for use in future generation devices. If Olympus-Cytori, Inc. does not successfully develop and manufacture future generation devices for sale to us, we may not be able to commercialize any device or any therapeutic products successfully into the market. In addition, any future disruption in or breakup of our relationship with Olympus would be extremely costly to our reputation, in addition to causing many serious practical problems.

We and Olympus must overcome contractual and cultural barriers as we work together. Our relationship is formally measured by a set of complex contracts, which have not yet been fully tested in practice. In addition, many aspects of the relationship will be essentially non-contractual and must be worked out between the parties and the responsible individuals over time. The Joint Venture is intended to have a long life, and it is difficult to maintain cooperative relationships over a long period of time from a far distance in the face of various kinds of change. Cultural differences, including a language barrier to some degree, may affect the efficiency of the relationship as well.

Olympus-Cytori, Inc. is 50% owned by us and 50% owned by Olympus. By contract, each side must consent before any of a wide variety of important business actions can occur. This situation possesses a risk of potentially time-consuming and difficult negotiations which could at some point delay the Joint Venture from pursuing its business strategies.

Olympus is entitled to designate the Joint Venture's chief executive officer and a majority of its board of directors, which means that day-to-day decisions which are not subject to a contractual veto will essentially be controlled by Olympus. In addition, Olympus-Cytori, Inc. will need more money than its initial capitalization in order to finalize development of and production of the future generation devices. If we are unable to help provide future financing for Olympus-Cytori, Inc., our relative equity interest in Olympus-Cytori, Inc. may decrease.

Furthermore, under a License/Joint Development Agreement among Olympus-Cytori, Inc., Olympus, and us, Olympus will have a primary role in the development of Olympus-Cytori, Inc.'s next generation of devices. Although Olympus has extensive experience in developing medical devices, this arrangement will result in a reduction of our control over the development and manufacturing of the next generation devices.

We have a limited operating history; our operating results and stock price, like those of all emerging life science companies, can 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 fields such as the biotechnology and medical device fields. Due to our limited operating history, comparisons of our year-to-year operating results are not necessarily meaningful and the results for any periods should not necessarily be relied upon as an indication of future performance. Operating results will also be affected by our transition away from our revenue-generating medical device business and the focus of the vast majority of our resources into the development of the regenerative cell business. All of our recent product revenues have come from our spine and orthopedics bioresorbable implants product line, which we sold in May 2007.

From time to time, we have tried to influence 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.

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

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

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

We also compete with other types of regenerative cell therapies, such as bone marrow-derived cell therapies and potentially embryonic-derived therapies. Doctors have historically been slow to adopt new technologies such as ours, whatever the merits, when older technologies continue to be supported by established providers. Overcoming such inertia often requires very significant marketing expenditures or definitive product performance and/or pricing superiority.

We expect physicians' inertia and skepticism to also be a significant barrier as we attempt to gain market penetration with our future regenerative cell products. We believe we will need to finance lengthy time-consuming clinical studies (so as to provide convincing evidence of the medical benefit) in order to overcome this inertia and skepticism particularly in the cardiovascular area and for many other indications as well.

Our regenerative cell technology products are pre-commercialization, which subjects us to development and marketing risks

We are in a relatively early stage of the path to commercialization with many of our products. We believe that our long-term viability and growth will depend in large part on our ability to develop commercial quality cell processing devices and useful procedure-specific consumables, and to establish the safety and efficacy of our therapies through clinical trials and studies. We are presently pursuing therapies for cardiovascular disease as well as new approaches for aesthetic and reconstructive surgery, gastrointestinal disorders and spine and orthopedic conditions. We have also developed a regenerative cell banking platform for use in hospitals and clinics that will preserve regenerative cells harvested using our Celution™ System for potential future use. There can be no assurance that our development programs will be successfully completed or that required regulatory clearances or approvals will be obtained on a timely basis, if at all.

There is no proven path for commercializing our regenerative cell technology in a way to earn a durable profit commensurate with the medical benefit. Although we intend to commercialize aesthetic and reconstructive surgery and our regenerative cell banking platform in 2008, additional market opportunities for our cell-related products and/or services are at least two to five years away.

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

The timing and amount of Thin Film revenues from Senko are uncertain

The sole remaining product line in our MacroPore Biosurgery segment is our Japan Thin Film business. Our right to receive royalties from Senko, and to recognize certain deferred revenues, depends on the timing of MHLW approval for commercialization of the product in Japan. We currently expect this to occur in 2007 or early 2008, but we have no control over this timing and our expectations have fallen short before. Also, even after commercialization, we will be dependent on Senko, our exclusive distributor, to drive product sales in Japan.

There is a risk that we could experience with Senko some of the same problems we experienced in our previous relationship with Medtronic, which was the exclusive distributor for our former bioresorbable spine and orthopedic implant product line.

We have limited manufacturing experience

We have no experience in manufacturing the Celution™ System at a commercial level, and although Olympus is a highly capable and experienced manufacturer of medical devices, there can be no guarantee that the Olympus-Cytori joint venture will be able to successfully develop and manufacture the Celution™ System 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 intend to launch the Cytori Celution™ System in 2008 as we await the availability of the Joint Venture system, we cannot assure that we will be able to manufacture sufficient numbers to meet the market demand, or that we will be able to overcome any currently unforeseen difficulties in the manufacturing of these sophisticated medical devices.

In the event that the Olympus-Cytori joint venture is not successful, Cytori may not have the resources or ability to self-manufacture sufficient numbers of commercial devices to meet market demand, and in any event this failure may substantially extend the time it would take for us to bring a more advanced commercial device to market. This makes us significantly dependant on the continued dedication and skill of Olympus for the successful development of the Celution™ System.

In addition, as a company we have limited experience in manufacturing the type of cell-related therapeutic products which we intend to introduce in the future.

We may not be able to protect our proprietary rights

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

Our recently amended regenerative cell technology license agreement with the Regents of the University of California ("UC") contains certain developmental milestones, which if not achieved could result in the loss of exclusivity or loss of the license rights. The loss of such rights could impact our ability to develop certain regenerative cell technology products. Also, our power as licensee to successfully use these rights to exclude competitors from the market is untested. In addition, further legal risk arises from a lawsuit filed by the University of Pittsburgh naming all of the inventors who had not assigned their ownership interest in Patent 6,777,231 to the University of Pittsburgh, seeking a determination that its assignors, rather than UC's assignors, are the true inventors of Patent 6,777,231. We are the exclusive, worldwide licensee of the UC's rights under this patent, which relates to adult stem cells isolated from adipose tissue that can differentiate into two or more of a variety of cell types. If the University of Pittsburgh wins the lawsuit, our license rights to this patent could be nullified or rendered non-exclusive with respect to any third party that might license rights from the University of Pittsburgh.

On August 9, 2007, the United States District Court granted the University of Pittsburgh's motion for Summary Judgment in part, determining that the University of Pittsburgh's assignees were properly named as inventors on Patent 6,777,231, and that all other inventorship issues shall be determined according to the facts presented at trial.

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

Our commercial success will also depend, in part, on our ability to avoid infringing on patents issued 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. If we are required in the future to obtain any licenses from third parties for some of our products, there can be no guarantee that we would be able to do so on commercially favorable terms, if at all. U.S. patent applications are not immediately made public, so we might be surprised by the grant to someone else of a patent on a technology we are actively using. As noted above as to the University of Pittsburgh lawsuit, even patents issued to us or our licensors might be judicially determined to belong in full or in part to third parties.

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

Any such litigation or interference proceeding, regardless of outcome, could be expensive and time-consuming. We have been incurring substantial legal costs as a result of the University of Pittsburgh lawsuit, and our president, Marc Hedrick, is a named individual defendant in that lawsuit because he is one of the inventors identified on the patent. As a named inventor on the patent, Marc Hedrick is entitled to receive from UC up to 7% of royalty payments made by a licensee (e.g., us) to UC. This agreement was in place prior to his employment with us.

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

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

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

Intellectual property law outside the United States is uncertain and in many countries is currently undergoing review and revisions. The laws of some countries do not protect our patent and other intellectual property rights to the same extent as United States laws. We currently have pending patent applications in Europe, Australia, Japan, Canada, China, Korea, and Singapore, among others.

We are, and Olympus-Cytori, Inc. will be, subject to intensive FDA regulation

As newly developed medical devices, our and Olympus-Cytori's regenerative cell harvesting, isolation and delivery devices must receive regulatory clearances or approvals from the FDA and, in many instances, from non-U.S. and state governments prior to their sale. Our and Olympus-Cytori's current and future regenerative cell harvesting, isolation and delivery devices are subject to stringent government regulation in the United States by the FDA under the Federal Food, Drug and Cosmetic Act. The FDA regulates the design/development process, clinical testing, manufacture, safety, labeling, sale, distribution, and promotion of medical devices and drugs. Included among these regulations are pre-market clearance and pre-market approval requirements, design control requirements, and the Quality System Regulations/Good Manufacturing Practices. Other statutory and regulatory requirements govern, among other things, establishment registration and inspection, medical device listing, prohibitions against misbranding and adulteration, labeling and post-market reporting.

The regulatory process can be lengthy, expensive, and uncertain. Before any new medical device may be introduced to the United States of America market, the manufacturer generally must obtain FDA clearance or approval through either the 510(k) pre-market notification process or the lengthier pre-market approval application ("PMA") process. It generally takes from 3 to 12 months from submission to obtain 510(k) pre-market clearance, although it may take longer. Approval of a PMA could take four or more years from the time the process is initiated. The 510(k) and PMA processes can be expensive, uncertain, and lengthy, and there is no guarantee of ultimate clearance or approval. We expect that some of our future products under development as well as Olympus-Cytori's will be subject to the lengthier PMA process. Securing FDA clearances and approvals may require the submission of extensive clinical data and supporting information to the FDA, and there can be no guarantee of ultimate clearance or approval. Failure to comply with applicable requirements can result in application integrity proceedings, fines, recalls or seizures of products, injunctions, civil penalties, total or partial suspensions of production, withdrawals of existing product approvals or clearances, refusals to approve or clear new applications or notifications, and criminal prosecution.

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

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

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

In cooperation with our distribution partners, we intend to market our current and future products both domestically and in many foreign markets. A number of risks are inherent in international transactions. In order for us to market our products in Europe, Canada, Japan and certain other non-U.S. jurisdictions, we need to obtain and maintain required regulatory approvals or clearances and must comply with extensive regulations regarding safety, manufacturing processes and quality. For example, we still have not obtained regulatory approval for our Thin Film products in Japan. These regulations, including the requirements for approvals or clearances to market, may differ from the FDA regulatory scheme. International sales also may be limited or disrupted by political instability, price controls, trade restrictions and changes in tariffs. Additionally, fluctuations in currency exchange rates may adversely affect demand for our products by increasing the price of our products in the currency of the countries in which the products are sold.

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

We and/or the Joint Venture have to maintain quality assurance certification and manufacturing approvals

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

Failure to comply with such regulations or a potential delay in attaining compliance may adversely affect our manufacturing activities and could result in, among other things, injunctions, civil penalties, FDA refusal to grant pre-market approvals or clearances of future or pending product submissions, fines, recalls or seizures of products, total or partial suspensions of production, and criminal prosecution. There can be no assurance 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.

We depend on a few key officers

Our performance is substantially dependent on the performance of our executive officers and other key scientific staff, including Christopher J. Calhoun, our Chief Executive Officer, and Marc Hedrick, MD, our President. We rely upon them for strategic business decisions and guidance. We believe that our future success in developing marketable products and achieving a competitive position will depend in large part upon whether we can attract and retain additional qualified management and scientific personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to continue to attract and retain such personnel. The loss of the services of one or more of our executive officers or key scientific staff or the inability to attract and retain additional personnel and develop expertise as needed could have a substantial negative effect on our results of operations and financial condition. Two executive officers left us in 2006, one in connection with a summer 2006 reduction of our headcount by 18%.

Companies which make personnel cuts sometimes find the resulting loss of experience and lack of coverage can cause important business problems.

We may not have enough product liability insurance

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

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

Our Amended and Restated Certificate of Incorporation and Bylaws contain certain provisions that could prevent or delay the acquisition of the Company by means of a tender offer, proxy contest, or otherwise. They could discourage a third party from attempting to acquire control of the Company, even if such events would be beneficial to the interests of our stockholders. Such provisions may have the effect of delaying, deferring, or preventing a change of control of the Company and consequently could adversely affect the market price of our shares. Also, in 2003 we adopted a Stockholder Rights Plan, of the kind often referred to as a poison pill. The purpose of the Stockholder Rights Plan is to prevent coercive takeover tactics that may otherwise be utilized in takeover attempts. The existence of such a rights plan may also prevent or delay a change in control of the Company, and this prevention or delay adversely affect the market price of our shares.

We pay no dividends

We currently do not intend to pay any cash dividends for the foreseeable future.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

We held our annual meeting of stockholders on August 2, 2007. Of the 23,575,622 shares of our common stock which could be voted at the annual meeting, 12,516,235 shares of our common stock were represented at the annual meeting in person or by proxy, which constituted a quorum. Voting results were as follows:

a. Election of the following persons to our Board of Directors to hold office until the next annual meeting of stockholders:

	For	Withheld	Abstain
Christopher J. Calhoun	12,439,982	70,812	5,440
Paul W. Hawran	12,330,423	146,981	38,830
Marc H. Hedrick, MD	12,468,352	42,872	5,010
Ronald D. Henriksen	12,443,707	33,679	38,830
E. Carmack Holmes, MD	12,442,020	69,204	5,010
David M. Rickey	12,438,749	70,345	7,140

b. The proposal to ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007, received the following votes:

For	Against	Abstain
12,477,670	3,075	35,490

Item 5. Other Information

Material Agreements

On August 13, 2007, we entered into a General Release Agreement (the "Release Agreement") with John T. Ransom, Ph.D., our former Vice President - Research Regenerative Cell Technology.

Under the Release Agreement, Dr. Ransom provided us with a full release of all claims, and we paid him a lump sum of $66,667, and we extended the exercise period of 35,000 vested stock options owned by him through December 31, 2007. We also agreed to provide Dr. Ransom with professional outplacement services.

Properties

Our main facility is 91,000 square feet located at 3020 and 3030 Callan Road, San Diego, California. Our lease agreement bears rent at a rate of $1.15 per square foot, with annual increases of 3%. The lease term is 57 months, commencing on October 1, 2005 and expiring on June 30, 2010.

We also lease 4,027 square feet of office space located at 9-3 Otsuka 2-chome, Bunkyo-ku, Tokyo, Japan. The agreement bears rent at a rate of $3.66 per square foot, expiring on November 30, 2007.

On the properties stated above, we pay an aggregate of approximately $127,000 in rent per month.

Staff

As of September 30, 2007, we had 132 full-time equivalent employees, comprised of 83 employees in research and development, 7 employees in sales and marketing, and 42 employees in management and finance and administration. From time to time, we also employ independent contractors to support our administrative organizations. Our employees are not represented by any collective bargaining unit and we have never experienced a work stoppage. A breakout by segment is as follows:

	Regenerative Cell Technology	MacroPore Biosurgery	Corporate	Total
Research & Development	83	-	-	83
Sales and Marketing	7	-	-	7
General & Administrative	0	-	42	42
Total	90	-	42	132

Item 6. Exhibits

10.48	Master Cell Banking and Cryopreservation Agreement, effective August 13, 2007, by and between Green Hospital Supply, Inc. and Cytori Therapeutics, Inc.
10.49	License & Royalty Agreement, effective August 23, 2007, by and between Olympus-Cytori, Inc. and Cytori Therapeutics, Inc.
10.50	General Release Agreement, dated August 13, 2007, between John Ransom and Cytori Therapeutics, Inc.
15.1	Letter re unaudited interim financial information.
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350/ Securities Exchange Act Rule 13a-14(b), as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in San Diego, California, on November 13, 2007.

CYTORI THERAPEUTICS, INC.

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

Dated: November 13, 2007

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

Dated: November 13, 2007

MASTER CELL BANKING AND CRYOPRESERVATION AGREEMENT

THIS MASTER CELL BANKING AND CRYOPRESERVATIONAGREEMENT ("Agreement"), dated August 13, 2007 ("Effective Date"), is entered into by and between Cytori Therapeutics, Inc. and its Affiliates (including its wholly owned subsidiary [Cytori KK]), having a place of business at 3020 Callan Road, San Diego, CA 92121 ("Cytori"), and Green Hospital Supply, Inc., having a place of business at 3-20-8 Kasuga Suita-City, Osaka 565-0853, Japan ("GHS"). Cytori and GHS are referred to jointly as "Parties" and individually as a "Party."

RECITALS

WHEREAS, CYTORI has developed a proprietary, state-of-the-art system for adipose-derived stem and regenerative cell ("ADRC") harvesting, processing, cryopreservation, storage, and retrieval banking that is useful in hospital settings ("Banking" or "the Field"), and Cytori has acquired and possesses certain intellectual property rights pertaining to stem and regenerative cell technology, including devices, products and services used in connection with ADRCs;

WHEREAS, GHS wishes to establish ADRC Banking facilities ("CB Facilities") for the acquisition, storage and retrieval of ADRCs exclusively using Cytori's technology, including the Celution™ device and related products and disposables in the country of Japan ("the Territory");

WHEREAS, the Parties agree that the CB Facilities will be dedicated solely to Banking, and the CB Facilities shall not engage in any form of ADRC cell culturing, cell proliferation or manipulation for specific therapeutic uses or clinical applications ("Therapeutic Services"), nor will GHS offer or engage in any Therapeutic Services involving ADRCs;

WHEREAS, subject to the terms and conditions set forth herein, Cytori desires to provide to GHS certain Cytori devices, proprietary technology, products and training necessary for the establishment and operation of CB Facilities, and to grant to GHS an exclusive license to use such devices, proprietary technology, products and training solely for the purposes of Banking in the Territory, as expressly permitted in this Agreement;

WHEREAS, GHS shall exclusively purchase from Cytori all such Cytori devices, proprietary technology, products and training as described below for the purpose of Banking in the Territory, subject to the terms and conditions set forth herein;

NOW, THEREFORE, the Parties agree as follows:

1. GHS PURCHASE: GHS shall purchase all Celution™ devices, consumables, *** (collectively, "Device(s)") directly from Cytori. GHS may purchase products (including, without limitation, *** and all other non-Device products that may be included with Packages; collectively, "Product(s)") from Cytori only in the form of Packages (as described below). Cytori will provide to GHS certain initial training services and other services (as described in Section 2) with respect to Cytori's proprietary methods and know-how in connection with this Agreement ("Service(s)"). The Devices, Products and Services are more particularly described in **Exhibit A** (attached hereto and incorporated herein), and in the context of an initial CB Facility set-up, may be collectively referred to herein as a "Package(s)." The Devices, Products and/or Services may be modified from time to time by written mutual agreement of the Parties; provided, however, that notwithstanding the foregoing, Cytori shall be entitled to substitute "next generation" Devices (including, without limitation, the Celution Device, Device consumables and Device disposables), so long as Cytori continues to supply Device consumables and Device disposables that were purchased by GHS with the previous generation Devices sold herein, for a period of no less than *** from the date of Cytori's last sale to GHS of the previous generation Devices.

***Material has been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

During the Term, GHS shall not purchase any Devices and/or Packages, or any similar or substantially equivalent versions thereof, from any other party, unless specifically agreed to in writing by Cytori. GHS will be responsible for purchasing all Products (as specified on **Exhibit A**) from third parties, and for supplying such Products for all CB Facilities, on an as-needed basis, after the initial Package has been acquired from Cytori and delivered for the establishment of a new CB Facility. If any term or condition of this Agreement conflicts with any Exhibit, this Agreement shall govern.

2. CYTORI SUPPLY: Cytori will supply all Packages, Devices and Services to GHS in accordance with this Agreement. The Services shall include training of GHS personnel with respect to installation, set-up and operations of, Device maintenance, technical support and provision of related databases. CB Facilities will purchase Packages, Devices, Products and Services directly from GHS (unless otherwise mutually agreed by the Parties in writing.). Cytori shall work closely and diligently with GHS to provide all necessary assistance and training of GHS personnel in establishing the five (5) initial CB Facilities, including (a) reasonable transfer of Cytori know-how, policies and procedures, and (b) advice, assistance and model documents relating to the establishment of cGTP and other relevant operating and servicing procedures. Additional initial training and assistance for GHS personnel will be provided by Cytori, if reasonably necessary, with the Parties' agreement and understanding that GHS will diligently endeavor to become fully self sufficient with respect to such matters as early as possible. After the initial training period, Cytori will provide further training of GHS personnel from time to time, as required in connection with any next generation Devices that are offered by Cytori in connection with this Agreement. For any further assistance (whether with regard to such Packages, or with regard to Devices), Cytori will estimate the cost of such assistance, and GHS will have the option of either reimbursing Cytori for such costs or declining such assistance.

3. ADDITIONAL OBLIGATIONS OF GHS: GHS will offer and sell Packages, Devices and/or Products to CB Facilities only for the purpose of conducting Banking, and shall expressly prohibit the CB Facilities from using (and from promoting or permitting use of) Packages, Devices and/or Products for any other purpose (including, but not limited to, Therapeutic Services). GHS understands and agrees that the Devices are labeled and intended specifically for Banking purposes only, and that use of the Devices for any other purpose(s) may cause injury or death (for example, if used for applications outside such specified indications). Therefore, GHS shall not, directly or indirectly, encourage or knowingly support in any way the sale or use of Packages or Devices for applications outside of those indications for which they are labeled and intended by Cytori or any other manufacturer (if applicable). GHS will be solely responsible for providing Packages, Devices and Products to CB Facilities, and (after the completion of the initial training of GHS personnel by Cytori) for providing all related services and support to such CB Facilities in connection therewith. GHS may request that Cytori provide assistance and support directly to a CB Facility, but Cytori shall be under no obligation to do so; however, if Cytori agrees to provide such assistance and support to a CB Facility, GHS and Cytori shall agree upon reasonable financial terms for the provision of such assistance and support. GHS shall be solely responsible for advertising, promoting, marketing, distributing and selling to CB Facilities the Packages, Devices and Products in the Field in the Territory.

4. GHS DILIGENCE: GHS shall purchase an annual minimum number of Packages each calendar year, as set forth in **Exhibit B**, which is attached hereto and incorporated herein ("Minimum Purchase"). In addition, GHS shall actively promote, market and sell Packages, Devices and Products to CB Facilities during the Term. If GHS fails to meet the Minimum Purchase amount in any given year, Cytori may have the right to terminate this Agreement in its sole discretion.

5. LICENSE: Cytori hereby grants to GHS an exclusive license to intellectual property of Cytori (for example, patents, patent applications, trade secrets, trademarks, technologies, and know-how) necessary or useful for GHS's use, distribution, promotion, marketing, sales, offers for sale and importation of the Devices and Products in the Field in the Territory. This exclusive license shall include (without limitation) Cytori's patent application in the Territory corresponding to Patent Cooperation Treaty Application No. PCT/US2002/29207 entitled "Preservation of Non Embryonic Cells from Non Hematopoietic Tissues," as well as trade secrets, technologies and know how related to cryopreservation and/or storage of stem and regenerative cells derived from adipose tissue. All intellectual property included within this license grant to GHS shall be termed collectively "Cytori IP." GHS may grant sublicenses under the license granted by

Cytori hereunder; provided that any such sublicensees of GHS may not grant further sublicenses unless such further sublicenses are approved in writing by Cytori; and further provided that all sublicensees shall acquire all Devices and Products used in connection with the CB Facilities from GHS. Cytori shall be provided a copy of each sublicense entered into by GHS with each of its CB Facilities in the Field, and such sublicenses shall be subject to all of the rights of Cytori in this Agreement regarding the Devices, the Packages and the Cytori Material, including, but not limited to, the terms of Section 25. In addition to any other remedies available to Cytori, and notwithstanding any other provision of this Agreement to the contrary, GHS and each of its sublicensees shall be jointly and severally liable to pay Cytori a liquidated damages fee of *** for each instance of usage of the Devices for any purpose outside of the Field. GHS shall immediately inform Cytori of any use by GHS or any CB Facility of the Devices for a purpose outside of the Field.

6. FORECASTS: GHS will provide a 12-month rolling forecast of GHS' annual Package, Device and Service requirements, as applicable (each, a "Forecast"). The first six (6) months of each such Forecast will constitute an expected order of GHS for the quantities of Packages, Devices and Services specified therein ("Expected Orders"); the following six (6) months of each such Forecast will be a good faith estimate, which will not be binding on GHS except to the extent expressly specified in such Forecast. The Forecasts shall specify anticipated purchases for each month, and shall be updated quarterly on the first week of January, April, July and October of each year. If Cytori cannot meet the Expected Orders, it will notify GHS within ten (10) business days of receipt of such Expected Orders.

7. ORDERS: GHS shall order Packages, Devices and Services using written purchase orders ("Binding Purchase Orders") which shall be contractually binding on GHS for the Packages, Devices and Services specified therein. GHS shall provide its Binding Purchase Orders in the format and with the lead-time specified in **Exhibit C**. The only function of GHS' Binding Purchase Orders shall be to communicate the desired quantities of the Packages, Devices, and Services required by GHS, shipment instructions and shipping dates. All other terms of the Binding Purchase Orders, and all terms of any acknowledgment form or invoice of Cytori, shall be void and of no effect, and the terms of this Agreement shall control over such forms, unless otherwise specifically agreed to in writing by both Parties. Cytori will accept all Binding Purchase Orders that are from 100% to 125% of the Expected Orders. If Cytori receives a Binding Purchase Order in excess of 125% of the Expected Orders, Cytori will use commercially reasonable efforts to manufacture and deliver on time that amount exceeding 125% of the Expected Orders, but shall be under no obligation to deliver such excess amount.

8. PRICES: Unless the applicable Exhibits attached hereto provide otherwise, prices for the Packages, Devices and Services stated in an Order include all amounts payable by GHS. The price for the Packages, Devices and Services may be adjusted by Cytori upon thirty (30) days written notice to GHS, but pricing will be adjusted no more than once per calendar year, and such increases shall not apply to pending Binding Purchase Orders in existence at the time of the notice of such price adjustment. Device prices shall not increase more than *** per year. Any price increase which is greater than *** shall require written approval of GHS, which shall not be unreasonably withheld in the event that Cytori reasonably demonstrates that its costs have significantly increased. GHS shall pay to Cytori *** *** for the Packages and Devices; provided that in no event shall the price paid to Cytori be less than *** .As of the Effective Date, Cytori's non-binding, recommended sales price to the CB Facilities is *** but GHS shall have sole discretion to determine the prices it charges to its customers. **Exhibit A** sets forth minimum transfer pricing to GHS for all Devices, as well as recommended sales prices to the CB Facilities for each type of Device.

9. PAYMENT/PAYMENT REPORTS:

9.1 Payment. Cytori shall invoice GHS for each Package, Device or Service upon shipment or delivery. Payment to Cytori shall be due within thirty (30) days after GHS' inspection of Packages and Devices shipped, provided that such inspection must be completed within ten (10) days of GHS' receipt. Payment of an invoice shall be deemed acceptance of the corresponding Package, Device or Service. Payments by GHS to Cytori hereunder shall be made by wire transfer of immediately available funds to a

***Material has been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

bank account designated by Cytori in writing. If GHS fails to pay any payment due under this Agreement on or before the date such payment is due, such late payment shall bear interest, to the extent permitted by applicable Law, at the average one-month London Inter-Bank Offering Rate (LIBOR) for the United States Dollar as reported from time to time in *The Wall Street Journal*, effective for the first date on which payment was delinquent and calculated on the number of days such payment is overdue.

9.2 Payment Reports. GHS shall provide Cytori with monthly reports identifying the amounts owed to and received by GHS from each client hospital and/or CB Facility that corresponds to each Cytori Invoice described in Section 9.1 above, until such time as GHS has been paid in full the amounts that are due to GHS for the Packages, Devices or Services provided by GHS in relation to the Cytori Invoices.

10. SHIPMENT: Shipments of Packages and Devices shall comply with Order instructions and the relevant Exhibits attached hereto. All shipments shall be FCA (Incoterms 2000) Cytori's facility at San Diego, California, or as otherwise agreed by the Parties in writing. GHS will select transportation modes and carriers. GHS also will pay all related freight charges, insurance and all import duties and fees. Cytori will provide all shipment information to GHS within 24 hours after a Package or Device is delivered to GHS' carrier. If any Package or Device will be shipped to GHS from the United States into the Territory, GHS (with the reasonable assistance of Cytori) shall be responsible for importation of such Package or Device into the Territory, at GHS' sole expense, and shall be responsible for compliance with any applicable local Laws concerning such importation.

11.TRADEMARKS: GHS will comply with Cytori's instructions for use of Cytori trademarks ("Trademarks") and disposal of any Packages and Devices bearing Trademarks. Trademarks may only be used in connection with Packages and Devices in accordance with this Agreement during the Term, and may only be used in accordance with Cytori's written instructions or upon Cytori's written approval. The Trademarks will be displayed in a prominent position. GHS will not claim any rights to the Trademarks, and will not do anything to lessen the significance of Trademarks. GHS shall not use Cytori's name or trademarks in any promotional activity or otherwise except as mutually agreed in writing by the Parties. GHS will not adopt, use or register any marks, businesses or domain names confusingly similar to Trademarks.

12. NON-ENGLISH VERSIONS OF LABELING: GHS will be responsible for ensuring that Cytori's labels, packaging and package inserts for Packages and Devices comply with all applicable Laws (including local Laws) and regulatory requirements for the Territory (including any necessary translations). GHS shall provide reasonable assistance (for example, proofreading and advising) with respect to Cytori's translation of any written materials concerning the Devices and/or Packages into Japanese (if Cytori determines in its sole discretion to do so).

13. INSPECTION BY GHS: On at least two (2) weeks prior written notice to Cytori, GHS may visit Cytori's facilities where Devices are manufactured to inspect and audit Cytori's processes and documentation and Cytori's compliance with this Agreement. Cytori will maintain quality assurance and quality controls with respect to Device manufacturing as appropriate. Cytori will comply with any applicable quality requirements relating to any Device that are agreed to by the Parties.

14. INSPECTION BY CYTORI: GHS (a) shall maintain for at least five (5) years its books, records, contracts and accounts relating to the marketing and sale of the Packages and Devices, including, without limitation, information concerning customer accounts, inventory levels, unit sales, training materials, prices, margins, competitor information, market trends and strategies, and related promotional activities (collectively, "GHS Information"), and (b) shall permit examination thereof by Cytori at reasonable times and upon reasonable notice (provided that in no event shall such notice be less than two (2) weeks prior written notice by Cytori). GHS shall allow representatives of Cytori, at any reasonable time, to (c) examine GHS' place(s) of businesses and GHS' inventory of the Packages and Devices, and (d) audit all GHS Information connected with the Banking sales. GHS shall provide Cytori with copies of any documents requested by Cytori as a result of such examination or audit. In addition, GHS shall secure the right of Cytori to inspect and audit (upon reasonable advance notice) the facilities and records of each CB Facility established hereunder, to ensure that the set-up and operations of each such CB Facility meet the appropriate quality standards established by Cytori, and to inspect the labeling and condition of all inventory and Devices to ensure compliance with this Agreement.

15. RECORDS: Cytori will provide GHS with information and copies of relevant records concerning Packages and Devices that GHS may reasonably request to enable GHS to comply with all applicable federal, state, and municipal statutes, regulations, rules, and ordinances relating to GHS' use of Packages and Devices.

16. REGULATORY COMPLIANCE: Cytori will reasonably cooperate with GHS in GHS' efforts to meet regulatory requirements and applicable international standards in connection with the Packages and Devices. Each Party will comply with all applicable laws, regulations and ordinances ("Laws") in performing its obligations under this Agreement.GHS shall be responsible for compliance with any applicable local Laws and Cytori shall provide any reasonably necessary assistance in this regard. Cytori certifies that, as of the Effective Date, Cytori has not, and no Cytori employee, affiliate or agent has been, debarred or proposed to be debarred by any US agency (including, but not limited to, by the U.S. Food and Drug Administration ("FDA") under 21 U.S.C. 335).

17. REGULATORY APPROVAL: Cytori shall be responsible for obtaining regulatory approval of the Devices in the Field in the Territory as deemed necessary by Cytori. Cytori shall also provide GHS with relevant information regarding the Packages and Devices that is reasonably necessary to enable GHS to make additional regulatory submissions for regulatory approval of the Packages and Devices (the "Cytori Regulatory Information").

18. WARRANTIES: The sole warranty given by Cytori regarding any Package and Device shall be that written limited warranty provided in **Exhibit D**, if any, which shall accompany such Package or Device or which shall otherwise be designated in writing by Cytori as applicable to such Package or Device, as the same may be revised by Cytori from time to time. GHS agrees to provide to its customers (including, without limitation, the CB Facilities) within the Territory a written warranty for each particular Package and Device on terms that are supplied by Cytori, if any, for such Package and Device. In no event shall GHS' warranty to such consumers be more favorable to consumers than Cytori's limited warranty, if any, for such Packages and Devices.

EXCEPT AS EXPRESSLY SO WARRANTED, CYTORI HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS, STATUTORY AND IMPLIED, APPLICABLE TO THE PACKAGES AND/OR DEVICES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY, DESIGN, AND/OR FITNESS FOR A PARTICULAR PURPOSE. THE WRITTEN LIMITED WARRANTY, IF ANY, APPLICABLE TO ANY PARTICULAR PACKAGE OR DEVICE SHALL STATE THE FULL EXTENT OF CYTORI'S LIABILITY, WHETHER DIRECT OR INDIRECT, SPECIAL OR CONSEQUENTIAL, RESULTING FROM ANY BREACH OF SUCH WARRANTY. CYTORI FURTHER DISCLAIMS ALL EXPRESS, STATUTORY AND IMPLIED WARRANTIES APPLICABLE TO THE PACKAGES AND/OR DEVICES WHICH ARE NOT MANUFACTURED BY CYTORI, OR BY A LICENSEE OR SUBLICENSEE OF CYTORI. THE ONLY WARRANTIES APPLICABLE TO PACKAGES AND/OR DEVICES NOT MANUFACTURED BY CYTORI OR BY A LICENSEE OR SUBLICENSEE OF CYTORI SHALL BE THE WARRANTIES, IF ANY, OF THE MANUFACTURERS OF THOSE ITEMS.

19. NO OTHER WARRANTIES: OTHER THAN AS SPECIFICALLY SET FORTH IN SECTION 18, NO EXPRESS OR IMPLIED WARRANTIES ARE GIVEN BY CYTORI WITH RESPECT TO PACKAGES OR DEVICES SOLD BY CYTORI AND PURCHASED BY GHS PURSUANT TO THIS AGREEMENT, OR THE PERFORMANCE OR NONPERFORMANCE OF THE PACKAGES AND DEVICES, INCLUDING BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

20. INDEMNIFICATION:

20.1 Cytori Indemnification: Cytori will indemnify, defend and hold harmless GHS and its officers, directors and employees (the "GHS Indemnified Parties") from any claim, liability, loss, damage, lien, judgment, expense and cost (including reasonable attorneys' fees and other litigation expenses) with respect to all claims arising from: (a) any breach of Cytori's warranties set forth in this Agreement; or (b) the negligence or willful misconduct of Cytori or Cytori Indemnified Parties in the handling, packaging, labeling, manufacture, inspection, packaging, storage and delivery of Packages and/or Devices to GHS' shipper. Nothing in the foregoing shall

obligate Cytori to indemnify GHS to the extent a third party claim is the result of a material breach by GHS of GHS' obligations under this Agreement, or to the extent the claim is one for which GHS is obliged to indemnify Cytori hereunder.

20.2 GHS Indemnification: GHS will indemnify, defend and hold harmless Cytori and its officers, directors and employees (the "Cytori Indemnified Parties") from any claim, liability, loss, damage, lien, judgment, expense and cost (including reasonable attorneys' fees and other litigation expenses) with respect to all claims arising from: (a) the use of Packages, Devices or Products by GHS and its sublicensees and/or customers (including each CB Facility); (b) GHS' or any CB Facility's use of Devices and/or ADRCs for purposes other than the purposes permitted under this Agreement; (c) GHS' failure to comply with applicable Laws in connection with Packages, Devices or Products (including, without limitation, import thereof); or (d) the negligence or willful misconduct of GHS or GHS Indemnified Parties in the handling, packaging, labeling, shipping, storing, marketing, sale or disposal of Packages, Devices and Products. Nothing in the foregoing shall obligate GHS to indemnify Cytori to the extent a third party claim is the result of a material breach by Cytori of Cytori's obligations under this Agreement, or to the extent the claim is one for which Cytori is obliged to indemnify GHS hereunder.

21. INSURANCE: GHS shall maintain liability insurance in an amount and for a time period which is reasonable and customary in the medical device industry for similarly situated companies of comparable size and activities at its place of business. Cytori shall maintain product liability insurance in an amount and for a time period which is reasonable and customary in the medical device industry for similarly situated companies of comparable size and activities for products and for activities at its place of business.

22. LIMITATION OF LIABILITY: NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES RESULTING FROM OR IN ANY WAY RELATED TO PACKAGES, DEVICES, PRODUCTS OR SERVICES, EITHER DURING THE TERM OF THIS AGREEMENT OR AFTER THE EXPIRATION OR TERMINATION OF THIS AGREEMENT. THIS LIMITATION SHALL APPLY REGARDLESS OF ANY APPLICABLE LEGAL OR EQUITABLE THEORY. THE FOREGOING NOTWITHSTANDING, NOTHING IN THIS AGREEMENT SHALL PRECLUDE A PARTY FROM TAKING WHATEVER COMMERCIALLY REASONABLE ACTIONS ARE NECESSARY TO PREVENT IRREPARABLE HARM TO ITS INTERESTS.

23. CONFIDENTIAL INFORMATION:

23.1 During the Term, a recipient Party may receive information that the disclosing Party considers to be confidential and that is not generally known to the public ("Confidential Information"). Confidential Information also includes the existence of this Agreement and its terms. During and after the Term, a recipient Party will keep secret the Confidential Information of the disclosing Party, using such care as the recipient Party uses in maintaining the confidentiality of its own confidential information, but no less than a reasonable degree of care, and will use Confidential Information of the disclosing Party only as is necessary to perform its obligations under this Agreement. Each recipient Party will assure that its employees, agents and contractors abide by these confidentiality obligations. Upon written request or at the Term's end, each recipient Party will, at the disclosing Party's request, either destroy or return to the disclosing Party all tangible materials provided by the disclosing Party that are the disclosing Party's Confidential Information.

23.2 Notwithstanding the foregoing, Confidential Information does not include information that is: (a) is or becomes a part of the public domain through no act or omission of the recipient Party; (b) the recipient Party can demonstrate was in its rightful possession, without a restriction on use or disclosure, prior to receipt of the information from the disclosing Party; (c) the recipient Party can demonstrate was rightfully received from a third party without a restriction on use or disclosure; (d) the recipient Party can demonstrate by written evidence was independently developed by the recipient Party without access to or use of (directly or indirectly) Confidential Information of the disclosing Party; or (e) is required to be, and is, disclosed in response to a valid order from a judicial or administrative authority; provided, however, that the Receiving Party shall promptly notify the disclosing Party upon its receipt of such order, shall use commercially reasonable efforts to limit disclosure, and shall make commercially reasonable efforts to obtain confidential treatment or a protective order for the disclosure so ordered, and prior to such

disclosure to permit the disclosing Party to oppose same by appropriate legal action. It is understood and agreed that, in the event of a breach by either party of the covenant to maintain the confidentiality of the Confidential Information that damages are an inadequate remedy. Any breach will cause disclosing party irreparable injury and damage and non-disclosing party therefore agrees that disclosing party is entitled to injunctive and equitable relief in addition to all other remedies available to it by law.

23.3 Any disclosure of confidential information by one Party to the other Party in connection with the Parties' discussion, negotiation and anticipation of this Agreement shall be deemed to be "Confidential Information" of the disclosing Party, and shall be subject to the terms and conditions of this Agreement.

24. INTELLECTUAL PROPERTY:

24.1 Infringement Of Cytori Intellectual Property. Cytori shall have the exclusive right to, and the sole discretion to, prosecute any third-party infringement of Cytori IP worldwide (including in the Territory).

24.2 Intellectual Property Ownership.

24.2.1 "Cytori Material" shall include the Devices, the Packages, the Services, Cytori IP, Cytori Regulatory Information and Cytori's Confidential Information.

24.2.2 Cytori and GHS hereby agree that any discoveries, improvements, inventions, processes, techniques, know-how and data, whether or not patentable, made or conceived or reduced to practice or learned by GHS and/or any of GHS's sublicensees or CB Facilities under this Agreement ("GHS-Related Party(ies)"), that modifies, incorporates, practices or utilizes the Cytori Materials (such discoveries, improvements, inventions, processes, techniques, know-how and data are collectively referred to as "GHS Inventions") shall be jointly owned by the Parties in the Territory, and that all right, title and interest in and to such GHS Inventions shall be granted and assigned to Cytori, as the sole and exclusive owner thereof, throughout the rest of the world.

24.2.3 GHS shall disclose in writing to Cytori all GHS Inventions, whether or not patentable, within thirty (30) days of identification or development (or within thirty (30) days of GHS' written receipt of same from any GHS-Related Party, as the case may be). Within ninety (90) days of GHS' disclosure of a GHS Invention, Cytori may elect to take responsibility for preparation, filing and prosecution of patent applications in the Territory, at Cytori's expense, that disclose or claim such GHS Invention; in countries outside the Territory, Cytori shall have the sole right to prepare, file and prosecute patent applications on such GHS Invention, in its sole discretion. Should Cytori not elect to take responsibility for preparation, filing and prosecution of any such patent application(s) with respect to a given GHS Invention in the Territory, GHS shall have the right to do so, but only in the Territory, at its own expense, and for its own account. GHS and the GHS-Related Parties shall cooperate to the extent reasonably necessary to aid in the preparation, filing and prosecution of any such patent applications by Cytori, and in the execution and filing by Cytori of any documents required to perfect the rights granted herein.

25. TERM; TERMINATION; SURVIVAL: This Agreement will commence on the Effective Date and end on the date that is the tenth (10th) year anniversary of the Effective Date, unless terminated earlier as provided for herein ("Term"). The Term may be extended for additional five (5) year periods upon mutual agreement at the end of the initial Term.

25.1 Termination for Uncured Material Breach. If a Party materially breaches this Agreement, the non-breaching Party may provide written notice of such material breach, and may immediately terminate this Agreement if such breach is not cured within forty-five (45) days after delivery of such written notice. It is agreed and understood between the Parties that any use of the Devices by GHS or by any GHS-Related Party outside of the Field shall constitute a material breach of this Agreement, and that such material breach on behalf of a GHS-Related Party may only be cured by payment of the liquidated damages fee and/or (at Cytori's election) the termination of such GHS-Related Party's rights specified in Section 5. Repeated violations of the use limitations set forth herein by GHS and/or by any GHS Related Party(ies) may be deemed incurable by Cytori at any time.

25.2 Termination for Failure to Meet Minimum Purchase Requirements. Cytori may have the right to terminate this Agreement for GHS' failure to meet its Minimum Purchase requirements pursuant to Section 4.

25.3 Termination for Insolvency. This Agreement may be terminated at any time by a Party upon the filing or institution of bankruptcy, liquidation or receivership proceedings by or against the other Party; provided, however, that in the event of any involuntary bankruptcy or receivership proceeding, such right to terminate this Agreement shall only become effective if the proceeding is not dismissed within sixty (60) days after the filing thereof.

25.4 Survival. Sections 18 (Warranties), 19 (No Other Warranties), 20 (Indemnification), 22 (Limitation of Liability), 23 (Confidentiality) and 24 (Intellectual Property), 25.4 (Survivial), 26 (Effects of Termination), 28 (Governing Law; Venue; Jurisdiction), and 29 (Dispute Resolution) shall survive expiration or termination of this Agreement

26. EFFECTS OF TERMINATION. Termination of this Agreement shall not extinguish debts and other obligations created or arising between the Parties by virtue of contracts or arrangements entered into hereunder before the effective date of termination of this Agreement (the "Termination Date"). Without limiting the generality of the foregoing, upon the Termination Date:

26.1 GHS shall not be relieved of its obligation to (a) pay for Packages, Devices and Services received by GHS prior to the Termination Date, or (b) receive and pay for all Packages, Devices and Services covered by Binding Purchase Orders which have been accepted by Cytori prior to the Termination Date. Unless otherwise agreed by the Parties in writing, Cytori shall be obligated to complete all Packages, Devices and Services Binding Purchase Orders which were accepted by Cytori prior to the Termination Date; provided that Cytori may demand adequate assurance of payment or advance payment in such case; and in each such case, GHS shall be permitted to distribute such Packages and Devices, as well as any Packages and Devices in GHS' inventory, within the Territory, subject to Cytori's repurchase rights set forth in Section 26.2 below.

26.2 GHS shall submit to Cytori within thirty (30) days after the Termination Date a list of all of the Packages and Devices owned by GHS which were purchased from Cytori as of the Termination Date; Cytori may, at its sole option and discretion, purchase any or all of such Packages and/or Devices from GHS upon written notice of its intention to do so, at prices to be agreed upon between the Parties, but in no event shall such prices be greater than the respective prices paid by GHS to Cytori for such Packages and/or Devices; after receipt of such Packages and/or Devices from GHS, Cytori will issue an appropriate credit to GHS' account.

26.3 GHS shall cease to use any Cytori Trademarks, Cytori Materials and any Confidential Information obtained from Cytori relating to or in connection with its continued business operations, and shall promptly transfer to Cytori any and all regulatory approvals, including any and all physical, written and descriptive matter (including all reproductions and copies thereof) containing Confidential Information as Cytori may specify.

26.4 In the event of a termination of this Agreement by Cytori under Section 25.1, GHS shall provide Cytori with all customer information and contractual agreements related to each of its Banking sublicensees and CB Facilities, and Cytori shall have the right, but not the obligation, to assume such contractual relationships in the Territory for the Field without any additional consideration to GHS.

27. NOTICES: Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally, sent and confirmed by facsimile, or sent by reputable overnight courier, and addressed to the Party to be notified at such Party's address or fax number, as set forth below or as subsequently modified by written notice in accordance with this Section 27.

28. GOVERNING LAW; VENUE; JURISDICTION: This Agreement, all acts and transactions pursuant hereto, and the rights and obligations of the Parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

29. DISPUTE RESOLUTION: Disputes arising between the Parties relating to the making or performance of this Agreement shall be resolved in the following order of preference: (a) by good faith negotiation between executives of GHS and Cytori who have authority to fully and finally resolve the dispute; and then (b) by arbitration as set forth in Sections 29.1 and 29.2. All negotiations pursuant to this

Section 29 shall be treated as Confidential Information in accordance with the provisions of Article 23 of this Agreement.

29.1 All disputes that are not resolved by good faith negotiations between executives of GHS and Cytori shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**") by three arbitrators. Judgment on the award rendered by the panel of arbitrators shall be binding upon the Parties and may be entered in any court having jurisdiction thereof. GHS shall nominate one arbitrator and Cytori shall nominate one arbitrator. The arbitrators so nominated by GHS and Cytori, respectively, shall jointly nominate the third arbitrator within fifteen (15) days following the confirmation of arbitrators nominated by GHS and Cytori. If the arbitrators nominated by Cytori and GHS cannot agree on the third arbitrator, then such third arbitrator shall be selected as provided in the Rules. The place of the arbitration and all hearings and meetings shall be in the State of Hawaii, unless the Parties to the arbitration otherwise agree. In addition to the Rules and except as otherwise provided herein, the Parties agree that the arbitration shall be conducted according to the International Bar Association Rules on the Taking of Evidence in International Commercial Arbitration. The arbitrators may order pre-hearing production or exchange of documentary evidence, and may require written submissions from the Parties hereto, but may not otherwise order pre-hearing depositions or discovery. The arbitrators shall apply the laws of the State of New York; provided, however, that the Federal Arbitration Act shall govern. The language of the arbitral proceedings (including oral and written submissions and presentations) shall be English. The arbitrators shall not issue any award, grant any relief or take any action that is prohibited by or inconsistent with the provisions of this Agreement.

29.2 No arbitration pursuant to this Section 29 shall be commenced until the Party intending to request arbitration has first given thirty (30) days advance written notice of its intent to the other Party, and has offered to meet and confer with one or more responsible executives of such other Party, in an effort to resolve the dispute(s) described in detail in such written notice. If one or more of such responsible executives agree, within thirty (30) days after receipt of such written notice, to meet and confer with the requesting Party, then no arbitration shall be commenced until the Parties have met and conferred in an effort to resolve the dispute(s) or until sixty (60) days have elapsed from the date such written notice has been given.

30. ASSIGNMENT: Neither this Agreement, nor any right or obligation hereunder, shall be assignable by a Party without the prior written consent of the other Party, and any purported assignment without such consent shall be void; provided, however, that either Party may, without such consent, assign this Agreement and its rights and obligations hereunder in connection with the transfer or sale of all or substantially all of its business or business unit to which this Agreement pertains, or in the event of its merger, consolidation, change in control or similar transaction. No assignment shall relieve any Party of responsibility for the performance of any accrued obligation hereunder.

31. FORCE MAJEURE EVENTS: Neither GHS nor Cytori shall be considered in default or be liable to the other Party for any delay in performance or non-performance caused by circumstances beyond the reasonable control of such Party and not related to its fault or negligence, including but not limited to, acts of God, explosion, fire, flood, earthquake, war whether declared or not, accident, sabotage, transportation strike or interference, order or decrees of any court or action of governmental authority or shortages in or an inability to procure materials (each a "Force Majeure Event"); provided, however, that the affected Party use its diligent efforts to resume performance under this Agreement as quickly as possible.

32. CREDITS FOR CERTAIN FORCE MAJEURE EVENTS EFFECTING CB FACILITIES: In the event GHS is unable to collect payments due from its client hospitals or CB Facilities for Packages, Products or Devices delivered by GHS due to a Force Majeure Event suffered by such hospital or CB Facility, and such disability continues for at least 60 days, then GHS shall immediately notify Cytori of its request for a credit under this section, which notice shall include a description of the Force Majeure Event, the amount billed by GHS, and the amount that remains unpaid to GHS. Upon receipt of such notice, Cytori shall credit 50% of the price paid to Cytori by GHS for the effected Packages, Products or Devices back to GHS (which amount shall not exceed 50% of the amount owed to GHS by such CB Facility for these items). Cytori shall subsequently be entitled to recover 50% of any payments in cash or other forms of consideration made to GHS from such hospital or CB Facility until such time as the amount credited to GHS by Cytori for such disability is paid in full. GHS shall use commercially reasonable efforts to collect

such amounts due from the hospitals or CB Facilities, and GHS shall not forgive such debts without Cytori's written agreement unless Cytori has been repaid in full.

33. ENTIRE AGREEMENT; AMENDMENT; WAIVER: This Agreement sets forth the entire agreement and understanding of the Parties relating to the subject matter herein and merges all prior discussions between them with regard to such subject matter, except for any confidentiality agreement between the Parties pertaining to the subject matter of this Agreement. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the Parties to this Agreement. The failure by a Party to enforce any rights under this Agreement shall not be construed as a waiver by such Party. Either Party may waive a breach without waiving any later performance.

34. SEVERABILITY: Should any provision of this Agreement be determined to be illegal or unenforceable, such determination shall not affect the remaining provisions of this Agreement.

35. INDEPENDENT CONTRACTORS: The Parties are independent contractors and neither can make any commitments for the other. The employees of a Party are not employees of the other Party.

36. CONSTRUCTION: This Agreement is the result of negotiations between, and has been reviewed by, the Parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of both of the Parties hereto, and no ambiguity shall be construed in favor of or against either one of the Parties hereto.

37. COUNTERPARTS: This Agreement may be executed in counterparts by original or facsimile signature, each of which shall be deemed an original and all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representative as of the Effective Date.

CYTORI THERAPEUTICS, INC.
/s/ Seijiro Shirahama
By: Seijiro Shirahama
Title: Senior Vice President, Asia-Pacific

Address:
3020 Callan Road
San Diego, CA 92121
Fax: US 858-458-0994

GREEN HOSPITAL SUPPLY, INC.
/s/ Kunihisa Furukawa
By: Kunihisa Furukawa
Title: President

Address:
3-20-8 Kasuga Suita-City
Osaka 565-0853, Japan
Fax:

LICENSE & ROYALTY AGREEMENT

THIS LICENSE & ROYALTY AGREEMENT (this "**Agreement**"), dated as of the 23th day of August, 2007 (the "**Effective Date**"), is made and entered into by and between **OLYMPUS-CYTORI, INC.**, a Delaware corporation, located at 3030 Callan Road, San Diego, CA 92121 (The "**JVCo**") and **CYTORI THERAPEUTICS, INC.,** a Delaware corporation, located at 3020 Callan Road, San Diego, CA 92121 ("**Cytori**").

(JVCo and Cytori may each be individually referred to herein as a "**Party**" and collectively as the "**Parties**").

RECITALS

A. Cytori, JVCo and Olympus Corporation ("Olympus") entered into a series of agreements in November 2005 creating a joint venture (collectively, the "Joint Venture Agreements") dedicated to the commercial development, manufacture and sale of JVCo Licensed Products (as defined below) according to the terms of such agreements.

B. Cytori is desirous of commercializing and marketing an earlier version of Cytori Licensed Product (as defined below) (e.g., CT-800) during the Term (as defined in Section 2.5 below) or until JVCo starts to sell its comparable "Licensed Product(s)" defined in the License/ Commercial Agreement dated November 4, 2005 by Cytori and JVCo ("JVCo Licensed Product(s)"). Each of the Parties hereto now recognizes that it would be beneficial to all Parties for Cytori to commercialize and market an earlier version of the Licensed Product than had been anticipated under the Joint Venture Agreements, and have determined that the appropriate licenses for Cytori to conduct such early commercialization should be granted to Cytori pursuant to all of the terms and conditions provided below.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises herein contained, and for other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Parties agree as follows:

1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the capitalized terms set forth in this Section 1 shall have the following meanings:

"**Affiliate**" means, as to any Party, any Person that, directly or indirectly, controls, or is controlled by, or is under common control with, such Party, where "control" (including, with its correlative meanings, "controlled by" and "under common control with") means (a) the beneficial ownership of fifty percent (50%) or more of the outstanding voting securities of a Party, or (b) the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a Party, whether through the ownership of securities or partnership or other ownership interests, by contract or otherwise.

"**Agreement**" shall have the meaning set forth in the Preamble.

"**Business Day**" shall mean any day on which banking institutions are open in the United States, and excluding national holidays in Japan.

"**Cytori**" shall have the meaning set forth in the Preamble.

"**Development Agreement**" shall mean the License/ Joint Development Agreement dated November 4, 2005 by and among Cytori, Olympus and JVCo.

"Distributor Sale" shall mean the last sale of Cytori Licensed Product by Cytori or an Affiliate of Cytori to an unaffiliated third party who intends to resell the Cytori Licensed Product.

"**Effective Date**" shall have the meaning set forth in the Preamble.

"End-User Sale" means the last sale of Cytori Licensed Product within the control of Cytori, or an Affiliate of Cytori, to a Hospital or physician for use in such Hospital or Physicians facility.

"Fully Burdened Cost of Sales" means all materials, labor and overhead costs as determined by Cytori's accounting policies and procedures, including any costs associated with set-up and installation of the Cytori Licensed Products.

"**JVCo IP**" or "Licensed IP" shall mean all Intellectual Property Rights today or hereafter owned by, licensed by or acquired by JVCo (other than JVCO trademarks and service marks) and useable or useful in the Licensed Field.

"**Licensed Field**" shall mean the designing, developing, manufacturing, testing, importing, exporting, marketing, offering to sell, selling and servicing Cytori Licensed Products.

"**Cytori Licensed Product(s)**" shall mean any automated devices (and related component parts), manufactured by Cytori (e.g., "CT-800) ***
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The Cytori Celution System is a current example of a Cytori Licensed Product. Cytori Licensed Products shall not include: ***
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"Net Sales" means the total of the gross invoice prices from the Sale of Cytori Licensed Product by Cytori in the form of a Distributor Sale or End – User Sale, less the sum of the following actual and customary deductions where applicable: cash, trade or quantity discounts; sales, use, tariff, import/export duties or other excise taxes imposed on particular sales (excepting value added taxes or income taxes); transportation, handling and refrigeration charges, including insurance; and allowances or credits to customers because of rejections or returns ("Customary Deductions"). If Cytori or any Affiliate of Cytori sells at a single price or rate a packaged combination of products and/or services, not all of which if sold individually would be Cytori Licensed Products, then "Net Sales" with respect to such sales of packaged products shall equal the number of units of each Cytori Licensed Product sold as part of such packaged products multiplied by the respective average adjusted net selling price for the same type of Cytori Licensed Product sold individually, and in the same market and distribution method, over the preceding six month period , in each case excluding rejections, defects and returns.

"**Person**" shall mean an association, corporation, individual, partnership, trust or any other entity or organization, including a governmental entity, other than a Party.

***Material has been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

"**Term**" shall have the meaning set forth in Section 2.5.

"**Three-Way NDA**" shall mean the Three-Way Non-Disclosure Agreement, dated November 4, 2005, entered into by and among Cytori, Olympus and JVCo.

"Intellectual Property Rights" shall mean "Intellectual Property Rights" defined in the License/ Commercial Agreement dated November 4, 2005 by Cytori and JVCo.

1.2 References. In this Agreement, a reference to:

(a) A Section, Sub-section, Preamble, Recital, Attachment, Schedule or Exhibit is, unless the context otherwise requires, a reference to a section or sub-section of, or a preamble, recital, attachment, schedule or exhibit to, this Agreement;

(b) "This Agreement" (or any specific provision hereof) shall be construed as references to this Agreement or that provision as amended, varied or modified from time to time;

(c) "¥" or "JPY" refers to Japanese Yen, the lawful currency for the time being of Japan. "$" or "USD" refers to United States Dollars, the lawful currency for the time being of the United States of America; and

(d) All references in this Agreement to "days" will, unless otherwise specified herein, mean calendar days.

1.3 Headings. Headings in this Agreement are for ease of reference only and shall not affect the interpretation or construction of this Agreement.

2. THE LICENSE GRANTED BY JVCO

2.1 License Grant. Subject to the terms, conditions and obligations set forth in this Agreement including the royalty payments to be made by Cytori to JVCo hereunder, JVCo hereby grants to Cytori a non-exclusive, worldwide license to the JVCo IP (including any improvements thereto) for use in the Licensed Field for the Term. In addition, Cytori shall be entitled to sublicense sales rights to its distributors during the Term, and to sublicense the manufacture of certain component parts, but such rights shall not extend the third party manufacture of all or substantially all of the any finished Cytori Licensed Product. For avoidance of doubt, the license granted herein is intended to allow Cytori to develop, make, and use Cytori Licensed Products for commercial sale during the Term, and the exercise of the rights granted herein in accordance with the terms in this Agreement, shall not be construed as competing with any products of the Joint Venture or in any way violating the Joint Venture Agreements.

2.2 Royalty Payments. In consideration of the license granted by JVCo to Cytori pursuant to Section 2.1 above (and subject to the exceptions described in 2.2 (b)):

(a) Cytori shall pay to JVCo a payment in the form of a royalty as described in either of the following cases:

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(b) Cytori shall not be required to pay a royalty for its distribution or provision of Cytori Licensed Products without charge or cost to the receiving party (i.e. for clinical trials, regulatory, reimbursement etc.).

***Material has been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

2.3 Reports. Effective upon the first commercial sale of a Cytori Licensed Product, Cytori shall make quarterly royalty reports to JVCo on or before each February 15 (for the quarter ending December 31), May 15 (for the quarter ending March 31), August 15 (for the quarter ending June 30) and November 15 (for the quarter ending September 30) of each year. Each royalty report will cover Cytori's most recently completed calendar quarter and will show:

(a) all Net Sales during the most recently completed calendar quarter;
(b) the Fully Burdened Cost of Sales associated with the Net Sales in 2.3 (a);
(c) the number of each type of Cytori Licensed Product sold;
(d) the royalties, in U.S. dollars, payable to JVCo hereunder;
(e) the method used to calculate the royalty ; and
(f) the exchange rates used.

If no Net Sales have been made during any reporting period, then a statement to this effect is required.

2.4 Books and Records. Cytori shall keep accurate books and records showing all Cytori Licensed Product manufactured, and/or sold under the terms of this Agreement. Books and records must be preserved for at least five (5) years from the date of the royalty payment to which they pertain. Books and records must be open to inspection by representatives or agents of JVCo at reasonable times, subject to a reasonable and customary confidentiality agreement. JVCo shall bear the fees and expenses of examination, but if an error in royalties of more than five percent (5%) of the total royalties due for any calendar year is discovered in any examination, then Cytori shall bear the fees and expenses of that examination.

2.5 Term and Termination. The term of this Agreement ("**Term**") shall commence on the Effective Date and shall continue in full force and effect for a period of *** for each Cytori Licensed Product offered by Cytori hereunder. The Term shall expire earlier with respect to any specific Cytori Licensed Product at such time as JVCo notifies Cytori in writing that it has an alternative commercially salable JVCo Licensed Product manufactured by or for JVCo that serves in the same market as such specific Cytori Licensed Product ("Termination Notice"). Notwithstanding the foregoing, the Term of the license rights granted hereunder shall continue after the Term with respect to:

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2.6 Representations and Warranties.

2.6.1 Representations and Warranties of Cytori. Cytori represents and warrants to JVCo that:

(a) Cytori is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and that Cytori has full power and authority, and has taken all action necessary, to execute and deliver this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement.

***Material has been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

(b) The execution, delivery and performance of this Agreement by Cytori will not result in any breach or violation of, or conflict with, any third-party contract, agreement, undertaking, judgment, decree, order, law, regulation or rule to which Cytori is a party or by which Cytori or any of its assets are bound, provided Olympus Corporation gives its consent to this transaction, which shall be attached hereto as Exhibit I.

(c) This Agreement has been duly and validly executed and delivered by Cytori and is binding upon and enforceable against Cytori in accordance with its terms, except as enforceability may be limited or affected by applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the rights of creditors and except as enforceability may be limited by rules of law governing specific performance, injunctive relief or other equitable remedies.

2.6.2 Representations and Warranties of JVCo. JVCo represents and warrants to Cytori that:

(a) JVCo is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and that JVCo has full power and authority, and has taken all action necessary, to execute and deliver this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement.

(b) The execution, delivery and performance of this Agreement by JVCo will not result in any breach or violation of, or conflict with, any contract, agreement, undertaking, judgment, decree, order, law, regulation or rule to which JVCo is a party or by which JVCo or any of its assets are bound, provided Olympus Corporation gives its consent to this transaction, which shall be attached hereto as Exhibit I.

(c) This Agreement has been duly and validly executed and delivered by JVCo and is binding upon and enforceable against JVCo in accordance with its terms, except as enforceability may be limited or affected by applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the rights of creditors, and except as enforceability may be limited by rules of law governing specific performance, injunctive relief or other equitable remedies.

2.7 Indemnification. In the event that any of the activities of Cytori in exercising the rights granted herein results in the assertion of any claim by a third party against JVCo, Cytori shall indemnify and hold harmless JVCo and its Affiliates, successors and assigns, and its and their respective directors, officers, employees and agents, from and against any and all claims and losses resulting from Cytori's activities, including but not limited to attorneys fees and expenses. JVCo shall promptly notify Cytori of any such third party claim and Cytori shall have the full right to control the defense of such claim, provided that it selects counsel reasonably acceptable to JVCo, and provided it can reasonably assure JVCo of its financial ability to fulfill its indemnity obligation. JVCo shall cooperate with Cytori in the defense of such claim, and neither party shall settle any such claim without the other's prior written approval, which approval shall not be unreasonably withheld.

2.8 Repair, Service and Warranty. Both Parties acknowledge and agree that (i) Cytori shall have responsibility for repair, service and warranty on Cytori Licensed Products, and (ii) JVCo and Olympus shall have no responsibility for repair, service and warranty on Cytori Licensed Products.

3. MISCELLANEOUS PROVISIONS

3.1 Confidentiality. Each Party will keep confidential all information obtained by or in connection with this Agreement from the other Party, including marketing plans, customer information, technical information, trade secrets, know-how and financial information as provided for in the Three-Way NDA, and as otherwise provided for in the Joint Venture Agreements.

3.2 Governing Law. This Agreement shall be governed in all respects by the laws of New York without regard to provisions regarding choice of laws.

3.3 Dispute Resolution. All disputes arising out of or in connection with this Agreement, or any relationship created by or in accordance with this Agreement, shall be finally settled under the Rules of the American Arbitration Association (the "**Rules**") by three arbitrators. Judgment on the award rendered by the panel of arbitrators shall be binding upon the Parties and may be entered in any court having jurisdiction thereof. JVCo shall nominate one arbitrator and Cytori shall nominate one arbitrator. The arbitrators so nominated by JVCo and Cytori, respectively, shall jointly nominate the third arbitrator within fifteen (15) days following the confirmation of arbitrators nominated by JVCo and Cytori. If the arbitrators nominated by JVCo and Cytori cannot agree on the third arbitrator, then such third arbitrator shall be selected as provided in the Rules. The place of the arbitration and all hearings and meetings shall be Singapore, unless the Parties to the arbitration otherwise agree. The arbitrators may order pre-hearing production or exchange of documentary evidence, and may require written submissions from the relevant Parties hereto, but may not otherwise order pre-hearing depositions or discovery. The arbitrators shall apply the laws of New York as set forth in Section 3.2; provided, however, that the Federal Arbitration Act shall govern. The language of the arbitral proceedings shall be English. The arbitrators shall not issue any award, grant any relief or take any action that is prohibited by or inconsistent with the provisions of this Agreement.

No arbitration pursuant to this Section 3.3 shall be commenced until the Party intending to request arbitration has first given thirty (30) days written notice of its intent to the other Party, and has offered to meet and confer with one or more responsible executives of such other Party in an effort to resolve the dispute(s) described in detail in such written notice. If one or more responsible executives of the other Party agree, within thirty (30) days after receipt of such written notice, to meet and confer with the requesting Party, then no arbitration shall be commenced until the Parties have met and conferred in an effort to resolve the dispute(s), or until sixty (60) days has elapsed from the date such written notice has been given.

3.4 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and assigns of the Parties hereto whose rights or obligations hereunder are affected by such amendments. Neither this Agreement nor any right, license, privilege or obligation provided herein may be assigned or transferred by either Party without the other Party's prior written consent. Any purported assignment of this Agreement of any right and obligation therein without the written consent of the other party shall be null and void.

3.5 Entire Agreement. This Agreement, the Joint Venture Agreements (and any amendments thereto) and the attachments, schedules and exhibits hereto, which are hereby expressly incorporated herein by this reference, constitute the entire understanding and agreement between the Parties with regard to the subject matter hereof and thereof, and supersedes, cancels and annuls in its entirety any and all prior or contemporaneous agreements and understandings, express or implied, oral or written among them with respect thereto. No alteration, modification, interruption or amendment of this Agreement shall be binding upon the Parties unless in writing designated as an amendment hereto, and executed with equal formality by each of the Parties.

3.6 Notices. Except as otherwise expressly provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given (a) when hand delivered to the other Party; (b) when received, if sent by facsimile at the address and number set forth below, with a written confirmation copy of such facsimile sent the next business day in accordance with (c) below; (c) the second business day after deposit with a national overnight delivery service, postage prepaid, addressed to the other Party as set forth below, provided that the sending Party receives a confirmation of delivery from the delivery service provider; or (d) if earlier, when actually received.

To Cytori:

3020 Callan Road, San Diego, CA 92121, U.S.A.

Attn: Christopher J. Calhoun
Fax: 858-458-0995

To JVCo:

2-3 Kuboyama-cho,
Hachioji-shi, Tokyo, 192-8512, Japan

Attn: Masaaki Terada
Fax: +81-426-91-7350

A Party may change or supplement its address set forth above, or may designate additional addresses, for purposes of this Section 3.6, by giving the other Party written notice of the new address in the manner set forth above.

3.7 Amendments and Waivers. No term or provision of this Agreement may be amended, waived, discharged or terminated orally but only by an instrument in writing signed by the Party against whom the enforcement of such amendment, waiver, discharge or termination is sought. Any waiver shall be effective only in accordance with its express terms and conditions.

3.8 Cumulative Remedies. Unless expressly so stated in this Agreement in respect of any particular right or remedy, the rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

3.9 Relationship of Parties. This Agreement shall not be deemed to constitute either Party the agent, the partner, the licensee, the affiliate or the representative of the other Party, and neither Party shall represent to any third party that it has any such relationship or right of representation.

3.10 Press Release. No public announcements or press releases shall be issued by either Party regarding this Agreement or any of the activities engaged in by the Parties or JVCo pursuant to this Agreement without the prior written approval of the other Party; provided, however, that either Party shall have the right to make such public disclosure as may be necessary or appropriate to comply with applicable securities or other laws.

3.11 Counterparts. This Agreement may be executed by facsimile signature in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

3.12 Severability. Should any provision of this Agreement be determined to be illegal or unenforceable, such determination shall not affect the remaining provisions of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have executed this License & Royalty Agreement as of the Effective Date.

CYTORI THERAPEUTICS, INC

By: /s/ Seijiro Shirahama
Title: Sr. Vice President, Asia-Pacific
Date: August 23, 2007

OLYMPUS-CYTORI, INC.

By: /s/Yasunobu Toyoshima
Title: Board of Director
Date: August 23, 2007

Exhibit I

Consent to License and Royalty Agreement

August 23, 2007

Olympus Corporation
2-3 Kuboyama-cho,
Hachioji-shi, Tokyo, 192-8512, Japan
Attn: Mr. Shuichi Takayama

RE: Consent to License and Royalty Agreement

Dear Mr. Takayama:

Cytori Therapeutics, Inc. (Cytori) and Olympus-Cytori, Inc. (JVCo) intend to enter into a license and royalty agreement (Royalty Agreement) whereby Cytori would be allowed to develop and manufacture certain Licensed Products (the Cytori "Celution" devices and disposable components) for commercial sale in a manner that was not contemplated in the Joint Venture Agreements by Cytori, Olympus Corporation and the JVCo in November of 2005.

Your Company's consent is hereby requested to allow the execution of the Royalty Agreement by Cytori and JVCo and for the performance of each party of its rights and obligations contained therein. It should be noted that the performance of the Royalty Agreement may, during the term of that Agreement conflict with certain exclusive rights of the parties to the Joint Venture Agreements, including Section 4.6 of the License/Joint Development Agreement. A complete copy of the form of Royalty Agreement is attached hereto as Exhibit I for your reference.

Please signify your Company's consent to this Royalty Agreement and waiver of any conflicts that this may create with the Joint Venture Agreements by having an authorized person sign and date this letter below.

Thank you for your consideration.

Sincerely,

/s/ Seijiro Shirahama
Seijiro Shirahama
Sr. Vice President, Asia-Pacific

CONSENT GRANTED (for the License and Royalty Agreement by and between Cytori Therapeutics, Inc. and Olympus-Cytori, Inc.)

Olympus Corporation

By : /s/ Shuichi Takayama

Name: Shuichi Takayama

Title: Director, Member of the Board

Date: August 23, 2007

GENERAL RELEASE AGREEMENT

This General Release Agreement (the "Agreement") is made and entered into by and between CYTORI THERAPEUTICS, INC. (Company) and John Ransom.

WHEREAS, John Ransom has been employed by CYTORI THERAPEUTICS, INC. as its Vice President of Research – Regenerative Cell Technology since December 9, 2005;

WHEREAS, for sound business reasons and in the best interests of the Company, the Company has decided to end John Ransom's employment with the Company effective August 2, 2007;

WHEREAS, John Ransom and the Company do not anticipate that there will be any disputes between them or legal claims arising out of John Ransom's separation from the Company, the parties nevertheless desire to ensure a completely amicable parting and to settle fully and finally any and all differences or claims that might otherwise arise out of John Ransom's employment with the Company relative to the termination of his employment;

NOW, THEREFORE, in consideration of the mutual promises contained herein, it is agreed as follows:

1. **Separation from Employment Relationship**. The employment relationship terminated and ceased as of August 2, 2007 (Separation Date).

2. **Consideration**. In consideration of John Ransom agreeing to enter into this General Release Agreement, CYTORI agrees to pay John Ransom a lump sum of sixty-six thousand, six hundred and sixty seven dollars (total =$ 66,667) less standard tax and withholding amounts. It is understood that there will be no continuation of any benefits, except in accordance with applicable law, or additional vesting of stock options beyond the Separation Date and/or otherwise provided in connection with the 1997 Stock Option and Stock Purchase Plan and/or 2004 Equity Incentive Plan unless expressly provided herein. John Ransom's right to exercise stock options vested as of the Separation Date shall extend through and terminate on December 31, 2007. John Ransom shall also be entitled to outplacement services under DBM's outplacement "DBM Select" program.

3. **Confidentiality**. The parties understand and agree that this Agreement, and the matters discussed in negotiating its terms, is entirely confidential. It is therefore expressly understood and agreed that John Ransom will not reveal, discuss, publish or in any way communicate any of the terms, amount or fact of this Agreement to any person, organization or other entity, except as may be required by law and except to Employee's immediate family members and professional representatives, who shall be informed of and bound by this confidentiality clause. It is also agreed and understood that Company may make any disclosure of the terms of the Agreement as may be required by law.

4. **Release of Claims.** John Ransom, for himself and his heirs, successors and assigns, does hereby agree to waive, release, acquit and forever discharge Company, and Company's parents, subsidiaries, affiliates, and related entities or companies, and all past and present officers, directors, shareholders, employees, agents, partners, attorneys, heirs, successors, and assigns, (hereinafter "Released Parties") from any and all claims, actions, complaints and causes of action for monetary damages (hereinafter collectively referred to as "claims"), of whatever nature, whether known or unknown, which exist or may exist on John Ransom's behalf against Released Parties as of the date of this Agreement, including but not limited to any and all tort claims, contract claims, wage claims, commission claims, bonus claims, overtime claims, wrongful termination claims, public policy claims, retaliation claims, statutory claims, personal injury claims, emotional distress claims, privacy claims, defamation claims, fraud claims, and any and all claims arising under any federal, state or other governmental statute, law, regulation or ordinance relating to employment, including but not limited to Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act, the California Labor Code, and the California Fair Employment and Housing Act covering discrimination in employment, including race, color, religious creed, national origin, ancestry, physical or mental disability, medical condition, marital status, military status, family care leave, pregnancy, sex, sexual orientation, age, and harassment or retaliation. *Limitation of Release-Notwithstanding the foregoing, none of the terms of this Agreement shall be construed so as to release those rights which as a matter of law or public policy cannot be waived, including but not limited to unwaivable rights or claims the Employee may have under the California Labor Code,* California Fair Employment and Housing Act, *or with the U.S. Equal Employment Opportunity Commission, provided that Employee agrees not to seek any monetary damages or other relief in any such proceeding.*

5. **Waiver of Rights Under Section 1542.** It is further understood and agreed that John Ransom hereby expressly waives and relinquishes any and all claims, rights or benefits that he may have under California Civil Code section 1542, which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in him favor at the time of executing the release which if known by he must have materially affected him settlement with the debtor."

In connection with such waiver and relinquishment, John Ransom acknowledges that he may hereafter discover claims or facts in addition to or different from those which he now knows or believes to exist with respect to the matters released herein, and he expressly agrees to fully, finally and forever settle and release any and all claims, known or unknown, suspected or unsuspected, which exist or may exist on him behalf against the Released Parties at the time of execution of this Agreement, including, but not limited to, any and all claims relating to or arising from him employment with Company or the termination of that employment.

6. **Continuing Obligations Regarding Confidential or Proprietary Information**. John Ransom agrees to abide by all the surviving provisions of the Employment, Confidentiality and Assignment of Inventions Agreement which he executed on December 19, 2005, including but not limited to, promises to protect all confidential and proprietary information of Company.

7. **Release of Age Discrimination Claims**. In addition to the Release in Section 4 above, John Ransom agrees to the release of all known and unknown claims, including expressly the waiver of any rights or claims arising out of the Federal Age Discrimination in Employment Act ("ADEA") 29 U.S.C. § 621, et seq., and in connection with such waiver:
   - **a.** John Ransom is hereby advised to consult with an attorney prior to signing this Agreement.
   - **b.** John Ransom shall have a period of forty-five (45) days from the date of receipt of this Agreement in which to consider the terms of the Agreement. John Ransom may at his option execute this Agreement at any time during the 45-day period.
   - **c.** John Ransom may revoke this Agreement at any time during the first seven (7) days following his execution of this Agreement, and this Agreement shall not be effective or enforceable until the seven-day period has expired.

8. **Employer Property And Trade Secrets**. John Ransom will return to Company any and all of its property and documents which he may have in his possession. Including but not limited to the following:

   · Any proprietary devices and equipment, cameras, video equipment etc.
   · Any Company information, including electronic files, hard copies etc.

John Ransom further agrees never to disclose to any person or entity any confidential or proprietary information of or about Company, except upon the express authorization and consent of Company.

9. **Non-Disparagement.** John Ransom agrees that he will not at any time defame, disparage or impugn the reputation of Company or any employees of Company in any future communications with any third-party or entity. "Disparage," as used in this Agreement, means to make any statement, written or oral, that casts the Company in a negative light of any kind, or implies or attributes any negative quality to the Company.

10. **COBRA**. John Ransom hereby acknowledges that Company has advised him that pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) he has a right to elect continued coverage under Company's group health plan, at his own expense, for a period of eighteen months from the date of his termination.

11. **Ownership of Claims.** John Ransom represents and warrants that he is the sole and lawful owner of all rights, title and interest in and to all released matters, claims and demands as herein contained and that there has been no assignment or other transfer of any interest of any claim or demand which he may have against Company.

12. **Successors and Assigns.** It is further expressly understood and agreed by John Ransom that this Agreement and all of its terms shall be binding upon each party's respective representatives, heirs, executors, administrators, successors and assigns.

13. **No Admission Of Wrongdoing**. This Agreement shall not in any way be construed as an admission by the released parties of any acts of wrongdoing whatsoever against John Ransom or any other person.

14. **Entire Agreement**. This General Release Agreement sets forth the entire agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof.

15. **Venue**. Any proceeding brought to enforce this agreement shall be brought in San Diego Co., CA.

16. **Construction.** If any provision herein shall be deemed void, invalid, unenforceable, or otherwise stricken, in whole or in part, this Agreement shall be deemed amended to delete or modify, as necessary, the offending provision or provisions and to alter the bounds thereof in order to render it valid and enforceable. The parties hereby agree to substitute a valid provision that will most closely approximate the economic/legal effect and intent of the invalid provision. The parties agree to execute any additional documents that may reasonably be necessary to effectuate the purposes of this agreement.

I HAVE READ AND CAREFULLY CONSIDERED THIS GENERAL RELEASE AGREEMENT, AND I HAVE HAD A REASONABLE PERIOD OF TIME TO CONSIDER THIS AGREEMENT PRIOR TO SIGNING. COMPANY HAS INDICATED THAT I AM FREE TO DISCUSS THIS AGREEMENT WITH MY FAMILY AND HAVE IT REVIEWED BY MY ATTORNEY PRIOR TO SIGNING IF I SO DESIRE. I AM SIGNING THIS AGREEMENT FREELY AND VOLUNTARILY.

Signed: /s/ John Ransom
John Ransom
Date: August 6, 2007

CYTORI THERAPEUTICS, INC.
Signed: /s/ Christopher J. Calhoun
CHRISTOPHER J. CALHOUN
CEO
Date: August 13, 2007

EXHIBIT 15.1

Letter re: Unaudited Interim Financial Information

November 13, 2007

Cytori Therapeutics, Inc.
3020 Callan Road
San Diego, California 92121

Re: Registration Statement Nos. 333-82074, 333-122691, 333-134129, and 333-140875

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated November 9, 2007, related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

San Diego, California

EXHIBIT 31.1

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

I, Christopher J. Calhoun, the Chief Executive Officer of Cytori Therapeutics, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cytori Therapeutics, Inc.;

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

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

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

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

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

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

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

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

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

Date: November 13, 2007
/s/ Christopher J. Calhoun
Christopher J. Calhoun,
Chief Executive Officer

EXHIBIT 31.2

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

I, Mark E. Saad, the Chief Financial Officer of Cytori Therapeutics, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cytori Therapeutics, Inc.;

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

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

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

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

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

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

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

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

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

Date: November 13, 2007
/s/ Mark E. Saad
Mark E. Saad
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Cytori Therapeutics, Inc. for the quarterly period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof, Christopher J. Calhoun, as Chief Executive Officer of Cytori Therapeutics, Inc., and Mark E. Saad, as Chief Financial Officer of Cytori Therapeutics, Inc., each hereby certifies, respectively, that:

1. The Form 10-Q report of Cytori Therapeutics, Inc. that this certification accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934.

2. The information contained in the Form 10-Q report of Cytori Therapeutics, Inc. that this certification accompanies fairly presents, in all material respects, the financial condition and results of operations of Cytori Therapeutics, Inc.

By: /s/ Christopher J. Calhoun

Dated: November 13, 2007

Christopher J. Calhoun
Chief Executive Officer

By: /s/ Mark E. Saad

Dated: November 13, 2007

Mark E. Saad
Chief Financial Officer