ATHERSYS, INC / NEW
Form 10-Q
May 14, 2012

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2012**

**OR**

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

**For the transition period from to .**

**Commission file number: 001-33876**

# Athersys, Inc.

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

| **Delaware** | **20-4864095** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **3201 Carnegie Avenue, Cleveland, Ohio** | **44115-2634** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x 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 x 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 x |

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

The number of outstanding shares of the registrant s common stock, $0.001 par value, as of May 1, 2012 was 29,398,024.

**ATHERSYS, INC.**

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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)

(Unaudited)

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 14,775 | $ 8,785 |
| Available-for-sale securities | 999 | 3,999 |
| Accounts receivable | 399 | 689 |
| Prepaid clinical trial costs | 537 | 629 |
| Prepaid expenses and other | 256 | 304 |
| Total current assets | 16,966 | 14,406 |
| Equipment, net | 1,398 | 1,267 |
| Other assets | 28 | 28 |
| Total assets | $ 18,392 | $ 15,701 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,214 | $ 2,301 |
| Accrued compensation and related benefits | 357 | 444 |
| Accrued clinical trial costs | 562 | 872 |
| Accrued expenses | 914 | 663 |
| Deferred revenue | 1,789 | 3,140 |
| Total current liabilities | 5,836 | 7,420 |
| Warrant liabilities | 4,538 | 983 |
| Stockholders equity: | | |
| Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at March 31, 2012 and December 31, 2011 | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized, and 29,398,024 and 24,487,260 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively | 29 | 24 |
| Additional paid-in capital | 231,285 | 226,206 |
| Accumulated other comprehensive income | | 28 |
| Accumulated deficit | (223,296) | (218,960) |
| Total stockholders equity | 8,018 | 7,298 |
| Total liabilities and stockholders equity | $ 18,392 | $ 15,701 |

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

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**Athersys, Inc.**

**Condensed Consolidated Statements of Operations and Comprehensive Loss**

(In thousands, except share and per share data)

(Unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| **Revenues** | | |
| Contract revenue | $ 2,463 | $ 2,501 |
| Grant revenue | 284 | 489 |
| Total revenues | 2,747 | 2,990 |
| **Costs and expenses** | | |
| Research and development | 5,569 | 4,588 |
| General and administrative | 1,259 | 1,219 |
| Depreciation | 75 | 60 |
| Total costs and expenses | 6,903 | 5,867 |
| Loss from operations | (4,156) | (2,877) |
| Other expense, net | (183) | (1,087) |
| Interest income | 3 | 34 |
| **Net loss** | $ (4,336) | $ (3,930) |
| Basic and diluted net loss per common share | $ (0.17) | $ (0.18) |
| Weighted average shares outstanding, basic and diluted | 25,547,219 | 21,874,735 |
| Items included in other comprehensive income (loss): | | |
| Proportional share of comprehensive (loss) income of equity-method investment | (28) | 12 |
| Unrealized gain on available-for-sale securities | | 21 |
| Other comprehensive income (loss) | (28) | 33 |
| **Comprehensive loss** | $ (4,364) | $ (3,897) |

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

**Athersys, Inc.**

**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| **Operating activities** | | |
| Net loss | $ (4,336) | $ (3,930) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 75 | 60 |
| Gain on sale of investment | (183) | |
| Stock-based compensation | 136 | 119 |
| Issuance of common stock to former lenders | 703 | 607 |
| Change in fair value of warrant liability | (575) | 275 |
| Amortization of premium on available-for-sale securities | | 24 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 290 | 1,956 |
| Prepaid expenses and other assets | 57 | 48 |
| Accounts payable and accrued expenses | (233) | 376 |
| Deferred revenue | (1,351) | (1,338) |
| Net cash used in operating activities | (5,417) | (1,803) |
| **Investing activities** | | |
| Purchase of available-for-sale securities | | (6,500) |
| Maturities of available-for-sale securities | 3,237 | 2,000 |
| Purchases of equipment | (206) | (62) |
| Net cash provided by (used in) investing activities | 3,031 | (4,562) |
| **Financing activities** | | |
| Proceeds from issuance of common stock and warrants, net | 8,376 | 11,887 |
| Net cash provided by financing activities | 8,376 | 11,887 |
| Increase in cash and cash equivalents | 5,990 | 5,522 |
| Cash and cash equivalents at beginning of the period | 8,785 | 2,105 |
| Cash and cash equivalents at end of the period | $ 14,775 | $ 7,627 |

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

**Athersys, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

Three-Month Periods Ended March 31, 2012 and 2011

**1. Background and Basis of Presentation**

We are an international biotechnology company that is principally focused on the field of regenerative medicine and operate 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, 2011. 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 May 2011, the Financial Accounting Standards Board ( FASB ) issued changes to fair value measurement. These changes clarify the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholders equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions are effective prospectively for interim and annual periods beginning on or after December 15, 2011 and became effective for us on January 1, 2012. Implementing this new guidance required changes in disclosures only and did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in shareholders equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes became effective for us on January 1, 2012. We chose to present comprehensive income in a single continuous statement. Other than the change in presentation, the adoption of this pronouncement did not have an impact on our consolidated financial statements.

**3. Net Loss per Share**

Basic and diluted net loss per share have been computed using the weighted-average number of shares of common stock outstanding during the period. We have outstanding options, restricted stock units 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:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Outstanding options | 4,519,601 | 4,311,701 |
| Restricted stock units | 39,300 | |
| Outstanding warrants | 10,783,323 | 6,435,496 |
| Total | 15,342,224 | 10,747,197 |

**4. Fair Value of Financial Instruments**

All of our available-for-sale securities are in United States 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.

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 March 31, 2012 (in thousands):

| | | Fair Value Measurements at March 31, 2012 Using | | |
|---|---|---|---|---|
| Description | Balance as of March 31, 2012 | 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 | $ 999 | $ 999 | $ | $ |
| Warrant liabilities | $ 4,538 | $ | $ | $ 4,538 |

Fair value is based upon quoted market prices in active markets for our level 1 investments. The estimated fair value of warrants accounted for as liabilities, representing a level 3 fair value measure, was determined on the issuance date and subsequently marked to market at each financial reporting date. The fair value of the warrants is estimated using the expected volatility based on the historical volatilities of comparable companies from a representative peer group selected based on industry and market capitalization, using the Black-Scholes pricing model with the following inputs at March 31, 2012:

| | Warrants Issued February 2011 | Warrants Issued March 2012 |
|---|---|---|
| Exercise price | $ 3.55 | $ 2.07 |
| Market value of stock at end of period | $ 1.55 | $ 1.55 |
| Expected volatility | 80.7% | 76.2% |
| Risk-free interest rate | 0.50% | 1.04% |
| Expected life (in years) | 3.83 | 4.95 |
| Fair value at March 31, 2012 | $ 799,000 | $ 3,739,000 |

A rollforward of fair value measurements using significant unobservable inputs (Level 3) for the warrants is as follows (in thousands):

| | Three months ended March 31, 2012 |
|---|---|
| Balance January 1, 2012 | $ 983 |
| Issuance of warrants in March 2012 | 4,130 |
| Gain included in other expense, net | (575) |
| Balance March 31, 2012 | $ 4,538 |

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 in a fair value measurement may result in a reclassification between hierarchy levels. There were no reclassifications for all periods presented.

The following is a summary of available-for-sale securities (in thousands) at March 31, 2012 and December 31, 2011, respectively:

| | Cost or Amortized Cost | Gross Unrealized Losses | Gross Unrealized Gains | Estimated Fair Value |
|---|---|---|---|---|
| March 31, 2012: | | | | |
| U.S. government obligations, which included government-backed agencies | $ 999 | $ | $ | $ 999 |
| December 31, 2011: | | | | |
| U.S. government obligations, including government-backed agencies | $ 3,999 | $ | $ | $ 3,999 |

We had no realized gains or losses during the first three months of 2012 and 2011. 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. There were no net unrealized gains or losses on available-for-sale securities as of March 31, 2012 and December 31, 2011.

The amortized cost of and estimated fair value of available-for-sale securities at March 31, 2012 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.

| | March 31, 2012 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 999 | $ 999 |

**5. Collaborative Arrangements and Revenue Recognition**

*Pfizer*

In December 2009, we entered into a collaboration with Pfizer Inc. ( Pfizer ) to develop and commercialize MultiStem®, our lead platform product, to treat inflammatory bowel disease ( IBD ) for the worldwide market. Under the terms of the agreement, we received a non-refundable up-front payment from Pfizer and receive research funding and support. In addition, we are 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. In concluding that each milestone is substantive, we considered factors such as whether the associated consideration fairly represents either the level of effort required to reach the milestone or the value added to the product based on the achievement of such milestone. No significant revenue for milestones was recognized in the three months ended March 31, 2012 and 2011.

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

We evaluated the facts and circumstances of the agreement and determined the Pfizer agreement has multiple deliverables that 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 is estimated to be completed in June 2012. Further, we are measuring manufacturing revenue beginning upon the culmination of the earnings process and recognizing it over the remainder of the performance period of the bundled unit of accounting. 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 performance period.

*RTI Biologics, Inc.*

In September 2010, we entered into an agreement with RTI Biologics, Inc. ( RTI ), a provider of orthopedic and other biologic implants, under which we provided RTI a license to our Multipotent Adult Progenitor Cell ( MAPC™ ) technologies to enable RTI to develop and commercialize MAPC technology-based biologic implants exclusively for certain orthopedic applications in the bone graft substitutes market. Under the terms of the agreement, we will receive a $5.0 million license fee in installments, of which $3.0 million has been paid and $2.0 million is contingent on milestone events related to development and initial commercialization. In addition to the $2.0 million contingent license fee payments, we are also eligible to receive milestone payments upon the successful achievement of certain commercial milestones. We evaluated the nature of the events triggering these contingent payments and concluded that these events are substantive and that revenue will be recognized in the period in which each underlying triggering event occurs. In addition, we will receive tiered royalties on worldwide commercial sales, if any, of implants using our technologies. No milestone or royalty revenue was recognized as of March 31, 2012.

We evaluated the facts and circumstances and determined the RTI agreement had obligations constituting deliverables and concluded that it has multiple deliverables, including deliverables relating to the grant of a license to our technology and performance of research and development services, and concluded that these deliverables should be combined into a single unit of accounting. We recognized the $3.0 million guaranteed license fee ratably on a straight-line basis over the estimated performance period, which was completed in 2011.

**6. Stock-based Compensation**

Our equity incentive plans authorize an aggregate of 5,500,000 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.

As of March 31, 2012, a total of 942,174 shares were available for issuance under our equity incentive plans, and options and restricted stock units to purchase an aggregate of 4,558,901 shares of common stock were outstanding. For the three-month period ended March 31, 2012 and 2011, stock-based compensation expense was approximately $136,000 and $119,000, respectively. At March 31, 2012, total unrecognized estimated compensation cost related to unvested stock options was approximately $686,000, which is expected to be recognized by the end of 2015 using the straight-line method.

**7. Issuance of Common Stock and Warrants**

In March 2012, we completed a private placement financing generating net proceeds of approximately $8.1 million through the issuance of 4,347,827 shares of common stock and five-year warrants to purchase 4,347,827 shares of common stock with an exercise price of $2.07 per share. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase one share of common stock at an offering price of $2.07 per fixed combination. In connection with this offering, our former lenders were entitled to a milestone payment in the amount of $900,000, of which 75% was settled through the issuance of our common stock at $1.94 per share to the former lenders at our election. Milestone payments to our former lenders are included in other expense in the consolidated statements of operations and comprehensive loss.

In November 2011, we entered into an equity purchase agreement, which provides that Aspire Capital Fund, LLC ( Aspire Capital ) is committed to purchase up to an aggregate of $20.0 million of shares of our common stock over a two-year term, subject to our election to sell any such shares. Under the agreement, we have the right to sell shares, subject to certain volume limitations and a minimum floor price, at a modest discount to the prevailing market price. As part of the agreement, Aspire Capital made an initial investment of $1.0 million in us through the purchase of 666,667 shares of our common stock at $1.50 per share, and received 266,667 additional shares as compensation for its commitment in November 2011.

In February 2012, we sold an additional 200,000 shares to Aspire Capital at an average price of $1.85 per share and made milestone payments to our former lenders amounting to $37,000, of which 75% was settled through the issuance of our common stock at $1.85 per share at our election. In March 2012, in connection with the private placement financing, we agreed not to sell any shares of common stock, including to Aspire Capital, until the earlier of the 180th day after the closing date or the 30th day after the resale registration statement covering the resale of the shares sold in the financing is declared effective. Since the registration statement has been declared effective, this lock-up period is set to expire in May 2012.

In February 2011, we completed a registered direct offering with net proceeds of $11.8 million through the issuance of 4,366,667 shares of common stock and five-year warrants to purchase 1,310,000 shares of common stock with an exercise price of $3.55 per share. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase 0.3 of a share of common stock at an offering price of $3.00 per fixed combination. In connection with this offering, our former lenders were entitled to a milestone payment under this obligation in the amount of $810,000, of which 75% was settled through the issuance of our common stock to the former lenders at $2.96 per share.

**8. Warrant Liability**

We account for common stock warrants as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Registered common stock warrants that could require cash settlement are accounted for as liabilities. We classify these warrant liabilities on the consolidated balance sheet as a non-current liability, which is revalued at fair value at each balance sheet date subsequent to the initial issuance. We use the Black-Scholes valuation model to value the warrant liability at its fair value. Changes in the fair market value of the warrant are reflected in the consolidated statements of operations and comprehensive loss as other income (expense).

The warrants we issued in both the March 2012 private placement and the February 2011 registered direct offering each contain a provision for net cash settlement in the event that there is a fundamental transaction (e.g., merger, sale of substantially all assets, tender offer, or share exchange). If a fundamental transaction occurs in which the consideration issued consists of all cash or stock in a non-public company, then the warrant holder has the option to receive cash equal to a Black Scholes value of the remaining unexercised portion of the warrant. As the warrant holder s put option to settle in cash is not within our control in all circumstances, these warrants represent liabilities.

The warrants have been classified as liabilities, as opposed to equity, due to the potential cash settlement upon the occurrence of certain events as described above, and are recorded at their fair values at each balance sheet date.

As of March 31, 2012, 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 |
| 1,310,000 | $ 3.55 | February 2, 2016 |
| 4,347,827 | $ 2.07 | March 14, 2017 |
| 10,783,323 | | |

**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.

**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, 2011. Operating results are not necessarily indicative of results that may occur in future periods.

**Overview and Recent Developments**

We are an international biotechnology company that is focused primarily on the field of regenerative medicine. We have established a portfolio of therapeutic product development programs to address significant unmet medical needs in multiple areas. Our current clinical development programs are focused on treating inflammatory & immune disorders, neurological conditions, cardiovascular disease, and other conditions. We are developing our lead platform product, MultiStem®, a patented and proprietary allogeneic stem cell product that has been evaluated in two completed Phase I clinical trials and is currently being evaluated in ongoing Phase II clinical trials. We are also applying our pharmaceutical discovery capabilities to identify and develop small molecule compounds with potential applications in indications such as obesity, related metabolic conditions and certain neurological conditions, and for the modulation of stem cells or related applications in the regenerative medicine area.

*Current Programs*

By applying our proprietary MultiStem cell therapy product, we have established therapeutic product development programs treating inflammatory & immune disorders, neurological conditions, cardiovascular disease, and other conditions. To date, we have advanced five programs to the clinical development stage, including the following:

Inflammatory Bowel Disease: MultiStem is being evaluated in an ongoing Phase II clinical study involving administration of MultiStem to patients suffering from ulcerative colitis, the most common form of IBD. This study is being conducted with our partner, Pfizer. This trial began enrolling patients in 2011 and is expected to enroll approximately 130 patients. Enrollment of this trial is expected to be completed late in 2012.

Ischemic Stroke: We recently initiated a Phase II clinical study to evaluate the administration of MultiStem to patients that have suffered an ischemic stroke, an area of significant unmet clinical need. In preclinical studies, administration of a single dose of MultiStem, even several days after a stroke, resulted in significant and durable improvements. We will evaluate the potential clinical benefits of MultiStem in this ongoing double blind, placebo controlled trial being conducted at leading stroke centers across the United States. The study is expected to include approximately 140 patients, and patient enrollment was initiated late in 2011 and is ongoing.

Acute Myocardial Infarction: We have evaluated the administration of MultiStem in a Phase I clinical study to patients that have suffered an acute myocardial infarction ( AMI ). In 2010, we announced preliminary results for this study, demonstrating a favorable safety profile and encouraging signs of improvement in heart function among patients that exhibited severely compromised heart function prior to treatment and who received treatment after experiencing a heart attack and this study has been completed. One-year follow-up data suggested that the benefit observed was sustained over time. We are currently planning for Phase II, which has been discussed with the FDA. In light of the recent termination of our license and collaboration agreement with Angiotech late in 2011, the objectives, design and timing of the next AMI clinical study is under review, and such review is taking into account our ongoing clinical development, business development and financial objectives.

Hematopoietic Stem Cell Transplant / GvHD: We have completed a Phase I clinical study of the administration of MultiStem to patients suffering from leukemia or certain other blood-borne cancers in which patients undergo radiation therapy and then receive a hematopoietic stem cell transplant. Such patients are at risk for serious complications, including graft-versus-host disease ( GvHD ), an imbalance of immune system function caused by transplanted immune cells that attack various tissues and organs in the patient. In 2011 and in February 2012, we released data from the study, which demonstrated the safety of MultiStem in this indication and suggested that MultiStem may have a beneficial effect in reducing incidence and severity of GvHD, as well as other benefits. This program has been assigned orphan drug designation from the FDA. We met with the FDA in April 2012 to discuss the results of the clinical study and our proposed plans for the next phase of clinical development in this area.

We are also collaborating with a leading transplant group at the University of Regensburg in Germany that has recently obtained authorization to initiate an institutional sponsored clinical trial exploring the administration of MultiStem in patients following a liver transplant.

In addition to our current and anticipated clinical development activities, we are engaged in preclinical development and evaluation of MultiStem in other disease indications in the cardiovascular, neurological, inflammatory & immune disorder areas. We conduct such work both through our own internal research efforts and through a broad network of collaborations we have established with investigators at leading research institutions across the United States and in Europe.

We have also collaborated with RTI on the development of products for certain orthopedic applications in the bone graft substitutes market using our stem cell technologies. RTI s product development activities are progressing and milestone and royalty revenue could potentially be received in 2012.

We are also engaged in the development of novel small molecule therapies to treat obesity and other conditions. Currently, we are focused on the development of potent, highly selective compounds that act through stimulation of a specific receptor in the brain, the 5HT2c serotonin receptor. We are conducting preclinical evaluation of novel compounds that we have developed that exhibit outstanding receptor selectivity and are working towards the selection of a clinical development candidate for this program. We may elect to enter into a partnership to advance the development of this program.

*Financial*

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of $223 million at March 31, 2012. 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, develop business collaborations and to acquire certain technologies and assets.

In March 2012, we completed a private placement generating net proceeds of approximately $8.1 million through the issuance of 4,347,827 shares of common stock and five-year warrants to purchase 4,347,827 shares of common stock with an exercise price of $2.07 per share. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase one share of common stock at an offering price of $2.07 per fixed combination. In connection with this offering, our former lenders were entitled to a milestone payment in the amount of $900,000, of which 75% was settled through the issuance of our common stock at $1.94 per share to the former lenders at our election.

In November 2011, we entered into a purchase agreement with Aspire Capital, which provides that Aspire Capital is committed to purchase up to an aggregate of $20.0 million of shares of our common stock over a two-year term, subject to our election to sell any such shares. Under the purchase agreement, we have the right to sell shares, subject to certain volume limitations and a minimum floor price, at a modest discount to the prevailing market price. As part of the agreement, Aspire Capital made an initial investment of $1.0 million in us through the purchase of 666,667 shares of our common stock at $1.50 per share, and received 266,667 additional shares as compensation for its commitment. In connection with this initial investment, our former lenders were entitled to a milestone payment in the amount of $100,000, of which 75% was settled through the issuance of our common stock to the former lenders at our election at $1.50 per share in November 2011. In 2012, we sold an additional 200,000 shares to Aspire Capital at an average price of $1.85 per share and made milestone payments amounting to $37,000, of which 75% was settled through the issuance of our common stock to the former lenders at $1.85 per share at our election. In March 2012, in connection with the private placement financing, we agreed not to sell any shares of common stock, including to Aspire Capital, until the earlier of the 180th day after the closing date or the 30th day after the resale registration statement covering the resale of the shares sold in the financing is declared effective. Since the registration statement has been declared effective, this lock-up period is set to expire in May 2012.

In February 2011, we completed a registered direct offering of 4,366,667 shares of common stock and five-year warrants to purchase 1,310,000 shares of common stock with an exercise price of $3.55 per share, generating net proceeds of $11.8 million. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase 0.3 of a share of common stock at an offering price of $3.00 per fixed combination. In connection with the registered direct offering, our former lenders were entitled to a milestone payment in the amount of $810,000, of which 75% was settled through the issuance of our common stock to the former lenders at $2.96 per share at our election.

In 2012, we were awarded grant funding aggregating $3.6 million to further advance our MultiStem programs and cell therapy platform, including further development of MultiStem for the treatment of traumatic brain injury and further development of our cell therapy formulations and manufacturing capabilities. The sources of funding including federal, state and European organizations and are generally aimed at the advancement of our preclinical MultiStem programs and process development.

**Results of Operations**

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

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

**Revenues**

| | Three months ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| Contract revenue | $ 2,463 | $ 2,501 |
| Grant revenue | 284 | 489 |
| | $ 2,747 | $ 2,990 |

**Research and development expenses**

| *Type of expense* | Three months ended March 31, 2012 | 2011 |
|---|---|---|
| Personnel costs | $ 1,343 | $ 1,185 |
| Research supplies | 398 | 333 |
| Facilities | 255 | 256 |
| Clinical and preclinical development costs | 2,540 | 1,605 |
| Sponsored research | 297 | 436 |
| Patent legal fees | 405 | 416 |
| Other | 289 | 314 |
| Stock-based compensation | 42 | 43 |
| | $ 5,569 | $ 4,588 |

**General and administrative expenses**

| *Type of expense* | Three months ended March 31, 2012 | 2011 |
|---|---|---|
| Personnel costs | $ 540 | $ 544 |
| Facilities | 66 | 68 |
| Legal and professional fees | 287 | 263 |
| Other | 272 | 268 |
| Stock-based compensation | 94 | 76 |
| | $ 1,259 | $ 1,219 |

***Three Months Ended March 31, 2012 and 2011***

*Revenues*. Revenues decreased to $2.7 million for the three months ended March 31, 2012 from $3.0 million in the comparable period in 2011. Contract revenue remained consistent at $2.5 million for the three months ended March 31, 2012 and 2011 and reflects the impact of our arrangements with Pfizer and RTI. Our contract revenues reflect the amortization of Pfizer payments, including a $6.0 million non-refundable up-front license fee, research and development funding, and payments for manufacturing services over the estimated performance period that ends in June 2012, as well as the amortization of a $3.0 million guaranteed license fee from the RTI collaboration over the estimated performance period that ended in 2011. Our contract revenues may also include license fees, milestone payments and royalties on compounds developed by Bristol-Myers Squibb using one of our technologies. We expect our contract revenues to decline in the second half of 2012, absent any new collaborations, and will be comprised primarily of manufacturing service revenue under the Pfizer arrangement and potential RTI milestone payments. Grant revenue decreased $0.2 million for the three months ended March 31, 2012 compared to the comparable period in 2011 primarily due to the timing of expenditures that are reimbursed with grant proceeds and the completion of grants in 2011. Our grant revenues may fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

*Research and Development Expenses.* Research and development expenses increased to $5.6 million for the three months ended March 31, 2012 from $4.6 million in the comparable period in 2011. The increase of approximately $1.0 million related primarily to an increase in clinical and preclinical development costs of $935,000, an increase in personnel costs of $158,000, and an increase in research supply costs of $65,000 for the three months ended March 31, 2012 from the comparable period in 2011. These increases were partially offset by a decrease in sponsored research costs of $139,000. The increase in clinical and preclinical development costs for the three months ended March 31, 2012 related primarily to costs associated with our MultiStem clinical trials, including contract research organization costs and clinical manufacturing costs. The increase in personnel costs related to the addition over the past twelve months of personnel supporting our preclinical and clinical programs, and annual merit increases in salaries. Sponsored research costs decreased primarily due to a decrease in grant-funded programs that require collaboration with certain academic research institutions. Our annual research and development expenses are not expected to increase significantly through 2012 as compared to 2011 unless we receive proceeds from additional financing or business development activities to fund advancement of additional clinical programs. 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 increased to $1.3 million for the three months ended March 31, 2012 from $1.2 million in the comparable period in 2011. The $40,000 increase was due primarily to an increase in legal and professional fees of $24,000 and an increase in stock-based compensation of $18,000 for the three months ended March 31, 2012 from the comparable period in 2011. We expect our general and administrative expenses to continue at similar levels during 2012.

*Depreciation*. Depreciation expense increased to $75,000 for the three months ended March 31, 2012 from $60,000 in the comparable period in 2011, due to depreciation on new capital purchases.

*Interest Income.* Interest income represents interest earned on our cash and available-for-sale securities. Interest income decreased to $3,000 for the three months ended March 31, 2012 from $34,000 for the comparable period in 2011 due to the decline in our investment balances as they are used to fund our operations. We expect our 2012 interest income to reflect the impact of declining cash balances resulting from our ongoing and planned clinical and preclinical development, and interest earned on proceeds from any new financings or business transactions.

*Other Expense, net.* Other expense, net, includes foreign currency gains and losses related to our activities in Europe, any realized gains and losses on the sale of our assets, and increase and decreases in our warrant liability. Also included in other expense are cash and stock-based milestone payments aggregating $937,000 and $810,000 for the three months ended March 31, 2012 and 2011, respectively, paid to our former lenders in connection with our equity offerings. The market value change in our warrant liabilities was income of $575,000 for the three months ended March 31, 2012, and expense of $275,000 for the three months ended March 31, 2011. Also, in the three month period ended March 31, 2012, we recognized a gain of $182,000 related to an equity-method investment that was liquidated in the period.

**Liquidity and Capital Resources**

Our sources of liquidity include our cash balances and available-for-sale securities. At March 31, 2012, we had $14.8 million in cash and cash equivalents and $1.0 million in available-for-sale securities. We have primarily financed our operations through business collaborations, grant funding and equity financings. We conduct all of our operations through our subsidiary, ABT Holding Company. Consequently, our ability to fund our operations depends on ABT Holding Company s financial condition and its ability to make dividend payments or other cash distributions to us. There are no restrictions such as government regulations or material contractual arrangements that restrict the ability of ABT Holding Company to make dividend and other payments to us.

In March 2012, we completed a private placement generating net proceeds of approximately $8.1 million through the issuance of 4,347,827 shares of common stock and five-year warrants to purchase 4,347,827 shares of common stock with an exercise price of $2.07 per share. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase one share of common stock at an offering price of $2.07 per fixed combination. In connection with this offering, our former lenders were entitled to a milestone payment in the amount of $900,000, of which 75% was settled through the issuance of our common stock to the former lenders at our election.

In November 2011, we entered into a purchase agreement with Aspire Capital, which provides that Aspire Capital is committed to purchase up to an aggregate of $20.0 million of shares of our common stock over a two-year term, subject to our election to sell any such shares, and the terms and conditions set forth therein. Under the purchase agreement, we have the right to sell shares, subject to certain volume limitations and a minimum floor price, at a modest discount to the prevailing market price. As part of the agreement, Aspire Capital made an initial investment of $1.0 million in us through the purchase of 666,667 shares of our common stock at $1.50 per share, and received 266,667 additional shares as compensation for its commitment. In connection with this initial investment, our former lenders were entitled to a milestone payment in the amount of $100,000, of which 75% was settled through the issuance of our common stock to the former lenders at our election.

In 2012, we sold an additional 200,000 shares to Aspire Capital at an average price of $1.85 per share and made milestone payments amounting to $37,000, of which 75% was settled through the issuance of our common stock to the former lenders at $1.85 per share at our election. In March 2012, in connection with the private placement financing, we agreed not to sell any shares of common stock, including to Aspire Capital, until the earlier of the 180th day after the closing date or the 30th day after the resale registration statement covering the resale of the shares sold in the financing is declared effective. Since the registration statement has been declared effective, this lock-up period is set to expire in May 2012.

In February 2011, we completed a registered direct offering generating net proceeds of $11.8 million through the issuance of 4,366,667 shares of common stock and five-year warrants to purchase 1,310,000 shares of common stock with an exercise price of $3.55 per share. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase 0.3 of a share of common stock at an offering price of $3.00 per fixed combination. In connection with this offering, our former lenders were entitled to a milestone payment in the amount of $810,000, of which 75% was settled through the issuance of our common stock to the former lenders at our election.

Our former lenders retain a right to receive the balance of a milestone that was originally $2.25 million and has been reduced to $0.4 million as of March 31, 2012, after taking into account the aforementioned payments in connection with equity financings. Further payments will be made 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 lenders will receive an amount equal to 10% of 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. The senior lenders also received seven-year 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 March 31, 2012.

Under the terms of our agreement with Pfizer, we receive research funding and support, and 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. No significant milestone payments have been received as of March 31, 2012. Pfizer pays us for manufacturing product for clinical development and commercialization purposes. Pfizer has responsibility for development, regulatory and commercialization and will pay us tiered royalties on worldwide commercial sales of MultiStem IBD products. Alternatively, in lieu of royalties and certain commercialization milestones, we may elect to co-develop with Pfizer and the parties will share development and commercialization expenses and profits/losses on an agreed basis beginning at Phase III clinical development.

In November 2011, we reached an agreement with Angiotech to terminate the collaboration agreement and license between the parties, reflecting a change in Angiotech s business and financial strategy. As a result of the termination, we regained ownership of all rights for developing our stem cell technologies and products for cardiovascular disease indications, including AMI, congestive heart failure, chronic ischemia, and peripheral vascular disease, and Angiotech no longer has any license rights or options with respect to our technologies and products. In the case of a new AMI collaboration, Angiotech will be entitled to a future payment from us equal to a percentage of cash license fee payments we receive within the first six months from a third-party related to such AMI collaboration, and is not entitled to other downstream payments, such as milestone payments, royalties or any profit-sharing payments. The future payment, if any, will be either (i) 25% of third-party license fees if an AMI collaboration is established prior to the initiation of enrollment in a Phase II AMI clinical trial and within 12 months of the termination agreement, (ii) 15% of third-party license fees if an AMI collaboration is established after the initiation of enrollment in a Phase II AMI clinical trial, but before we have spent $5.0 million on the clinical trial, and within 24 months of the termination agreement, or (iii) 10% of third-party license fees up to a maximum of $5.0 million to Angiotech if an AMI collaboration is established after the initiation of enrollment in a Phase II AMI clinical trial, and after we have spent $5.0 million on the clinical trial, and within 36 months of the termination agreement.

Under the terms of our RTI agreement, we received $3.0 million of guaranteed license fee payments and are entitled to an additional $2.0 million of license fee payments contingent on future events. We are also eligible to receive an additional $35.5 million in cash payments upon the successful achievement of certain development and commercial milestones, though there can be no assurance that we will achieve any milestones. None of these milestone payments have been received as of March 31, 2012. In addition, we will receive tiered royalties on worldwide commercial sales of implants using our technologies. The product development activities of RTI are progressing, and milestone and royalty revenue could potentially be received in 2012.

We remain entitled to receive license fees for targets that were delivered to Bristol-Myers Squibb under our completed 2001 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 such milestones or royalties. As of March 31, 2012, we received an aggregate amount of $1.7 million in milestone payments and $9.4 million in license fees since the inception of our collaboration with Bristol-Myers Squibb.

In February 2012, we were awarded grant funding aggregating $3.6 million to further advance our MultiStem product programs and cell therapy platform. Specifically, we were awarded a Small Business Innovation Research Fast-Track grant of up to $1.9 million from the National Institute of Neurological Disorders and Stroke to develop MultiStem for the treatment of traumatic brain injury. In addition, our subsidiary based in Belgium was awarded a $1.2 million ( 0.9 million) grant from Belgium s Agency for Innovation by Science and Technology to further develop cell therapy formulations and manufacturing capabilities, as well as $0.5 million in funding from a local grant to work in other areas, such as using MultiStem to treat chronic cardiovascular disease.

Our available-for-sale securities typically include United States government obligations and corporate debt securities. As of March 31, 2012, all of our investments were in United States government obligations. 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 the 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 evaluation and clinical trials of our product candidates. At March 31, 2012, we had available cash, cash equivalents and investments of $15.8 million. Assuming no new financings or collaborations and based on our current business and operational plans, we expect to have available cash to fund our planned operations into the first quarter of 2013. However, we expect to have access to additional capital through business development opportunities, which we are actively exploring with multiple potential collaborators, as well as grant-funding opportunities. We will continue to explore and consider new opportunities for funding our operations through grants and business partnerships involving our technologies and product candidates. Additionally, we expect to raise capital over the next twelve months by accessing the capital markets through the sale of equity, including through the purchase agreement with Aspire Capital, subject to certain volume limitations and a minimum floor price. Further, we may consider alternative financing approaches, such as venture debt or through the issuance of convertible securities. Although no assurance on the future success of the aforementioned actions can be provided, we also manage our cash through deferring certain discretionary costs and stage certain development costs to extend our operational runway, if needed.

Our capital requirements over time depend on a number of factors, including progress in our clinical development programs, our clinical and preclinical pipeline of additional opportunities and their stage of development, additional external costs such as contract research organizations and contract manufacturing organizations, additional personnel costs, and the costs in filing and prosecuting patent applications and enforcing patent claims. The availability of funds impacts our ability to advance multiple clinical programs concurrently, and any shortfall in funding could result in our having to delay or curtail research and development efforts. Further, these requirements may change at any time due to technological advances, business development activity or competition from other companies. We cannot assure you that adequate funding will be available to us or, if available, that it will be available on acceptable terms.

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 $5.4 million for the three months ended March 31, 2012 and $1.8 million for the three months ended March 31, 2011. Net cash used in operations for the three months ended December 31, 2011 was $4.5 million. Net cash used in operating activities has fluctuated significantly over the past several quarters primarily due to the receipt of milestone payments and specific clinical trial costs. Taking into account working capital fluctuations, which reflect the receipt of milestone payments and timing of certain payments related to clinical activities, the increase in recent quarters reflects predominantly an increase in clinical development costs during the periods. Such increases include the impact of manufacturing for the IBD clinical trial with Pfizer and the initiation of the Phase II stroke trial. We anticipate that net cash used in operating activities will fluctuate in the remaining quarters of 2012 in connection with the fluctuations and changes in activity associated with the MultiStem clinical trials, the timing of clinical manufacturing, and the receipt of potential milestone payments.

Net cash provided by investing activities was $3.0 million for the three months ended March 31, 2012 and net cash used in investing activities was $4.6 million for the three months ended March 31, 2011. The fluctuations from period-to-period were due to the timing of purchases and maturity dates of investments and the purchase of equipment. Purchases of equipment were $206,000 and $62,000 in the first quarter of 2012 and 2011, respectively. We anticipate that our overall capital equipment expenditures will be similar in 2012 compared to 2011.

Net cash provided from financing activities was $8.4 million for the three months ended March 31, 2012 and $11.9 million for the three months ended March 31, 2011, as a result of our equity offerings during each of those periods.

Investors in our March 2012 private placement received five-year warrants to purchase an aggregate of 4,347,827 shares of common stock with an exercise price of $2.07 per share. The exercise of such warrants could provide us with cash proceeds. No warrants have been exercised at March 31, 2012.

Investors in our February 2011 registered direct offering received five-year warrants to purchase an aggregate of 1,310,000 shares of common stock with an exercise price of $3.55 per share. The exercise of such warrants could provide us with cash proceeds. No warrants have been exercised at March 31, 2012.

Investors in our 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 lead investor in the June offering 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 for the June 2007 offering 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. Also, investors that participated in a bridge financing in 2006 received in the June 2007 offering five-year warrants to purchase an aggregate of 132,945 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 at March 31, 2012.

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, 2011. 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, 2011.

**Recently Issued Accounting Standards**

In May 2011, the FASB issued changes to fair value measurement. This change clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholders equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions are effective prospectively for interim and annual periods beginning on or after December 15, 2011 and became effective for us on January 1, 2012. Early application was prohibited. This required changes in presentation only and did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in shareholders equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes became effective for us on January 1, 2012. We chose to present comprehensive income in a single continuous statement. Other than the change in presentation, the adoption of this pronouncement did not have an impact on our consolidated financial statements.

**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, o 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:

- uncertainty regarding market acceptance of our product candidates and our ability to generate revenues, including MultiStem for the treatment of IBD, AMI, stroke and other disease indications, and the prevention of GvHD;
- our ability to raise capital to fund our operations;
- final results from our MultiStem clinical trials;
- the possibility of delays in, adverse results of, and excessive costs of the development process;
- our ability to successfully initiate and complete clinical trials and obtain all necessary regulatory approvals to commercialize our product candidates;
- changes in external market factors;
- changes in our industry s overall performance;
- changes in our business strategy;
- our ability to protect our intellectual property portfolio;
- our possible inability to realize commercially valuable discoveries in our collaborations with pharmaceutical and other biotechnology companies;
- our ability to meet milestones under our collaboration agreements;

our collaborators ability to continue to fulfill their obligations under the terms of our collaboration agreement;

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

changes in productivity and reliability of suppliers; and

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

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

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

***Interest Rate Risk***

Our exposure to interest rate risk is related to our investment portfolio and our borrowings. Fixed rate investments and borrowings may have their fair market value adversely impacted from changes in interest rates. Due in part to these factors, our future investment income may fall short of expectations. Further, we may suffer losses in investment principal if we are forced to sell securities that have declined in market value due to changes in interest rates. We invest our excess cash primarily in debt instruments of the United States government and its agencies and corporate debt securities. As of March 31, 2012, all of our investments were in United States government obligations. 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 March 31, 2012, 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(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 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 first quarter of 2012, 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.

**PART II. OTHER INFORMATION**

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

On March 14, 2012, February 8, 2012 and February 3, 2012, we issued 347,937, 7,500 and 7,500 shares of our common stock, respectively, to our former lenders pursuant to a 2004 loan agreement. The issuances of these unregistered shares qualified as exempt transactions pursuant to Section 4(2) of the Securities Act of 1933. These issuances qualified for exemption under Section 4(2) of the Securities Act of 1933 because the issuances by us did not involve a public offering. The offerings were not public offerings due to the number of persons involved, the manner of the issuances and the number of securities issued. In addition, the lenders had the necessary investment intent since they agreed to and received share certificates bearing a legend stating that such securities are restricted. We did not receive any proceeds from these issuances, but issued these shares in lieu of cash payments to our former lenders.

**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 10.1 | Securities Purchase Agreement, dated as of March 9, 2012, by and between Athersys, Inc. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on March 15, 2012). |
| 10.2 | Registration Rights Agreement, dated as of March 9, 2012, by and between Athersys, Inc. and the signatories thereto (incorporated herein by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on March 15, 2012). |
| 10.3 | Amendment No. 3 to Extended Collaboration and License Agreement, dated January 31, 2012, by and between ABT Holding Company and Bristol-Myers Squibb Company. |
| 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, Finance, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

**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: May 14, 2012

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

/s/ Laura K. Campbell
Laura K. Campbell
Vice President of Finance

(principal financial and accounting officer authorized to sign on behalf of the registrant)

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 10.1 | Securities Purchase Agreement, dated as of March 9, 2012, by and between Athersys, Inc. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on March 15, 2012). |
| 10.2 | Registration Rights Agreement, dated as of March 9, 2012, by and between Athersys, Inc. and the signatories thereto (incorporated herein by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on March 15, 2012). |
| 10.3 | Amendment No. 3 to Extended Collaboration and License Agreement, dated January 31, 2012, by and between ABT Holding Company and Bristol-Myers Squibb Company. |
| 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. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |