ATHERSYS, INC / NEW
Form 10-Q
August 09, 2010

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

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____.

Commission file number: 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 þ 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 (§ 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 o No o
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 o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No þ
The number of outstanding shares of the registrant s common stock, $0.001 par value, as of July 30, 2010 was 18,929,333.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

Athersys, Inc.
Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 2,427	$ 11,167
Available-for-sale securities	9,596	10,135
Accounts receivable	267	352
Receivable from Angiotech	145	229
Investment interest receivable	108	93
Prepaid expenses and other	187	173
Total current assets	12,730	22,149
Available-for-sale securities	8,080	5,080
Equipment, net	1,027	849
Deposits and other	207	253
Total assets	$ 22,044	$ 28,331
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 938	$ 1,128
Accrued compensation and related benefits	337	667
Accrued clinical trial costs	148	83
Accrued expenses and other	923	857
Deferred revenue	3,038	3,123
Total current liabilities	5,384	5,858
Deferred revenue	2,316	3,516
Stockholders equity:		
Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at June 30, 2010 and December 31, 2009		
Common stock, $0.001 par value; 100,000,000 shares authorized, and 18,929,333 shares issued and outstanding at June 30, 2010 and December 31, 2009	19	19
Additional paid-in capital	213,748	212,704

Accumulated other comprehensive income	52	71
Accumulated deficit	(199,475)	(193,837)
Total stockholders equity	14,344	18,957
Total liabilities and stockholders equity	$ 22,044	$ 28,331

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues				
Contract revenue	$ 1,519	$ 281	$ 2,914	$ 469
Grant revenue	352	155	697	337
Total revenues	1,871	436	3,611	806
Costs and expenses				
Research and development	3,405	2,553	6,227	5,164
General and administrative	1,483	1,287	2,920	2,739
Depreciation	70	57	145	117
Total costs and expenses	4,958	3,897	9,292	8,020
Loss from operations	(3,087)	(3,461)	(5,681)	(7,214)
Interest income and other	10	114	43	242
Net loss	$ (3,077)	$ (3,347)	$ (5,638)	$ (6,972)
Basic and diluted net loss per share	$ (0.16)	$ (0.18)	$ (0.30)	$ (0.37)
Weighted average shares outstanding, basic and diluted	18,929,333	18,927,988	18,929,333	18,927,988

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended June 30,	
	2010	**2009**
Operating activities		
Net loss	$ (5,638)	$ (6,972)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	145	117
Stock-based compensation	1,044	1,005
Amortization of premium on available-for-sale securities and other	147	90
Changes in operating assets and liabilities:		
Accounts receivable	85	99
Receivable from Angiotech	84	105
Prepaid expenses and other assets	(29)	(137)
Accounts payable and accrued expenses	(389)	(459)
Deferred revenue	(1,285)	(58)
Net cash used in operating activities	(5,836)	(6,210)
Investing activities		
Purchase of available-for-sale securities	(8,081)	(7,634)
Maturities of available-for-sale securities	5,500	10,800
Proceeds from sale of fixed assets		20
Purchases of equipment	(323)	(49)
Net cash (used in) provided by investing activities	(2,904)	3,137
Financing activities		
Decrease in cash and cash equivalents	(8,740)	(3,073)
Cash and cash equivalents at beginning of the period	11,167	12,552
Cash and cash equivalents at end of the period	$ 2,427	$ 9,479

See accompanying notes to unaudited condensed consolidated financial statements.

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Athersys, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
Three and Six-Month Periods Ended June 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 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.

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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 antidilutive. The following instruments were excluded from the calculation of diluted net loss per share because their effects would be antidilutive:

1) Outstanding stock options to purchase 4,124,262 shares of common stock for both the three- and six-month periods ended June 30, 2010 and 3,866,149 shares of common stock for both the three- and six-month periods ended June 30, 2009; and
2) Warrants to purchase 5,125,496 shares of common stock for each of the three- and six-month periods ended June 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.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net loss	$ (3,077)	$ (3,347)	$ (5,638)	$ (6,972)
Unrealized (loss) gain on available-for-sale securities	(6)	61	(19)	8
Comprehensive loss	$ (3,083)	$ (3,286)	$ (5,657)	$ (6,964)

5. Fair Value of Financial Instruments

Our available-for-sale securities include U.S. government obligations and corporate debt securities. As of June 30, 2010, approximately 86% 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.

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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 June 30, 2010 (in thousands):

		Fair Value Measurements at June 30, 2010 Using		
Description	Balance as of June 30, 2010	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	$ 17,676	$ 17,676	$	$

Fair value is based upon quoted market prices in active markets. We had no level 2 or level 3 assets at June 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 June 30, 2010 and December 31, 2009, respectively:

	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Estimated Fair Value
June 30, 2010:				
U.S. government obligations, which included government-backed agencies	$ 15,083	$	$ 37	$ 15,120
Corporate debt securities	2,541		15	2,556
	$ 17,624	**$**	**$ 52**	**$ 17,676**
December 31, 2009:				
U.S. government obligations, which included government-backed agencies	$ 12,613	$ (12)	$ 52	$ 12,653
Corporate debt securities	2,531		31	2,562
	$ 15,144	**$ (12)**	**$ 83**	**$ 15,215**

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. 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 $52,000 and $71,000 as of June 30, 2010 and December 31, 2009, respectively.

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The amortized cost of and estimated fair value of available-for-sale securities at June 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 June 30, 2010.

	June 30, 2010	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 9,562	$ 9,596
Due after one year through two years	8,062	8,080
	$ 17,624	**$ 17,676**

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 a collaboration agreement with Pfizer Inc. (Pfizer) in December 2009 that contains 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.

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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 equity investments and cash payments 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 $145,000 was due from Angiotech as of June 30, 2010. Our clinical costs for the three months ended June 30, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $145,000 and $129,000, 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 will pay us for manufacturing product for clinical development and commercialization purposes. Pfizer will have 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 when services are performed. 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.

7. Stock-based Compensation

Our equity incentive plans authorize an aggregate of 4,500,000 shares of common stock for awards to employees, directors and consultants. These 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.

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As of June 30, 2010, a total of 376,813 shares were available for issuance under our equity compensation plans and options to purchase 4,124,262 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 June 30, 2010 and 2009, stock-based compensation expense was approximately $594,000 and $492,000, respectively. At June 30, 2010, total unrecognized estimated compensation cost related to unvested stock options was approximately $732,000, which is expected to be recognized by the end of 2013 using the straight-line method.

8. Warrants

As of June 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
5,125,496			

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.

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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. On July 28, 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 improvement in heart function in treated patients. With Angiotech, we will continue to evaluate the phase I results and intend to begin 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 four of six dosing cohorts in the single dose arm of the study. In the first quarter of 2010, we received authorization from the independent safety committee to commence the multi-dose arm of the GvHD trial and are currently dosing patients.

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 phase I clinical study in IBD and plan to initiate the study as soon as possible after regulatory approval.

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 pursue collaboration partners who could work with us to develop these promising candidate compounds.

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Financial

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of $199 million at June 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 on the sale of FDA-approved 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 application 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 and amounts are stated in thousands.

Revenues

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Contract revenue	$ 1,519	$ 281	$ 2,914	$ 469
Grant revenue	352	155	697	337
	$ 1,871	**$ 436**	**$ 3,611**	**$ 806**

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Research and development expenses

Type of expense	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Personnel costs	$ 1,014	$ 842	$ 1,966	$ 1,665
Research supplies	324	237	586	490
Facilities	203	196	422	404
Clinical and preclinical development costs	836	150	1,314	659
Sponsored research	256	203	461	333
Patent legal fees	312	393	613	660
Other	222	333	474	540
Stock-based compensation	238	199	391	413
	$ 3,405	**$ 2,553**	**$ 6,227**	**$ 5,164**

General and administrative expenses

Type of expense	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Personnel costs	$ 496	$ 486	$ 976	$ 985
Facilities	68	73	135	155
Legal and professional fees	191	153	473	476
Other	372	282	683	531
Stock-based compensation	356	293	653	592
	$ 1,483	**$ 1,287**	**$ 2,920**	**$ 2,739**

Three Months Ended June 30, 2010 and 2009

Revenues. Revenues increased to $1.9 million for the three months ended June 30, 2010 from $436,000 in the comparable period in 2009. Contract revenue increased $1.2 million for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 primarily as a result of our collaboration with Pfizer that we entered into in December 2009. 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. Grant revenue increased $197,000 for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 primarily due to new grants that started late in 2009. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

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Research and Development Expenses. Research and development expenses increased to $3.4 million for the three months ended June 30, 2010 from $2.6 million in the comparable period in 2009. The increase of $852,000 related primarily to an increase in clinical and preclinical development costs of $686,000, an increase in personnel costs of $172,000, an increase in research supplies of $87,000, an increase in sponsored research of $53,000 and an increase in stock compensation expense of $39,000 for the three months ended June 30, 2010 from the comparable period in 2009. These increases were partially offset by a decrease in other research and development expenses of $111,000 and a decrease in patent legal fee expense of $81,000 for the three months ended June 30, 2010 from the comparable period in 2009. The increase in clinical and preclinical development costs for the three months ended June 30, 2010 related primarily to manufacturing costs associated with our MultiStem clinical trials and an increase in our GvHD clinical trial expenses as a result of increased enrollment and other costs. The increase in personnel costs related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Sponsored research costs increased primarily due to an increase in grant-funded programs that require collaboration with certain academic research institutions. The decrease in other research and development expenses for the three month period related primarily to reduced outsourced research services. Patent legal fees vary from period to period while we further develop and maintain our portfolio of patent applications. Our clinical costs for the three months ended June 30, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $145,000 and $129,000, 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 $1.5 million for the three months ended June 30, 2010 compared to $1.3 million for the three months ended June 30, 2009. We expect our general and administrative expenses to continue at similar levels for the remainder of 2010.

Depreciation. Depreciation expense increased to $70,000 for the three months ended June 30, 2010 from $57,000 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 $10,000 for the three months ended June 30, 2010 from $114,000 for 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.

Six Months Ended June 30, 2010 and 2009

Revenues. Revenues increased to $3.6 million for the six months ended June 30, 2010 from $806,000 in the comparable period in 2009. Contract revenue increased $2.4 million for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily as a result of our collaboration with Pfizer that we entered into in December 2009. 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. Grant revenue increased $360,000 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to new grants that started late in 2009. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

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Research and Development Expenses. Research and development expenses increased to $6.2 million for the six months ended June 30, 2010 from $5.2 million in the comparable period in 2009. The increase of approximately $1 million related primarily to an increase in clinical and preclinical development costs of $655,000, an increase in personnel costs of $301,000, an increase in sponsored research of $128,000 and an increase in research supplies of $96,000 for the six months ended June 30, 2010 from the comparable period in 2009. These increases were partially offset by a decrease in other research and development expenses of $66,000 and a decrease in patent legal fee expense of $47,000 for the six months ended June 30, 2010 from the comparable period in 2009. The increase in clinical and preclinical development costs for the six months ended June 30, 2010 related primarily to manufacturing costs associated with our MultiStem clinical trials and an increase in our GvHD clinical trial expenses as a result of increased enrollment and other costs. The increase in personnel costs related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Sponsored research costs increased primarily due to an increase in grant-funded programs that require collaboration with certain academic research institutions. Our clinical costs for the six months ended June 30, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $389,000 and $438,000, 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 $2.9 million for the six months ended June 30, 2010 compared to $2.7 million for the six months ended June 30, 2009. We expect our general and administrative expenses to continue at similar levels for the remainder of 2010.

Depreciation. Depreciation expense increased to $145,000 for the six months ended June 30, 2010 from $117,000 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 $43,000 for the six months ended June 30, 2010 from $242,000 for 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 June 30, 2010, we had $2.4 million in cash and cash equivalents and $17.7 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 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 will pay us for manufacturing product for clinical development and commercialization purposes. Pfizer will have 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.

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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 $3.75 million of additional equity investments and $63.75 million of aggregate cash payments, 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 phase III clinical trials subsequent to the first 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.

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, and we anticipate that Bristol-Myers Squibb s demand for new targets will be substantially reduced or cease altogether. We intend to continue to prepare and deliver validated drug targets as needed by Bristol-Myers Squibb for use in its drug discovery efforts. 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.

Our available-for-sale securities typically include U.S. government obligations, commercial paper and corporate debt securities. As of June 30, 2010, approximately 86% of our investments were in U.S. government obligations, including government-backed agencies. We have been investing conservatively due to the ongoing 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 funding requirements may change at any time due to technological advances or competition from other companies. Our future capital requirements will also depend on numerous other factors, including scientific progress in our research and development programs, additional personnel costs, progress in preclinical testing and clinical trials, the time and cost related to proposed regulatory approvals, if any, and the costs in filing and prosecuting patent applications and enforcing patent claims. 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.

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, commercializing and obtaining regulatory approval or clearances for our technologies and products resulting from these technologies.

Net cash used in operating activities was $5.8 million for the six months ended June 30, 2010 and $6.2 million for the six months ended June 30, 2009, and represented the use of cash in funding preclinical and clinical product development activities.

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Net cash used in investing activities was $2.9 million for the six months ended June 30, 2010 and net cash provided by investing activities was $3.1 million for the six months ended June 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 $323,000 and $49,000 for the second quarter of 2010 and 2009, respectively.

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 June 30, 2010.

Our senior loan was repaid in full in 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 June 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 as of June 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 polices 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.

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.

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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 si

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.

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;
- 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;

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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;

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

our ability to successfully initiate and complete a phase II study of MultiStem for acute myocardial infarction.

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 June 30, 2010, approximately 86% of our investments were in U.S. government obligations, including government-backed agencies. We have been investing conservatively due to the current 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 June 30, 2010, we had no borrowings outstanding.

Item 4. 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, Finance, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(f) and 15d-15(f) 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, 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 second quarter of 2010, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION
Item 6. Exhibits.

Exhibit No.	Description
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, 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, Finance, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: August 9, 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, Finance
(principal financial and accounting officer authorized to sign on behalf of the registrant)

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EXHIBIT INDEX

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