SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2016,

OR

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

Commission file number 001-35280

VERICEL CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	**94-3096597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

64 Sidney Street

Cambridge, MA 02139

(Address of principal executive offices, including zip code)

(Registrant's telephone number, including area code) **(800) 556-0311**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes - x No - o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes - x No - o

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

Large accelerated filer - o	Accelerated filer - x
Non-accelerated filer - o (Do not check if a smaller reporting company)	Smaller reporting company - o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

COMMON STOCK, NO PAR VALUE	**23,934,124**
(Class)	Outstanding at May 3, 2016

VERICEL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VERICEL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash	$ 13,544	$ 14,581
Accounts receivable (net of allowance for doubtful accounts of $68 for 2016 and 2015)	9,669	10,919
Inventory	1,942	1,379
Other current assets	662	464
Total current assets	25,817	27,343
Property and equipment, net	4,393	4,049
Intangible assets, net	2,847	2,917
Total assets	$ 33,057	$ 34,309
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,293	$ 7,588
Accrued expenses	4,943	3,603
Warrant liabilities	2,397	757
Other	136	160
Total current liabilities	13,769	12,108
Long term debt	62	71
Total liabilities	13,831	12,179
COMMITMENTS AND CONTINGENCIES (Note 13)		
Shareholders' equity:		
Series A non-voting convertible preferred stock, no par value: shares authorized and reserved — 1; shares issued and outstanding — 1	3,150	3,150
Series B-2 voting convertible preferred stock, no par value: shares authorized and reserved — 39, shares issued and outstanding — 12	38,389	38,389
Common stock, no par value; shares authorized — 75,000; shares issued and outstanding — 23,891 and 23,789, respectively	308,512	307,766
Treasury stock — 1,250 shares	(3,150)	(3,150)
Accumulated deficit	(327,675)	(324,025)
Total shareholders' equity	19,226	22,130
Total liabilities and shareholders' equity	$ 33,057	$ 34,309

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Product sales	$ 14,108	$ 10,849
Total revenues	14,108	10,849
Costs and expenses:		
Cost of product sales	6,560	5,568
Gross profit	7,548	5,281
Research and development	3,536	4,377
Selling, general and administrative	6,004	5,476
Total operating expenses	9,540	9,853
Loss from operations	(1,992)	(4,572)
Other income (expense):		
Increase in fair value of warrants	(1,640)	(317)
Foreign currency translation (loss) gain	(10)	16
Interest income	5	13
Interest expense	(3)	(2)
Other expense	(10)	—
Total other income (expense)	(1,658)	(290)
Net loss	$ (3,650)	$ (4,862)
Net loss per share attributable to common shareholders (Basic and Diluted) (see note 11)	$ (0.24)	$ (0.27)
Weighted average number of common shares outstanding (Basic and Diluted)	22,604	23,786

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, amounts in thousands)

	Three Months Ended March 31,	
	2016	2015
Net loss	$ (3,650)	$ (4,862)
Other comprehensive loss		
Foreign currency translation	—	(71)
Comprehensive loss	$ (3,650)	$ (4,933)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Three Months Ended March 31,	
	2016	**2015**
Operating activities:		
Net loss	$ (3,650)	$ (4,862)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	445	328
Stock compensation expense	488	922
Change in fair value of warrants	1,640	317
Inventory provision	17	—
Foreign currency translation loss (gain)	10	(16)
Gain on sales of fixed assets	—	(35)
Changes in operating assets and liabilities:		
Inventory	(580)	(85)
Accounts receivable	1,250	(975)
Other current assets	(229)	191
Accounts payable	(1,976)	460
Accrued expenses	1,340	(394)
Other non-current assets and liabilities, net	(24)	36
Net cash used for operating activities	(1,269)	(4,113)
Investing activities:		
Expenditures for property, plant and equipment	(13)	(353)
Other	93	35
Net cash provided by (used in) investing activities	80	(318)
Financing activities:		
Net proceeds from issuance of common stock	258	—
Deferred financing costs	(97)	—
Payments on long-term debt	(9)	(9)
Net cash provided by (used in) financing activities	152	(9)
Net decrease in cash	(1,037)	(4,440)
Cash at beginning of period	14,581	30,343
Cash at end of period	$ 13,544	$ 25,903
Supplemental cash flow information (non-cash):		
Additions to equipment in process included in accounts payable	$ 706	$ 458

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2015 (UNAUDITED)

1. Organization

Vericel Corporation, a Michigan corporation, which was formerly known as Aastrom Biosciences, Inc. (the Company, Vericel, we, us or our), was incorporated in March 1989 and began employee-based operations in 1991. On May 30, 2014, Vericel completed the acquisition of certain assets and assumed certain liabilities of Sanofi, a French société anonyme (Sanofi), including all of the outstanding equity interests of Genzyme Biosurgery ApS (Genzyme Denmark or the Danish subsidiary) (now known as Vericel Denmark ApS), a wholly-owned subsidiary of Sanofi, and over 250 patent applications of Sanofi and certain of its subsidiaries for purposes of acquiring the portion of the cell therapy and regenerative medicine business (the CTRM Business), which researches, develops, manufactures, markets and sells the Carticel®, MACI™, and Epicel® products. The Company is a fully integrated, commercial-stage biopharmaceutical company dedicated to the identification, development and commercialization of innovative therapies that enable the body to repair and regenerate damaged tissues and organs to restore normal structure and function. Vericel has marketed products as well as developmental stage product candidates and the Company's goal is to become the leader in cell therapy and regenerative medicine by developing, manufacturing and marketing best-in-class therapies for patients with significant unmet medical needs.

The Company operates its business primarily in the U.S. in one reportable segment — the research, product development, manufacture and distribution of patient-specific, expanded cellular therapies for use in the treatment of specific diseases.

Successful future operations are subject to several technical hurdles and risk factors, including satisfactory product development, timely initiation and completion of clinical trials, regulatory approval and market acceptance of the Company's products.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues and expenses. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. The financial statements reflect, in the opinion of management, all adjustments (consisting only of normal, recurring adjustments) necessary to state fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the three months ended March 31, 2016, are not necessarily indicative of the results to be expected for the full year or for any other period. The March 31, 2016 condensed consolidated balance sheet data was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 14, 2016 (Annual Report).

The consolidated financial statements include the accounts of Vericel and its wholly-owned subsidiaries, Marrow Donation, LLC, located in San Diego, California, and Vericel Denmark ApS, in Kastrup, Demark (collectively, the Company). All inter-company transactions and accounts have been eliminated in consolidation. Aastrom Biosciences GmbH ceased operations in 2014 and Marrow Donation, LLC and Vericel Denmark ApS ceased operations in 2015.

3. Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued authoritative guidance requiring entities to apply a new model for recognizing revenue from contracts with customers and the reporting of principal versus agent considerations. The guidance will supersede the current revenue recognition guidance and require entities to evaluate their revenue recognition arrangements using a five step model to determine when a customer obtains control of a transferred good or service. The guidance is currently effective for annual reporting periods beginning after December 15, 2017 and may be adopted using a full or modified retrospective application. The Company is currently in the process of evaluating its revenue arrangements under the issued guidance and has not yet determined the impact to its consolidated financial statements.

Going Concern Assessment

The FASB has issued authoritative guidance for management on how to assess whether substantial doubt exists regarding an entity's ability to continue as a going concern and guidance on how to prepare related footnote disclosures. The guidance will require management to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for one year from the date the financial statements are issued. The guidance is effective for annual reporting periods beginning after December 15, 2016. As of March 31, 2016, the Company does not expect the guidance to impact future disclosures.

Presentation and Subsequent Measurement of Debt Issuance Costs

The FASB issued guidance which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. For debt issuance costs related to line-of-credit arrangements, companies are able to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance was effective for annual reporting periods beginning after December 15, 2015 and the Company adopted the guidance for the three months ended March 31, 2016.

Accounting for Leases

The FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In accordance with the updated guidance, lessees are required to recognize the assets and liabilities arising from operating leases on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within 2018. The Company is currently reviewing the potential impact of adopting the new guidance.

Share-based Payment Accounting

The FASB issued guidance to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard will be effective for us on January 1, 2017. We are currently evaluating the potential impact that this standard may have on our financial position, results of operations and statement of cash flows.

4. Selected Balance Sheet Components

Inventory as of March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	December 31, 2015
Raw materials	$ 1,691	$ 1,228
Work-in-process	232	131
Finished goods	19	20
Inventory	$ 1,942	$ 1,379

Property and equipment, net as of March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	December 31, 2015
Machinery and equipment	$ 3,185	$ 3,280
Furniture, fixtures and office equipment	931	931
Computer equipment and software	2,662	2,662
Leasehold improvements	2,393	2,393
Construction in process	1,140	421
Total property and equipment, gross	10,311	9,687
Less: Accumulated depreciation	(5,918)	(5,638)
	$ 4,393	$ 4,049

Depreciation expense for the three months ended March 31, 2016 and 2015 was $0.4 million and $0.3 million, respectively.

Intangible assets, net as of March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	December 31, 2015
Commercial rights	$ 3,360	$ 3,360
Less: accumulated amortization	$ (513)	$ (443)
	$ 2,847	$ 2,917

Amortization expense was $0.1 million for both the three months ended March 31, 2016 and 2015.

Estimated future amortization expense is as follows:

Calendar Years Ending December 31, (In thousands)	
2016	$ 210
2017	280
2018	280
2019	280
2020	280
Thereafter	1,517
Total	$ 2,847

Accrued expenses as of March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	December 31, 2015
Bonus related compensation	$ 2,584	$ 1,956
Employee related accruals	1,959	1,341
Accrued expenses	16	75
Other	384	231
	$ 4,943	$ 3,603

5. Stock Purchase Warrants

The Company has historically issued warrants to purchase shares of the Company's common stock in connection with certain of its common stock offerings. The following warrants were outstanding at March 31, 2016, and include provisions that could require cash settlement of the warrants or have anti-dilution price protection provisions requiring the warrants to be recorded as liabilities of the Company at the estimated fair value at the date of issuance, with changes in estimated fair value recorded as income or expense (non-cash) in the Company's statement of operations in each subsequent period:

	August 2013 Warrants
Exercise price	$4.80
Expiration date	August 16, 2018
Total shares issuable on exercise	724,950

The fair value of the August 2013 warrants is measured using the Black-Scholes valuation model. Inherent in the Black-Scholes valuation model are assumptions related to expected stock-price volatility, expected life, risk-free interest rate and dividend yield. The Company estimates the volatility of its common stock based on historical volatility that matches the expected remaining life of the warrants. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected remaining life of the warrants. The expected life of the warrants is assumed to be equivalent to their remaining contractual term. The dividend rate is based on the historical rate, which the Company anticipates to remain at zero. See further detail in note 8 of the condensed consolidated financial statements.

The assumptions used by the Company are summarized in the following tables:

August 2013 Warrants	March 31, 2016	December 31, 2015
Closing stock price	$ 5.86	$ 2.58
Expected dividend rate	—%	—%
Expected stock price volatility	89.8%	91.4%
Risk-free interest rate	0.8%	1.3%
Expected life (years)	2.38	2.63

6. Debt

On March 8, 2016, the Company entered into a $15.0 million debt financing with Silicon Valley Bank (SVB). The debt financing consists of a $3.0 million term loan available immediately upon the closing, $2.0 million term loan available upon the FDA's approval of the MACI BLA and up to $10.0 million revolving line of credit. The term loans are interest only (indexed to Wall Street Journal (WSJ) Prime plus 0.75%) until March 1, 2017 followed by 36 equal monthly payments of principal plus interest maturing February 1, 2020. The revolving credit is limited to a borrowing base calculated using eligible accounts receivable and maturing March 8, 2018 with an interest rate indexed to WSJ Prime plus 0.25% or 0.75%, depending on certain balance sheet ratios. Monthly, the Company must remain in compliance with an adjusted quick ratio greater than or equal to 1.10 to 1.0. The adjusted quick ratio is the ratio of (a) unrestricted cash and cash equivalents and net billed accounts receivable to (b) current liabilities minus the current portion of deferred revenue and warrant liabilities. SVB has a first priority perfected security interest in all assets of the Company other than intellectual property. As of March 31, 2016, there was no outstanding debt with SVB, the capacity of the revolving line of credit was $7.8 million and we were, and continue to be, in compliance with our debt covenants.

7. Stock-based Compensation

Stock Option and Equity Incentive Plans

The Company can issue nonqualified and incentive stock options as well as other equity awards pursuant to its Second Amended and Restated 2009 Omnibus Incentive Plan, (Option Plan). Such awards pursuant to the Option Plan may be granted by the Company's Board of Directors to certain of the Company's employees, directors and consultants.

During the three months ended March 31, 2016, the Company granted 835,480 service-based options to purchase common stock. The options were granted with exercise prices equal to the fair market value of the Company's stock at the grant date, and other than those granted to non-employee directors, vest over four years, under a graded-vesting methodology, following the date of grant, and expire after ten years. The Company issues new shares upon the exercise of stock options. The weighted average grant-date fair value of service-based options granted under the Option Plan during the three month periods ended March 31, 2016 and 2015 was $2.19 and $2.22, respectively.

The net compensation expense recorded for the service-based stock options related to employees and directors was $0.5 million and $0.9 million for the three months ended March 31, 2016 and 2015, respectively. The compensation cost includes forfeiture adjustments.

The fair value of each service-based stock option grant for the reported periods is estimated on the date of the grant using the Black-Scholes option-pricing model using the weighted average assumptions noted in the following table.

	Three Months Ended March 31,	
Service-Based Stock Options	2016	2015
Expected dividend rate	—%	—%
Expected stock price volatility	78.7 – 85.5%	80.3 – 88.1%
Risk-free interest rate	1.3 – 1.8%	1.5 – 1.9%
Expected life (years)	6.1 – 6.3	5.5 – 6.3

The following table summarizes the activity for service-based stock options for the indicated periods:

Service-Based Stock Options	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	2,523,400	$ 6.36	8.7	$ 5,000
Granted	835,480	$ 3.09		
Exercised	38,919	$ 3.06		$ 76,687
Expired	34,187	$ 49.45		
Forfeited	72,340	$ 3.94		
Outstanding at March 31, 2016	3,213,434	$ 5.14	8.8	$ 8,116,912
Exercisable at March 31, 2016	739,346	$ 11.20	7.4	$ 1,430,199

As of March 31, 2016 there was approximately $3.9 million of total unrecognized compensation cost related to non-vested service-based stock options granted under the Option Plan. That cost is expected to be recognized over a weighted-average period of 3.3 years.

The total fair value of options vested during the three months ended March 31, 2016 and 2015 was $0.5 million and $0.3 million, respectively.

Employee Stock Purchase Plan

Employees are able to purchase stock under the Vericel Corporation Employee Stock Purchase Plan (ESPP), which was implemented effective October 1, 2015. Participation in this plan is available to substantially all employees. Compensation expense is recorded based on the fair market value of the purchase options at the grant date, which corresponds to the first day of each purchase period and is amortized over the purchase period. On April 1, 2016, employees purchased 42,481 shares resulting in proceeds from the sale of common stock of $0.1 million under the ESPP. The total share-based compensation expense for the ESPP for the three months ended March 31, 2016 was less than $0.1 million.

8. Fair Value Measurements

The Company's fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of the Company's investments and financial instruments that are measured at fair value on a recurring basis:

	March 31, 2016				December 31, 2015			
		Fair value measurement category				Fair value measurement category		
(In thousands)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities:								
Warrant liabilities	$ 2,397	$ —	$ 2,397	$ —	$ 757	$ —	$ 757	$ —

The following table summarizes the change in the estimated fair value of the Company's warrant liabilities:

Warrant Liabilities (In thousands)	
Balance at December 31, 2015	$ 757
Increase in fair value	1,640
Balance at March 31, 2016	$ 2,397

9. Shareholders' Equity

On January 21, 2014, the Company entered into a purchase agreement (Purchase Agreement), together with a registration rights agreement, for the sale of up to $15.0 million of shares of its common stock to Lincoln Park, subject to certain limitations, from time to time over a 30 months period, which began on April 3, 2014 and ends on October 3, 2016.

The Company may direct Lincoln Park, at its sole discretion, to purchase up to 50,000 shares of common stock in regular purchases, increasing to amounts of up to 100,000 shares depending upon the closing sale price of the common stock. In addition, the Company may direct Lincoln Park to purchase additional amounts as accelerated purchases if on the date of a regular purchase the closing sale price of the common stock equals or exceeds $3.00 per share. The purchase price of shares of common stock related to the future funding will be based on the prevailing market prices of such shares at the time of sales (or over a period of up to 10 business days leading up to such time), but in no event will shares be sold to Lincoln Park on a day the common stock closing price is less than the floor price of $2.50, subject to adjustment. The Company controls the timing and amount of any sales of common stock to Lincoln Park. The Company's sales of shares of common stock to Lincoln Park under the Purchase Agreement are limited to no more than the number of shares that would result in the beneficial ownership by Lincoln Park and its affiliates, at any single point in time, of more than 9.99% of the then outstanding shares of the common stock. The remaining capacity under this agreement is $11.3 million as of March 31, 2016. No shares were issued in 2015 or 2016.

At March 31, 2016, there was approximately $7.8 million of net capacity remaining on the At-the-Market Sales Agreement with MLV & Co. LLC (formerly McNicoll, Lewis & Vlak) which allowed us to sell shares of our common stock from time to time under a registration statement on Form S-3 filed in June 2011, pursuant to which we registered $100 million of our securities for public sale. The Form S-3 registration statement filed in June 2011 expired in July 2014. If we choose to access the remaining capacity, we will file an updated Form S-3 registration statement.

Treasury Stock

On December 23, 2015 Stonepine Capital, LLC (Stonepine) exchanged 1,250,000 shares of the Company's common stock held by Stonepine for 1,250 shares of Series A Convertible Preferred Stock. The common stock transferred from Stonepine to the Company during the share exchange is reserved as treasury shares. The value transferred to Series A Convertible Preferred Stock of $3.2 million is equal to the fair market value of the common stock as of December 23, 2015. See further discussion in note 10 of the condensed consolidated financial statements.

10. Preferred Stock

Series B Convertible Preferred Stock

On March 9, 2012, the Company completed the sale of 12,308 shares of Series B-1 Non-Voting Convertible Preferred Stock (Series B-1 preferred stock) at an offering price of $3,250 per share. In addition to the Series B-1 preferred stock, which was issued at the closing, the Company also authorized Series B-2 Voting Convertible Preferred Stock (Series B-2 preferred stock). The Series B-1 preferred stock and Series B-2 preferred stock collectively are referred to as the Series B preferred stock. The Series B preferred stock is convertible, at the option of the holder thereof at any time after the 5 years anniversary of the closing of the offering, (the Conversion date) into shares of common stock at a conversion price of $3.25 per share of common stock. At any time after the Conversion date, the Company may elect to convert any or all outstanding shares of Series B preferred stock into shares of common stock, subject to certain limitations. Stock dividends on the Series B preferred stock will be cumulative and compound daily, at a rate of 11.5% per annum, payable upon conversion, liquidation, redemption or other similar events, and

payable in cash or Series B-1 preferred stock until the Conversion date. As of March 31, 2016, there are approximately 366,457 shares of accumulated but undeclared Series B-1 Stock dividends. Unless prohibited by Michigan law governing distributions to shareholders, the Series B-1 preferred stock shall be redeemable at the option of holder of the Series B-1 preferred stock commencing at any time after the Conversion date, liquidation, winding up, dissolution or other similar events, subject to certain terms and limitations.

The Series B preferred stock does not, in its entirety, require liability classification and was evaluated for embedded features to determine if those features require bifurcation and separate classification as derivative liabilities. The Series B preferred stock host contract was evaluated for equity or mezzanine classification based upon the nature of the redemption and conversion features. Generally, any feature that could require cash redemption for matters not within the Company's control, irrespective of probability of the event occurring, requires classification outside of shareholders' equity. The Series B preferred stock was initially recorded as mezzanine in the Condensed Consolidated Balance Sheets and was accreted to its redemption value through charges to accumulated deficit using the effective interest method.

In 2013, the Company amended the Series B preferred stock agreement to remove the cash redemption provision, modify the liquidation preferences for the Series B-2 preferred stock and to increase the redemption price for the Series B-1 preferred stock. The redemption price, prior to the five years anniversary, is now equal to $7,430 multiplied by the number of Series B-1 preferred shares redeemed minus the Company's closing stock price multiplied by the number of common shares into which the outstanding Series B-2 preferred stock are convertible. The redemption price, after the five years anniversary, is the amount equal to the greater of the Series B offering price plus accrued dividends or the conversion value in common stock. As a result of the amendment to the agreement, the total amount of $38.4 million Series B preferred stock was reclassified from mezzanine into shareholders' equity.

Series A Convertible Preferred Stock

On December 18, 2015, the Company entered into a Securities Exchange Agreement (Exchange Agreement) with Stonepine pursuant to which Stonepine exchanged an aggregate of 1,250,000 shares of its common stock for 1,250 shares of the Company's Series A Convertible Preferred Stock (the Exchange). The Exchange closed on December 23, 2015. In connection with the Exchange, the Company designated 1,250 shares of its authorized and unissued preferred stock as Series A Convertible Preferred Stock. Each share of Series A Convertible Preferred Stock is convertible into 1,000 shares of its common stock at any time at the holder's option. The holder, however, will be prohibited from converting Series A Convertible Preferred Stock into shares of common stock if, as a result of such conversion, the holder, together with its affiliates, would own more than 9.99% of the shares of the Company's common stock then issued and outstanding or, upon such holder's written election, 14.99% of the shares of the Company's common stock then issued and outstanding. In the event of our liquidation, dissolution, or winding up, holders of Series A Convertible Preferred Stock will receive a payment equal to any declared but unpaid dividends before any proceeds are distributed to the holders of common stock, after any proceeds are distributed to the holder of our Series B-1 Non-Voting Convertible Preferred Stock and Series B-2 Voting Convertible Preferred Stock (together, the Series B Convertible Preferred Stock) and pari passu with any distributions to the holders of the Company's common stock. Shares of Series A Convertible Preferred Stock have no voting rights, except as required by law and except where the consent of holders of a majority of the outstanding Series A Convertible Preferred Stock would be required to amend the terms of the Series A Convertible Preferred Stock. Shares of Series A Convertible Preferred Stock are entitled to receive dividends at the same time as the shares of Common Stock.

11.Net Loss Per Common Share

Basic earnings (loss) per share is calculated using the two-class method, which is an earnings allocation formula that determines earnings (loss) per share for the holders of the Company's common shares and holders of the Series B preferred stock. The Series B preferred stock shares contain participation rights in undistributed earnings, but do not share in the losses of the Company. The dividends on the Series B preferred stock are treated as a reduction of earnings attributable to common shareholders.

The following reflects the net loss attributable to common shareholders and share data used in the basic and diluted earnings per share computations using the two class method:

(Amounts In thousands except per share amounts)	Three Months Ended March 31, 2016	2015
Numerator:		
Net loss	$ (3,650)	$ (4,862)
Dividends accumulated on convertible preferred stock	(1,804)	(1,590)
Net loss attributable to common shareholders	$ (5,454)	$ (6,452)
Denominator:		
Denominator for basic and diluted EPS:		
Weighted-average common shares outstanding	22,604	23,786
Net loss per share attributable to common shareholders (basic and diluted)	$ (0.24)	$ (0.27)

Common equivalent shares are not included in the diluted per share calculation where the effect of their inclusion would be anti-dilutive. The aggregate number of common equivalent shares (related to options, warrants and preferred stock) that have been excluded from the computations of diluted net loss per common share at March 31, 2016 and 2015 were 6.2 million and 4.2 million, respectively.

12. Concentration of Credit Risk

Revenue from one customer, a distributor in the U.S., represented approximately 62% and 63% of total revenue during the three months ended March 31, 2016 and 2015, respectively. Accounts receivable from the same customer accounted for 72% and 76% of the outstanding accounts receivable as of March 31, 2016 and December 31, 2015, respectively. The next largest customer
represented approximately 16% of revenue for the three month period ended March 31, 2016 and 2015. Accounts receivable from the next largest customer accounted for 11% and 8% of the outstanding accounts receivable as of March 31, 2016 and December 31, 2015, respectively. No other customer accounted for more than 10% of revenue reported.

13. Commitments and Contingencies

The Company leases facilities in Ann Arbor, Michigan and Cambridge, Massachusetts. In March 2016, the Company amended its current lease in Cambridge to, among other provisions, extend the terms until February 2022. In addition to the property leases, the Company also leases an offsite warehouse, various vehicles and computer equipment.

As of March 31, 2016, future minimum payments related to leases and other contractual obligations are as follows:

(In thousands)	Total	2016	2017	2018	2019	More than 5 Years
Operating leases	$ 26,617	$ 3,213	$ 4,899	$ 4,582	$ 4,262	$ 9,661
Purchase commitments	750	750	—	—	—	—
Capital leases	107	32	43	32	—	—
Total	$ 27,474	$ 3,995	$ 4,942	$ 4,614	$ 4,262	$ 9,661

Rent expense for both the three months ended March 31, 2016 and 2015 was $1.2 million.

14. Subsequent Events

On April 5, 2016, the Company entered into a services agreement with Dohmen Life Science Services, LLC (DLSS) for DLSS to exclusively provide certain administrative and clinical support services for Carticel® and MACI™, the Company's products intended for the treatment of symptomatic cartilage defects of the knee in adult patients (the DLSS Agreement). Under the terms of the DLSS Agreement, DLSS has also agreed to exclusively design, develop and implement a patient support services program for each product. The Company with DLSS intend to jointly develop a plan to assist with the implementation of each program. Subject to certain exceptions, DLSS will be responsible for all costs in connection with the development of each program. The initial term of the DLSS Agreement will be for 36 months following the effective date of the DLSS Agreement. Thereafter, the Company may renew, in its sole discretion, for one or two successive 12 month periods.

On April 20, 2016, the Company entered into an amended and restated contract manufacturing and supply agreement (the Vention Agreement) with Vention Medical Inc. (formerly ATEK Medical, LLC) (Vention) for the manufacture of the Company’s proprietary cell cassette for use in the Company’s ixmyelocel-T manufacturing process. The Vention Agreement amends and restates in its entirety the contract and manufacturing supply agreement between the Company and Vention dated November 8, 2010. Pursuant to the Vention Agreement, the Company will purchase from Vention and Vention will manufacture the cell cassettes for the Company and will assemble, package, label and sterilize the cell cassettes in Vention’s facilities. Vention will be responsible for obtaining all of the Company’s approved components pertaining to the cell cassettes. The Company is obligated to order and purchase the cell cassettes from Vention on a schedule and in quantities agreed to between the parties. The term of the Vention Agreement commenced on November 8, 2010 and shall expire on November 7, 2021. At the end of such term, the Vention Agreement will terminate automatically without notice unless prior to that time the term is extended by mutual written consent delivered at least six months prior to the termination date.

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

Overview

Vericel Corporation is a leader in developing patient-specific expanded cellular therapies for use in the treatment of patients with severe diseases and conditions. We market two autologous cell therapy products in the United States: Carticel® (autologous cultured chondrocytes), an autologous chondrocyte implant for the treatment of cartilage defects in the knee, and Epicel® (cultured epidermal autografts), a permanent skin replacement for the treatment of patients with deep-dermal or full-thickness burns comprising greater than or equal to 30 percent of total body surface area. We are also developing MACI™, a third-generation autologous chondrocyte implant for the treatment of cartilage defects in the knee, and ixmyelocel-T, a patient-specific multicellular therapy for the treatment of advanced heart failure due to ischemic dilated cardiomyopathy.

Manufacturing

We have a cell-manufacturing facility in Cambridge, Massachusetts which is used for U.S. manufacturing and distribution of Carticel, Epicel manufacturing and also manufacturing of MACI for the SUMMIT study conducted for approval in Europe. We also operate a centralized cell manufacturing facility in Ann Arbor, Michigan. The Ann Arbor facility supports the current open label extension portion of the ixCELL-DCM clinical trial being conducted in the United States and Canada and we believe we have sufficient capacity, with minor modifications, to supply our early commercialization requirements.

Product Portfolio

We market two autologous cell therapy products in the United States: Carticel® (autologous cultured chondrocytes), an autologous chondrocyte implant for the treatment of cartilage defects in the knee, and Epicel® (cultured epidermal autografts), a permanent skin replacement for the treatment of patients with deep-dermal or full-thickness burns comprising greater than or equal to 30 percent of total body surface area (TBSA). We are also developing MACI™, a third-generation autologous chondrocyte implant for the treatment of cartilage defects in the knee and for which a BLA is under review by the FDA. Our product candidate portfolio also includes ixmyelocel-T, a patient-specific multicellular therapy currently in development for the treatment of advanced heart failure due to ischemic dilated cardiomyopathy (DCM). We completed enrolling and treating patients in our Phase 2b ixCELL-DCM study in February 2015 and on March 10, 2016 announced the trial had met its primary endpoint of reduction in clinical cardiac events and that incidence of adverse events, including serious adverse events, in patients treated with ixmyelocel-T was comparable to patients in the placebo group.

Carticel

Carticel, a first-generation autologous chondrocyte implant product for the treatment and repair of cartilage defects in the knee, is the first and currently the only FDA-approved autologous cartilage repair product. Carticel is indicated for the repair of symptomatic cartilage defects of the femoral condyle (medial, lateral or trochlea) caused by acute or repetitive trauma, in patients who have had an inadequate response to a prior arthroscopic or other surgical repair procedure such as debridement, microfracture, drilling/abrasion arthroplasty, or osteochondral allograft/autograft. Carticel received a Biologics License Application (BLA) approval in 1997 and is currently marketed in the U.S. It is generally used on patients with larger lesions (greater than 3 cm^2).

In the U.S., we focus net sales of Carticel on the sports-injury-targeted orthopedic physician target audience, which is very concentrated, with 60% of the current Carticel business originating from 25% of this audience, or approximately 110 physicians. We currently have a 21-person field force calling on this sports-injury targeted orthopedic physician audience. For the three months ended March 31, 2016, net revenues were $8.8 million for Carticel.

Epicel

Epicel (cultured epidermal autografts) is a permanent skin replacement for full thickness burns greater than or equal to 30% of TBSA. Epicel is regulated by the Center for Biologics Evaluation and Research under medical device authorities, and is the only FDA-approved autologous epidermal product available for large total surface area burns. Epicel was designated as a HUD in 1998 and an HDE application for the product was submitted in 1999. HUDs are devices that are intended for diseases or conditions that affect fewer than 4,000 individuals annually in the United States. Under an HDE approval, a HUD cannot be sold for an amount that exceeds the cost of research and development, fabrication and distribution unless certain conditions are met. Currently, fewer than 100 patients are treated with Epicel in the U.S. each year. For the three months ended March 31, 2016, net revenues were $5.3 million for Epicel.

A HUD is eligible to be sold for profit after receiving HDE approval if the device meets certain eligibility criteria, including where the device is intended for the treatment of a disease or condition that occurs in pediatric patients and such device is labeled for use in pediatric patients. If the FDA determines that a HUD meets the eligibility criteria, the HUD is permitted to be sold for profit as long as the number of devices distributed in any calendar year does not exceed the annual distribution number (ADN). The ADN is defined as the number of devices reasonably needed to treat a population of 4,000 individuals per year in the United States.

On February 18, 2016, the FDA approved the Company's HDE supplement to revise the labeled indications of use to specifically include pediatric patients and to add pediatric labeling. The revised product label also now specifies that the probable benefit of Epicel, mainly related to survival, was demonstrated in two Epicel clinical experience databases and a physician-sponsored study comparing outcomes in patients with massive burns treated with Epicel relative to standard care. Due to the change in the label to include use in pediatric patients, Epicel is no longer subject to the HDE profit restrictions. In conjunction with meeting the pediatric eligibility criteria, the FDA has determined the ADN number for Epicel is 360,400.

We currently have a 5-person field force calling upon dedicated burn centers.

MACI

MACI is a third-generation autologous chondrocyte implant product for the treatment of focal chondral cartilage defects in the knee. MACI received marketing authorization in Europe in July 2013 by meeting the requirements of the Advanced Therapy and Medicinal Product (ATMP) guidelines. MACI had been commercially available in the European Union (EU) since 1998. As part of the June 2014 restructuring we temporarily suspended sales of MACI in August 2014, primarily due to low utilization and an unfavorable pricing environment. We believe that MACI has significant revenue potential in the U.S., if approved and reimbursed. On March 4, 2016, the FDA accepted our BLA seeking approval to market MACI as an autologous cellular treatment for symptomatic cartilage defects of the knee. The FDA provided a Prescription Drug User Fee Act goal date of January 3, 2017. In addition, the FDA has communicated that it is not currently planning to hold an advisory committee meeting to discuss the application.

Ixmyelocel-T

Our preapproval stage portfolio includes ixmyelocel-T, a unique patient-specific multicellular therapy derived from an adult patient's own bone marrow which utilizes our proprietary, highly automated and scalable manufacturing system. Our proprietary cell manufacturing process significantly expands the mesenchymal stromal cells (MSCs) and M2-like anti-inflammatory macrophages in the patient's bone marrow mononuclear cells while retaining many of the hematopoietic cells. These cell types are known to regulate the immune response and play a key role in tissue repair and regeneration by resolving pathologic inflammation, promoting angiogenesis, and remodeling ischemic tissue. The novelty and advantage of using ixmyelocel-T is the expansion of a unique combination of cell populations, including MSCs and M2-like macrophages, which secrete a distinct combination of angiogenic and regenerative factors, and possess the ability to remain anti-inflammatory in the face of inflammatory challenge.

Our lead clinical development program for ixmyelocel-T is focused on severe, chronic ischemic cardiovascular diseases. We have completed the double-blind portion of the Phase 2b ixCELL-DCM study, which is a randomized, double-blind, placebo-controlled clinical trial for patients with advanced heart failure due to ischemic DCM. Ixmyelocel-T has been granted a U.S. Orphan Drug designation by the FDA for the treatment of DCM. We also have conducted clinical studies for the treatment of critical limb ischemia and the treatment of craniofacial defects.

The Phase 2b ixCELL-DCM clinical study treated 114 patients at 28 sites in the U.S. and Canada. We completed enrolling and treating patients in February, 2015. Patients were followed for 12 months for the primary efficacy endpoint of major adverse cardiovascular events, defined as all-cause deaths, all-cause hospitalizations, and unplanned outpatient or emergency department visits for IV treatment of acute worsening heart failure. Secondary endpoints include clinical, functional, structural, symptomatic, quality of life, and biomarker measures at 3, 6 and 9 months. On March 10, 2016, we announced the trial had met its primary endpoint of reduction in clinical cardiac events, and that the full data results from the ixCELL-DCM trial were presented at the Late-Breaking Clinical Trial Sessions of the American College of Cardiology 65th Annual Scientific Session & Expo on April 4, 2016. On April 4, 2016, we announced that incidence of adverse events, including serious adverse events, in patients treated with ixmyelocel-T was comparable to or lower than patients in the placebo group. With respect to the secondary endpoints of the trial, the components of the primary endpoint were also analyzed using the Win ratio in a hierarchical manner to incorporate both the incidence and timing of the endpoint components. The Win ratio result of 1.56 showed that more often ixmyelocel-T was the "winner" in that the time to death, left ventricular assist device placement, heart transplantation or time to cardiovascular hospitalization was shorter for placebo-treated patients, but this difference did not reach statistical significance. The time to firs

t event was longer in the ixmyelocel-T group compared to placebo, but was not statistically significant. There were no significant structural changes in left ventricle cavity size or left ventricular ejection fraction as measured by echocardiogram in either the ixmyelocel-T or placebo groups. Both treatment groups had an improvement in the New York Heart Association class and six-minute walk test, with no statistical difference between the groups after 12 months using the last observation carried forward. Because the trial met the primary endpoint, patients who had been assigned to the placebo group or randomized to ixmyelocel-T in the double blind portion of the trial but did not receive ixmyelocel-T will be offered the option to receive treatment.

Future development plans for ixmyelocel-T are dependent upon input from our regulatory interactions and the availability of non-dilutive financing. We are focused on determining the most appropriate manner to fund future development of ixmyelocel-T, balancing risk to the overall business, dilution to current shareholders, and retaining a significant portion of the upside potential of the program for the company and our shareholders.

Adjusted Net Loss and Adjusted Net Loss Per Share

The reconciliation of reported numerator and denominator in net loss per share (GAAP) to adjusted net loss per share (non-GAAP measure) for the three months ended March 31, 2016 and 2015 is below:

	Three Months Ended March 31,	
(Amounts In thousands except per share amounts)	**2016**	**2015**
Numerator:		
Numerator of basic and diluted EPS	$ (5,454)	$ (6,452)
Add: Increase in fair value of warrants	1,640	317
Add: Dividends accumulated on convertible preferred stock	1,804	1,590
Adjusted net loss - Non-GAAP	$ (2,010)	$ (4,545)
Denominator:		
Denominator for basic and diluted EPS:		
Weighted-average common shares outstanding	22,604	23,786
Add: Treasury stock	1,250	—
Adjusted denominator for basic and diluted EPS	23,854	23,786
Adjusted net loss per share (basic and diluted) - Non-GAAP	$ (0.08)	$ (0.19)

We believe that the presentation of Adjusted Net Loss and Adjusted Net Loss Per Share, non-GAAP financial measures, provide investors with additional information about our financial results. Adjusted Net Loss and Adjusted Net Loss Per Share are important supplemental measures used by our board of directors and management to evaluate our operating performance from period to period on a consistent basis and as measures for planning and forecasting overall expectations and for evaluating actual results against such expectations.

The Adjusted Net Loss excludes the non-cash change in the fair value of warrants and the non-cash accumulated dividend on the Series B convertible preferred stock. The Adjusted Net Loss Per Share includes common shares reserved as treasury shares received in exchange for the Series A non-voting convertible preferred stock.

Adjusted Net Loss and Adjusted Net Loss Per Share are not in accordance with, or an alternative to, measures prepared in accordance with U.S. GAAP. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. As non-GAAP measures, Adjusted Net Loss and Adjusted Net Loss Per Share have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with U.S. GAAP. Non-GAAP financial measures that we use may differ from measures that other companies may use. These non-GAAP financial measures that we disclose are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP, and should be viewed in conjunction with, GAAP financial measures.

Results of Operations

Net Loss

Our net loss for the three months ended March 31, 2016 totaled $3.7 million or $0.24 per share. Our net loss for the three months ended March 31, 2015 totaled $4.9 million or $0.27 per share.

	Three Months Ended March 31,	
(In thousands)	**2016**	**2015**
Total revenues	$ 14,108	$ 10,849
Cost of product sales	6,560	5,568
Gross profit	7,548	5,281
Total operating expenses	9,540	9,853
Loss from operations	(1,992)	(4,572)
Other expense	(1,658)	(290)
Net loss	$ (3,650)	$ (4,862)

Net Revenues

Net revenues increased for the three months ended March 31, 2016 compared to the same period the previous year due primarily to increased Epicel and Carticel implants and increases in the price we charge for Carticel that took effect in the current period.

	Three Months Ended March 31,	
Revenue by product (in thousands)	**2016**	**2015**
Carticel	$ 8,811	$ 7,118
Epicel	5,297	3,639
Bone Marrow	—	92
	$ 14,108	$ 10,849

Seasonality. Carticel revenue is subject to seasonal fluctuations with stronger sales occurring in the fourth quarter and second quarter due to a number of factors including insurance copay limits and the time of year patients prefer to start rehabilitation. Over the last five years, the percentage of annual sales by quarter has ranged as follows: first quarter, 20% to 24%; second quarter, 24% to 26%; third quarter, 21% to 23%; and fourth quarter, 29% to 33%. During 2015, the percentage of annual sales by quarter was as follows: 20.2% in the first quarter; 25.7% in the second quarter; 22.0% in the third quarter; and 32.1% in the fourth quarter. Epicel revenue is also subject to seasonal fluctuations mostly associated with the use of heating elements during the colder months, with stronger sales occurring in the winter months of the first and fourth quarters, and weaker sales occurring in the hot summer months of the third quarter. However, in any single year, this trend can be absent due to the extreme variability inherent with Epicel's low patient volume of fewer than 100 patients per year. Over the last five years, the percentage of annual sales by quarter has ranged as follows: first quarter, 27%; second quarter, 25%; third quarter, 20%; and fourth quarter, 28%. The variability between the same quarters in consecutive years has been as high as 10% of the annual volume. While the number of patients treated per year remains low, we expect these large swings in revenue in some quarters to continue. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

Gross Profit and Gross Profit Ratio

	Three Months Ended March 31,	
(In thousands)	**2016**	**2015**
Gross profit	$ 7,548	$ 5,281
Gross profit %	54%	49%

Gross profit ratio increased for the three months ended March 31, 2016 compared to the same period the previous year due to higher sales volume, a Carticel price increase that took effect in January 2016 and lower professional services as a result of the CTRM Business being fully integrated.

Research and Development Costs

(In thousands)	Three Months Ended March 31, 2016	2015
Research and development costs	$ 3,536	$ 4,377

Research and development expenses for the three months ended March 31, 2016 were $3.5 million versus $4.4 million for the same period a year ago. Trial expenses for the ixCELL-DCM clinical trial were higher in the three months ended March 31, 2015 since patients were being both treated and enrolled in that period and treatment had ended in the three months ended March 31, 2016. The decrease was offset by additional research, development and regulatory consulting costs incurred to support the MACI BLA submission and review in addition to Epicel increased research expenses.

(In thousands)	Three Months Ended March 31, 2016	2015
Dilated Cardiomyopathy	$ 1,819	$ 3,433
MACI	553	190
Carticel	647	478
Epicel	517	276
Total research and development expenses	$ 3,536	$ 4,377

Selling, General and Administrative Costs

(In thousands)	Three Months Ended March 31, 2016	2015
Selling, general and administrative costs	$ 6,004	$ 5,476

Selling, general and administrative expenses for the three months ended March 31, 2016 were $6.0 million compared to $5.5 million for the same period a year ago. The increase in selling, general and administrative expenses is due primarily to an increase in shared facility fees.

Other Income (Expense)

(In thousands)	Three Months Ended March 31, 2016	2015
Increase in fair value of warrants	$ (1,640)	$ (317)
Foreign currency translation (loss) gain	(10)	16
Other income	(10)	—
Net interest income	2	11
Total other income (expense)	$ (1,658)	$ (290)

The change in other income and expense for the three months ended March 31, 2016 compared to 2015 is due primarily to the change in warrant value as a result of the increase in our stock price, offset by the reduction in the time to maturity and the January Class A warrants and December 2010 warrants which expired in 2015. Fluctuations in the fair value of the warrants in future periods could result in significant non-cash adjustments to the condensed consolidated financial statements, however, any income or expense recorded will not impact our cash, operating expenses or cash flow.

Stock Compensation

Non-cash stock-based compensation expense included in cost of goods sold, research and development expenses and selling, general and administrative expenses is summarized in the following table:

(In thousands)	Three Months Ended March 31, 2016	2015
Cost of goods sold	$ 82	$ 120
Research and development	80	212
Selling, general and administrative	326	590
Total non-cash stock-based compensation expense	$ 488	$ 922

The decrease in stock-based compensation expense is due primarily to a decrease in options granted in the three months ended March 31, 2016 compared to the same period in 2015 in addition to a decrease in the fair value of the options granted in 2016 compared to 2015.

Liquidity and Capital Resources

We are currently focused on utilizing our technology to identify, develop and commercialize innovative therapies that enable the body to repair and regenerate damaged tissues and organs to restore normal structure and function. Until such time as we satisfy, if at all, applicable regulatory approval requirements for ixmyelocel-T and MACI, we expect the sales of Carticel and Epicel therapies to constitute nearly all of our product sales revenues. Additionally, we are focusing significant resources to grow our CTRM Business.

We have raised significant funds in order to complete our product development programs, and complete clinical trials needed to market and commercialize our products. To date, we have financed our operations primarily through public and private sales of our equity securities. While we believe that, based on our current cash on hand and availability under our term loan and revolving line of credit, we are well positioned to sustain operations twelve months beyond March 31, 2016; if actual results differ from our projections, we may need to access additional capital. We expect that we will require substantial additional capital resources to complete the development of ixmyelocel-T for the treatment of advanced heart failure due to ischemic DCM and for other strategic opportunities. Actual cash requirements may differ from projections and will depend on many factors, including continued scientific progress in our research and development programs, the scope and results of clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patents, competing technological and market developments, costs of possible acquisition or development of complementary business activities, and the cost of product launch and commercialization of newly approved products. If MACI receives the required FDA approvals, we may need to raise additional capital in anticipation of the introduction of MACI in the U.S. market.

We have access to certain amounts of financing through an agreement with Lincoln Park Capital Fund, LLC (Lincoln Park). We may direct Lincoln Park to purchase up to $15.0 million worth of shares of our common stock over a 30-month period generally in amounts up to 50,000 shares of our common stock on certain business days under a Purchase Agreement. However, there are certain factors, such as volume of trading in our common stock and our stock price, which limit the amount that can be raised in a short period of time. The extent to which we rely on the Lincoln Park Equity Line as a source of funding will depend on a number of factors, including the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources. The remaining capacity under this agreement is $11.3 million as of March 31, 2016.

At March 31, 2016, there was approximately $7.8 million of net capacity remaining on the At-the-Market Sales Agreement with MLV & Co. LLC (formerly McNicoll, Lewis & Vlak), which allowed us to sell our common stock from time to time under a registration statement on Form S-3 filed in June 2011, pursuant to which we registered $100 million of our securities for public sale. The Form S-3 registration statement filed in June 2011 expired in July 2014. If we choose to access the remaining capacity, we will file an updated Form S-3 registration statement.

On March 8, 2016, the Company entered into a $15.0 million debt financing with SVB. The debt financing consists of a $3.0 million term loan available immediately upon the closing, $2.0 million term loan available upon the FDA's approval of the MACI BLA and up to $10.0 million revolving line of credit. The term loans are interest only (indexed to WSJ Prime plus 0.75%) until March 1, 2017 followed by 36 equal monthly payments of principal plus interest maturing February 1, 2020. The revolving credit is limited to a borrowing base calculated using eligible accounts receivable and maturing March 8, 2018 with an interest rate indexed to WSJ Prime plus 0.25% or 0.75%, depending on certain balance sheet ratios. Monthly, the Company must remain in compliance with an adjusted quick ratio greater than or equal to 1.10 to 1.0. The adjusted quick ratio is the ratio of (a) unrestricted cash and cash equivalents and net billed accounts receivable to (b) current liabilities minus the current portion of deferred revenue and warrant liabilities. SVB has a first priority perfected security interest in all assets of the Company other than intellectual property. As of March 31, 2016, there was no outstanding debt with SVB, the capacity of the revolving line of credit was $7.8 million and we were, and continue to be, in compliance with our debt covenants.

Our cash totaled $13.5 million at March 31, 2016. During the three months ended March 31, 2016, the cash used for operations was $1.3 million. This use of funds was fueled largely by our operating loss reduced by an increase in fair value of warrants of $1.6 million, stock compensation expense of $0.5 million, and depreciation and amortization expense of $0.4 million.

The change in cash used for investing activities was immaterial through March 31, 2016.

The change in cash provided from financing activities is primarily due to the cash proceeds of issuance of common stock of $0.3 million as a result of the exercise of stock options and employee participation in the Company's ESPP.

As of March 31, 2016 we had $9.0 million of cash deposited into an Insured Cash Sweep (ICS) program which is administered by Bank of New York Mellon. This program maximizes our Federal Deposit Insurance Company (FDIC) coverage by dividing our ICS funds into amounts under the standard FDIC maximum and places these amounts with other ICS Network member banks (each an FDIC-insured institute). These funds are placed in savings accounts at the member banks earning interest while still maintaining insurance coverage.

Off-Balance Sheet Arrangements

At March 31, 2016, we were not party to any off-balance sheet arrangements.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these condensed consolidated financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events. These estimates and judgments, in and of themselves, could materially impact the condensed consolidated financial statements and disclosures based on varying assumptions. The accounting policies discussed in our Form 10-K for the fiscal year ended December 31, 2015 are considered by management to be the most important to an understanding of the consolidated financial statements because of their significance to the portrayal of our financial condition and results of operations. There have been no material changes to that information disclosed in our Annual Report during the three months ended March 31, 2016.

Forward-Looking Statements

This report, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but are not always, made through the use of words or phrases such as "anticipates," "estimates," "plans," "projects," "trends," "opportunity," "comfortable," "current," "intention," "position," "assume," "potential," "outlook," "remain," "continue," "maintain," "sustain," "seek," "achieve," "continuing," "ongoing," "expects," "management believes," "we believe," "we intend" and similar words or phrases, or future or conditional verbs such as "will," "would," "should," "could," "may," or similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in them. The factors described in our Annual Report, among others, could have a material adverse effect upon our business, results of operations and financial conditions.

Because the factors referred to in the preceding paragraph could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements we make, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. These forward-looking statements include statements regarding:

- potential strategic collaborations with others;
- future capital needs and financing sources;
- adequacy of existing capital to support operations for a specified time;
- product development and marketing plans;
- regulatory filing plans;
- features and successes of our cellular therapies;
- manufacturing and facility capabilities;
- clinical trial plans, including publication thereof;
- anticipation of future losses;
- replacement of manufacturing sources;
- commercialization plans; or
- revenue expectations and operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2016, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates or credit conditions on our securities portfolio.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer (its "Certifying Officers"), as appropriate, to allow timely decisions regarding required disclosure.

Management of the Company, with the participation of its Certifying Officers, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules l3a-15(e) and l5d-15(e) under the Exchange Act. Based on the evaluation as of March 31, 2016, our Certifying Officers concluded that the Company's disclosure controls and procedures were not effective because of the material weakness in our internal control over financial reporting as described below.

Management's Report on Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness relates to the design of controls to mitigate segregation of duties conflicts in our financial management/ERP software. Specifically, our Controller had access to modules in the financial management software beyond necessary to perform the job of Controller, and the controls that were designed and implemented to be performed by the Controller to mitigate the incompatible duties of other financial personnel were ineffective. Thus, the material weakness impacted substantially all financial statement accounts and all financial statement assertions. While the material weakness did not result in any financial statement adjustments during the three months ended March 31, 2016, it could result in misstatements to substantially all accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Notwithstanding the material weakness described above, we believe the Company's financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented. The Certifying Officers have certified to their knowledge that this Quarterly Report on Form 10-Q does not contain any untrue statements of material fact or omit to state any 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 periods covered in this quarterly report.

Plan for Remediation of Material Weakness

With the oversight of senior management and our audit committee, we have taken steps to remediate the material weakness noted above. Beginning in January 2016, we have modified and removed the Controller's access to modules in the financial management software.

In January 2016, with the oversight of senior management and our audit committee, we have taken steps to begin to design a remediation plan. Plan steps and actions taken thus far are below.

1) Remove inappropriate permissions. When the permissions error was located in January 2016, inappropriate access was immediately removed. Information Technology staff responsible for the maintenance of Active Directory Group assignments made changes to the Controller's permissions and by January 25, 2016, the Controller's permissions were corrected to remove the incompatible access.

2) Enable and/or design reporting functionality that provides an audit trail for journal entries, module access and other relevant user actions. In addition to the corrections to the Controller's permissions, the FastPath software vendor was contacted to customize an additional report that is needed to document the audit trail / life cycle of each journal entry in the ERP. The new report captures journal entries that originate in the general ledger together with the user that initiated each journal entry, the user the changed each journal entry, and the user that posted each journal entry in the ERP.

3) Review remaining conflicts and confirm whether Controller's review would effectively mitigate the risk associated with the permissions.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, other than the previously discussed material weakness and the related remediation plan.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we receive threats or may be subject to litigation matters incidental to our business. However, we are not currently a party to any material pending legal proceedings.

Item 1A. Risk Factors

Information regarding our risk factors is set forth in Part 1, Item 1A, "Risk Factors," on our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 14, 2016. There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A, "Risk Factors" on our Annual Report on Form 10-K.

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

The Company did not repurchase any of its equity securities during the quarter ended March 31, 2016.

Item 6. Exhibits

The Exhibits listed in the Exhibit Index immediately following the Signature, are filed as a part of this Quarterly Report on Form 10-Q.

SIGNATURE

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.

Date: May 10, 2016

VERICEL CORPORATION

/s/ DOMINICK C. COLANGELO

Dominick C. Colangelo

President and Chief Executive Officer

(Principal Executive Officer)

/s/ GERARD MICHEL

Gerard Michel

Chief Financial Officer and Vice President, Corporate Development

(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Loan and Security Agreement, dated March 8, 2016 between the Company, as borrower, and Silicon Valley Bank, as lender (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on March 9, 2016).
10.2†**	Services Agreement, dated April 5, 2016 between the Company and Dohmen Life Science Services, LLC.
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101 DEF**	XBRL Taxonomy Extension Definition Linkbase Document

** Filed herewith.

† Confidential treatment has been requested as to certain portions thereto, which portions are omitted and will be filed separately with the Securities and Exchange Commission.

GLOSSARY

TERM	DEFINITION
Adverse Event	Any adverse change in health or "side-effect" that occurs in a person participating in a clinical trial, from the time they consent to joining the trial until a pre-specified period of time after their treatment has been completed.
Autologous (Patient Specific)	Originating from the patient receiving treatment. (Vericel uses only autologous cells).
BLA — Biologics License Application	An application containing product safety, efficacy and manufacturing information required by the FDA to market biologics products in the U.S.
CLI — Critical Limb Ischemia	An atherosclerotic vascular disease characterized by insufficient blood flow in the lower extremities that causes severe pain, tissue loss or both.
Controlled Clinical Trial	A clinical study that compares patients receiving a specific treatment to patients receiving an alternate treatment for the condition of interest. The alternate treatment may be another active treatment, standard of care for the condition and/or a placebo (inactive) treatment.
DCM — Dilated Cardiomyopathy	A chronic cardiac disease where expansion of the patient's heart reduces the pumping function to a point that the normal circulation of blood cannot be maintained.
Double-Blind Clinical Trial	Clinical trials in which neither the patient nor the physician know if the patient received the experimental treatment or a control/placebo.
FDA — Food & Drug Administration	The U.S. FDA ensures that medicines, medical devices, and radiation-emitting consumer products are safe and effective. Authorized by Congress to enforce the Federal Food, Drug, and Cosmetic Act and several other public health laws, the agency monitors the manufacture, import, transport, storage, and sale of $1 trillion worth of goods annually.
GMP — Good Manufacturing Practice	GMP regulations require that manufacturers, processors, and packagers of drugs, medical devices, some food, and blood take proactive steps to ensure that their products are safe, pure, and effective. GMP regulations require a quality approach to manufacturing, enabling companies to minimize or eliminate instances of contamination, mix-ups, and errors.
Hematopoietic Cells	All of the cells in the blood system including myeloid (monocytes and macrophages, neutrophils, basophils, eosinophils, erythrocytes, megakaryocytes/platelets, dendritic cells), and lymphoid lineages (T-cells, B-cells, NK-cells).
Ischemia	A shortage or inadequate flow of blood to a body part (commonly an organ or tissue) caused by a constriction or obstruction of the blood vessels supplying it.
LVEF — Left Ventricular Ejection Fraction	The fraction of blood pumped out of the left ventricle with each heartbeat.
Mesenchymal stromal cells	Connective tissue cells that, in the case of bone marrow derived MSCs, function to support blood forming cells and secrete anti-inflammatory factors.
M2 anti-inflammatory macrophages	Specialized blood cells that remove damaged tissue and bacteria and secrete anti-inflammatory factors.
Open-label Clinical Trial	A trial in which both the treating physician and the patient know whether they are receiving the experimental treatment or control/placebo treatment.
Orphan Drug Designation	"Orphan drug" refers to a drug or biologic that is intended for use in the treatment of a rare disease or condition. Orphan drug designation from the U.S. Food and Drug Association (FDA) qualifies the sponsor to receive certain benefits from the Government in exchange for developing the drug for a rare disease or condition. The drug must then go through the FDA marketing approval process like any other drug or biologic which evaluates for safety and efficacy. Usually a sponsor receives a quicker review time and lower application fees for an orphan product.
Phase 1 Clinical Trial	A Phase 1 trial represents an initial study in a small group of patients to test for safety and other relevant factors.
Phase 2 Clinical Trial	A Phase 2 trial represents a study in a moderate number of patients to assess the safety and efficacy of a product.
Phase 2b Clinical Trial	A Phase 2b trial is a moderately-sized Phase 2 trial that is more specifically designed assess the efficacy of a product than a Phase 2a trial.

Phase 3 Clinical Trial	Phase 3 studies are initiated to establish safety and efficacy in an expanded patient population at multiple clinical trial sites and are generally larger than trials in earlier phases of development.
Prospective Clinical Trial	A clinical trial in which participants are identified and then followed throughout the study going forward in time.
Randomized Clinical Trial	A clinical trial in which the participants are assigned randomly to different treatment groups.

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

SERVICES AGREEMENT

This Services Agreement (this "**Agreement**") is made as of the 5th day of April, 2016 ("**Effective Date**") by and between DOHMEN LIFE SCIENCE SERVICES, LLC, a Wisconsin limited liability company ("**DLSS**"), and VERICEL CORPORATION, a Michigan corporation ("**Client**").

RECITALS

WHEREAS, DLSS provides outsourced business services to life science companies in a variety of functional areas including finance, technology, supply chain, patient and customer support, quality, regulatory and medical affairs;

WHEREAS, Client believes that using DLSS services as an extension of its company will create both efficiencies as well as an improved customer experience; and

WHEREAS, DLSS and Client desire to agree upon the terms and conditions upon which such services shall be provided.

NOW, THEREFORE, in consideration of the mutual agreements and understandings set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, DLSS and Client agree as follows:

1. DEFINITIONS. Capitalized terms not otherwise defined in this Agreement have the meanings set forth in this Section 1 as follows:

(a) "**Adverse Event**" means any untoward medical occurrence in a patient administered a Product and which is not necessarily caused by the Product. An Adverse Event can therefore be any unfavorable and unintended sign (e.g. an abnormal laboratory finding), symptom, or disease temporarily associated with the use of a Product, whether or not considered related to the Product. An Adverse Event includes, but is not limited to, the following: (i) any clinically significant worsening of a pre-existing condition; (ii) an event that has been associated with the discontinuation of the use of a Product; and (iii) any lack or loss of intended effect.

(b) "**Affiliate**" of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(c) "**Confidential Information**" means any information (whether or not marked "confidential" and regardless of the medium of communication) that relates to the disclosing party or its business, including, without limitation, trade secrets, know-how, software, methodologies, processes, procedures, data, templates, forms, algorithms, specifications, drawings, technology, information pertaining to business operations and strategies, and information pertaining to customers, pricing and marketing. Confidential Information shall not include information that: (i) the receiving party can demonstrate is already known to the receiving party without restriction on use or disclosure prior to receipt of such information from the disclosing party; (ii) is

or becomes generally known by the public other than by breach of this Agreement by, or other wrongful act of, the receiving party; (iii) the receiving party can demonstrate is developed by the receiving party independently of, and without reference to, any Confidential Information of the disclosing party; or (iv) is received by the receiving party from a third party who is not known by the receiving party to be under any obligation to the disclosing party to maintain the confidentiality of such information.

(d) "**Customer**" shall mean any hospital, surgery center or other clinic site, Payer, health care provider, or other person or entity that is legally entitled to order, purchase, and/or pay for the Product.

(e) "**Force Majeure**" means acts of God or the public enemy, earthquakes, fire, flood, epidemic, civil insurrection or war, acts of terrorism, inability to access data, power or supplies, labor shortages or strife, and other conditions (other than financial difficulties) beyond the reasonable control of the involved party which delay or prevent the rendition of such party's performance hereunder.

(f) "**Laws**" means all laws, statutes, rules, regulations, guidelines and orders of the Territory or any unit, division or subdivision thereof, or any Regulatory Authority thereof.

(g) "**Medical Device Event**" means an event that reasonably suggests that a device may have caused or contributed to a death or serious injury, or has malfunctioned and the malfunction of the device, or a similar device that Client markets, would be likely to cause or contribute to a death or serious injury if the malfunction were to recur.

(h) "**Other Safety Findings**" means the following, whether it/they is/are associated with an Adverse Event or other Reportable Event: (i) use of a Client Product while pregnant and/or breast feeding; (ii) accidental or intentional medication errors; (iii) misuse, where the Product is intentionally and inappropriately used (including misuse for illegal purposes); (iv) transmission of an infectious agent through a contaminated Product; (v) occupational exposure to a Product; (vi) reports of patient "death" after exposure to a Product where no other details are provided (e.g., fatal outcomes); (vii) off-label use; (viii) wrong cells applied to a patient; and/or (ix) unexpected therapeutic benefits.

(i) "**Patient**" means, with respect to any Program, a patient designated by DLSS as participating in such Program, whether or not the patient undergoes a biopsy or implantation.

(j) "**Payer**" means any third party payer responsible for reimbursement of covered charges for the applicable Product, including, but not limited to, Medicare and Medicaid, commercial payers, workers' compensation, and military facilities.

(k) "**Person**" means an individual, corporation, partnership, joint venture, limited liability company, governmental authority, unincorporated organization, trust, association or other entity.

(l) "**Products**" has the meaning set forth on **Exhibit A** attached hereto.

(m) "**Product Complaint**" means any written, electronic, or oral communication of dissatisfaction regarding the identity, quality, durability, reliability and safety, with respect to Product quality, effectiveness or performance of a Product. A Product Complaint may occur, among other ways, in the receipt of biopsy kits, or final Product during implantation/grafting or post-surgery.

(n) "**Program**" means, with respect to each Product, the patient support services program designed, developed, and implemented by DLSS pursuant to this Agreement.

(o) "**Regulatory Authority**" means the government of the United States or any foreign jurisdiction, any state, county, municipality or other governmental or quasi governmental unit or sub-unit, or any agency, board, bureau, instrumentality, department or commission (including any court or other tribunal) of any of the foregoing.

(p) "**Reportable Events**" includes one or more of the following: Adverse Events, Other Safety Findings, Product Complaints, and Medical Device Events.

(q) "**Representatives**" means, as to a Person, its and its Affiliates' respective officers, directors, managers, employees, consultants, professional advisors, agents, financing sources, licensing partners and business associates.

(r) "**Services**" mean the services to be provided to Client by DLSS under this Agreement with respect to Products, as set forth on **Exhibit B** attached hereto.

(s) "**Standard Operating Procedures**" means (i) the standard operating procedures of DLSS, as may be revised by DLSS from time-to-time, which DLSS applies in the provision of Services hereunder, and (ii) any other procedures mutually agreed upon by Client and DLSS.

(t) "**Territory**" means the United States of America.

2. SERVICES.

(a) During the Term, Client hereby engages DLSS as, and DLSS agrees to be, the exclusive designer and developer of each Program, and the exclusive provider of the Services set forth in this Agreement and listed on Exhibit B attached hereto, in the Territory, and Client shall purchase such Services from DLSS.

(b) To the extent that DLSS is unable or unwilling to provide any of the Services to Client or any Customer or Patient, DLSS will promptly inform Client in writing. DLSS will make commercially reasonable efforts to assist Customers and Patients, and/or Client on a Customer's or Patient's behalf, in connection with the Products and in accordance with the terms of this Agreement.

(c) Promptly after signing this Agreement, the parties shall endeavor to jointly develop an implementation plan (the "Operational Blueprint") addressing, among other things, (i) the schedule for the design, development and launch of the Program, (ii) the schedule of implementation meetings, (iii) the schedule of stages, tasks and key decisions required of each party, (iv) the schedule and process for transferring active patient cases, data and other information from Client's current/former vendor to DLSS and incorporating such patients, data, and other information into the Program, and (v) such other items identified by the parties, including, without limitation, a projected date for the launch of the Program. The parties shall use commercially reasonable efforts to reach agreement upon the Operational Blueprint within thirty (30) days after signing this Agreement. After the Operational Blueprint has been agreed upon, the parties shall promptly begin undertaking the implementation of the Program. Except as otherwise expressly provided herein, DLSS shall bear the costs in connection with the development of the Program; provided, however, that Client shall bear its own costs in connection with the development of the Program relating to Client's

travel, Client's internal resource time, Client's professional advisors (including attorneys), material development (*e.g.* patient education), manufacturing the Products, and providing training to DLSS regarding the Product and Client's current customer care processes.

3. OBLIGATIONS OF DLSS.

(a) DLSS shall:

(i) Comply with all Laws applicable to DLSS in connection with the Services and each Program.

(ii) Perform the Services (A) in accordance with the Standard Operating Procedures, (B) with the same degree of professional care and diligence as DLSS performs similar services for its similarly situated other clients, and (C) in compliance with industry standards.

(iii) Possess, maintain and comply with all licenses, registrations, listings, clearances, approvals and consents as required by applicable Law or contract to be held or maintained by DLSS for the provision of the Services by DLSS, and shall ensure that each of its Representatives providing Services hereunder maintains and complies with all licenses, registrations, listings, clearances, approvals and consents as required by applicable Law or contract to be held or maintained by such individual for the provision of the Services.

(iv) Maintain all documents and records created by DLSS in performance of the Services and maintain complete and accurate records of all transactions related to the conduct of business under this Agreement, all for such periods as are required to comply with applicable Laws, and DLSS shall provide copies to Client as Client may reasonably request from time to time.

(v) Be responsible for all of its own personnel and for the payment of their compensation, including, if applicable, withholding of income taxes, and the payment and applicable withholding of social security and other payroll taxes, unemployment insurance, workers' compensation insurance payments and disability benefits.

(vi) Promptly after becoming aware of any investigation, inspection, directive, order or inquiry by or from any Regulatory Authority directly relating to any Product, notify Client thereof describing the matter in reasonable detail.

(vii) Report each Reportable Event within one (1) business day of becoming aware of the Reportable Event. DLSS shall directly email each Reportable Event to Client's Pharmacovigilance at [***], with a copy to [***], or shall report each Reportable Event to such other e-mail address or in such other manner as Client may designate to DLSS in writing from time to time. Information reported by DLSS shall include, to the extent available: patient identifiers (such as date of birth or initials), reporter (including reporter name and contact information), Product information, and a description of the Reportable Event. Notwithstanding the foregoing, DLSS shall under no circumstances be responsible for any investigations or case processing related to a Reportable Event.

(viii) Maintain a secure database of all Patient information. Prior to disclosing any Patient information to Client, DLSS shall first, to the extent required by Law: (A) de-identify such information in accordance with applicable standards set forth in privacy rules promulgated pursuant to the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations promulgated thereunder ("HIPAA"), or (B) obtain from the Patient a valid, unrevoked, HIPAA authorization that permits disclosures to Client. DLSS shall make available to Client the Reports described in **Exhibit B** and set forth on **Exhibit C** attached hereto and incorporated herein, and such additional information as Client may reasonably request from time to time. DLSS acknowledges that HIPAA is not intended to disrupt or discourage disclosure of PHI by a covered entity to a person subject to the jurisdiction of the Food and Drug Administration ("FDA") with respect to an FDA-regulated product or activity for which that person has responsibility, for the purpose of activities related to the quality, safety or effectiveness of such FDA-regulated product or activity, subject to the minimum necessary standard.

(ix) Obtain and maintain all provider or supplier agreements and numbers necessary for the submission by DLSS of claims to Payers.

(x) Hire or otherwise engage sufficient numbers of employees, contractors, agents, and/or other Representatives possessing the requisite education, skill, competence and experience, to perform the Services set forth herein and to fulfill DLSS' obligations under this Agreement and ensure that each individual providing Services hereunder obtains and maintains all requisite licensure, registration, certification and/or other credentials as necessary for performance of the Services hereunder.

(xi) Maintain quality assurance procedures in accordance with applicable standards established by the profession and/or industry and applicable Law, and as mutually agreed to by Client and DLSS in writing.

(xii) Order, on behalf of a Customer, Product from Client by submitting a written purchase order identifying the Patient, the requested delivery date(s), relevant shipping information, and such other information as may be necessary to enable Client to fulfill the order. The written order shall be on a form furnished from time to time by DLSS and approved by Client. All orders for Product are subject to acceptance by Client in its sole discretion after Client's receipt thereof. DLSS may order Product only from Client.

(xiii) Reimburse Client upon demand for all of the out-of-pocket costs and expenses (including, without limitation, reasonable attorneys' fees and other professional costs) and the time of Client employees at the hourly rate of $[***] per hour, which are incurred by Client in connection with any agreement required by DLSS' landlord or lender, or pursuant to any of the following events or occurrences, except to the extent that Client's breach of its express obligations contained in this Agreement is the primary cause of such event or occurrence: (A) any inspection, investigation or inquiry by a Regulatory Authority attributable to DLSS or its business, including, but not limited to, the Services; (B) any court or Regulatory Authority directive, order, subpoena, interrogatory, demand, request for admission or other process of Law directed at Client attributable to DLSS or its business, including, but not limited to, the Services; or (C) any request by DLSS to produce information or documentation, or give testimony or other services, in connection with either (A) or

(B) above. As a professional courtesy, the first five (5) hours of Client's internal employee time incurred by Client relating to (A)-(C) above will not be charged to DLSS.

(b) In the event that DLSS receives a notice from any Regulatory Authority regarding its obligations pertaining to Laws and/or applicable professional standards that have a material adverse effect on its ability to provide the Services hereunder, DLSS shall notify Client promptly and provide Client with any non-confidential documentation reasonably related to such notice.

(c) DLSS represents and certifies that it and any person or entity employed or engaged by it, including, without limitation, DLSS's employees, contractors, agents, and other Representatives who will provide Services in connection with this Agreement (collectively, "Personnel") are not currently:

(i) excluded, debarred, suspended or otherwise ineligible to participate in federal health care programs as defined in 42 U.S.C. §1320-7b or in federal procurement or non-procurement activities as defined in Executive Order 12689 (collectively, "Ineligible");

(ii) debarred pursuant to the Generic Drug Enforcement Act of 1992, 21 U.S.C. §335(a), as amended, or any similar state law or regulation ("Debarred");

(iii) excluded by the Office of Inspector General pursuant to 42 U.S.C. §1320a-7, et seq. or any state agency from participation in any federal or state health care program as defined in 42 U.S.C. §1320a-7 and 42 U.S.C. §1320a-7b ("Excluded"); and/or

(iv) otherwise disqualified or restricted by the FDA pursuant to 21 CFR §312.70 or any other regulatory authority ("Disqualified").

(d) DLSS represents and certifies that it will not utilize any Ineligible, Debarred, Excluded or Disqualified Personnel to provide any Services hereunder. During the Term, if DLSS or any Personnel becomes Ineligible, Debarred, Excluded or otherwise Disqualified ("Change in Status"), DLSS shall notify Client of the Change in Status, in writing, as soon as the Change in Status is known, or, by exercising reasonable diligence would have been known, but in no event later than five (5) business days of the date of the Change in Status. Upon receipt of such notice with respect to a Change in Status of DLSS, or if Client becomes aware of any Ineligibility, Debarment, Exclusion or Disqualification of DLSS, Client shall have the right to terminate this Agreement immediately and shall retain all claims, causes of action, defenses, and other rights that Client may have at law or in equity. Upon receipt of such notice with respect to a Change in Status of Personnel, or if Client becomes aware of any Ineligibility, Debarment, Exclusion or Disqualification of any Personnel, DLSS shall promptly remove and replace such Personnel with qualified Personnel and shall notify Client promptly of such removal and replacement. DLSS represents and warrants that it has no actual knowledge of any conduct for which DLSS or Personnel could be Ineligible, Debarred, Excluded or Disqualified.

(e) DLSS shall not make any changes in any manner whatsoever or provide supplemental information to any descriptive, educational, promotional or other Product-related materials, including, but not limited to, labels, advertising, educational materials, or other written materials (collectively, "Materials") supplied by Client without the prior written authorization of Client. DLSS shall not distribute any Materials created or developed by DLSS or any third party without the prior written authorization of Client, unless DLSS is required to do so in accordance with applicable Law. DLSS shall comply with all Laws that govern

the distribution or utilization of all Materials. DLSS shall deliver to Customers and/or Patients, as applicable, any Materials or other literature about the Product that Client furnishes to DLSS, and are intended to be delivered to Customers and/or Patients, as applicable. In the event that DLSS violates any of the foregoing provisions, and/or if DLSS incorporates all or any portion of the content of the Materials into written, oral, graphic or other material or presentation relating to or mentioning any Product or otherwise for purposes unrelated to the Program, Client hereby specifically disclaims any liability to DLSS and to any other party for any damages, claim, penalty or judgment in connection with such Material or presentation, and DLSS shall indemnify and hold Client harmless from any and all costs, expenses, damages, judgments and liabilities (including attorney's fees) incurred by or rendered against Client and arising as a result of such action by DLSS.

(f) In the event that: (i) any Regulatory Authority issues a request or directive or orders that the Product be recalled or retrieved, (ii) a court of competent jurisdiction orders that the Product be recalled or retrieved, or (iii) Client reasonably determines that the Product should be recalled, retrieved or a "dear doctor" letter is required relating to restrictions on use of the Product, DLSS will provide Client with any reasonable assistance requested by Client in connection with the coordination of returning the Product to Client.

(g) DLSS shall, no later than July 1, 2016, (i) have a payer agreement or similar arrangement with each Payer listed in **Exhibit D** attached hereto and incorporated herein regardless of whether such payer agreement includes reimbursement for the Product (each, an "Initial Payer"), (ii) initiate discussions with each Initial Payer, (iii) commence negotiations with each Initial Payer for the reimbursement of the Product on the terms set forth in **Exhibit D**, and (iv) present to Client the proposed rate of reimbursement by each Initial Payer, which terms shall be subject to Client's review and approval or review and further direction, as applicable.

(h) DLSS shall not at any time do or permit any act to be done which may reasonably be expected to impair the rights of Client in Client's name, trade names, service name and any other names for which Client has rights under common law or for which application has been made, or may be made during the Term of this Agreement, to the applicable Regulatory Authority for recognition as a registered trademark or service mark of Client or any of the Products or other products manufactured by Client (collectively, "Client's Marks"). DLSS shall not obtain or assert any claim to any patent, copyright or trademark protection relating to the Product or Client's Marks (whether owned by Client or licensed to Client), and any rights so obtained shall be immediately transferred to Client. DLSS shall advise Client of any conflict of which DLSS becomes aware between Client's Marks and the name, trademarks or trade names of any third party.

(i) DLSS represents and warrants that, to the best of its knowledge, the execution of this Agreement and the Exhibits attached hereto by it and its performance of its obligations hereunder or thereunder will not conflict with, result in the breach of, or constitute a default under, any applicable Law or any agreement to which DLSS or its Representatives are parties, or by which DLSS or its Representatives is or may be, bound.

(j) DLSS represents and warrants that no consent, approval, order of authorization of, or registration, qualification designation, declaration or filing with, any federal, state or local government authority is required in connection with the consummation by DLSS of the transactions contemplated by this Agreement.

(k) DLSS represents and warrants that it currently does not have, and during the Term of this Agreement shall not have, any financial relationship, through compensation, investment interest, or otherwise, with any third-party health care provider who is authorized or otherwise in a position to order or purchase the Product and/or provide clinical services, including, but not limited to physical therapy, related to the Product.

(l) Notwithstanding anything to the contrary herein, DLSS shall under no circumstances provide Client any documents or records to the extent DLSS is prohibited from doing so by applicable Law.

4. OBLIGATIONS OF CLIENT.

(a) Client shall:

(i) Comply with all Laws applicable to the Products.

(ii) Reasonably cooperate with DLSS in all matters relating to the Services. Without limiting the generality of the foregoing, Client shall use commercially reasonable efforts to respond promptly to any DLSS request to provide direction, information, approvals, authorizations or decisions that are reasonably necessary for DLSS to perform Services in accordance with the requirements of this Agreement.

(iii) Use commercially reasonable efforts to promptly provide such Client materials and other information as DLSS may reasonably request in order to enable DLSS to perform the Services in a timely manner, and use commercially reasonable efforts to ensure that the same are complete and accurate in all respects. DLSS shall be entitled to rely, without independent verification, on the accuracy and completeness of all materials and other information provided by or on behalf of Client or its Representatives to DLSS, and DLSS shall have no liability with respect to the inaccuracy or inadequacy of such materials or other information, provided that neither DLSS nor any of its Representatives have changed, modified, or otherwise altered such materials or other information in any way.

(iv) Possess, maintain and comply with all licenses, registrations, listings, clearances, approvals and consents as required by applicable Law or contract to be held or maintained by Client in relation to the Products, Client's business or the use of Client-supplied materials or information by DLSS.

(v) Reasonably promptly after becoming aware of any investigation, inspection, directive, order or inquiry by or from any Regulatory Authority that involves or relates to one or more Products, or other matter that would reasonably be expected to affect DLSS or its business, notify DLSS describing the matter in reasonable detail.

(vi) Utilize DLSS exclusively, during the Term, for the provision of all services in the nature of the Services set forth on **Exhibit B** for all of Client's requirements for such Services within the Territory for each Product. Without limiting the generality of the foregoing, during the Term, DLSS shall serve as the exclusive administrator of each Program.

(vii) Be responsible, at its expense, for the marketing and promotion of each Program unless otherwise expressly set forth in this Agreement. Client shall provide DLSS with the opportunity to review and approve, which approval shall not be unreasonably withheld, conditioned or delayed, in advance all materials and communications that reference DLSS or describe the Services or any Program.

(viii) Pay when due the fees and other charges for DLSS's Services, as set forth on **Exhibit F**.

(b) Reimburse DLSS upon demand for all of the out-of-pocket costs and expenses (including, without limitation, reasonable attorneys' fees and other professional costs) and the time of DLSS employees at the hourly rate of $[***] per hour, which are incurred by DLSS in connection with any agreement required by Client's landlord or lender, or pursuant to any of the following events or occurrences, except to the extent that DLSS's breach of its express obligations contained in this Agreement, and/or any other act of DLSS (unless such act is authorized by this Agreement or performed pursuant to the direction of Client), is the primary cause of such event or occurrence: (i) any inspection, investigation or inquiry by a Regulatory Authority attributable to Client, its business, or any Product; (ii) any court or Regulatory Authority directive, order, subpoena, interrogatory, demand, request for admission or other process of Law directed at DLSS attributable to Client, its business, or any Product; or (iii) any request by Client to produce information or documentation, or give testimony or other services, in connection with either (i) or (ii) above. As a professional courtesy, the first five (5) hours of DLSS' internal employee time incurred by DLSS relating to (i)-(iii) above will not be charged to Client.

(c) CLIENT DOES NOT MAKE ANY WARRANTY OF ANY KIND, WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, AND SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

(d) Client represents and warrants that, to the best of its knowledge, the execution of this Agreement and the Exhibits attached hereto by it and its performance of its obligations hereunder or thereunder will not conflict with, result in the breach of, or constitute a default under, any applicable Law or any agreement to which Client or its Representatives are parties, or by which Client or its Representatives is or may be, bound.

5. OBLIGATIONS OF THE PARTIES.

(a) Notwithstanding the generality of any provision herein, each party shall maintain all federal, state and local registrations necessary to comply with this Agreement and will immediately notify the other party of any denial, revocation or suspension of any such registration. Each party will comply with all Laws and professional standards applicable to performance of its obligations under this Agreement, including, without limitation, (i) Drug Quality and Security Act, (ii) federal and state Food, Drug and Cosmetics Acts; (iii) federal and state Anti-kickback laws; (iv) guidelines of The Joint Commission; (v) federal, state or local laws relating to billing or other sales practices; (vi) applicable provisions of Executive Order 11246, Section 503 of the Rehabilitation Act of 1973, and the Vietnam Era Veteran's Readjustment Assistance Act, and applicable regulations; and (vii) HIPAA. Additionally, each party will take all necessary precautions to prevent Product from being possessed, used, handled, distributed or sold by those who may not lawfully possess, use, handle, distribute or sell Product, and each party will fully comply, as applicable, with all Laws

regarding manufacturing, possession, use, distribution, sale and safe handling of Product. In the event that there is any change in Law that has the effect of making the operation of any Program illegal, then the parties shall meet in good faith to mutually agree on an appropriate amendment to this Agreement to reflect the changed circumstances, and, if the parties cannot agree on such amendment, either party may, upon thirty (30) days' prior written notice to the other party, terminate this Agreement; provided, however, that if there is more than one Program, this Agreement shall continue in place with respect to any Program for which the operation thereof continues to be legal.

(b) Each party shall comply with all Laws, including reporting or reflecting discounts, rebates and other price reductions, pursuant to 42 USC §1320a-7b(b)(3)(A) on cost reports, invoices or claims submitted to federal or state healthcare programs, retaining invoices and related pricing documentation and making them available on request as required.

(c) The parties shall have telephone conferences regarding the Products and the Services provided by DLSS hereunder on a monthly basis, or more frequently as determined by Client and agreed upon by DLSS. During such conference calls, the parties shall review DLSS's Services, including staffing needs, and other matters as determined by each party.

(d) Client and DLSS hereby each represent and warrant that with respect to any Services Client engages DLSS to perform hereunder: (i) such services are bona fide, legitimate, and reasonable; (ii) the Services are not intended to serve, either directly or indirectly, as a means of DLSS marketing or selling the Product, notwithstanding that Client may utilize deliverables resulting from the Services, such as data reports, for its own marketing; (iii) the Services are not intended to diminish the objectivity or professional judgment of, or to interfere with the objectivity or professional discretion of any health care professional; (iv) the Services do not involve the counseling or promotion of any off-label use of the Product or a business arrangement or other activity that violates any applicable laws; (v) the fees for the Services are not intended in any way as remuneration for referrals or for other business generated; (vi) the fees for the Services represent fair market value for the Services based on arms-length negotiations; and (vii) the fees for the Services paid pursuant to this Agreement are not intended in any way as payments related to clinical practice guidelines or clinical practice guideline activities and have not been negotiated or discussed between the parties in connection with any such clinical practice guidelines or clinical practice guideline activities.

6. <u>BILLING AND COLLECTION</u>.

(a) The Services shall include billing and collection for the Product by DLSS in accordance with the following:

(i) [***].

(ii) [***].

(iii) [***].

(iv) [***].

(v) [***].

(vi) [***].

(b) DLSS represents and warrants that the billing and collection procedures set forth in this Agreement comply with all applicable Laws and with each Payer contract.

7. COMMERCIAL TERMS.

(a) As full consideration for the Services, Client will pay DLSS the fees and charges set forth on **Exhibit F**, which fees and charges will be invoiced monthly by DLSS, unless otherwise specified on **Exhibit F**. Invoices will be due for payment by Client forty-five (45) days from the date of invoice. Invoices shall include all data reasonably requested by Client. If any amount is owed, but not paid when due, a late payment charge of 1.0% of the amount past due will apply for each 30-day period or part thereof that the amount remains unpaid. If Client reasonably disputes any portion of any data on which the invoice is based, Client shall provide notice of its dispute in writing, which notice shall include the reason for the dispute. Client and DLSS shall in good faith attempt to reconcile any disputed data.

(b) Client shall reimburse DLSS for all pass-thru expenses incurred by DLSS in performing Services, including, without limitation, EDI charges, Client-specified supplies, non-routine copying or delivery charges, travel and lodging, and any other expenses set forth on **Exhibit F** attached hereto. All such pass-thru charges shall be subject to prior approval of Client and shall be included on the appropriate invoice described in this Section 7.

(c) Client shall be billed on a calendar year basis for no fewer than (i) [***] biopsies coordinated per calendar year and (ii) [***] implants coordinated per calendar year. Such billings will be prorated based upon the date that the Services commence and the date that the Services terminate. For illustration purposes only, if Services commence on July 1, 2016, Client will be billed for no fewer than [***] biopsies coordinated and [***] implants coordinated for 2016. For the avoidance of doubt, if biopsies coordinated and implants coordinated exceed the minimum billing amount in a calendar year, Client will be billed for the actual number of biopsies coordinated and implants coordinated.

8. CONFIDENTIAL INFORMATION.

(a) DLSS shall not (except as required in the performance of Services hereunder or as provided in this Section 8) disclose any Confidential Information of Client or use Client's Confidential Information except in the performance of Services to or for the benefit of Client. The fact that Client is a customer of DLSS is not Confidential Information of Client.

(b) Client shall not (except as provided in this Section 8) disclose or use any Confidential Information of DLSS.

(c) DLSS may disclose Client's Confidential Information and Client may disclose DLSS' Confidential Information, to their respective Representatives who have a need to know in connection with the Services and each party's monitoring and administration thereof. Each party hereto, in advance of any disclosure, shall inform its Representatives to whom the other party's Confidential Information is proposed to be disclosed of the restrictions on disclosure and use thereof contained in this Section 8 and such party shall cause its Representatives to agree (for the benefit of the other party) to be bound by the terms of this Section 8. Notwithstanding the foregoing, each party hereto shall be responsible and liable for any use or

disclosure by its Representatives of the other party's Confidential Information in violation of the restrictions thereon set forth in this Section 8.

(d) If either party (with respect to the other party's Confidential Information) is compelled or requested to disclose the same by court or Regulatory Authority order, subpoena, interrogatory, request for admission, demand or other similar process of Law, such disclosure shall be permitted; provided, however, that the receiving party shall promptly notify the disclosing party of the existence and terms of such legal process and provide the disclosing party a copy of the demand or request, and reasonably assist (at the disclosing party's cost and expense) the disclosing party's efforts to obtain a protective order or such other relief as may be available to prevent or limit such disclosure. Notwithstanding the foregoing, if this Agreement or any documents related to the Program is required to be filed or otherwise disclosed pursuant to applicable federal, state and local laws, rules and regulations governing Client, The Nasdaq Stock Market or generally accepted accounting principles, including, without limitation, the Securities Act of 1933, the Securities Exchange Act of 1934, each as amended, and any state "blue sky" laws, Client shall provide DLSS such document no fewer than ten (10) days prior to filing and DLSS shall have the right to request confidential treatment of certain terms and conditions of such document to the extent permitted by Law. In such event, Client shall seek confidential treatment of such identified terms and conditions to the extent permitted by Law, including, but not limited to, SEC guidance, in the opinion of Client's outside counsel. This Agreement is required to and will be disclosed to the Securities Exchange Commission by Client, subject to the foregoing procedures set forth in this paragraph (d).

(e) The confidentiality covenants of this Section 8 shall remain in effect while this Agreement is in effect and for a period of ten (10) years thereafter or, if a longer period is required by Law, so long as required by Law.

(f) Each of DLSS and Client acknowledges that its breach of this Section 8 may cause irreparable harm to the other which cannot be adequately compensated by monetary damages. Accordingly, in the event of a breach or default under this Section 8 by a receiving party, the disclosing party may be entitled to seek specific performances by, or to obtain injunctive or other equitable relief against, the receiving party, without the necessity of posting bond or other surety, in addition to all other remedies available at law or in equity.

9. TAXES. Except for income or franchise taxes payable by DLSS with respect to the fees and charges payable to it hereunder, real estate or personal property taxes assessed against any facility owned by DLSS or other DLSS-owned tangible property, or employment taxes with respect to DLSS's employees, DLSS shall have no liability for any, and Client shall bear all property, ad valorem, inventory, sales, use or other taxes in connection with the Products or the Services rendered by DLSS.

10. AUDIT AND INSPECTION.

(a) DLSS shall provide to Client the Standard Operating Procedures, practices and other procedures (which shall include those procedures mutually agreed upon by Client and DLSS) to be employed by DLSS in performing Services under this Agreement, each of which shall be subject to Client's review and the mutual approval of the parties prior to DLSS's implementation. Any changes thereto also shall be subject to Client's review and the mutual approval of the parties prior to DLSS's implementation.

(b) DLSS hereby grants to Client and its authorized Representatives, during the Term of this Agreement and for a period of one (1) year thereafter, the right and authority to audit and inspect DLSS's

records which relate to the Products and/or the Services performed by DLSS pursuant to this Agreement, at Client's sole cost and expense and in a manner that does not unreasonably interfere with DLSS's business operations. Client agrees to give at least ten (10) days prior written notice to DLSS. Such audits may include, but are not limited to, DLSS's procedures, files, and records associated with this Agreement. The audit may be conducted either directly by Client or a Representative approved by DLSS (which approval will not be unreasonably withheld, conditioned or delayed) who shall execute an appropriate confidentiality agreement with DLSS as reasonably requested by DLSS.

(c) Notwithstanding anything to the contrary herein, if an audit is in response to an inquiry by any Regulatory Authority or other governmental entity, then during the Term of this Agreement and for a period of three (3) years after termination or expiration of this Agreement and upon five (5) days prior written notice, DLSS shall allow Client access to DLSS's records relating to its performance of Services pursuant to this Agreement. The scope of such audit shall be such as is reasonably appropriate to allow Client to fully and accurately respond to any such inquiry from a Regulatory Authority or other governmental entity. In such case of an audit under this Section 10(c) that exceeds eight (8) hours, Client shall reimburse DLSS for all of DLSS's internal employee time in excess of such eight (8) hours at the hourly rate of $[***] per hour.

(d) Any inspection or audit permitted by Section 10(b) may be conducted (i) not more than one (1) time per calendar year per relevant DLSS facility from which Services are performed, or (ii) with cause due to DLSS's fault, more frequently at the reasonable request of Client. Each such inspection or audit shall be conducted in a manner so as to not unreasonably disrupt normal operations of DLSS. DLSS shall not charge Client for the time expended by its employees in connection with any such inspection or audit, except in connection with an inspection or audit described in clause (i) which exceeds eight (8) hours, in which case Client shall reimburse DLSS for all of DLSS's internal employee time in excess of such eight (8) hours at the hourly rate of $[***] per hour.

11. <u>NON-SOLICITATION</u>.

(a) During the Term of this Agreement and for a period of [***] thereafter, Client shall not, directly or indirectly, in any manner solicit or induce for employment, or hire or engage the services of, any employee of DLSS or its Affiliates who performed any work under this Agreement. A general advertisement or notice of a job listing or opening or other similar general publication of a job search or availability to fill employment positions, including on the internet, or solicitations by an independent recruiting firm, in each case, shall not be construed as a solicitation or inducement for the purposes of this Section 11(a) so long as the circumstances indicate that the same was not targeted or directed at DLSS employees. In addition, solicitations of any person who has first contacted Client on his or her own initiative, and solicitations of any person who, prior to commencement of employment discussions between Client and such person, has been terminated by DLSS, shall not be construed as a solicitation or inducement for the purposes of this Section 11.

(b) During the Term of this Agreement and for a period of [***] thereafter, DLSS shall not, directly or indirectly, in any manner solicit or induce for employment, or hire or engage the services of, any employee of Client or its Affiliates. A general advertisement or notice of a job listing or opening or other similar general publication of a job search or availability to fill employment positions, including on the internet, or solicitations by an independent recruiting firm, in each case, shall not be construed as a solicitation or inducement for the purposes of this Section 11(b) so long as the circumstances indicate that the same was not targeted or directed at Client's employees. In addition, solicitations of any person who has first contacted

DLSS on his or her own initiative, and solicitations of any person who, prior to commencement of employment discussions between DLSS and such person, has been terminated by Client, shall not be construed as a solicitation or inducement for the purposes of this Section 11.

12. LEGAL RELATIONSHIP; STANDARD OF CARE; LOSS LIMITATIONS; AND INDEMNITY.

(a) The relationship between DLSS and Client is that of independent contractors. Nothing contained herein shall be construed as creating any agency, partnership, joint venture or other form of enterprise, employment or fiduciary relationships between the parties, and neither party shall have, or hold itself out as having, authority to contract for or bind the other party in any manner whatsoever.

(b) In performing its Services hereunder, DLSS shall be responsible for and comply with all of its express obligations and agreements contained herein.

(c) Without limiting the generality of the foregoing, in no event shall DLSS have liability for any loss or damage attributable to events, circumstances or conditions which constitute a Force Majeure. Notwithstanding the foregoing, in the event that DLSS anticipates delay, or claims to be delayed, by reason of an event of Force Majeure, DLSS shall promptly notify Client in writing thereof. The notice shall contain the nature of the claimed event of Force Majeure, the date of commencement of the event, and the anticipated date on which DLSS shall resume the provision of Services; provided, however any stated anticipated date for resumption of Services shall not be binding and DLSS shall have no liability for any failure to meet such date. DLSS shall maintain a disaster recovery plan, and shall implement such plan in the event of Force Majeure.

(d) In the event of any breach by DLSS of this Agreement which can be reasonably remedied or cured by the re-performance of the Service(s) or taking of other corrective action by DLSS, DLSS may at its option, re-perform such Service(s) or take such corrective action. In the event that DLSS's re-performance or corrective action remedies the breach within thirty (30) days of the breach, Client's exclusive remedy shall be damages (if any) incurred as a result of the breach that remain following such re-performance or corrective action.

(e) Notwithstanding any other provision of this Agreement and regardless of the theory of recovery or cause of action asserted, each party's maximum liability to the other party arising out of this Agreement or the performance of Services hereunder shall not exceed an amount equal to [***]; provided that this limitation on liability shall not apply to (i) any liability arising out of or in connection with [***]; or (ii) [***]. In no event shall this Section 12(e) limit the amount of fees to be paid by Client to DLSS as set forth in Exhibit F of this Agreement.

(f) NOTWITHSTANDING ANY OTHER PROVISION IN THIS AGREEMENT, NEITHER PARTY HERETO SHALL BE LIABLE TO THE OTHER FOR CONSEQUENTIAL (INCLUDING LOST PROFITS), INDIRECT, SPECIAL, PUNITIVE OR EXEMPLARY DAMAGES (WHETHER OR NOT CONTEMPLATED OR FORESEEABLE), WHETHER A CLAIM THEREFOR IS BROUGHT AT LAW OR IN EQUITY AND REGARDLESS OF WHETHER ANY CLAIM THEREFOR IS BASED UPON STATUTORY, CONTRACT, TORT, COMMON LAW OR OTHER PRINCIPLES.

(g) EXCEPT AS OTHERWISE EXPRESSLY SET FORTH HEREIN, DLSS MAKES NO WARRANTIES OR REPRESENTATIONS RELATED TO THIS AGREEMENT OR THE SERVICES, AND HEREBY (i) DISCLAIMS ALL WARRANTIES, EITHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE UNDER THIS AGREEMENT, AND (ii) SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE.

(h) Client acknowledges that DLSS has not had and will not have any role in the manufacture, branding, labeling, packaging, marketing or sale of any Product and that, as between the parties, Client shall have the sole liability for any product liability or similar claims (regardless of the legal theory upon which such claims may be brought) with respect to each Product. Except to the extent that a Claim was primarily caused by: DLSS's breach of its express obligations contained herein, gross negligence, recklessness or willful misconduct, Client indemnifies and agrees to defend and hold DLSS, its Affiliates, and their respective members, shareholders, managers, directors, officers, employees and agents, harmless from any and all claims, demands, causes of action, damages (whether for bodily injury or death), losses, judgments, settlements, penalties, fines, assessments, costs and expenses (including, without limitation, attorneys' fees), arising or resulting from, or alleged to have arisen or resulted from, any of the following (collectively, "**Claims**"):

(i) Any defects in the manufacture of Product, [***];

(ii) Client's manufacturing, branding, labeling, packaging, marketing [***] or sale of the Product;

(iii) Label, promotional literature, or other information concerning the Product provided by Client, provided that such materials were not changed in any way by DLSS;

(iv) DLSS's legal and appropriate use of or reliance upon any information, documents, direction or instruction provided, supplied or approved by Client or its Representatives regarding the Products, Client, or its business;

(v) Any actual or asserted [***] of any third party with respect to any Product; or

(vi) Any violation of Law by Client related to Client's manufacturing, branding, labeling, packaging, marketing [***] or sale of the Product.

Client shall, at its sole expense, have sole control of the defense of any such Claim and all negotiations for its settlement or compromise, but only if and so long as: (A) Client diligently pursues the defense of such Claim; (B) Client acknowledges to DLSS in writing that the Claim, if resolved or settled adversely to DLSS, is one for which Client is obligated to indemnify DLSS hereunder; (C) the Claim seeks only money damages; and (D) the settlement of, or an adverse judgment with respect to such Claim is not, in the good faith judgment of DLSS, likely to establish a precedential custom or practice materially adverse to the continued conduct of the business or reputation of DLSS.

(i) Except to the extent that a Claim was primarily caused by Client's breach of its express obligations contained herein, gross negligence, recklessness or willful misconduct, DLSS indemnifies and agrees to defend and hold Client, its Affiliates, and their respective members, shareholders, managers,

directors, officers, employees and agents, harmless from any and all Claims incurred by Client arising from or in connection with, any of the following:

(i) Client's legal and appropriate use of or reliance upon any information, documents, direction or instruction provided, supplied or approved by DLSS or its Representatives regarding a Program, the Services, or its business;

(ii) any actual or asserted [***] of any third party with respect to any proprietary information of DLSS related to the Program;

(iii) any attempt or actual efforts made by DLSS to market or sell any Product, including, but not limited to [***]; provided, however, that the performance of the Services in accordance with the terms of this Agreement shall not be deemed to be an attempt or actual effort by DLSS to market or sell any Product; or

(iv) any violation of Law by DLSS related to a Program or the Services.

DLSS shall, at its sole expense, have sole control of the defense of any such Claim and all negotiations for its settlement or compromise, but only if and so long as: (A) DLSS diligently pursues the defense of such Claim; (B) DLSS acknowledges to Client in writing that the Claim, if resolved or settled adversely to Client, is one for which DLSS is obligated to indemnify Client hereunder; (C) the Claim seeks only money damages; and (D) the settlement of, or an adverse judgment with respect to such Claim is not, in the good faith judgment of Client, likely to establish a precedential custom or practice materially adverse to the continued conduct of the business or reputation of Client.

(j) Each party (the "Indemnifying Party") agrees to indemnify and defend and hold harmless the other party, its Affiliates, and their respective members, shareholders, managers, directors, officers, employees and agents (collectively, the "Indemnified Party"), harmless from any and all Claims incurred by the Indemnified Party arising from or in connection with, any of the following:

(i) any gross negligence, recklessness or willful misconduct by the Indemnifying Party or its Representatives in the performance of its obligations under this Agreement;

(ii) the Indemnifying Party's breach of this Agreement; or

(iii) any misrepresentation or breach of the representations made by the Indemnifying Party in this Agreement.

The Indemnifying Party shall, at its sole expense, have sole control of the defense of any such Claim and all negotiations for its settlement or compromise, but only if and so long as: (A) the Indemnifying Party diligently pursues the defense of such Claim; (B) the Indemnifying Party acknowledges to the Indemnified Party in writing that the Claim, if resolved or settled adversely to the Indemnified Party, is one for which the Indemnifying Party is obligated to indemnify the Indemnified Party hereunder; (C) the Claim seeks only money damages; and (D) the settlement of, or an adverse judgment with respect to such Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice materially adverse to the continued conduct of the business or reputation of the Indemnified Party.

13. TERM AND TERMINATION.

(a) Unless sooner terminated in accordance with this Agreement, the term of this Agreement shall commence on the Effective Date and end thirty-six (36) months following the Effective Date (the "**Initial Term**"). Thereafter, Client may, in its sole discretion, renew this Agreement for one (1) or two (2) successive twelve (12) month periods (each a "**Client Renewal Term**"), unless, at least one hundred eighty (180) days prior to the expiration of the Initial Term or applicable Client Renewal Term then in effect, Client notifies DLSS in writing of its intent not to renew this Agreement. In the event that this Agreement remains in effect fifty-four (54) months following the Effective Date, this Agreement shall automatically renew for successive twelve (12) month periods (each a "**Mutual Renewal Term**"), unless, at least one hundred eighty (180) days prior to the expiration of the applicable Client Renewal Term or Mutual Renewal Term then in effect, Client or DLSS, as applicable, notifies the other party in writing of its intent not to renew this Agreement. Collectively, the Initial Term and each Client Renewal Term and each Mutual Renewal Term are referred to as the "**Term**").

(b) If DLSS or Client believes that the other party has breached any provision of this Agreement (other than a breach by Client of a payment obligation) and desires to terminate this Agreement because of such breach, such party ("**Aggrieved Party**") shall give written notice of such intent to the breaching party ("**Breaching Party**") and shall grant the Breaching Party thirty (30) days in which to remedy or cure the cause for termination. During such period, the parties shall make a good-faith effort to assist each other to remedy or cure the breach. If the breach is not remedied, cured or waived by the end of such period, then the Aggrieved Party may terminate this Agreement, effective as of the last day of such 30-day period, by giving notice of such termination to the Breaching Party. In the event of Client's breach of any of its payment obligations under this Agreement when due, and if such payment default continues for a period of thirty (30) days after notice of such payment default is given to Client, DLSS may terminate this Agreement, by giving notice thereof to Client, effective as of the end of such 30-day period.

(c) In addition to other available remedies, either party may terminate this Agreement immediately for cause upon written notice to the other party upon the other party's: (i) filing an application for or consenting to appointment of a trustee, receiver or custodian of its assets; (ii) having an order for relief entered in Bankruptcy Code proceedings; (iii) making a general assignment for the benefit of creditors; (iv) having a trustee, receiver, or custodian of its assets appointed unless proceedings and the person appointed are dismissed within 30 days; (v) insolvency within the meaning of Uniform Commercial Code Section 1-201 or failing generally to pay its debts as they become due within the meaning of Bankruptcy Code Section 303(h)(1), as amended; or (vi) certification in writing of its inability to pay its debts as they become due (and either party may periodically require the other to certify its ability to pay its debts as they become due).

(d) In addition to the termination rights set forth above, Client also may terminate this Agreement for one or more of the following reasons upon 180 days' prior written notice to DLSS:

(i) Client is not authorized to sell the Product in the United States; and/or

(ii) Commencing July 1, 2017, if, at any time, the overall number of patients receiving implants under commercial payer policies is less than [***] patients when comparing (i) the overall number of patients that received implants under commercial payer policies during the immediately preceding [***] months (the "Current Year") to (ii) the overall number of patients that received

implants under commercial payer policies during the [***] month period immediately preceding the Current Year.

(e) The (i) obligation of Client to pay fees, costs and expenses earned or incurred by DLSS prior to the expiration or effective date of termination of this Agreement; (ii) obligation of DLSS to remit to Client all payments for the purchase of Product; and (iii) obligations of each party pursuant to Sections 3(a)(iv) (with the exception of the provision of copies), 3(a)(vi), 3(a)(vii), 5(b), 6, 7, 8, 9, 10, 11, 12, this Section 13(e), 13(i), 14, 15, 16 and 17 hereof, shall survive the termination or expiration of this Agreement in accordance with their terms.

(f) In the event that either party notifies the other of its intent to terminate this Agreement, DLSS shall continue to provide Services in accordance with the terms and conditions of this Agreement until the effective date of termination.

(g) In any case where DLSS may have the right to terminate this Agreement, DLSS may suspend its performance of Services, in whole or part, until it is satisfied, in its sole discretion, that Client has remedied and cured or will remedy and cure all reasons giving rise to DLSS's right to terminate this Agreement, provided, however, that Client shall not be obligated to pay for Services that have not been performed.

(h) Notwithstanding anything contained herein to the contrary, if any Product is no longer authorized for sale in the United States by the United States Food and Drug Administration ("FDA"), Client shall promptly notify DLSS and DLSS's obligation to provide Services with respect to such Product, and Client's obligations with respect to such Product, shall cease until such Product authorization has been reinstated. During such period of time that such Product is not authorized for sale in the United States by the FDA, neither DLSS nor Client shall be considered in default of this Agreement. Notwithstanding the foregoing, if the Product is not authorized for sale in the United States, DLSS's obligations with respect to Reimbursement Support as set forth in Exhibit B, Section III(a)(4) shall continue during such period of time.

(i) Upon expiration or termination of this Agreement, DLSS shall, subject to applicable Laws, provide Client with copies of all Program, Product, and Patient data (including, but not limited to, all data in the Patient/claims management system relating to the Program and/or Product), records, Program materials, all other Product-related and Program-related information, and all Payer information (including, but not limited to, Payer names and reimbursement information, provided, agreements between DLSS and Payers will not be provided) maintained by DLSS or its Representatives regarding the Services and Program provided by DLSS pursuant to this Agreement (collectively, the "Data"). At no additional cost to Client, for [***] days following the effective date of expiration or termination of this Agreement, DLSS shall use commercially reasonable efforts to provide all such Data to Client and shall use commercially reasonable efforts to provide post-termination transition assistance to Client in connection with Client's new vendor and/or program. Following such [***] day period, Client shall pay DLSS at the hourly rate of $[***] per hour for DLSS employee time for any post-termination transition assistance including DLSS employee time relating to DLSS's providing Data to Client.

14. INSURANCE.

(a) Client shall maintain during the Term or as otherwise provided in Section 14(c) hereof the following insurance coverage:

(i) Commercial general liability insurance, including products liability insurance on Products, which insurance shall be fully sufficient (in terms of coverage and policy limits) to cover bodily injury or death arising from the Products. Such insurance shall be written on an ISO occurrence form CG 00 01 12 04 (or a substitute form providing equivalent coverage) and shall cover, among other things, bodily injury arising from products-completed operations and liability assumed under an insured contract including Client's contractual liability to indemnify DLSS under Section s12(h) and (j) hereof. The limits of such insurance shall not be less than $[***] per occurrence. Such insurance shall name DLSS and its Affiliates as additional insureds using ISO additional insured endorsement CG 2015 0704 or a substitute providing equivalent coverage. This insurance shall apply as primary insurance with respect to any other insurance or self-insurance program.

Upon execution of this Agreement and thereafter upon demand, Client shall promptly provide DLSS with insurance certificates evidencing Client's compliance with the foregoing insurance requirements.

(b) DLSS shall maintain during the Term or as otherwise provided in Section 14(c) hereof the following insurance coverage:

(i) Worker's Compensation insurance as required by Law.

(ii) Commercial general liability insurance and umbrella insurance, including products liability insurance, having a combined limit of not less than $[***] per occurrence and $[***] annual aggregate. Such insurance shall be written on an ISO occurrence form CG 00 02 04 13 (or a substitute for providing equivalent coverage) and shall name Client and its Affiliates as additional insureds.

(iii) Professional liability insurance covering DLSS and its employees, contractors, agents, and other Representatives providing professional services, with limits of $[***] per occurrence and $[***] in the aggregate.

Self-insured retentions and/or deductibles shall be at DLSS's sole discretion and responsibility. DLSS warrants that it has sufficient assets to cover any self-insurance or retained risk.

Upon execution of this Agreement and thereafter upon demand, DLSS promptly shall provide Client with insurance certificates evidencing DLSS's compliance with the foregoing requirements.

(c) All insurance required hereunder shall be with insurance companies rated "A-" or better by A. M. Best, and shall not have deductibles or self-insured retentions in excess of $[***]. If any insurance required hereunder is provided on a claims-made basis, then said insurance shall be maintained in full force and effect by the responsible party for at least [***] after the expiration or termination of this Agreement (including any renewals hereunder).

15. NOTICES

Any notice provided for herein shall be given in writing and shall be deemed given to a party at the earlier of (a) when actually delivered to such party or (b) when mailed to such party by registered or certified U.S. Mail (return receipt requested) or sent by overnight courier, confirmed by receipt, and addressed to such party at the address designated below for such party (or to such other address for such party as such party may have substituted by notice pursuant to this Section):

If to DLSS: Dohmen Life Science Services, LLC
190 N. Milwaukee Street
Milwaukee, WI 53202
ATTN: General Counsel

If to Client: Vericel Corporation
64 Sidney Street
Cambridge, MA 02139
ATTN: Chief Operating Officer
With a Copy to: Vice President, Legal Affairs

16. REPRESENTATION.

Each party represents and warrants to the other that it will not knowingly utilize the services of any person in connection with this Agreement if such person, or will immediately cease utilizing the services of such person after obtaining knowledge that such person, (a) has been excluded, debarred or otherwise is ineligible to participate in the Federal health care programs as defined in 42 U.S.C. 1320a-7b(f) (the "Federal health care programs"), or any form of state Medicaid program; or (b) has been convicted of a criminal offense related to the provision of health care items or services but has not yet been excluded, debarred or otherwise declared ineligible to participate in the Federal health care programs or state Medicaid programs.

17. MISCELLANEOUS.

(a) This Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof, and supersedes all other previous or contemporaneous proposals, agreements, statements and understandings (including confidentiality or non-disclosure agreements), whether written or oral. This Agreement may not be amended, supplemented or otherwise modified except by an Adjustment Notice or by an instrument in writing executed by both of the parties hereto and making express reference to this Agreement. The terms and conditions of this Agreement shall prevail over any contradictory or inconsistent terms or conditions contained in any unilateral purchase order, acceptance, acknowledgment, agreement, other standard forms or correspondence used by the parties in performing this Agreement.

(b) No waiver by either party of any of the provisions of this Agreement shall be effective unless expressly set forth in writing and signed by the party so waiving. Except as otherwise set forth in this Agreement, no failure to exercise or delay in exercising any right or remedy shall operate or be construed as a waiver thereof; and, no single waiver or partial exercise of a right, remedy, power or privilege hereunder shall preclude any other or further exercise of any other right, remedy, power or privilege.

(c) This Agreement shall inure to the benefit of the parties and their permitted successors and assigns. The rights and obligations under this Agreement may not be assigned to a third party by either party, by merger, consolidation, operation of law or otherwise, without obtaining the prior written consent of the other party (which consent shall not unreasonably be withheld or delayed); provided, however, that DLSS may utilize the services of its Affiliates in performing Services hereunder without obtaining the consent of Client. Notwithstanding the foregoing, either party may assign, without obtaining the consent of the other party, all or any of the assignor's rights and obligations of this Agreement (i) to its Affiliates or (ii) in

connection with the sale or transfer (including any by merger, consolidation or operation of law) of all or substantially all of the assignor's business to which this Agreement pertains; provided, however, that any such assignee shall execute and deliver to the other party hereto an agreement, in form and substance reasonably satisfactory to the other party hereto, assuming all of the assignor's obligations hereunder. No such assignment or assumption, however, shall relieve the assignor of its obligations hereunder. Notwithstanding the foregoing, DLSS shall provide notice to Client of a proposed Change of Control (defined below) of DLSS as soon as it has made public disclosure in accordance with applicable securities laws. The notice shall contain the information reasonably requested by Client. For purposes of this paragraph, a "Change of Control" shall mean: (A) the acquisition by any person or group of a majority or more of the outstanding voting securities of DLSS, or (B) the approval by DLSS of any direct or indirect sale, lease, exchange or other transfer of substantially all of the assets of: (I) DLSS, or (II) that portion of DLSS that is engaged in the performance of this Agreement.

(d) DLSS will be relieved from the performance of its obligations hereunder to the extent performance is delayed or prevented by Force Majeure, and such relief will continue for so long as the condition constituting the Force Majeure prevails; provided, however, that termination of this Agreement due to Force Majeure shall not relieve Client of its obligation to timely pay amounts due under this Agreement for Services performed prior to such termination and shall not relieve DLSS of its obligation to timely remit to Client amounts due to Client under this Agreement for Customer purchases of Product.

(e) This Agreement shall be governed by the internal laws of the state of New York, and shall be construed without giving effect to any rule of construction concerning the party responsible for the drafting thereof.

(f) Neither party shall issue or release any announcement, statement, press release or other publicity or marketing materials relating to this Agreement without the prior consent of the other party (which consent shall not unreasonably be withheld or delayed); provided, however that either Client or DLSS may identify the other as a provider or customer of Services hereunder without obtaining the consent of the other party. Furthermore, if Client files a copy of this Agreement with any Regulatory Authority or any stock exchange, Client shall notify DLSS in advance and cooperate, to the extent permitted by Law or the rules of any applicable stock exchange, with DLSS's efforts to redact or otherwise obtain confidential treatment of any of the pricing or other confidential terms set forth in this Agreement.

[SIGNATURE PAGE(S) TO FOLLOW]

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

DOHMEN LIFE SCIENCE SERVICES, LLC

By: /s/ Cynthia A. LaConte
Name: Cynthia A. LaConte
Its: CEO

VERICEL CORPORATION

By: /s/ Dominick C. Colangelo
Name: Dominick C. Colangelo
Its: President and CEO

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT A

PRODUCTS

The term "Products" means the following products, together with all other such products with respect to which DLSS commences to perform Services at Client's written request:

1. Carticel® (autologous cultured chondrocytes), an autologous chondrocyte implant for the treatment of cartilage defects in the knee
2. MACI (upon approval of the Biologics License Application for MACI submitted by Client), a third-generation autologous chondrocyte implant for the treatment of cartilage defects in the knee

EXHIBIT B

SERVICES

There shall be one combined Program for Carticel® and MACI, and any references to the "Program" in this Exhibit B shall mean such combined Program, and any reference to "Product" shall mean Carticel® or MACI as applicable.

DESCRIPTION OF SERVICES

I. Program Overview. The Program, applying DLSS' Patient Centered Health Management® approach, will be the primary resource and support center for the Product in the United States. The Program will support Patients, clinicians, Payers, hospitals, and other parties who seek information and the Product. All incoming calls to the Program will be answered by a live person and be provided complete resource services to meet the Customer and Patient needs. All Customers and Patients will be welcomed to the Program as a Client service.

II. Program Design Development and Launch.

(a) DLSS will appoint a project management team, which shall include, at a minimum, a dedicated project manager, senior leadership involvement by the Vice President and Senior Vice Presidents of specific program functional areas, IT and reporting analysts, quality assurance management, finance personnel, accounting personnel, market research analyst, market research project lead, reimbursement director, human resources management, and dedicated client experience representation and oversight. The project management team may be modified upon mutual agreement of the parties.

(b) Utilizing the Operational Blueprint, DLSS will prepare detailed work plans, conduct a market landscape assessment, identify key vendor relationships, develop Patient services programs, develop training programs for DLSS staff, complete Program-specific SOPs, design reports in accordance with the requirements set forth in this Agreement, hire and train staff for the Program, and conduct test runs of the Services prior to launch. Neither design and development nor any other aspect of the Services includes Product-related marketing and sales.

III. Program Services.

(a) Based on the features and parameters selected during the design and development of the Program, services including order placement, Product delivery coordination, Patient services, Patient reimbursement support, Payer contract management, accounts receivable management, account management and reporting are supported by DLSS. The parties acknowledge that they expect and anticipate that, at a minimum, the Program will include the features and services described below performed in accordance with DLSS' SOPs, which are subject to prior review and approval by Client.

(1) Business Intelligence.

a) [***].
b) [***].
c) [***].

d) [***].
e) [***].
f) [***].
g) [***].
h) [***].
i) [***].
j) [***].
k) [***].
l) [***].
m) [***].

(2) Case Management.

a) [***].
b) [***].
c) [***].
d) [***].
e) [***].
f) [***].
g) [***].
h) [***].
i) [***].
j) [***].
k) [***].
l) [***].
m) [***].
n) [***].
o) [***].
p) [***].

(3) Clinical Support Services.

a) [***].
b) [***].
c) [***].
d) [***].
e) [***].
f) [***].
g) [***].
h) [***].
i) [***].
j) [***].
k) [***].
l) [***].

m) [***].

(4) Reimbursement Support.

a) [***].
b) [***].
c) [***].
d) [***].
e) [***].
f) [***].
g) [***].
h) [***].
i) [***].
j) [***].
k) [***].
l) [***].
m) [***].

(5) Program Administration, Data Management, and Reporting.

a) [***].
b) [***].
c) [***].
d) [***].
e) [***].
f) [***].
g) [***].
h) [***].
i) [***].

(b) General Requirements for Program Services

(1) [***].

(2) [***].

(3) [***].

(4) [***].

(5) [***].

(6) [***].

(7) [***].

(8) [***].

(a) The Services shall not include Product-related marketing or sales. Without limiting the generality of the foregoing, DLSS acknowledges and agrees that while the purpose of the Program is to provide positive support to Patients committed, or deciding whether to commit, to implantation in order to improve Patient access to the Product, neither DLSS, nor any Representative, shall engage in any act that is intended to, or may appear to, push, convince, drive, or otherwise persuade a Patient who is not yet committed to implantation to move forward with or otherwise undergo implantation. DLSS acknowledges that Client may provide guidelines concerning this matter to DLSS from time to time, and DLSS agrees to adhere to such guidelines.

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT C

REPORTS

The report format and content will be mutually agreed to by the parties within [***] days of contract signing.

AGGREGATED DATA	
Frequency	**Description**
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Quarterly (within 7 days of end of quarter)	[***]
Quarterly (in accordance with such telephone conferences described in Section 5(c) of the Agreement)	[***]
Quarterly (within 7 days of end of quarter)	[***]

PATIENT-SPECIFIC DATA	
Frequency	**Description**
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]
Weekly, by end of business on Monday	[***]

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT D

INITIAL PAYERS AND REIMBURSEMENT

Payers

[***]
[***]
[***]
[***]
[***]
[***]
[***]
[***]
[***]
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Reimbursement

Client shall be responsible for setting the pricing strategy and allowable reimbursement amount for each Initial Payer. The amount of reimbursement for the Product by each Initial Payer shall be subject to review and approval by Client.

Payment Terms to be offered to Initial Payers on behalf of the Client are [***] days. Should an Initial Payer request extended payment terms, DLSS will secure advance approval from the Client.

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT E

ADDITIONAL PAYERS AND REIMBURSEMENT

Payers

Additional Commercial Payers
Military Facilities
Workers' Compensation
Medicare and Medicaid

Reimbursement

Client shall be responsible for setting the pricing strategy and allowable reimbursement amount for each Payer. The amount of reimbursement for the Product offered by each Payer shall be subject to review and approval by Client.

Payment Terms to be offered to Payers on behalf of the Client are [***] days. Should a Payer request extended payment terms, DLSS will secure advance approval from the Client.

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT F

PRICING SCHEDULE

Description	Fee	Timing
(1) Business Intelligence and Program Design and Development Implementation Services	[***]	[***]
(2) Biopsy Coordination	[***]	[***]
(3) Implant Coordination (which includes the following Services: Case Management, Clinical Support, Reimbursement Support, Billing and Collection, A/R and Administrative Management)	[***]	[***]
(4) Reporting	[***]	[***]
(5) Supplies	[***]	[***]
(6) Shipping Fees	[***]	[***]
(7) Ad-hoc services and special reporting post Program launch *Estimate of time and cost of ad-hoc services to be provided by DLSS and approved by Client prior to start of work*	[***]	[***]

[***]

Program Retention Percentage

In the event that the Program Retention Percentage (as defined below) is equal to or greater than [***] % for any particular calendar year, there shall be a supplemental fee for Eligible Implant Coordinations (as defined below) as follows:

- Program Retention Percentage between [***] % and [***] %: Supplemental Fee per Eligible Implant Coordination shall be $[***]
- Program Retention Percentage between [***] % and [***] %: Supplemental Fee per Eligible Implant Coordination shall be $[***]
- Program Retention Percentage greater than [***] %: Supplemental Fee per Eligible Implant Coordination shall be $[***]

Notwithstanding the foregoing, there shall be no supplemental fee for Implant Coordination for any particular calendar year unless DLSS coordinated a minimum of [***] implants during such calendar year (or such pro-rated number of implants for any partial year of the Agreement).

"Program Retention Percentage" [***].

"Eligible Implant Coordinations" shall mean coordinations for all implants, with the exception of [***].

Payment Terms

Business Intelligence and Program Design and Development Implementation fees are due over [***] installments: [***] % upon execution of the Services Agreement, [***] % upon completion of [***] % of Program implementation, and [***] % upon Program launch. Should implementation be delayed beyond or terminated prior to June 30, 2016, for any reason, such fee shall be deemed due and payable in full as of July 1, 2016, provided that: (i) DLSS has appointed and maintained a project management team in accordance with the terms of this Agreement, (ii) DLSS has used best efforts to provide the Services, and (iii) DLSS has provided the information and other deliverables requested by Client, which may include, but not be limited to, market research data, analysis of market research data, implementation outline, and Program-related SOPs, in each case by July 1, 2016.

The Fees set forth in Description #2 and #3 above will each be automatically adjusted by DLSS, effective as of January 1 of each calendar year, commencing with January 1, 2018, by the annual average percentage increase, if any, in the Consumer Price Index ("CPI-U"), U.S. City Average, All Items, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (or if the Index is no longer published or issued, any successor index or other reliable governmental or nonpartisan publication evaluating the information previously used in the determination of the index that is mutually selected by the parties) for the most recently completed 12-month period for which the CPI-U percentage is available at the time the adjustment calculation is performed by DLSS.

All Product-specific additional services are billed on a per project basis. Client will be billed for work completed; should the scope of the project increase or any additional services or personnel time be requested during the course of this project, DLSS will obtain prior written approval from Client.

EXHIBIT 31.1

CERTIFICATION

I, Dominick C. Colangelo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vericel Corporation;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: May 10, 2016

/s/ DOMINICK C. COLANGELO

Dominick C. Colangelo

President and Chief Executive Officer

(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Gerard Michel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vericel Corporation;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: May 10, 2016

/s/ GERARD MICHEL

Gerard Michel

Chief Financial Officer and Vice President, Corporate Development

(*Principal Financial Officer)*

EXHIBIT 32.1

18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vericel Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), the following:

(1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2016

/s/ DOMINICK C. COLANGELO

Dominick C. Colangelo
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Vericel Corporation and will be retained by Vericel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vericel Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), the following:

(1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2016

/s/ GERARD MICHEL

Gerard Michel

Chief Financial Officer and Vice President, Corporate Development

(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Vericel Corporation and will be retained by Vericel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.