

ATHERSYS, INC / NEW  
Form 10-Q  
November 08, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2010**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**  
**Commission file number: 001-33876**

**Athersys, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

**20-4864095**

*(State or other jurisdiction of incorporation or organization)*

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

**3201 Carnegie Avenue, Cleveland, Ohio**

**44115-2634**

*(Address of principal executive offices)*

*(Zip Code)*

Registrant's telephone number, including area code: **(216) 431-9900**

Former name, former address and former fiscal year, if changed since last report: **Not Applicable**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of outstanding shares of the registrant's common stock, \$0.001 par value, as of October 31, 2010 was 18,930,678.

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**ATHERSYS INC.**  
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<u>ITEM 1. Financial Statements</u>	3
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>ITEM 4T. Controls and Procedures</u>	21

**PART II. OTHER INFORMATION**

<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>ITEM 6. Exhibits</u>	21
<b><u>SIGNATURES</u></b>	22
<b><u>EXHIBIT INDEX</u></b>	23

Exhibit 10.1  
Exhibit 31.1  
Exhibit 31.2  
Exhibit 32.1

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Athersys, Inc.****Condensed Consolidated Balance Sheets**

(In thousands, except share and per share data)

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,210	\$ 11,167
Available-for-sale securities	13,615	10,135
Accounts receivable	2,739	352
Receivable from Angiotech	132	229
Investment interest receivable	78	93
Prepaid expenses and other	168	173
Total current assets	18,942	22,149
Available-for-sale securities	2,015	5,080
Equipment, net	1,017	849
Deposits and other	207	253
Total assets	\$ 22,181	\$ 28,331
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,774	\$ 1,128
Accrued compensation and related benefits	472	667
Accrued clinical trial costs	194	83
Accrued expenses and other	1,088	857
Deferred revenue	5,543	3,123
Total current liabilities	9,071	5,858
Deferred revenue	2,253	3,516
Stockholders equity:		
Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at September 30, 2010 and December 31, 2009		
Common stock, \$0.001 par value; 100,000,000 shares authorized, and 18,930,678 and 18,929,333 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		
	19	19
Additional paid-in capital	213,954	212,704
Accumulated other comprehensive income	47	71

Accumulated deficit	(203,163)	(193,837)
Total stockholders' equity	10,857	18,957
Total liabilities and stockholders' equity	\$ 22,181	\$ 28,331

*See accompanying notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**Athersys, Inc.**  
**Condensed Consolidated Statements of Operations**  
(In thousands, except share and per share data)  
(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>				
Contract revenue	\$ 1,601	\$ 167	\$ 4,515	\$ 636
Grant revenue	395	317	1,092	654
Total revenues	1,996	484	5,607	1,290
<b>Costs and expenses</b>				
Research and development	4,342	2,704	10,569	7,868
General and administrative	1,329	1,189	4,249	3,928
Depreciation	71	58	216	175
Total costs and expenses	5,742	3,951	15,034	11,971
Loss from operations	(3,746)	(3,467)	(9,427)	(10,681)
Interest income and other	58	87	101	329
<b>Net loss</b>	<b>\$ (3,688)</b>	<b>\$ (3,380)</b>	<b>\$ (9,326)</b>	<b>\$ (10,352)</b>
Basic and diluted net loss per share	\$ (0.19)	\$ (0.18)	\$ (0.49)	\$ (0.55)
Weighted average shares outstanding, basic and diluted	18,929,640	18,928,193	18,929,436	18,928,057

*See accompanying notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**Athersys, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net loss	\$ (9,326)	\$ (10,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	216	175
Gain on sale of fixed assets		(21)
Stock-based compensation	1,246	1,520
Amortization of premium on available-for-sale securities and other	192	154
Changes in operating assets and liabilities:		
Accounts receivable	(2,387)	150
Receivable from Angiotech	97	51
Prepaid expenses and other assets	20	21
Accounts payable and accrued expenses	793	(603)
Deferred revenue	1,157	(58)
Net cash used in operating activities	(7,992)	(8,963)
<b>Investing activities</b>		
Purchase of available-for-sale securities	(8,834)	(7,634)
Maturities of available-for-sale securities	8,253	13,300
Proceeds from sale of fixed assets		21
Purchase of securities of cost-method investee		(14)
Purchase of equipment	(384)	(54)
Net cash (used in) provided by investing activities	(965)	5,619
<b>Financing activities</b>		
Decrease in cash and cash equivalents	(8,957)	(3,344)
Cash and cash equivalents at beginning of the period	11,167	12,552
Cash and cash equivalents at end of the period	\$ 2,210	\$ 9,208

*See accompanying notes to unaudited condensed consolidated financial statements.*



**Table of Contents**

**Athersys, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

Three- and Nine-Month Periods Ended September 30, 2010 and 2009

**1. Background and Basis of Presentation**

We are a biopharmaceutical company engaged in the discovery and development of therapeutic products in one business segment. Our operations consist primarily of research and product development activities.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our critical accounting policies, estimates and assumptions are described in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included below in this Quarterly Report on Form 10-Q. Certain prior year amounts have been reclassified to conform with the current year presentations.

**2. Recently Issued Accounting Standards**

In September 2009, Accounting Standards Codification ( ASC ) 605-25, *Multiple-Element Arrangements*, was updated (Accounting Standards Update ( ASU ) No. 2009-13) related to revenue recognition for arrangements with multiple elements. The revised guidance provides for two significant changes to the existing guidance, the first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting, which will likely result in the requirement to separate more deliverables within an arrangement leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. The new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The new guidance is effective for fiscal years beginning on or after June 15, 2010, and early adoption is permitted provided that the new guidance is retroactively applied to the beginning of the year of adoption. We have not yet evaluated the potential effect of the future adoption of this new guidance.

In March 2010, ASC 605-28, *Milestone Method of Revenue Recognition*, was amended (ASU No. 2009-13) related to the ratification of the application of the proportional performance model of revenue recognition when applied to milestones in research and development arrangements. Accordingly, the consensus states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The new guidance is effective for fiscal years beginning on or after June 15, 2010, and may be applied prospectively or retrospectively. Early adoption is permitted provided that the new guidance is retrospectively applied to the beginning of the year of adoption. We do not expect this new guidance to have a material effect on our financial statements upon adoption.

**Table of Contents****3. Net Loss per Share**

Basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. We have outstanding options and warrants that are not used in the calculation of diluted net loss per share because to do so would be anti-dilutive. The following instruments were excluded from the calculation of diluted net loss per share because their effects would be anti-dilutive:

- 1) Outstanding stock options to purchase 4,188,950 shares of common stock for both the three- and nine-month periods ended September 30, 2010, and 3,881,149 shares of common stock for both the three- and nine-month periods ended September 30, 2009; and
- 2) Warrants to purchase 5,125,496 shares of common stock for each of the three- and nine-month periods ended September 30, 2010 and 2009.

**4. Comprehensive Loss**

All components of comprehensive loss, including net loss, are reported in the financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources.

Below is a reconciliation, in thousands, of net loss to comprehensive loss for all periods presented.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net loss	\$ (3,688)	\$ (3,380)	\$ (9,326)	\$ (10,352)
Unrealized loss on available-for-sale securities	(5)	(25)	(24)	(17)
Comprehensive loss	\$ (3,693)	\$ (3,405)	\$ (9,350)	\$ (10,369)

**5. Fair Value of Financial Instruments**

Our available-for-sale securities include U.S. government obligations and corporate debt securities. As of September 30, 2010, approximately 84% of our investments were in U.S. government obligations, including government-backed agencies.

The inputs used to measure fair value are classified into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

**Table of Contents**

The following table provides a summary of the fair values of our assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 (in thousands):

Description	Balance as of September 30, 2010	Fair Value Measurements at September 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Available-for-sale securities	\$ 15,630	\$ 15,630	\$	\$
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Fair value is based upon quoted market prices in active markets. We had no level 2 or level 3 assets at September 30, 2010. We review and reassess the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

The following is a summary of available-for-sale securities (in thousands) at September 30, 2010 and December 31, 2009, respectively:

	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Estimated Fair Value
September 30, 2010:				
U.S. government obligations, including government-backed agencies	\$ 13,055	\$	\$ 33	\$ 13,088
Corporate debt securities	2,528		14	2,542
	<b>\$ 15,583</b>	<b>\$</b>	<b>\$ 47</b>	<b>\$ 15,630</b>
December 31, 2009:				
U.S. government obligations, including government-backed agencies	\$ 12,613	\$ (12)	\$ 52	\$ 12,653
Corporate debt securities	2,531		31	2,562
	<b>\$ 15,144</b>	<b>\$ (12)</b>	<b>\$ 83</b>	<b>\$ 15,215</b>

We had no realized gains or losses on the sale of available-for-sale securities for any of the periods presented. Unrealized gains and losses on our available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity within accumulated other comprehensive income until realized. We have no other-than-temporary impairments recognized in accumulated other comprehensive loss. When available-for-sale securities are sold in the future, the cost of the securities will be specifically identified and used to determine any realized gain or loss. The net unrealized gain on available-for-sale securities was \$47,000 and \$71,000 as of September 30, 2010 and December 31, 2009, respectively.

The amortized cost of and estimated fair value of available-for-sale securities at September 30, 2010, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to repay the obligations without prepayment penalties. Although the investments are available-for-sale, it is our intention to hold the investments classified as long-term for more than a year from September 30, 2010.

	<b>September 30, 2010</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 13,573	\$ 13,615
Due after one year through two years	2,010	2,015
	<b>\$ 15,583</b>	<b>\$ 15,630</b>

**Table of Contents****6. Collaborative Arrangements and Revenue Recognition****Collaborative Arrangements**

Collaborative arrangements that involve cost or future profit sharing are reviewed to determine the nature of the arrangement and the nature of the collaborative parties' businesses. The arrangements are also reviewed to determine if one party has sole or primary responsibility for an activity, or whether the parties have shared responsibility for the activity. If responsibility for an activity is shared and there is no principal party, then the related costs of that activity are recognized by us on a net basis in the statement of operations (e.g., total cost, less reimbursement from collaborator). If we are deemed to be the principal party for an activity, then the costs and revenues associated with that activity are recognized on a gross basis in the statement of operations. The accounting may be susceptible to change if the nature of a collaborator's business changes. Currently, our only collaboration accounted for on a net basis is our cost-sharing collaboration with Angiotech Pharmaceuticals, Inc. ( Angiotech ), since the responsibilities under this collaboration are shared with no principal party.

**Revenue Recognition**

Our license and collaboration agreements may contain multiple elements, including license and technology access fees, research and development funding, manufacturing revenue, cost-sharing, milestones and royalties. The deliverables under such an arrangement are evaluated under ASC 605-25, *Multiple-Element Arrangements*, (which originated primarily from the guidance in EITF 00-21) to assess whether they have standalone value and objective and reliable evidence of fair value, and if so, are accounted for as a single unit. We then recognize revenue for each unit based on the culmination of the earnings process under ASC 605-S25 (issued as SAB Topic 13) and our estimated performance period for the single units of accounting based on the specific terms of each collaborative agreement. We subsequently adjust the estimated performance periods, if appropriate, on a prospective basis based upon available facts and circumstances. Future changes in estimates of the performance period may materially impact the timing of future revenue recognized. Amounts received prior to satisfying the revenue recognition criteria for contract revenues are recorded as deferred revenue in the accompanying balance sheets. Reimbursement amounts (other than those accounted for using collaboration accounting) paid to us are recorded on a gross basis in the statements of operations as contract revenues. We entered into collaboration agreements with Pfizer Inc. ( Pfizer ) in December 2009 and RTI Biologics, Inc. ( RTI ) in September 2010 that contain multiple elements and deliverables, as described below. Also included in contract revenue are license fees received from Bristol-Myers Squibb, which are specifically set forth in the license and collaboration agreement as amounts due to us based on our completion of certain tasks (e.g., delivery and acceptance of a cell line) and development milestones (e.g., clinical trial phases), and as such, are not based on estimates that are susceptible to change. Such amounts are invoiced and recorded as revenue as tasks are completed and as milestones are achieved.

Similarly, grant revenue consists of funding under cost reimbursement programs primarily from federal and state sources for qualified research and development activities performed by us, and as such, are not based on estimates that are susceptible to change. Such amounts are invoiced (unless prepaid) and recorded as revenue as tasks are completed.

**Table of Contents***Angiotech*

In our co-development collaboration with Angiotech, we bear all preclinical costs and the parties jointly fund clinical development activity. We have primary responsibility for preclinical and early clinical development and clinical manufacturing, and Angiotech will take the lead on pivotal and later clinical trials and commercialization. The parties will share net profits from the future sale of approved products and we may receive cash payments and an equity investment and based on the successful achievement of specified clinical development and commercialization milestones.

We continue to jointly fund clinical development activities with Angiotech in accordance with our co-development collaboration, and \$132,000 was due from Angiotech as of September 30, 2010. Our clinical costs for the three months ended September 30, 2010 and 2009 are reflected net of Angiotech's cost-sharing amount of \$132,000 and \$183,000, respectively.

*Pfizer*

In December 2009, we entered into a collaboration with Pfizer to develop and commercialize MultiStem to treat inflammatory bowel disease ( IBD ) for the worldwide market. Under the terms of the agreement, we received an up-front license and technology access payment of \$6.0 million from Pfizer and receive research funding and support. In addition, we are also eligible to receive milestone payments upon the successful achievement of certain development, regulatory and commercial milestones, for which we evaluated the nature of the events triggering these contingent payments and concluded that these events constituted substantive milestones that will be recognized as revenue in the period in which the underlying triggering event occurs.

Pfizer pays us for manufacturing product for clinical development and commercialization purposes. Pfizer has responsibility for development, regulatory and commercialization and will pay us tiered royalties on worldwide commercial sales of MultiStem IBD products. Alternatively, in lieu of royalties and certain commercialization milestones, we may elect to co-develop with Pfizer and the parties will share development and commercialization expenses and profits/losses on an agreed basis beginning at phase III clinical development.

We evaluated the facts and circumstances of the agreement to determine whether the Pfizer agreement has obligations constituting deliverables and concluded that it has multiple deliverables, including deliverables relating to the grant of a license and access to our technology, performance of research and development services and performance of certain manufacturing services, and concluded that these deliverables should be combined into a single unit of accounting.

We recognize the license and technology access fee and research and development funding ratably on a straight-line basis over the estimated performance period, which began in December 2009 and is estimated to be completed in 2012, and recognize manufacturing revenue ratably from when services are performed through the remaining research period. Prepaid license and technology access fee and prepaid research and development funding are recorded as deferred revenue and are amortized on a straight-line basis over the research period.

*RTI Biologics, Inc.*

In September 2010, we entered into an agreement with RTI, a provider of orthopedic and other biologic implants, under which we provided RTI a license to our Multipotent Adult Progenitor Cell ( MAPC ) technologies to enable RTI to develop and commercialize MAPC technology-based biologic implants exclusively for certain orthopedic applications in the bone graft substitutes market. Under the terms of the agreement, we will receive a \$3 million license fee in installments, of which \$1.0 million was received at inception and the remaining balance will be received in \$1.0 million installments in each of December 2010 and March 2011, which is reflected in receivables on the balance sheet at September 2010. We are also eligible to receive milestone payments upon the successful achievement of certain development and commercial milestones. We evaluated the nature of the events triggering these contingent payments and concluded that these events are substantive and that revenue will be recognized in the period in which the underlying triggering event occurs. In addition, we will receive tiered royalties on worldwide commercial sales, if any, of implants using our technologies.

**Table of Contents**

We evaluated the facts and circumstances to determine whether the RTI agreement has obligations constituting deliverables and concluded that it has multiple deliverables, including deliverables relating to the grant of a license to our technology and performance of research and development services, and concluded that these deliverables should be combined into a single unit of accounting. We recognize the license fee ratably on a straight-line basis over the estimated performance period, which began in September 2010 and is estimated to be completed in the third quarter of 2011.

**7. Stock-Based Compensation**

We have two incentive plans that authorize an aggregate of 4,500,000 shares of common stock for awards to employees, directors and consultants. These equity incentive plans authorize the issuance of equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other stock-based awards to qualified employees, directors and consultants. As of September 30, 2010, a total of 312,125 shares were available for issuance under our equity compensation plans and options to purchase 4,188,950 shares of common stock were outstanding (which includes options to purchase 1,075 shares of common stock related to our old option plans prior to our merger in June 2007). For the three-month periods ended September 30, 2010 and 2009, stock compensation expense was approximately \$202,000 and \$515,000, respectively. At September 30, 2010, total unrecognized estimated compensation cost related to unvested stock options was approximately \$762,000, which is expected to be recognized by the end of 2013 using the straight-line method.

**8. Warrants**

As of September 30, 2010, we had the following outstanding warrants to purchase shares of common stock:

Number of underlying shares		Exercise Price	Expiration
4,976,470	\$	6.00	June 8, 2012
149,026	\$	5.00	June 8, 2014
<b>5,125,496</b>			

**9. Income Taxes**

We have net operating loss and research and development tax credit carryforwards that may be used to reduce future taxable income and tax liabilities. Our deferred tax assets have been fully offset by a valuation allowance due to our cumulative losses.

**10. Subsequent Event**

In October 2010, we were awarded grants from the Internal Revenue Service under section 48D of the Internal Revenue Code aggregating \$733,438 for qualifying therapeutic discovery investments incurred in 2009.

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

This discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this Quarterly Report on Form 10-Q and the audited financial statement and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. Operating results are not necessarily indicative of results that may occur in future periods.

**Overview and Recent Developments**

We are a biopharmaceutical company engaged in the discovery and development of therapeutic product candidates designed to extend and enhance the quality of human life. Through the application of our proprietary technologies, we have established a pipeline of therapeutic product development programs in multiple disease areas. Our current product development portfolio includes MultiStem®, a patented and proprietary stem cell product that we are developing as a treatment for multiple disease indications, and is currently being evaluated in clinical trials. In addition, we are developing novel pharmaceuticals to treat indications such as obesity and for certain cognitive, attention and wakefulness disorders.

*Current Programs*

In 2008, we advanced two MultiStem programs into clinical development, initiating phase I studies in cardiovascular disease (treating patients that have suffered an acute myocardial infarction, or AMI) and in oncology treatment support (administering MultiStem to leukemia or lymphoma patients who are receiving a traditional bone marrow or hematopoietic stem cell transplant to reduce the risk or severity of graft-versus-host disease, or GvHD). We are conducting the AMI clinical trial with our partner Angiotech Pharmaceuticals, Inc., and we completed phase I enrollment in the first quarter of 2010. In July 2010, we announced positive results of the phase I clinical trial, based on four months of post-treatment patient data, which demonstrate that MultiStem was well tolerated at all dose levels and also suggest the potential for improvement in heart function in treated patients. With Angiotech, we continue to evaluate the phase I results and are planning for a subsequent clinical study, which we currently anticipate will be initiated in 2011. In our GvHD trial, we have completed dosing in the first five of six dosing cohorts in the single dose arm of the study and have dosed the first two of six dosing cohorts in the multi-dose arm of the study.

In addition to these two MultiStem clinical studies, we have authorization from the Food and Drug Administration, or FDA, to initiate a third clinical study administering MultiStem to patients for the treatment of ischemic stroke, a leading cause of death and disability. In 2009, we took a cautious approach to initiating this clinical study in light of the volatile and uncertain capital markets. While we continue our preparations to initiate this phase I trial, we also have been furthering our research efforts designed to deepen our understanding of the ways in which MultiStem promotes healing and repair in the wake of an ischemic stroke or other neurological injury.

In December 2009, we entered into a collaboration agreement with Pfizer Inc. to develop and commercialize MultiStem for the treatment of inflammatory bowel disease, or IBD, for the worldwide market. We are currently planning and preparing for a clinical study in IBD and received authorization from the FDA in November 2010 to initiate the study.

In September 2010, we entered into an agreement with RTI Biologics, Inc., or RTI, to develop and commercialize MAPC technology-based biologic implants for certain orthopedic applications in the bone graft substitutes market. The agreement provides for a \$3 million license fee, potential milestone payments and tiered royalties on worldwide commercial sales of implants using our technologies. We are currently working with RTI to develop products for these applications.

We are also independently developing novel orally active pharmaceutical products for the treatment of obesity and for certain cognitive, attention and wakefulness disorders. We are actively evaluating these compounds, as we seek to identify candidates to advance further into development while we explore opportunities with potential collaboration partners who could work with us to develop these promising candidate compounds.



**Table of Contents***Financial*

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of \$203 million at September 30, 2010. Our losses have resulted principally from costs incurred in research and development, clinical and preclinical product development, acquisition and licensing costs, and general and administrative costs associated with our operations. We have used the financing proceeds from private equity and debt offerings and other sources of capital to develop our technologies, to discover and develop therapeutic product candidates and to acquire certain technologies and assets. We have also built drug development capabilities that have enabled us to advance product candidates into clinical trials. We have established strategic collaborations that have provided revenues and capabilities to help further advance our product candidates, and we have also built a substantial portfolio of intellectual property.

**Results of Operations**

Since our inception, our revenues have consisted of contract revenues and milestone payments from our collaborators, and grant proceeds primarily from federal and state grants. We have derived no revenue from therapeutic products to date. Research and development expenses consist primarily of external clinical and preclinical study fees, manufacturing costs, salaries and related personnel costs, legal expenses resulting from intellectual property prosecution processes, facility costs, and laboratory supply and reagent costs. We expense research and development costs as they are incurred. We expect to continue to make significant investments in research and development to enhance our technologies, advance clinical trials of our product candidates, expand our regulatory affairs and product development capabilities, conduct preclinical studies of our product and manufacture our product candidates. General and administrative expenses consist primarily of salaries and related personnel costs, professional fees and other corporate expenses. We expect to continue to incur substantial losses through at least the next several years.

The following tables set forth our revenues and expenses for the periods indicated. The following tables are stated in thousands.

**Revenues**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Contract revenue	\$ 1,601	\$ 167	\$ 4,515	\$ 636
Grant revenue	395	317	1,092	654
	<b>\$ 1,996</b>	<b>\$ 484</b>	<b>\$ 5,607</b>	<b>\$ 1,290</b>

**Table of Contents****Research and development expenses**

<i>Type of expense</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Personnel costs	\$ 1,030	\$ 844	\$ 2,996	\$ 2,509
Research supplies	326	198	912	688
Facilities	234	199	656	603
Clinical and preclinical development costs	1,729	329	3,043	988
Sponsored research	316	335	777	668
Patent legal fees	398	395	1,011	1,055
Other	226	189	700	729
Stock-based compensation	83	215	474	628
	<b>\$ 4,342</b>	<b>\$ 2,704</b>	<b>\$ 10,569</b>	<b>\$ 7,868</b>

**General and administrative expenses**

<i>Type of expense</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Personnel costs	\$ 481	\$ 468	\$ 1,457	\$ 1,453
Facilities	78	70	213	225
Legal and professional fees	344	160	817	636
Other	307	191	990	722
Stock-based compensation	119	300	772	892
	<b>\$ 1,329</b>	<b>\$ 1,189</b>	<b>\$ 4,249</b>	<b>\$ 3,928</b>

**Three Months Ended September 30, 2010 and 2009**

**Revenues.** Revenues increased to \$2.0 million for the three months ended September 30, 2010 from \$484,000 in the comparable period in 2009. Contract revenue increased \$1.4 million for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 primarily as a result of our collaboration with Pfizer that we entered into in December 2009 and our collaboration with RTI that we entered into in September 2010. We expect our contract revenues related to the Pfizer collaboration in the next few years to reflect the amortization of the \$6.0 million up-front license fee over the estimated performance period, research and development funding, and the performance of manufacturing services, and expect our contract revenues related to the RTI collaboration to reflect the amortization of the \$3.0 million license fee over the next several quarters. Grant revenue increased \$78,000 for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 primarily due to new grants that started in 2010. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

**Table of Contents**

*Research and Development Expenses.* Research and development expenses increased to \$4.3 million for the three months ended September 30, 2010 from \$2.7 million in the comparable period in 2009. The increase of approximately \$1.6 million for the three months ended September 30, 2010 from the comparable period in 2009 related primarily to an increase in clinical and preclinical development costs of \$1.4 million, an increase in personnel costs of \$186,000, and an increase in research supplies of \$128,000. These increases were partially offset by a decrease in stock compensation expense of \$132,000. The increase in clinical and preclinical development costs for the three months ended September 30, 2010 related primarily to increased manufacturing and process development costs. The increase in personnel costs and research supplies related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Our clinical costs for the three months ended September 30, 2010 and 2009 are reflected net of Angiotech's cost-sharing amount of \$132,000 and \$183,000, respectively. We expect our research and development expenses for the remainder of 2010 to continue to be higher than the comparable period in 2009, though this impact will be largely offset by increased revenues. Other than external expenses for our clinical and preclinical programs, we do not track our research expenses by project; rather, we track such expenses by the type of cost incurred.

*General and Administrative Expenses.* General and administrative expenses remained relatively consistent at \$1.3 million for the three months ended September 30, 2010 compared to \$1.2 million in the comparable period in 2009. We expect our general and administrative expenses to continue at similar levels for the remainder of 2010.

*Depreciation.* Depreciation expense remained relatively consistent at \$71,000 for the three months ended September 30, 2010 compared to \$58,000 in the comparable period in 2009.

*Interest Income and Other.* Interest income represents interest income earned on our cash and available-for-sale securities and other income includes foreign currency gains and losses, if any, related to our activities in Europe and certain contracts denominated in foreign currencies. Interest income and other decreased to \$58,000 for the three months ended September 30, 2010 from \$87,000 in the comparable period in 2009 due to the decline in our investment balances as they are used to fund our operations and foreign currency losses. Due to low interest rates and declining cash balances as a result of our ongoing and planned clinical and preclinical development, we expect our interest income for the remainder of 2010 to continue to be less than 2009 absent any new financings or business transactions.

***Nine Months Ended September 30, 2010 and 2009***

*Revenues.* Revenues increased to \$5.6 million for the nine months ended September 30, 2010 from \$1.3 million in the comparable period in 2009. Contract revenue increased \$3.9 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily as a result of our collaboration with Pfizer that we entered into in December 2009 and our collaboration with RTI that we entered into in September 2010. We expect our contract revenues related to the Pfizer collaboration in the next few years to reflect the amortization of the \$6 million up-front license fee over the estimated performance period, research and development funding, and the performance of manufacturing services and expect our contract revenues related to the RTI collaboration to reflect the amortization of the \$3.0 million license fee over the next several quarters. Grant revenue increased \$438,000 for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to new grants that started late in 2009 and 2010. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

*Research and Development Expenses.* Research and development expenses increased to \$10.6 million for the nine months ended September 30, 2010 from \$7.9 million in the comparable period in 2009. The increase of approximately \$2.7 million related primarily to an increase in clinical and preclinical development costs of \$2.1 million, an increase in personnel costs of \$487,000, an increase in research supply costs of \$224,000 and an increase in sponsored research costs of \$109,000 for the nine months ended September 30, 2010 from the comparable period in 2009. These increases were partially offset by a decrease in stock compensation expense of \$154,000. The increase in clinical and preclinical development costs for the nine months ended September 30, 2010 from the comparable period in 2009 related primarily to increased manufacturing and process development costs, and costs associated with our MultiStem clinical trials. The increase in personnel costs and research supplies related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Our clinical costs for the nine months ended September 30,

2010 and 2009 are reflected net of Angiotech's cost-sharing amount of \$521,000 and \$621,000, respectively. We expect our research and development expenses for the remainder of 2010 to continue to be higher than the comparable period in 2009, though this impact will be largely offset by increased revenues. Other than external expenses for our clinical and preclinical programs, we do not track our research expenses by project; rather, we track such expenses by the type of cost incurred.

**Table of Contents**

*General and Administrative Expenses.* General and administrative expenses increased to \$4.2 million for the nine months ended September 30, 2010 from \$3.9 million in the comparable period in 2009. The increase of approximately \$321,000 related primarily to increases in legal and professional costs and other external service costs. We expect our general and administrative expenses to continue at similar levels for the remainder of 2010.

*Depreciation.* Depreciation expense increased to \$216,000 for the nine months ended September 30, 2010 from \$175,000 in the comparable period in 2009. The increase in depreciation expense was due to depreciation on capital purchases made in 2009 and 2010.

*Interest Income and Other.* Interest income represents interest income earned on our cash and available-for-sale securities and other income includes foreign currency gains and losses, if any, related to our activities in Europe and certain contracts denominated in foreign currencies. Interest income and other decreased to \$101,000 for the nine months ended September 30, 2010 from \$329,000 in the comparable period in 2009 due to the decline in our investment balances as they are used to fund our operations and foreign currency losses. Due to low interest rates and declining cash balances as a result of our ongoing and planned clinical and preclinical development, we expect our interest income for the remainder of 2010 to continue to be less than 2009 absent any new financings or business transactions.

**Liquidity and Capital Resources**

Our sources of liquidity include our cash balances and available-for-sale securities. At September 30, 2010, we had \$2.2 million in cash and cash equivalents and \$15.6 million in available-for-sale securities. We have primarily financed our operations through private equity and debt financings that have resulted in aggregate cumulative proceeds of approximately \$200 million.

In December 2009, we entered into a collaboration agreement with Pfizer to develop and commercialize MultiStem for the treatment of IBD for the worldwide market. Under the terms of the agreement, we received an up-front cash payment of \$6 million from Pfizer and will also receive research funding and support. In addition, we are also eligible to receive milestone payments of up to \$105 million upon the successful achievement of certain development, regulatory and commercial milestones, though there can be no assurance that we will achieve any milestones. Pfizer pays us for manufacturing product for clinical development and commercialization purposes. Pfizer has responsibility for development, regulatory and commercialization and will pay us tiered royalties on worldwide commercial sales of MultiStem IBD products. Alternatively, in lieu of royalties and certain commercialization milestones, we may elect to co-develop with Pfizer and the parties will share development and commercialization expenses and profits/losses on an agreed basis beginning at phase III clinical development.

In connection with our MultiStem collaboration with Angiotech, upon the successful achievement of specified clinical development and commercialization milestones, we may also receive up to \$63.75 million of aggregate cash payments and \$3.75 million from an additional equity investment, though there can be no assurance that we will achieve any milestones. Under the terms of the collaboration, the parties are jointly funding clinical development activity, whereby preclinical costs are borne solely by us, costs for phase I and phase II clinical trials are borne 50% by us and 50% by Angiotech, costs for the first phase III clinical trial will be borne 33% by us and 67% by Angiotech, and costs for any subsequent phase III clinical trial will be borne 25% by us and 75% by Angiotech. We have lead responsibility for preclinical and early clinical development and manufacturing of the MultiStem product, and Angiotech has lead responsibility for later clinical trials and commercialization. Upon product commercialization, we will receive nearly half of the net profits from the sale of any jointly developed, approved products. Angiotech recently announced that it reached an agreement with its subordinated noteholders to recapitalize the company, which will result in a significant reduction of its debt. At this time, Angiotech continues to fund its share of clinical costs on a timely basis and there is no indication that this restructuring will have an effect on our collaboration with Angiotech. In the event that Angiotech fails to fund its obligations under the terms of our contract, our net costs for AMI clinical trials would increase or alternative funding would be required for such clinical trials.

**Table of Contents**

In September 2010, we entered into an agreement with RTI to develop and commercialize MAPC technology-based biologic implants for certain orthopedic applications in the bone graft substitutes market. Under the terms of the agreement, we will receive a \$3.0 million license fee paid in installments, of which \$1.0 million was received at inception and the remaining \$2.0 million will be received in \$1.0 million installments in December 2010 and March 2011. We are also eligible to receive an additional \$35.5 million in cash payments upon the successful achievement of certain development and commercial milestones, though there can be no assurance that we will achieve any milestones. In addition, we will receive tiered royalties on worldwide commercial sales of implants using our technologies.

Our collaboration agreement with Bristol-Myers Squibb, which was initially established in 2001, is now in its final phase since the requirement for Bristol-Myers Squibb to nominate new targets ended in 2009. We intend to continue to prepare and deliver validated drug targets as needed by Bristol-Myers Squibb for use in its drug discovery efforts though we anticipate demand to be limited. We will remain entitled to receive license fees for targets that were delivered to Bristol-Myers Squibb over the course of the collaboration, as well as milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology, though there can be no assurance that we will achieve any milestones or royalties.

In October 2010, we were awarded grants from the Internal Revenue Service under section 48D of the Internal Revenue Code aggregating \$733,438 for qualifying therapeutic discovery investments incurred in 2009.

Our available-for-sale securities typically include U.S. government obligations and corporate debt securities. As of September 30, 2010, approximately 84% of our investments were in U.S. government obligations, including government-backed agencies. We have been investing conservatively due to economic conditions and have prioritized liquidity and the preservation of principal in lieu of potentially higher returns. As a result, we have experienced no losses on the principal of our investments and have held our investments until maturity. Also, although these unfavorable market and economic conditions have resulted in a decrease to our market capitalization, there has been no impairment to the value of our assets. Our fixed assets are used for internal research and development and, therefore, are not impacted by these external factors.

We will require substantial additional funding in order to continue our research and product development programs, including preclinical testing and clinical trials of our product candidates. We expect to have available cash to fund our operations through 2011 based on our current business and operational plans. Our capital requirements beyond 2011 will depend on a number of factors, including scientific progress in our research and development programs, additional personnel costs, progress in preclinical testing and clinical trials, and the costs in filing and prosecuting patent applications and enforcing patent claims. Further, these requirements may change at any time due to technological advances or competition from other companies. We will continue to explore and consider new opportunities for funding our operations and activities through grants and business partnerships involving our technologies and product candidates, as well as selling equity securities and possibly borrowings from financial institutions. We cannot assure you that adequate funding will be available to us or, if available, that it will be available on acceptable terms. Any shortfall in funding could result in our having to curtail research and development efforts.

## **Table of Contents**

We expect to continue to incur substantial losses through at least the next several years and may incur losses in subsequent periods. The amount and timing of our future losses are highly uncertain. Our ability to achieve and thereafter sustain profitability will be dependent upon, among other things, successfully developing, obtaining regulatory approval or clearances for, and commercializing our technologies and products resulting from these technologies.

Net cash used in operating activities was \$8.0 million for the nine months ended September 30, 2010 and \$9.0 million for the nine months ended September 30, 2009, and represented the use of cash in funding preclinical and clinical product development activities.

Net cash used in investing activities was \$965,000 for the nine months ended September 30, 2010 and net cash provided by investing activities was \$5.6 million for the nine months ended September 30, 2009. The fluctuations from period to period were due to the timing of purchases and maturity dates of investments and the purchase of equipment. Cash used for purchases of equipment was \$384,000 through the third quarter of 2010 and \$54,000 through the third quarter of 2009.

Investors in the equity offering in June 2007 received five-year warrants to purchase an aggregate of 3,250,000 shares of common stock with an exercise price of \$6.00 per share. The exercise of such warrants could provide us with cash proceeds. No warrants have been exercised as of September 30, 2010.

Our senior loan was repaid in full in June 2008. The senior lenders retain a right to receive a milestone payment of \$2.25 million upon the occurrence of certain events as follows: (1) the entire amount upon (a) the merger with or into another entity where our stockholders do not hold at least a majority of the voting power of the surviving entity, (b) the sale of all or substantially all of our assets, or (c) our liquidation or dissolution; or (2) a portion of the amount from proceeds of equity financings not tied to specific research and development activities that are part of a research or development collaboration, in which case, the senior lenders will receive an amount equal to 10% of proceeds above \$5.0 million in cumulative gross proceeds until the milestone amount is paid in full. The milestone payment is payable in cash, except that if the milestone event is (2) above, we may elect to pay 75% of the milestone in shares of common stock at the per-share offering price. No milestone events have occurred as of September 30, 2010. The senior lenders also received warrants to purchase 149,026 shares of common stock with an exercise price of \$5.00 upon the closing of our equity offering in June 2007. The exercise of such warrants could provide us with cash proceeds. No warrants were exercised at September 30, 2010.

We have no off-balance sheet arrangements.

### **Critical Accounting Policies and Management Estimates**

The SEC defines critical accounting policies as those that are, in management's view, important to the portrayal of our financial condition and results of operations and demanding of management's judgment. Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates on experience and on various assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. A description of these accounting policies and estimates is included in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in our accounting policies and estimates as described in our Annual Report. For additional information regarding our accounting policies, see Note B to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Table of Contents****Recently Issued Accounting Standards**

In September 2009, Accounting Standards Codification, or ASC, 605-25, *Multiple-Element Arrangements*, was updated (Accounting Standards Update, or ASU, No. 2009-13) related to revenue recognition for arrangements with multiple elements. The revised guidance provides for two significant changes to the existing guidance, the first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting, which will likely result in the requirement to separate more deliverables within an arrangement leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. The new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The new guidance is effective for fiscal years beginning on or after June 15, 2010, and early adoption is permitted provided that the new guidance is retroactively applied to the beginning of the year of adoption. We have not yet evaluated the potential effect of the future adoption of this new guidance.

In March 2010, ASC 605-28, *Milestone Method of Revenue Recognition*, was amended (ASU No. 2009-13) related to the ratification of the application of the proportional performance model of revenue recognition when applied to milestones in research and development arrangements. Accordingly, the consensus states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The new guidance is effective for fiscal years beginning on or after June 15, 2010, and may be applied prospectively or retrospectively. Early adoption is permitted provided that the new guidance is retrospectively applied to the beginning of the year of adoption. We do not expect this new guidance to have a material effect on our financial statements upon adoption.

**Cautionary Note on Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These forward-looking statements relate to, among other things, the expected timetable for development of our product candidates, our growth strategy, and our future financial performance, including our operations, economic performance, financial condition, prospects, and other future events. We have attempted to identify forward-looking statements by using such words as anticipates, believes, can, continue, could, estimates, expects, intends, may, plans, potential, should, will, or other similar terms. These forward-looking statements are only predictions and are largely based on our current expectations. These forward-looking statements appear in a number of places in this quarterly report on Form 10-Q.

In addition, a number of known and unknown risks, uncertainties, and other factors could affect the accuracy of these statements. Some of the more significant known risks that we face are the risks and uncertainties inherent in the process of discovering, developing, and commercializing products that are safe and effective for use as human therapeutics, including the uncertainty regarding market acceptance of our product candidates and our ability to generate revenues. These risks may cause our actual results, levels of activity, performance, or achievements to differ materially from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.



**Table of Contents**

Other important factors to consider in evaluating our forward-looking statements include:

the possibility of delays in, adverse results of and excessive costs of the development process;

our ability to successfully initiate and complete a phase II study of MultiStem for AMI;

changes in external market factors;

changes in our industry's overall performance;

changes in our business strategy;

our ability to protect our intellectual property portfolio;

our possible inability to realize commercially valuable discoveries in our collaborations with pharmaceutical and other biotechnology companies;

our ability to meet milestones under our collaboration agreements;

our possible inability to execute our strategy due to changes in our industry or the economy generally;

changes in productivity and reliability of suppliers; and

the success of our competitors and the emergence of new competitors.

Although we currently believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, levels of activity or performance. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

***Interest Rate Risk***

Our exposure to interest rate risk is related to our investment portfolio and our borrowings. Fixed rate investments and borrowings may have their fair market value adversely impacted from changes in interest rates. Due in part to these factors, our future investment income may fall short of expectations. Further, we may suffer losses in investment principal if we are forced to sell securities that have declined in market value due to changes in interest rates. We invest our excess cash primarily in debt instruments of the U.S. government and its agencies, commercial paper and corporate debt securities. As of September 30, 2010, approximately 84% of our investments were in U.S. government obligations, including government-backed agencies. We have been investing conservatively due to economic conditions and have prioritized liquidity and the preservation of principal in lieu of potentially higher returns. As a result, we have experienced no losses on the principal of our investments.

We enter into loan arrangements with financial institutions when needed and when available to us. At September 30, 2010, we had no borrowings outstanding.

**Table of Contents****Item 4T. Controls and Procedures.****Disclosure controls and procedures**

Our management, under the supervision of and with the participation of our Chief Executive Officer and our Vice President of Finance, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report on Form 10-Q. Based upon this evaluation, our Chief Executive Officer and Vice President of Finance have concluded that, as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective.

**Changes in internal control over financial reporting**

During the third quarter of 2010, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On September 9, 2010, the Company issued 1,345 shares of its common stock to Katholieke Universiteit Leuven, or KUL, pursuant to a license agreement with KUL. The issuance of these unregistered shares qualifies as an exempt transaction pursuant to Section 4(2) of the Securities Act of 1933. These securities qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance by the Company did not involve a public offering. The offering was not a public offering due to the number of persons involved, the manner of the issuance and the number of securities issued. In addition, KUL had the necessary investment intent since KUL agreed to and received share certificates bearing a legend stating that such securities are restricted.

**Item 6. Exhibits.**

Exhibit No.	Description
10.1*	License and Technical Assistance Agreement, dated as of September 10, 2010, between ABT Holding Company and RTI Biologics, Inc.
31.1	Certification of Gil Van Bokkelen, Chairman and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Laura K. Campbell, Vice President of Finance, pursuant to SEC Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Gil Van Bokkelen, Chairman and Chief Executive Officer, and Laura Campbell, Vice President of Finance, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.



**Table of Contents**

**SIGNATURES**

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

ATHERSYS, INC.

Date: November 8, 2010

/s/ Gil Van Bokkelen

Gil Van Bokkelen  
Chairman and Chief Executive Officer  
(principal executive officer authorized to sign on  
behalf of the registrant)

/s/ Laura K. Campbell

Laura K. Campbell  
Vice President of Finance  
(principal financial and accounting officer  
authorized to sign on behalf of the registrant)

**Table of Contents**

**EXHIBIT INDEX**

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\* Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.