

ATHERSYS, INC / NEW
Form 10-Q
August 06, 2009

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**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 **June 30, 2009**

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

20-4864095
(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

(Do not check if a 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 July 31, 2009 was 18,927,988.

ATHERSYS INC.
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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)

| | June 30, 2009 (Unaudited) | December 31, 2008 |
|---|--|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,479 | \$ 12,552 |
| Available-for-sale securities | 10,115 | 15,460 |
| Accounts receivable | 161 | 260 |
| Receivable from Angiotech | 129 | 234 |
| Investment interest receivable | 133 | 189 |
| Prepaid expenses and other | 601 | 408 |
| Total current assets | 20,618 | 29,103 |
| Available-for-sale securities | 5,679 | 3,601 |
| Deposits | 144 | 144 |
| Equipment, net | 633 | 701 |
| Equity investments and other | 327 | 328 |
| Total assets | \$ 27,401 | \$ 33,877 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 848 | \$ 1,498 |
| Accrued compensation and related benefits | 287 | 97 |
| Accrued expenses and other | 662 | 719 |
| Total current liabilities | 1,797 | 2,314 |
| Stockholders equity: | | |
| Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at June 30, 2009 and December 31, 2008 | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized, and 18,927,988 shares issued and outstanding at June 30, 2009 and December 31, 2008 | 19 | 19 |
| Additional paid-in capital | 210,900 | 209,895 |
| Accumulated other comprehensive income | 128 | 120 |
| Accumulated deficit | (185,443) | (178,471) |
| Total stockholders equity | 25,604 | 31,563 |
| Total liabilities and stockholders equity | \$ 27,401 | \$ 33,877 |

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 | | Six months ended | |
|--|---------------------------|-------------------|-------------------------|-------------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | | | | |
| License fees | \$ 281 | \$ 453 | \$ 469 | \$ 843 |
| Grant revenue | 155 | 323 | 337 | 725 |
| Total revenues | 436 | 776 | 806 | 1,568 |
| Costs and expenses | | | | |
| Research and development | 2,553 | 3,737 | 5,164 | 8,052 |
| General and administrative | 1,287 | 1,381 | 2,739 | 2,862 |
| Depreciation | 57 | 52 | 117 | 109 |
| Total costs and expenses | 3,897 | 5,170 | 8,020 | 11,023 |
| Loss from operations | (3,461) | (4,394) | (7,214) | (9,455) |
| Interest income and other | 114 | 303 | 242 | 762 |
| Interest expense | | (31) | | (93) |
| Net loss | \$ (3,347) | \$ (4,122) | \$ (6,972) | \$ (8,786) |
| Basic and diluted net loss per share | \$ (0.18) | \$ (0.22) | \$ (0.37) | \$ (0.46) |
| Weighted average shares outstanding, basic and diluted | 18,927,988 | 18,927,988 | 18,927,988 | 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, | |
| | 2009 | 2008 |
| Operating activities | | |
| Net loss | \$ (6,972) | \$ (8,786) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 117 | 109 |
| Stock-based compensation | 1,005 | 903 |
| Other | (19) | 37 |
| Amortization of premium (discount) on available-for-sale securities | 109 | (75) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 99 | 181 |
| Receivable from Angiotech | 105 | (206) |
| Prepaid expenses and other assets | (137) | (486) |
| Accounts payable and accrued expenses | (517) | 389 |
| Net cash used in operating activities | (6,210) | (7,934) |
| Investing activities | | |
| Purchase of available-for-sale securities | (7,634) | (15,423) |
| Maturities of available-for-sale securities | 10,800 | 29,699 |
| Proceeds from sale of fixed assets | 20 | 17 |
| Purchases of equipment | (49) | (156) |
| Net cash provided by investing activities | 3,137 | 14,137 |
| Financing activities | | |
| Principal payments on debt | | (1,800) |
| Net cash used in financing activities | | |
| (Decrease) increase in cash and cash equivalents | (3,073) | 4,403 |
| Cash and cash equivalents at beginning of the period | 12,552 | 13,248 |
| Cash and cash equivalents at end of the period | \$ 9,479 | \$ 17,651 |

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, 2009 and 2008

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, 2008. 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. New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) ratified the consensus reached in EITF Issue No. 07-1 (EITF 07-1), *Accounting for Collaborative Arrangements*. The effective date of EITF 07-1 is January 1, 2009 for calendar year companies with retrospective application required for all periods presented for collaborative arrangements existing as of the effective date. EITF 07-1 requires certain disclosures related to collaborative arrangements where parties are active participants and exposed to significant risks and rewards dependent on the commercial success of the activity. The adoption of EITF 07-1 did not have a material impact on our financial statements because our accounting for our collaborative agreement was consistent with the provisions of EITF 07-1.

In May 2008, the FASB issued FASB Staff Position APB 14-1 (FSP 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability and equity components in a manner that reflects the issuer's nonconvertible debt borrowing rate. We have no current convertible debt instruments, and concluded that all of our prior instruments were not within the scope of FSP 14-1; therefore, there was no retrospective effect from the adoption of FSP 14-1 on our financial statements.

In June 2008, the FASB issued EITF Issue No. 07-5 (EITF 07-5), *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*. EITF 07-5 clarifies the determination of whether certain instruments or features were indexed to an entity's own stock under EITF Issue No. 01-6. The statement was effective for us on January 1, 2009. The adoption of the statement had no impact on our financial statements.

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In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2 (FSP 115-2), *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP 115-2 requires, among other things, that other-than-temporary impairments be separated into the amount recognized in earnings and the amount recognized in other comprehensive income. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly*. FSP 157-4 provides guidance on estimating fair value when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The statement also provides guidance on circumstances that may indicate that a transaction is not orderly. The statement requires additional disclosures about fair value measurements in annual and interim reporting periods. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1 (FSP 107-1), *Interim Disclosures About Fair Value of Financial Instruments*. FSP 107-1 extends the disclosure requirements of FASB Statement No. 107 to interim financial statements of publicly traded companies. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements, since we have been making the required disclosures in our interim financial statements.

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), *Subsequent Events*. SFAS 165 provides authoritative guidance regarding subsequent events as this guidance was previously only addressed in auditing literature. The statement was effective for us on June 30, 2009 and the adoption had no impact on our financial statements. We have evaluated subsequent events through August 6, 2009, the date of filing of this report with the Securities and Exchange Commission.

3. Net Loss per Share

Basic and diluted net loss per share are presented in conformity with SFAS No. 128, *Earnings per Share*, for all periods presented. In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the weighted-average number 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 antidilutive:

- 1) Outstanding stock options to purchase 3,866,149 shares of common stock for both the three- and six-month periods ended June 30, 2009, and 3,776,240 shares of common stock for both the three- and six-month periods ended June 30, 2008; and
- 2) Warrants to purchase 5,125,496 shares of common stock for each of the three- and six-month periods ended June 30, 2009 and 2008.

Table of Contents**4. Comprehensive Loss**

In accordance with SFAS No. 130, *Reporting 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, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss | \$ (3,347) | \$ (4,122) | \$ (6,972) | \$ (8,786) |
| Unrealized gain (loss) on available-for-sale securities | 61 | (123) | 8 | (61) |
| Comprehensive loss | \$ (3,286) | \$ (4,245) | \$ (6,964) | \$ (8,847) |

5. Fair Value of Financial Instruments

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*, related to our financial assets and liabilities and the methods to measure fair value of assets and liabilities as set forth therein, and on January 1, 2009, we adopted the non-deferred provisions of SFAS No. 157 related to non-financial assets, which had no impact on our financial statements. Our available-for-sale securities include U.S. government obligations, corporate debt securities and commercial paper. As of June 30, 2009, approximately 74% of our investments were in U.S. government obligations, which included government-backed agencies.

SFAS No. 157 classifies the inputs used to measure fair value 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.

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, 2009 (in thousands):

| Description | Balance as of June 30, 2009 | Fair Value Measurements at June 30, 2009 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 | \$ 15,794 | \$ 15,794 | \$ | \$ |

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

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The following is a summary of available-for-sale securities (in thousands) at June 30, 2009 and December 31, 2008, respectively:

| | Amortized Cost | Gross Unrealized Losses | Gross Unrealized Gains | Estimated Fair Value |
|---|---------------------------|--|---------------------------------------|-------------------------------------|
| June 30, 2009: | | | | |
| U.S. government obligations, which included government-backed agencies | \$ 11,611 | \$ | \$ 93 | \$ 11,704 |
| Corporate debt securities | 4,055 | | 35 | 4,090 |
| | \$ 15,666 | \$ | \$ 128 | \$ 15,794 |
| December 31, 2008: | | | | |
| U.S. government obligations, which included government-backed agencies | \$ 13,603 | \$ | \$ 125 | \$ 13,728 |
| Corporate debt securities | 5,338 | (24) | 19 | 5,333 |
| | \$ 18,941 | \$ (24) | \$ 144 | \$ 19,061 |

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 income. 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 \$128,000 and \$120,000 as of June 30, 2009 and December 31, 2008, respectively.

The amortized cost of and estimated fair value of available-for-sale securities at June 30, 2009, by contractual maturity, are shown below. 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, 2009 (in thousands).

| | June 30, 2009 | |
|--------------------------------------|---------------------------|---------------------------------|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$ 10,046 | \$ 10,115 |
| Due after one year through two years | 5,620 | 5,679 |
| | \$ 15,666 | \$ 15,794 |

Also, in connection with a dormant joint venture accounted for under the equity method, we received stock-based proceeds in another privately-held company in the amount of \$200,000 in 2003 and 2006 in aggregate. Similarly, the joint venture company also received stock-based proceeds in the privately-held company, for which our portion is \$142,000 based on our ownership percentage. We evaluated this investment in the privately-held company, which is a cost-method investment, noting no impairment.

Table of Contents**6. Collaboration**

Collaborative arrangements that involve cost or revenue 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.

In 2006, we entered into a co-development collaboration with Angiotech and received \$10 million in initial funding. We may receive up to \$3.75 million of equity investments and \$63.75 million of aggregate cash payments upon the successful achievement of specified clinical development and commercialization milestones, though there can be no assurance that we will achieve any such milestones. We continue to jointly fund clinical development activities with Angiotech in accordance with our collaboration, and, as of June 30, 2009, \$129,000 was due from Angiotech. Our clinical costs for the three-month periods ended June 30, 2009 and 2008 are reflected net of Angiotech's cost-sharing amount in the amounts of \$129,000 and \$269,000, respectively, since the responsibilities under this collaboration are shared with no principal party. The parties will share net profits from the future sale of approved products, if any.

7. Stock-based Compensation

We adopted 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 June 30, 2009, a total of 636,000 shares were available for issuance under our equity compensation plans and options to purchase 3,866,149 shares of common stock were outstanding (which includes options to purchase 2,149 shares of common stock related to our old option plans prior to our merger in June 2007). During the three-month period ended June 30, 2009, we issued options to purchase 130,000 shares of common stock to employees and directors. For the three-month periods ended June 30, 2009 and 2008, stock compensation expense was approximately \$492,000 and \$439,000, respectively. At June 30, 2009, total unrecognized estimated compensation cost related to unvested stock options was approximately \$2.1 million, which is expected to be recognized by the end of 2012 using the straight-line method.

8. Warrants

As of June 30, 2009, we had the following outstanding warrants to purchase shares of common stock that were issued upon the closing of our equity offering in June 2007 to investors and lenders:

| 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 | | |

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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. However, as a result of the change in ownership related to our capital restructuring and equity offering in June 2007, we lost the use of a significant portion of our pre-merger net operating loss carryforwards under Section 382 of the Internal Revenue Code. Our deferred tax assets have been fully offset by a valuation allowance due to our cumulative losses.

10. Contingencies

In 2004, we issued \$7.5 million of notes payable to lenders, which was repaid in June 2008. The 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) our 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 research and development activities that are part of a research or development collaboration, in which case, the lenders will receive an amount equal to 10% of proceeds above \$5 million in cumulative gross proceeds until the milestone amount is paid in full. The milestone amount is payable in cash, except that if the milestone event is (2) above, we may elect to pay 75% in shares of common stock at the per-share offering price. No amounts have been recorded in relation to the milestone as of June 30, 2009.

We filed a resale registration statement with the SEC in July 2007 covering the resale of 18,508,251 shares of common stock, which was declared effective by the SEC in 2007. Subject to certain exceptions, if the registration statement ceases to remain effective, a 1% cash penalty will be assessed for each 30-day period until the registration statement becomes effective again, capped at 10% of the aggregate gross proceeds in the June 2007 offering. Because this potential penalty is based on the number of unregistered shares of common stock held by investors that purchased those shares in the June 2007 offering, our maximum penalty exposure will decline over time as those investors sell their shares of common stock that were included in the registration statement.

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, 2008. 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, which is currently being evaluated in two ongoing clinical trials. In addition, we are developing novel pharmaceuticals to treat indications such as obesity and certain neurological conditions that affect attention, cognition or wakefulness, such as narcolepsy, excessive daytime sleepiness, and chronic fatigue associated with Parkinson's disease and other conditions.

Table of Contents*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) 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, (GVHD)). We are conducting the acute myocardial infarction clinical trial with our partner, Angiotech Pharmaceuticals, Inc. (Angiotech). In 2006, we entered into a product co-development collaboration with Angiotech to jointly develop and ultimately market MultiStem for the treatment of certain cardiovascular indications, including myocardial infarction and peripheral vascular disease. We retain the exclusive commercial rights to the development of MultiStem for other indication areas, including oncology treatment support, neurological indications, autoimmune disease, and other areas. Although early in 2009 we suspended the further development of our ATHX-105 obesity product candidate, we are continuing to develop next generation 5HT2c agonist compounds while we explore potential partnerships for the program. We are also developing a different class of novel, orally active pharmaceutical compounds for the treatment of certain central nervous system disorders, including disorders affecting attention, cognition or wakefulness. Our collaboration agreement with Bristol-Myers Squibb, which was initially established in 2001 to provide cell lines expressing well validated drug targets produced using our RAGE technology, is now in its final phase. In April 2009, we executed an agreement with Bristol-Myers Squibb extending our collaboration to prepare and deliver validated drug targets through 2009 for use by Bristol-Myers Squibb in its drug discovery efforts and to provide for the possibility of delivering additional validated drug targets in the future. We remain entitled to receive license fees for targets delivered to Bristol-Myers Squibb, as well as milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology.

Financial

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of \$185 million at June 30, 2009. 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 license fees 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 for clinical and preclinical product, 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, conduct clinical trials of our product candidates, advance our regulatory affairs and product development capabilities, undertake 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. To date, we have financed our operations through private equity and debt financing and investments by strategic collaborators. We expect to continue to incur substantial losses through at least the next several years.

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

Revenues

| | Three months ended | | Six months ended | |
|---------------|---------------------------|---------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| License fees | \$ 281 | \$ 453 | \$ 469 | \$ 843 |
| Grant revenue | 155 | 323 | 337 | 725 |
| | \$ 436 | \$ 776 | \$ 806 | \$ 1,568 |

Research and development expenses

| <i>Type of expense</i> | Three months ended | | Six months ended | |
|--|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Personnel costs | \$ 842 | \$ 801 | \$ 1,665 | \$ 1,566 |
| Research supplies | 237 | 199 | 490 | 382 |
| Facilities | 196 | 201 | 404 | 412 |
| Clinical and preclinical development costs | 150 | 1,534 | 659 | 3,832 |
| Sponsored research | 203 | 106 | 333 | 211 |
| Patent legal fees | 393 | 395 | 660 | 625 |
| Other | 333 | 331 | 540 | 664 |
| Stock-based compensation | 199 | 170 | 413 | 360 |
| | \$ 2,553 | \$ 3,737 | \$ 5,164 | \$ 8,052 |

General and administrative expenses

| <i>Type of expense</i> | Three months ended | | Six months ended | |
|-----------------------------|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Personnel costs | \$ 486 | \$ 476 | \$ 985 | \$ 965 |
| Facilities | 73 | 86 | 155 | 173 |
| Legal and professional fees | 153 | 210 | 476 | 506 |
| Other | 282 | 340 | 531 | 675 |
| Stock-based compensation | 293 | 269 | 592 | 543 |
| | \$ 1,287 | \$ 1,381 | \$ 2,739 | \$ 2,862 |

Table of Contents***Three Months Ended June 30, 2009 and 2008***

Revenues. Revenues decreased to \$436,000 for the three months ended June 30, 2009 from \$776,000 in the comparable period in 2008. Grant revenue decreased \$168,000 for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 primarily due to the completion late in 2008 of a three-year state grant, and to the timing of expenditures that are reimbursed with grant proceeds. License fee revenue decreased \$172,000 for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 as a result of the nature and timing of target acceptances and fees under our collaboration agreement with Bristol-Myers Squibb. During the remainder of 2009, our revenues may fluctuate compared to 2008 as a result of differences in demand for targets and the achievement and timing of Bristol-Myers Squibb milestones, if any. Beyond 2009, we anticipate that Bristol-Myers Squibb's demand for new targets will be reduced, or cease altogether. Additionally, our grant revenues could fluctuate during the year based on the timing of grant-related activities and the award of new grants for which we continue to apply.

Research and Development Expenses. Research and development expenses decreased to \$2.6 million for the three months ended June 30, 2009 from \$3.7 million in the comparable period in 2008. The decrease of approximately \$1.1 million related primarily to a decrease in clinical and preclinical development costs of \$1.3 million, partially offset by an increase in other research and development expenses of approximately \$200,000. Of the decrease in clinical and preclinical development costs of \$1.3 million, \$0.9 million related to preparations for a phase II clinical trial of ATHX-105 in 2008, which included several preclinical studies and manufacturing costs. The ATHX-105 program was suspended early in 2009, meaning there will be no future costs incurred for the program. The remaining \$400,000 decrease in clinical and preclinical development costs related primarily to a \$235,000 credit from a renegotiated contract with a contract research organization in June 2009, and reduced external costs for regulatory consulting and preclinical studies. Our clinical costs for the three months ended June 30, 2009 and 2008 are reflected net of Angiotech's cost-sharing amounts related to our MultiStem acute myocardial infarction collaboration in the amount of \$129,000 and \$269,000, respectively. The increase in other research and development expenses of approximately \$200,000 for the three months ended June 30, 2009 from the comparable period in 2008 was primarily a result of increased sponsored research costs of approximately \$100,000, and increased personnel and research supply costs in the second quarter of 2009. Our research and development costs may fluctuate as we advance the clinical development of our product candidates and enroll subjects in clinical trials. 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 approximately \$1.3 million for the three months ended June 30, 2009 and \$1.4 million in the comparable period in 2008.

Depreciation. Depreciation expense remained relatively consistent at \$57,000 for the three months ended June 30, 2009 and \$52,000 for the comparable period in 2008.

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 \$114,000 for the three months ended June 30, 2009 from \$303,000 for the comparable period in 2008 due to the decline in our investment balances as they are used to fund our operations. We expect our 2009 interest income to continue to decline through the remainder of 2009.

Interest Expense. Interest expense was \$31,000 in the three-month period ended June 30, 2008, which related to interest on our senior loan that was repaid in June 2008. We do not expect any significant interest expense in 2009.

Table of Contents***Six Months Ended June 30, 2009 and 2008***

Revenues. Revenues decreased to \$806,000 for the six months ended June 30, 2009 from \$1.6 million in the comparable period in 2008. Grant revenue decreased \$388,000 for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 primarily due to the completion late in 2008 of a three-year state grant, and to the timing of expenditures that are reimbursed with grant proceeds. License fee revenue decreased \$374,000 for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 as a result of the nature and timing of target acceptances and fees under our collaboration agreement with Bristol-Myers Squibb. During 2009, our revenues may fluctuate compared to 2008 as a result of differences in demand for targets and the achievement and timing of Bristol-Myers Squibb milestones, if any. Beyond 2009, we anticipate that Bristol-Myers Squibb's demand for new targets will be reduced, or cease altogether. Additionally, our grant revenues could fluctuate during the year based on the timing of grant-related activities and the award of new grants for which we continue to apply.

Research and Development Expenses. Research and development expenses decreased to \$5.2 million for the six months ended June 30, 2009 from \$8.1 million in the comparable period in 2008. The decrease of approximately \$2.9 million related primarily to a decrease in clinical and preclinical development costs of \$3.2 million, partially offset by an increase in other research and development expenses of approximately \$300,000. Of the decrease in clinical and preclinical development costs of \$3.2 million, \$2.4 million related to costs associated with the completion of an ATHX-105 phase I clinical trial in the first half of 2008 and preparations for a phase II clinical trial of ATHX-105 in 2008, which included several preclinical studies and manufacturing costs. The ATHX-105 program was suspended early in 2009, meaning there will be no future costs incurred for the program. The remaining \$800,000 decrease in clinical and preclinical development costs related primarily to a \$235,000 credit from a renegotiated contract with a contract research organization in June 2009, \$322,000 of manufacturing costs in the first half of 2008 associated with our MultiStem clinical trials, and reduced external costs for regulatory consulting and preclinical studies in the first half of 2009 compared to 2008. Our clinical costs for the six months ended June 30, 2009 and 2008 are reflected net of Angiotech's cost-sharing amounts related to our MultiStem acute myocardial infarction collaboration, \$438,000 and \$462,000, respectively. The increase in other expenses of approximately \$300,000 for the six months ended June 30, 2009 from the comparable period in 2008 was primarily a result of increased sponsored research costs associated with a grant, and increased personnel and research supply costs in the first half of 2009. Our research and development costs may fluctuate as we advance the clinical development of our product candidates and enroll subjects in clinical trials. 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 approximately \$2.7 million for the six months ended June 30, 2009 and \$2.9 million in the comparable period in 2008.

Depreciation. Depreciation expense remained relatively consistent at \$117,000 for the six months ended June 30, 2009 and \$109,000 for the comparable period in 2008.

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 \$242,000 for the six months ended June 30, 2009 from \$762,000 for the comparable period in 2008 due to the decline in our investment balances as they are used to fund our operations. We expect our 2009 interest income to continue to decline through the remainder of 2009.

Interest Expense. Interest expense was \$93,000 in the six-month period ended June 30, 2008, which related to interest on our senior loan that was repaid in June 2008. We do not expect any significant interest expense in 2009.

Table of Contents**Liquidity and Capital Resources**

Our sources of liquidity include our cash balances and available-for-sale securities. At June 30, 2009, we had \$9.5 million in cash and cash equivalents and \$15.8 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.

Our available-for-sale securities typically include United States government obligations, corporate debt securities and commercial paper. As of June 30, 2009, approximately 74% of our investments were in United States government obligations, which included government-backed agencies. We have been investing conservatively due to the current economic conditions, including the current credit crisis, 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 and assuming no new financings. 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, particularly in light of the current credit crisis. Any shortfall in funding could result in, among other things, our having to curtail our 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 \$6.2 million for the six months ended June 30, 2009 and \$7.9 million for the six months ended June 30, 2008, representing the use of cash in funding research, preclinical and clinical development initiatives and administrative costs, and may fluctuate as we advance the clinical development of our product candidates and enroll subjects in clinical trials.

Net cash provided by investing activities was \$3.1 million for the six months ended June 30, 2009 and \$14.1 million for the six months ended June 30, 2008. The fluctuations from period to period are due to the timing of purchases and maturity dates of investments and the purchase of equipment.

Financing activities provided no cash for the six months ended June 30, 2009 and used cash of \$1.8 million for the six months ended June 30, 2008 related to the repayment of our senior loan in June 2008.

Bridge noteholders and investors in the equity offering completed in June 2007 received five-year warrants to purchase an aggregate of 132,945 and 3,250,000 shares of common stock, respectively, with an exercise price of \$6.00 per share. The lead investor received additional five-year warrants to purchase an aggregate of 500,000 shares of common stock with a cash or cashless exercise price of \$6.00 per share. The placement agents received five-year warrants to purchase an aggregate of 1,093,525 shares of common stock with a cash or cashless exercise price of \$6.00 per share. The exercise of such warrants could provide us with cash proceeds. No warrants have been exercised at June 30, 2009.

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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 June 30, 2009. 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 June 30, 2009.

Our collaboration agreement with Bristol-Myers Squibb, which was initially established in 2001 to provide cell lines expressing well validated drug targets produced using our RAGE technology, is now in its final phase. In April 2009, we executed an agreement with Bristol-Myers Squibb extending our collaboration to prepare and deliver validated drug targets through 2009 for use by Bristol-Myers Squibb in its drug discovery efforts and to provide for the possibility of delivering additional validated drug targets in the future. We remain entitled to receive license fees for targets delivered to Bristol-

Myers Squibb, as well as milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology.

In connection with our MultiStem collaboration with Angiotech, upon the successful achievement of specified clinical development and commercialization milestones, we may 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. We continue to jointly fund clinical development activities with Angiotech in accordance with our collaboration, and, as of June 30, 2009, \$129,000 was due from Angiotech.

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 (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, 2008. 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, 2008.

Table of Contents**New Accounting Standards**

In December 2007, the Financial Accounting Standards Board (FASB) ratified the consensus reached in EITF Issue No. 07-1 (EITF 07-1), *Accounting for Collaborative Arrangements*. The effective date of EITF 07-1 is January 1, 2009 for calendar year companies with retrospective application required for all periods presented for collaborative arrangements existing as of the effective date. EITF 07-1 requires certain disclosures related to collaborative arrangements where parties are active participants and exposed to significant risks and rewards dependent on the commercial success of the activity. The adoption of EITF 07-1 did not have a material impact on our financial statements because our accounting for our collaborative agreement was consistent with the provisions of EITF 07-1.

In May 2008, the FASB issued FASB Staff Position APB 14-1 (FSP 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability and equity components in a manner that reflects the issuer's nonconvertible debt borrowing rate. We have no current convertible debt instruments, and concluded that all of our prior instruments were not within the scope of FSP 14-1; therefore, there was no retrospective effect from the adoption of FSP 14-1 on our financial statements.

In June 2008, the FASB issued EITF Issue No. 07-5 (EITF 07-5), *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*. EITF 07-5 clarifies the determination of whether certain instruments or features were indexed to an entity's own stock under EITF Issue No. 01-6. The statement was effective for us on January 1, 2009. The adoption of the statement had no impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2 (FSP 115-2), *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP 115-2 requires, among other things, that other-than-temporary impairments be separated into the amount recognized in earnings and the amount recognized in other comprehensive income. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly*. FSP 157-4 provides guidance on estimating fair value when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The statement also provides guidance on circumstances that may indicate that a transaction is not orderly. The statement requires additional disclosures about fair value measurements in annual and interim reporting periods. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1 (FSP 107-1), *Interim Disclosures About Fair Value of Financial Instruments*. FSP 107-1 extends the disclosure requirements of FASB Statement No. 107 to interim financial statements of publicly traded companies. The statement was effective for us on June 30, 2009. The adoption of the statement had no impact on our financial statements, since we have been making the required disclosures in our interim financial statements.

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), *Subsequent Events*. SFAS 165 provides authoritative guidance regarding subsequent events as this guidance was previously only addressed in auditing literature. The statement was effective for us on June 30, 2009 and the adoption had no impact on our financial statements. We have evaluated subsequent events through August 6, 2009, the date of filing of this report with the Securities and Exchange Commission.

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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 words. 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:

- our ability to successfully initiate or complete clinical trials for our product candidates;
- 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 enter into licensing or co-development arrangements for certain product candidates;
- our possible inability to execute our strategy due to changes in our industry or the economy generally, including the current economic crisis;
- our ability to obtain capital in difficult market conditions;
- changes in financial stability of collaborators;
- 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.

Table of Contents**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 United States government and its agencies, corporate debt securities and A1+/P1 commercial paper. As of June 30, 2009, approximately 74% of our investments were in United States government obligations. We have been investing conservatively due to the current economic conditions, including the current credit crisis, 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, 2009, 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 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 second quarter of 2009, 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 4. Submission of Matters to a Vote of Security Holders.**

Athersys held its Annual Meeting of Stockholders on June 18, 2009. At the meeting, the following actions were taken:

- a) The eight nominees for director were elected by the following votes:

| | Number of Shares Voted For | Number of Shares Withheld |
|------------------|-------------------------------|------------------------------|
| Gil Van Bokkelen | 13,564,111 | 126,825 |
| Jordan Davis | 13,560,888 | 130,048 |
| John Harrington | 13,564,111 | 126,825 |
| Floyd Loop | 13,555,417 | 135,519 |
| George Milne | 13,555,417 | 135,519 |
| William Mulligan | 13,569,111 | 121,825 |
| Lorin Randall | 13,306,512 | 384,424 |
| Michael Sheffery | 13,569,111 | 121,825 |

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- b) Ratification of the appointment of Ernst & Young LLP as Athersys independent registered public accounting firm for the fiscal year ending December 31, 2009 was approved with the following number of votes:

| For | Against | Abstain | Broker Non-Votes |
|------------|----------------|----------------|-------------------------|
| 13,552,391 | 500 | 138,045 | |

Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|---|
| 10.1 | Amendment dated as of March 31, 2009 to the Extended Collaboration and License Agreement between Athersys, Inc. and Bristol-Myers Squibb Company effective January 1, 2006 (incorporated herein by reference to Exhibit 10.1 to registrant's Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on April 7, 2009). |
| 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. |

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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 6, 2009

/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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