SOUTHERN COPPER CORP/
Form DEF 14A
March 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant o

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Southern Copper Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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o	Fee paid previously with preliminary materials.
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

March 21, 2019

Dear Common Stockholder:

You are cordially invited to attend the annual meeting of stockholders, which will be held at Edificio Parque Reforma, Campos Eliseos No. 400, 9th Floor, Col. Lomas de Chapultepec, Delegacion Miguel Hidalgo, Mexico City, C.P. 11000, Mexico, on Thursday, April 25, 2019 at 9:00 A.M., Mexico City time. We hope you can be with us.

At the meeting, you will be asked to elect ten directors and to ratify the selection of Galaz, Yamazaki, Ruiz Urquiza S.C., a member firm of Deloitte Touche Tohmatsu Limited, as our independent accountants. You will also be given the opportunity to cast a non-binding advisory vote on our executive compensation.

The meeting also provides you with an opportunity to review our activities and our plans and prospects.

It is important that your shares be represented at the meeting whether or not you are able to attend in person. Therefore, you are asked to vote, sign, date, and mail the enclosed proxy card. Please do so today. In Peru, you may deliver your signed proxy card to our offices in Lima, Ilo, Toquepala, and Cuajone. In Mexico, you may deliver your signed proxy card to our offices in Mexico City.

Sincerely,

Germán Larrea Mota-Velasco
Chairman of the Board of Directors

Oscar González Rocha
President and Chief Executive Officer

1440 E. Missouri Avenue,
Suite 160,
Phoenix, AZ 85014
U.S.A.
TEL: +(602) 264-1375

Avenida Caminos del Inca No. 171,
Chacarilla del Estanque,
Santiago de Surco,
C.P. 15038, Peru
TEL: +(511) 512-0440, ext. 3442

Edificio Parque Reforma,
Campos Eliseos No. 400, 12th Floor,
Col. Lomas de Chapultepec,
Delegacion Miguel Hidalgo
Mexico City, C.P. 11000, Mexico
TEL: +(52-55) 1103-5320

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on April 25, 2019

To the Common Stockholders of Southern Copper Corporation:

The annual meeting of stockholders of Southern Copper Corporation will be held at Edificio Parque Reforma, Campos Eliseos No. 400, 9th Floor, Col. Lomas de Chapultepec, Delegacion Miguel Hidalgo, Mexico City, C.P. 11000, Mexico, on Thursday, April 25, 2019 at 9:00 A.M., Mexico City time, and on any adjournment thereof, for the following purposes:

(1) To elect our ten directors, who will serve until the 2020 annual meeting;

(2) To ratify the selection by the Audit Committee of the Board of Directors of Directors of Galaz,Yamazaki, Ruiz Urquiza S.C., a member firm of Deloitte Touche Tohmatsu Limited, as our independent accountants for calendar year 2019;

(3) To provide stockholders the opportunity to cast a non-binding advisory vote on our executive compensation;

(4) To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on March 1, 2019 will be entitled to vote at the annual meeting. Stockholders of record who attend the annual meeting in person may withdraw their proxies and vote in person if they wish.

Important Notice Regarding Internet Availability of Proxy Materials and Annual Report. The proxy statement, proxy card and annual report on Form 10-K are available at *www.edocumentview.com/SCCO*. If you wish to attend the meeting and vote your shares in person visit *www.edocumentview.com/SCCO* or call: +(52-55) 1103-5320, to obtain information, including directions.

By order of the Board of Directors,
Jorge Lazalde
Secretary

Phoenix, Arizona, March 21, 2019

Your Vote is Important
Please mark, sign, date, and return your enclosed proxy card

PROXY STATEMENT

This proxy statement is furnished as part of the solicitation by the Board of Directors (the Board of Directors or Board) of Southern Copper Corporation (SCC, us, our, or the Company), 1440 E. Missouri Avenue, Suite 160, Phoenix, AZ 85014, USA; Avenida Caminos del Inca No. 171, Chacarilla del Estanque, Santiago de Surco, C.P. 15038, Peru; and Edificio Parque Reforma, Campos Eliseos No. 400, 12th Floor, Col. Lomas de Chapultepec, Delegacion Miguel Hidalgo, Mexico City, C.P. 11000 Mexico, of the proxies of all holders of common stock (the Common Stockholders or you) to vote at the annual meeting to be held on April 25, 2019, and at any adjournment thereof. This proxy statement and the enclosed form of proxy are being mailed and made available electronically commencing on or about April 1, 2019, to the Common Stockholders of record on March 1, 2019. Additional copies will be available at our offices in the United States, Lima and at our other offices in Peru and Mexico.

Any proxy in the enclosed form given pursuant to this solicitation and received in time for the annual meeting will be voted with respect to all shares represented by it and in accordance with the instructions, if any, given in such proxy. If we receive a signed proxy with no voting instructions given, such shares will be voted for the proposal to elect directors, for the proposal to ratify the selection by the Audit Committee of the Board of Directors of Galaz, Yamazaki, Ruiz Urquiza S.C., a member firm of Deloitte Touche Tohmatsu Limited (DTT), as our independent accountants for the calendar year 2019, and for the approval of our executive compensation as described in this proxy statement. Any proxy may be revoked at any time prior to the exercise thereof by notice from you, received in writing by our Secretary or Assistant Secretary, or by written ballot voted at the meeting or by delivery of a later dated proxy card. If your shares are held in street name, you must contact your broker to revoke your proxy.

Our outstanding shares consist of common stock, par value $0.01 per share (the Common Stock). At the close of business on March 1, 2019, the record date for the annual meeting, we had 773,044,469 shares of Common Stock outstanding and entitled to vote at our annual meeting.

Unless stated otherwise, references herein to dollars or $ are to U.S. dollars; references to S/ are to Peruvian Soles; and references to peso , pes or Ps. are to Mexican pesos.

VOTING SECURITIES

Our Amended and Restated Certificate of Incorporation, as amended (the Certificate), provides that the number of directors shall be fixed from time to time by resolution of a majority of the Board of Directors, provided that the number of directors shall not be less than six or more than fifteen. The Board of Directors at its meeting held on January 24, 2019 fixed the number of directors at ten. The directors are elected by the Common Stockholders, with each share of Common Stock outstanding at the March 1, 2019 record date entitled to one vote at the annual meeting.

A plurality of the votes cast by you is required for the election of the ten directors. Abstentions are counted for quorum purposes but are not counted either as votes cast For or Against or Withheld from any nominee. A broker non-vote occurs

when a broker submits a proxy card with respect to shares of Common Stock held in a fiduciary capacity (typically referred to as being held in street name) but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Pursuant to the rules of the New York Stock Exchange (NYSE), brokers will be prohibited from exercising discretionary voting on your shares held in street name for the election of directors. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, your shares will not be counted in determining the outcome of the election of the ten director nominees at the annual meeting on April 25, 2019. We encourage you to provide voting instructions to your brokers if you hold your shares in street name so that your voice is heard in the election of directors. If we receive a signed proxy with no voting instructions, such shares will be voted For the proposal to elect directors.

The affirmative vote of a majority of the votes cast in person or by proxy at the meeting by the holders of Common Stock entitled to vote thereon is required to ratify the selection of the independent accountants described in this proxy statement. Abstentions and broker non-votes are counted for quorum purposes. Abstentions are counted as a vote Against this proposal. Broker non-votes are not counted either as votes cast For or Against the proposal to ratify the selection of the independent accountants described in this proxy statement. Because brokers have discretionary authority to vote on the ratification of the appointment of independent accountants we do not expect any broker non-votes in connection with this proposal. If we receive a signed proxy with no voting instructions, such shares will be voted For the proposal to ratify the selection of the independent accountants.

The affirmative vote of a majority of the votes cast in person or by proxy at the meeting by the holders of shares of Common Stock entitled to vote thereon is required for the non-binding advisory vote on executive compensation described in this proxy statement. Abstentions are counted for quorum purposes. Abstentions are counted as a vote Against this proposal. Broker non-votes are not counted either as votes cast For or Against this proposal. Pursuant to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), brokers are prohibited from voting uninstructed shares on executive compensation matters, including on the non-binding advisory vote on executive compensation discussed in this proxy statement. If we receive a signed proxy with no voting instructions, such shares will be voted For the approval of our executive compensation as described in this proxy statement.

When a Common Stockholder participates in the Dividend Reinvestment Plan applicable to our Common Stock, the Common Stockholder s proxy to vote shares of Common Stock will include the number of shares held for him by Computershare, the agent under the plan. If you do not send any proxy, the shares held for your account in the Dividend Reinvestment Plan will not be voted.

The rules of the Securities and Exchange Commission (SEC) permit us to deliver a single notice or set of annual meeting materials to one address shared by two or more of our stockholders. This delivery method is referred to as householding and can result in significant cost savings. To take advantage of this opportunity, we have delivered only one notice or set of annual meeting materials to multiple stockholders who share an address, unless we received contrary instructions from the impacted stockholders prior to the mailing date. We agree to deliver promptly, upon written or oral request, a separate copy of the notice or annual meeting materials, as requested, to any stockholders at the shared address to which a single copy of those documents was delivered. If you prefer to receive separate copies of the notice or annual meeting materials, contact Broadridge Financial Solutions, Inc. at 866-540-7095 or in writing at Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. If you are currently a stockholder sharing an address with another stockholder and wish to receive only one copy of future notices or annual meeting materials for your household, please contact Broadridge at the above phone number or address.

Quorum

Our by-laws provide that the presence in person or by proxy of the Common Stockholders of record holding a majority of the outstanding shares of Common Stock entitled to vote at the meeting shall constitute a quorum for purposes of electing directors and voting on proposals other than the election of directors.

ELECTION OF DIRECTORS

Ten nominees are proposed for election by you at the annual meeting. The nominees to be voted on by you are Messrs. Vicente Ariztegui Andreve, Alfredo Casar Pérez, Enrique Castillo Sánchez Mejorada, Xavier García de Quevedo Topete, Oscar González Rocha, Germán Larrea Mota-Velasco, Rafael Mac Gregor Anciola, Luis Miguel Palomino Bonilla, Gilberto Perezalonso Cifuentes, and Carlos Ruiz Sacristán. All of the nominees are currently serving as directors of the Company.

Our Certificate requires the Board of Directors to include a certain number of special independent directors. A special independent director is a person who (i) satisfies the independence standards of the NYSE (or any other exchange or association on which the Common Stock is listed) and (ii) is nominated by a Special Nominating Committee of the Board of Directors. The Special Nominating Committee, composed of Messrs. Luis Miguel Palomino Bonilla, Carlos Ruiz Sacristán (each a Special Designee), and Xavier García de Quevedo Topete (the Board

Designee), has nominated Messrs. Luis Miguel Palomino Bonilla, Gilberto Perezalonso Cifuentes, and Carlos Ruiz Sacristán as special independent directors. Additionally, the Board of Directors at its meeting held on January 24, 2019 endorsed the selection of special independent directors made by the Special Nominating Committee and also selected Messrs. Vicente Ariztegui Andreve, Enrique Castillo Sánchez Mejorada and Rafael Mac Gregor Anciola as our fourth, fifth and sixth independent directors. For further information please see the section on Special Independent Directors/Special Nominating Committee.

The Board of Directors considers and recruits candidates from all sources, including nominations recommended by stockholders, to fill the positions on the Board of Directors taking into account the Board of Directors current composition and core competencies and the needs of the Board as a whole. The composition, skills and needs of the Board of Directors change over time and will be considered in establishing the profile of desirable candidates for any specific opening on the Board. Recommendations for director nominees should be sent in writing to our Secretary or Assistant Secretary (see

Proposals and Nominations of Stockholders below). The Board of Directors applies selection criteria for Board membership that require that Board members possess, among other personal characteristics, integrity and accountability, high ethical standards, financial literacy for the members serving on the Audit Committee, high performance standards and business competency, informed judgment, mature confidence, an open mind, intelligence and judgment, sufficient time to devote to Company matters, and a history of achievement. Additionally, special independent directors must satisfy the independence requirements of the NYSE Listed Company Manual (or any other exchange or association on which the Common Stock is listed). The Board of Directors applies the same selection criteria for the evaluation of candidates from all sources.

To adequately fulfill the Board s complex roles, from overseeing the audit and monitoring managerial performance to responding to rapidly changing market conditions, a host of core competencies need to be represented on the Board. The Board as a whole possesses the required Board core competencies, with each member contributing knowledge, experience and skills in one or more areas, including accounting and finance, management, business judgment, industry knowledge, international markets, leadership, strategy and vision, and crisis response.

The Board of Directors also considers diversity in identifying candidates to fill positions on the Board. We believe that our current Board is diversified as it includes individuals from different professional backgrounds, with different viewpoints, professional experience, education, skills, and other individual qualities and attributes that augment the talents of management to operate the business of the Company and accomplish the primary goal of maximizing stockholder value while adhering to the laws of the jurisdictions wherein it operates and observing ethical standards.

Our Board of Directors conducts an annual evaluation in order to determine whether it and its committees are functioning effectively. As part of this annual self-evaluation, the Board of Directors evaluates whether the Board s current policy on diversity continues to be optimal for SCC and its stockholders.

Each nominee has consented to being named in this proxy statement and to serve if elected. Proxies in the enclosed form received by us will be voted by us, unless authority is withheld, for the election of the nominees named below. If any nominee should be unavailable for election, such proxies will be voted by us for another individual chosen by the Board of Directors as a substitute for the unavailable nominee. If, however, any other matter properly comes before the annual meeting, we intend that the accompanying proxy will be voted thereon in accordance with the judgment of the persons voting such proxy.

NOMINEES FOR ELECTION AS DIRECTORS

The following ten individuals have been nominated for election to the Board of Directors.

Common Stock Director	Age	Position
Germán Larrea Mota-Velasco	65	Chairman of the Board and Director
Oscar González Rocha	80	President, Chief Executive Officer, and Director

Vicente Ariztegui Andreve	65	Director
Alfredo Casar Pérez	65	Director
Enrique Castillo Sánchez Mejorada	62	Director
Xavier García de Quevedo Topete	72	Director
Rafael Mac Gregor Anciola	58	Director
Luis Miguel Palomino Bonilla	59	Director
Gilberto Perezalonso Cifuentes	76	Director
Carlos Ruiz Sacristán	69	Director

Germán Larrea Mota-Velasco, Director. Mr. Larrea has been Chairman of the Board of Directors since December 1999, Chief Executive Officer from December 1999 to October 2004, and a member of our Board of Directors since November 1999. He has been Chairman of the board of directors, President and Chief Executive Officer of Grupo México, S.A.B. de C.V. (Grupo Mexico) (holding) since 1994. Mr. Larrea has been Chairman of the board of directors and Chief Executive Officer of Grupo Ferroviario Mexicano, S.A. de C.V. (railroad company) since 1997. Mr. Larrea was previously Executive Vice Chairman of Grupo Mexico and has been member of the board of directors since 1981. He is also Chairman of the board of directors and Chief Executive Officer of Empresarios Industriales de México, S.A. de C.V. (EIM) (holding) and Fondo Inmobiliario (real estate company), since 1992.

Mr. Larrea, presides over every Board meeting and since 1999 has been contributing to the Company his education, his leadership skills, industry knowledge, strategic vision, informed judgment and over 20 years of business experience, especially in the mining sector. As Chairman and Chief Executive Officer of Grupo Mexico, of Grupo Ferroviario Mexicano, S.A. de C.V. and of EIM, a holding company engaged in a variety of business, including mining, construction, railways, real estate, and drilling, he brings to the Company a valuable mix of business experience in different industries.

Oscar González Rocha, Director. Mr. González Rocha has been our President since December 1999 and our President and Chief Executive Officer since October 21, 2004. He has been a director of the Company since November 1999. Mr. González Rocha has been Chief Executive Officer and director of Asarco LLC (integrated US copper producer), an affiliate of the Company, since August 2010 and President and Chief Executive Officer of Americas Mining Corporation (AMC) a holding company of Grupo Mexico, since 2015. Previously, he was the Company s President and General Director and Chief Operating Officer from December 1999 to October 20, 2004. Mr. González Rocha has been a director of Grupo Mexico since 2002. He was General Director of Mexicana de Cobre, S.A. de C.V. from 1986 to 1999 and of Buenavista del Cobre, S.A. de C.V. (formerly Mexicana de Cananea, S.A. de C.V.) from 1990 to 1999. He was an alternate director of Grupo Mexico from 1998 to April 2002. Mr. González Rocha is a civil engineer with a degree from the Autonomous National University of Mexico (UNAM) in Mexico City, Mexico.

Mr. González Rocha, is a civil engineer by profession and a business man with over 40 years of experience in the mining industry. He has been associated with our Mexican operations since 1976. His contributions to the Company include his professional skills, his leadership, an open mind and a willingness to listen to different opinions. Mr. González Rocha has proven his ability to deal with crises to lessen negative impacts to the Company. His devotion of time to the Company and his hands-on management of the operations in Mexico and Peru contribute to his effective leadership of the Company. Mr. González Rocha has been recognized as Copper Man of the Year 2015 and was inducted into the American Mining Hall of Fame in December 2016 in Tucson, Arizona and into the Mexican Mining Hall of Fame in October 2017 in Guadalajara, Mexico.

Mr. Vicente Ariztegui Andreve, Independent Director. Mr. Ariztegui Andreve has been a director of the Company since April 25, 2018. Mr. Ariztegui Andreve is Managing Director and Chairman of Aonia Holding, a wholly owned private investment firm he founded in 1989. Aonia has made investments in the following industries: gold mining, global commodity trading, retailing (e.g. duty free shops), infrastructure (e.g. airport terminal operation), asset management and real estate. During the last five years, Mr. Ariztegui has been actively selling and buying stakes in non-public companies, including Pallium Trading (fish meal) and MK Metal Trading (copper, zinc, lead, gold and silver concentrates). He also sold Aonia s equity stake in Fumisa and Aerodom, airport terminal operating companies in Mexico City and in the Dominican Republic, respectively. In 2013, Mr. Ariztegui Andreve made inroads in the financial asset management business by acquiring a stake in InverCap, the fifth largest pension fund manager in Mexico, which he sold in April 2017. Mr. Ariztegui Andreve worked as a Corporate Banker and Vice President of international operations and trade finance for Citibank in New York and Mexico City for eight years (1979-1987). Mr. Ariztegui Andreve co-founded and was President and Chief Executive Officer of MK Metal Trading, a global based metal and mineral (copper, zinc, lead, gold and silver concentrates) trading company start-up for 18 years (1994-2012). MK Metal Trading was sold in 2012. Mr. Ariztegui Andreve currently sits on the boards of several non-public companies, including InverCap Holding (financial assets management), Reim (real estate mid-size residential development), Alvamex (international storage and logistics). He also is a director of the University Club, in

Mexico. Previously, he was director of Dufry AG (leading global retail and airport duty free operator), Latin American Airport Holdings (airport infrastructure and terminal operator), Satelites Mexicanos (SATMEX) (telecommunications), Banco Mexicano, Grupo Financiero Inverlat (financial services) and Minera Santa Gertrudis (mining). During the last five years Mr. Ariztegui did not serve as a director of any US public company. Mr. Ariztegui Andreve received a Master in Business Administration degree from the Wharton School of Business and Finance and a Master in Systems Engineering degree from the University of Pennsylvania.

Mr. Ariztegui Andreve brings to the Company his vast experience in the financial, mining and commercial sectors. He also adds to the Board of Directors his leadership experience and expertise attained through his participation as a director of other companies.

Alfredo Casar Pérez, Director. Mr. Casar Pérez has been a director of the Company since October 26, 2006. He has been a member of the board of directors of Grupo Mexico since 1997. He is also a member of the board of directors of Ferrocarril Mexicano, S.A. de C.V., an affiliated company of Grupo Mexico, since 1998 and its Chief Executive Officer since 1999. From 1992 to 1999, Mr. Casar Pérez served as General Director and member of the board of directors of Compañía Perforadora México, S.A. de C.V. and México Compañía Constructora, S.A. de C.V., two affiliated companies

of Grupo Mexico. Mr. Casar Pérez served as Project Director of ISEFI, a subsidiary of Banco Internacional, in 1991 and as Executive Vice President of Grupo Costamex in 1985. Mr. Casar Pérez also worked for the Real Estate Firm, Agricultural Ministry, and the College of Mexico. Mr. Casar Pérez holds a degree in Economics from the Autonomous Technological Institute of Mexico, ITAM, and a degree in Industrial Engineering from Anáhuac University of Mexico City, Mexico. He also holds a Master s degree in Economics from the University of Chicago in Chicago, Illinois.

Mr. Casar Pérez has been associated with Grupo Mexico or its affiliated companies in different executive positions for more than 21 years. He contributes to the Company his background in engineering and economics, his extensive business experience, his high performance standards, leadership and mature confidence. As Chief Executive Officer of Ferrocarril Mexicano, S.A. de C.V., Mr. Casar Pérez contributes to the Company a unique experience and ability to address challenging issues and propose creative solutions.

Enrique Castillo Sánchez Mejorada, Independent Director. Mr. Castillo Sánchez Mejorada has been a director of the Company since July 26, 2010. From May 2013, Mr. Castillo Sánchez Mejorada has been Senior Partner of Ventura Capital Privado, S.A. de C.V. (Mexican financial company), and, since October 2013, he has been Chairman of the board of directors of Maxcom Telecomunicaciones, S.A.B. de C.V. (Mexican telecommunications company).

From April 2011 to May 2013, Mr. Castillo Sánchez Mejorada was a senior advisor at Grupo Financiero Banorte, S.A.B. de C.V.(GFNorte) a financial holding institution that controls a bank, a broker dealer and other financial institutions in Mexico. From October 2000 to March 2011, Mr. Castillo Sánchez Mejorada was the Chairman of the board of directors and Chief Executive Officer of Ixe Grupo Financiero, S.A.B. de C.V., a Mexican financial holding company that merged into GFNorte in April 2011. In addition, from March 2007 to March 2009, Mr. Castillo Sánchez Mejorada was the President of the Mexican Banking Association (Asociación de Bancos de México). Since November 2016, Mr. Castillo Sánchez Mejorada has been Chairman of the Board of Banco Nacional de Mexico, S.A. (Citibanamex), one of the largest banks in Mexico and serves as an independent director on the board of directors of (i) Grupo Herdez, S.A.B. de C.V., a Mexican holding company for the manufacture, sale and distribution of food products; (ii) Alfa, S.A.B. de C.V., a Mexico-based holding company that, through its subsidiaries, is engaged in the petrochemical, food processing, automotive and telecommunication sectors; (iii) Médica Sur, S.A.B. de C.V., a Mexico-based company engaged in the hospital business; and (iv) UNIFIN, an independent leasing company. He is also a Senior Advisor for General Atlantic in Mexico, a private equity firm based out of New York. From April 2012 to April 2016, Mr. Castillo Sánchez Mejorada served as a member of the board of directors of Organización Cultiba, S.A.B. de C.V. (formerly Grupo Embotelladoras Unidas, S.A.B. de C.V.), a Mexico-based holding company primarily engaged in the beverage industry. From April 2012 until April 2014, Mr. Castillo Sánchez Mejorada served as an independent director on the board and as a member of the audit committee of Grupo Aeroportuario del Pacifico, S.A.B. de C.V., a Mexico-based and NYSE-listed company that operates, maintains and develops twelve airports in the Pacific and central regions of Mexico. From April 2010 until 2013, Mr. Castillo Sánchez Mejorada was a member of the board of directors of Grupo Casa Saba, S.A.B. de C.V., a Mexican wholesale distributor of pharmaceutical, health, beauty and other consumer products and operator of a retail pharmacy chain. Mr. Castillo Sánchez Mejorada has been a member of the audit committee of Alfa, S.A.B. de C.V. since 2010. Mr. Castillo Sánchez Mejorada holds a Bachelor s degree in Business Administration from the Anáhuac University, in Mexico City, Mexico.

Mr. Castillo Sánchez Mejorada became a member of our Audit Committee on April 18, 2013. Mr. Castillo Sánchez Mejorada brings to the Company more than 39 years of experience in the financial sector. He also adds to the Board of Directors his leadership experience and expertise attained through his participation as an independent director of other companies.

Xavier García de Quevedo Topete, Director. Mr. García de Quevedo has been a director of the Company since November 1999. He was our Chief Operating Officer from April 12, 2005 until April 23, 2015. Since November 1, 2014, Mr. Garcia de Quevedo Topete has served as the President of the infrastructure division of Grupo Mexico, composed of the energy, gas, oil and construction subsidiaries of Grupo Mexico. He is also Vice-chairman of Grupo Mexico. He was the President and Chief Executive Officer of Southern Copper Minera Mexico from September 2001 until November 1, 2014. He was the President and Chief Executive Officer of Americas Mining Corporation from September 7, 2007 to October 31, 2014. From December 2009 to June 2010, he was Chairman and Chief Executive Officer of Asarco LLC. Previously he was President of Asarco LLC from November 1999 to September 2001. Mr. García de Quevedo began his professional career in 1969 with Grupo Mexico. He was President of Grupo Ferroviario Mexicano, S.A. de C.V. and of Ferrocarril Mexicano, S.A. de C.V. from December 1997 to December 1999, and Executive Vice President of Exploration and Development of Grupo Mexico from 1994 to 1997. He has been a director of Grupo Mexico since April 2002. He was

also Vice President of Grupo Condumex, S.A. de C.V. (telecommunications, electronics and automotive parts producer) for eight years. Mr. García de Quevedo was the Chairman of the Mining Chamber of Mexico from November 2006 to August 2009. He is a chemical engineer with a degree from the UNAM in Mexico City, Mexico. He also attended a continuous business administration and finance program at the Technical Institute of Monterrey in Monterrey, Mexico.

Mr. García de Quevedo contributes to the Company his extensive business experience and leadership, his industry knowledge, his skills to motivate high-performing talent, and his general management skills. During his more than 40 years of experience as an executive with Grupo Mexico and subsidiaries, he was responsible for developing the integration strategy of Grupo Mexico. He was directly responsible for the development of the copper smelter, refinery, precious metal and rod plants of Grupo Mexico. Mr. García de Quevedo also headed the process for the acquisition of railroad concessions for Grupo Mexico, the formation of Grupo Ferroviario Mexicano, S.A. de C.V. and its partnership with Union Pacific. Previously, he had a distinguished career as Vice President of sales and marketing for Grupo Condumex, S.A. de C.V., where among other achievements, he was responsible for the formation of a division for the sale, marketing and distribution of products in the United States and Latin America and where he headed the Telecommunications division. Mr. García de Quevedo also contributes to the Company his diversified business experience gained from having served on the boards of different Mexican and United States companies and as Chairman of the Mining Chamber of Mexico.

Rafael A. Mac Gregor Anciola, Independent Director. Mr. Mac Gregor has been a director of the Company since July 2017. Mr. Mac Gregor has served as managing Partner of RMAC Asociados (Mexican consulting firm) since 2016. He has been an independent director of the Board of Grupo Financiero Citibanamex (Mexican banking company), Chairman of its Risk Committee and member of Citibanamex s Audit Committee since 2016. He is also an independent member of the board of directors of Black Rock Mexico (asset management). In addition, he has been an independent member of the board of directors of Corporación Multi Inversiones (CMI) (multi-national agro-industrial company) since 2016. From February 1999 to July 2015, he served as a Corporate Director of Grupo Bal (Mexican companies principally engaged in agricultural and livestock, commercial operations, industrial operations, and financial services businesses). From April 1999 to 2015, he was a member of the board of directors of the Mexican Stock Exchange. From 2001 to 2016, he served as a member of the board of the Instituto Tecnológico Autónomo de México (ITAM) and from April 2008 to 2016, he served as a member of the board of Fresnillo PLC (Mexican-based mining company). From April 1995 to July 2015, he served as President of the board of a Mexican Brokerage House and Valmex Leasing Company (Mexican leasing company).

Additionally, from April 1995 to July 2015, Mr. Mac Gregor Anciola served on the boards of Grupo Nacional Provincial, S.A.B. (Mexican insurance company), Grupo Palacio de Hierro, S.A.B. (Mexican department stores), Industrias Peñoles, S.A.B. (Mexican mining company), Crédito Afianzador, S.A. (Mexican financing company), Minera Tizapa, S.A. de C.V. (Mexican mining company), Minera Penmont, S.A. de C.V.(Mexican mining company), Profuturo G.N.P., S.A. de C.V., Afore, Profuturo GNP Pensiones, S.A. de C.V. (Mexican insurance and pension holding company) and Vice President of the MexDer (Mexican derivatives exchange). Mr. Mac Gregor Anciola holds the recognition of the Professional Merit Award from ITAM. Mr. Mac Gregor Anciola holds a degree in Business Administration from the Instituto Tecnológico Autónomo de México in Mexico City and he attended the Stanford University Executive program in Palo Alto, California.

Mr. Mac Gregor Anciola brings to the Company more than 30 years of experience in the financial sector. He also adds to the Board of Directors his leadership experience and expertise attained through his participation as a director of the Mexican Stock Exchange and as an independent director of various other companies.

Luis Miguel Palomino Bonilla, Special Independent Director. Dr. Palomino has been a director of the Company since March 19, 2004. Dr. Palomino is a member of the board of directors and Vice-chairman of the Central Bank of Peru (Banco Central de Reserva del Peru) since September 2016, a director of the Master s in Finance Program at the University of the Pacific in Lima, Peru since July 2009, a member of the board of directors of Laboratorios Portugal (personal care products manufacturer) since September 2017, and a member of the board of directors of Summa Capital, S. A. (corporate consulting firm) since April 2014. Dr. Palomino was Chairman of the board of directors of Aventura Plaza, S.A. (commercial real estate developer and operator) from January 2008 to June 2016, member of the board of directors and Manager of the Peruvian Economic Institute (economic think tank) from April 2009 to August 2016, Partner of Profit Consultoria e Inversiones (a financial consulting firm) from July 2007 to July 2016, and a member of the board of directors and chairman of the audit committee of the Bolsa de Valores de Lima (Lima Stock Exchange) from March 2013 to July 2016. Dr. Palomino was Principal and Senior Consultant of Proconsulta International (financial consulting) from

September 2003 to June 2007. He was First Vice President and Chief Economist, Latin America, for Merrill Lynch, Pierce, Fenner & Smith, New York (investment banking) from 2000 to 2002. He was Chief Executive Officer, Senior Country and Equity Analyst of Merrill Lynch, Peru (investment banking) from 1995 to 2000. Dr. Palomino has held various positions with banks and financial institutions as an economist, financial advisor and analyst. He has a PhD in finance from the Wharton School of the University of Pennsylvania in Philadelphia, Pennsylvania and graduated from the Economics Program of the University of the Pacific in Lima, Peru.

Dr. Palomino is a member of our Audit Committee and a special independent director nominee. He is also our audit committee financial expert, as the term is defined by the SEC. Dr. Palomino contributes to the Company his education in economics and finance, acquired from extensive academic studies, including a PhD in Finance from the Wharton School of the University of Pennsylvania in Philadelphia, Pennsylvania, his expertise, his wise counsel, and his extensive business experience gained from his past and current activities from serving as a financial analyst, including of the mining sectors in Mexico and Peru.

Gilberto Perezalonso Cifuentes, Special Independent Director. Mr. Perezalonso has been a director of the Company since June 2002. Currently, Mr. Perezalonso is a member of the board of directors of Gigante, S.A. de C.V. (retail and real estate) and Blasky (hotel chain in Baja California, Mexico). He is also National Vice President of the Cruz Roja Mexicana (Red Cross). Mr. Perezalonso was Chairman of the board of directors of Volaris Compañía de Aviación, S.A.P.I. de C.V. (airline) from March 2, 2011 to November 2014. He was Chief Executive Officer of Corporación Geo, S.A. de C.V. (housing construction) from February 2006 to February 2007. Mr. Perezalonso was the Chief Executive Officer of Aeroméxico (Aerovías de México, S.A. de C.V.) (airline company) from 2004 until December 2005. From 1998 until April 2001, he was Executive Vice President of Administration and Finance of Grupo Televisa, S.A.B. (media company). From 1980 until February 1998, Mr. Perezalonso held various positions with Grupo Cifra, S.A. de C.V. (retail and department stores), the most recent position being that of General Director of Administration and Finance. He was also a member of the Advisory Council of Banco Nacional de México, S.A. de C.V. (banking), the board of directors and the investment committee of Afore Banamex (banking), the board and the investment committee of Siefore Banamex No. 1 (banking), Masnegocio Co. S. de R.L. de C.V. (information technology), Intellego (technology), Telefónica Móviles México, S.A. de C.V. (wireless communication), Marhnos Construction Company (housing construction), and Fomento de Investigación y Cultura Superior, A.C. (Foundation of the Iberoamerican University in Mexico). Mr. Perezalonso was also a director of Cablevision, S.A. de C.V., and a member of the audit committee of Grupo Televisa, S.A.B. from March 1998 to September 2009. Mr. Perezalonso has a law degree from the Iberoamerican University in Mexico City, Mexico and a Master s degree in Business Administration from the Business Administration Graduate School for Central America (INCAE) in Nicaragua. Mr. Perezalonso has also attended a Corporate Finance program at Harvard University in Cambridge, Massachusetts.

Mr. Perezalonso is a member of our Audit Committee and a special independent director nominee. Mr. Perezalonso contributes to the Company his legal and financial education acquired from extensive academic studies, including a Master s degree in Business Administration from INCAE in Nicaragua, and his business experience acquired serving in the financial areas of several companies and as Chief Executive Officer of different companies. Mr. Perezalonso also brings to the Board of Directors his informed judgment and his diversified business experience gained from serving on the boards of directors of different Mexican companies.

Carlos Ruiz Sacristán, Special Independent Director. Mr. Ruiz Sacristán has been a director of the Company since February 12, 2004. Since November 2001, he has been the owner and Managing Partner of Proyectos Estrategicos Integrales, a Mexican investment banking firm specialized in agricultural, transport, tourism, and housing projects. Mr. Ruiz Sacristán has held various distinguished positions in the Mexican government, the most recent being that of Secretary of Communications and Transportation of Mexico from 1995 to 2000. While holding that position, he was also Chairman of the board of directors of the Mexican-owned companies in the sector, and member of the board of directors of development banks. He was also the Chairman of the board of directors of Asarco LLC. Mr. Ruiz Sacristán is Chairman of the board of directors and Chief Executive Officer of Sempra s Energy North America Infrastructure Group since September 2018. Prior to this appointment, Mr. Ruiz Sacristán was Chairman and Chief Executive Officer of IEnova, the Mexican operating subsidiary of Sempra Energy from 2012 to 2018 and a member of the board of directors of Sempra Energy from 2007 to 2012. Mr. Ruiz Sacristán remains as Chairman of IEnova. He is a member of the boards of directors of Constructora y Perforadora Latina, S.A. de C.V. (Mexican geothermal exploration and drilling company) and of Banco Ve Por Mas, S.A. (Mexican bank). Mr. Ruiz Sacristán holds a Bachelor s degree in Business Administration from the Anáhuac University in Mexico City, Mexico, and a Master s degree in Business Administration from Northwestern University in Chicago, Illinois.

Mr. Ruiz Sacristán is one of our special independent director nominees. Mr. Ruiz Sacristán contributes to the Company his extensive business studies, including a Master s Degree in Business Administration from Northwestern University in Chicago, Illinois, his investment banking experience and his broad business experience as a former Chief Executive Officer of PEMEX (Mexican oil company), combined with his distinguished career in the Mexican government as a former Secretary of Communications and Transport of Mexico and as a director of Mexican-owned enterprises and financial institutions. Mr. Ruiz Sacristán also brings to the Board of Directors his informed judgment and his diversified business experience gained from serving on the board of directors and of the audit, and environmental and technology committees of Sempra Energy, a Fortune 500 energy service company, based in San Diego, California, as the former Chairman of Asarco LLC, and as the Chief Executive Officer of IEnova.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Set forth below is certain information with respect to those persons who are known by us to have been, as of December 31, 2018, beneficial owners of more than five percent of our outstanding Common Stock.

	Southern Copper Corporation	
	Shares of Common Stock Beneficially Owned	**Percent of Outstanding Common Stock**
Americas Mining Corporation, 1440 E. Missouri Avenue, Suite 160, Phoenix, AZ 85014(a)	687,275,997	88.9%

(a) As reported in Amendment No. 16 to the Schedule 13D filed with the SEC by Grupo Mexico, S.A.B. de C.V. and Americas Mining Corporation on October 31, 2011. AMC and Grupo Mexico, S.A.B. de C.V. share the power to dispose and vote the shares of our Common Stock. Americas Mining Corporation is wholly- owned by Grupo Mexico, S.A.B. de C.V.

SECURITY OWNERSHIP OF MANAGEMENT

The information set forth below as to the shares of our Common Stock beneficially owned by the nominees, directors and executive officers named in the Summary Compensation Table below and by all nominees, directors and executive officers as a group is stated as of December 31, 2018.

	Southern Copper Corporation	
Director / Executive Officer	**Shares of Common Stock Beneficially Owned(a)**	**Percent of Outstanding Common Stock**

Germán Larrea Mota-Velasco	3,369,767	(b)
Oscar González Rocha	134,539	(b)
Vicente Ariztegui Andreve	1,600	(b)
Alfredo Casar Pérez	8,825	(b)
Enrique Castillo Sánchez Mejorada	11,225<	

less than desired or complete lack of efficacy or safety in preclinical studies or clinical trials; and

intellectual property constraints that prevent us from making, using, or commercializing the product candidate.

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The results seen in animal testing of our product candidates may not be replicated in humans.

This annual report discusses the safety and efficacy seen in preclinical testing of our lead product candidates, including MultiStem, in animals, but we may not see positive results when our other product candidates undergo clinical testing in humans in the future. Preclinical studies and Phase I clinical trials are not primarily designed to test the efficacy of a product candidate in humans, but rather to:

test short-term safety and tolerability;

study the absorption, distribution, metabolism and elimination of the product candidate;

study the biochemical and physiological effects of the product candidate and the mechanisms of the drug action and the relationship between drug levels and effect; and

understand the product candidate s side effects at various doses and schedules.

Success in preclinical studies or completed clinical trials does not ensure that later studies or trials, including continuing non-clinical studies and large-scale clinical trials, will be successful nor does it necessarily predict future results. The rate of failure in drug development is quite high, and many companies in the biotechnology and pharmaceutical industries have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. Product candidates may fail to show desired safety and efficacy in larger and more diverse patient populations in later stage clinical trials, despite having progressed through early stage trials. Negative or inconclusive results from any of our ongoing preclinical studies or clinical trials could result in delays, modifications, or abandonment of ongoing or future clinical trials and the termination of our development of a product candidate. Additionally, even if we are able to successfully complete pivotal Phase III clinical trials, the FDA still may not approve our product candidates.

Our product candidates are in an early stage of development and we currently have no therapeutic products approved for sale. If we are unable to develop, obtain regulatory approval or market any of our product candidates, our financial condition will be negatively affected, and we may have to curtail or cease our operations.

We are in the early stage of product development, and we are dependent on the application of our technologies to discover or develop therapeutic product candidates. We currently do not sell any approved therapeutic products and do not expect to have any products commercially available for several years, if at all. You must evaluate us in light of the uncertainties and complexities affecting an early stage biotechnology company. Our product candidates require additional research and development, preclinical testing, clinical testing and regulatory review and/or approvals or clearances before marketing. To date, no one to our knowledge has commercialized any therapeutic products using our technologies and we might never commercialize any product using our technologies and strategy.

In addition, we may not succeed in developing new product candidates as an alternative to our existing portfolio of product candidates. If our current product candidates are delayed or fail, or we fail to successfully develop and commercialize new product candidates, our financial condition may be negatively affected, and we may have to curtail or cease our operations.

We may not successfully maintain our existing collaborative and licensing arrangements, or establish new ones, which could adversely affect our ability to develop and commercialize our product candidates.

A key element of our business strategy is to commercialize some of our product candidates through collaborations with other companies. Our strategy includes establishing collaborations and licensing agreements with one or more pharmaceutical, biotechnology or device companies, preferably after we have advanced product candidates through the initial stages of clinical development. However, we may not be able to establish or maintain such licensing and collaboration arrangements necessary to develop and commercialize our product candidates. Even if we are able to maintain or establish licensing or collaboration arrangements, these arrangements may not be on favorable terms and may contain provisions that will restrict our ability to develop, test and market our product candidates. Any failure to maintain or establish licensing or collaboration arrangements on favorable terms could adversely affect our business prospects, financial condition or ability to develop and commercialize our product candidates.

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Our agreements with our collaborators and licensees may have provisions that give rise to disputes regarding the rights and obligations of the parties. These and other possible disagreements could lead to termination of the agreement or delays in collaborative research, development, supply, or commercialization of certain product candidates, or could require or result in litigation or arbitration. Moreover, disagreements could arise with our collaborators over rights to intellectual property or our rights to share in any of the future revenues of products developed by our collaborators. These kinds of disagreements could result in costly and time-consuming litigation. Any such conflicts with our collaborators could reduce our ability to obtain future collaboration agreements and could have a negative impact on our relationship with existing collaborators.

Currently, our material collaborations and licensing arrangements are our collaboration with Pfizer to develop and commercialize MultiStem for the treatment of IBD, our product co-development collaboration with Angiotech to jointly develop and ultimately market MultiStem for the treatment of damage caused by myocardial infarction and peripheral vascular disease, our collaboration agreement with Bristol-Myers Squibb pursuant to which we provide cell lines produced using our RAGE technology, our collaboration with RTI to develop and commercialize MAPC technology-based biologic implants for certain orthopedic applications in the bone graft substitutes market, and our license with the University of Minnesota pursuant to which we license certain aspects of the MultiStem technology. These arrangements do not have specific termination dates; rather, each arrangement terminates upon the occurrence of certain events.

If our collaborators do not devote sufficient time and resources to successfully carry out their contracted duties or meet expected deadlines, we may not be able to advance our product candidates in a timely manner or at all.

Our success depends on the performance by our collaborators of their responsibilities under our collaboration arrangements. Some potential collaborators may not perform their obligations in a timely fashion or in a manner satisfactory to us. Typically, we cannot control the amount of resources or time our collaborators may devote to our programs or potential products that may be developed in collaboration with us. We are currently involved in multiple research and development collaborations with academic and research institutions. These collaborators frequently depend on outside sources of funding to conduct or complete research and development, such as grants or other awards. In addition, our academic collaborators may depend on graduate students, medical students, or research assistants to conduct certain work, and such individuals may not be fully trained or experienced in certain areas, or they may elect to discontinue their participation in a particular research program, creating an inability to complete ongoing research in a timely and efficient manner. As a result of these uncertainties, we are unable to control the precise timing and execution of any experiments that may be conducted.

Additionally, our current or future corporate collaborators will retain the ability to pursue other research, product development or commercial opportunities that may be directly competitive with our programs. If these collaborators elect to prioritize or pursue other programs in lieu of ours, we may not be able to advance product development programs in an efficient or effective manner, if at all. If a collaborator is pursuing a competitive program and encounters unexpected financial or capability limitations, they may be motivated to reduce the priority placed on our programs or delay certain activities related to our programs or be unwilling to properly fund their share of the development expenses for our programs. Any of these developments could harm our product and technology development efforts, which could seriously harm our business.

Under the terms of our collaboration agreement with Angiotech, either party may choose, following the completion of Phase I trials, to opt-out of its obligation to fund further product development on a product-by-product basis, provided no clinical trials concerning such product candidate are currently ongoing. If Angiotech should decide to opt-out of funding the development of any of the product candidates for the covered indications, for any reason, we may be unable to fund the development on our own and could be forced to halt one or more MultiStem development programs. In January 2011, Angiotech announced its plans to pursue a recapitalization transaction through its voluntary filing under the Companies Creditors Arrangement Act in Canada. In the event that Angiotech elects not to continue with our collaboration, Angiotech would return all rights to us and we would have an outstanding claim related to Angiotech s reimbursement of our fourth quarter 2010 collaboration costs and the costs through January 28, 2011, which was Angiotech s petition date. In the event that Angiotech fails to fund its obligations under the terms of our collaboration agreement, our net costs for subsequent AMI clinical trials would increase or alternative funding

would be required for such clinical trials.

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Even if we or our collaborators receive regulatory approval for our products, those products may never be commercially successful.

Even if we develop pharmaceuticals or MultiStem related products that obtain the necessary regulatory approval, and we have access to the necessary manufacturing, sales, marketing and distribution capabilities that we need, our success depends to a significant degree upon the commercial success of those products. If these products fail to achieve or subsequently maintain market acceptance or commercial viability, our business would be significantly harmed because our future royalty revenue or other revenue would be dependent upon sales of these products. Many factors may affect the market acceptance and commercial success of any potential products that we may discover, including:

- health concerns, whether actual or perceived, or unfavorable publicity regarding our obesity drugs, stem cell products or those of our competitors;
- the timing of market entry as compared to competitive products;
- the rate of adoption of products by our collaborators and other companies in the industry;
- any product labeling that may be required by the FDA or other United States or foreign regulatory agencies for our products or competing or comparable products;
- convenience and ease of administration;
- pricing;
- perceived efficacy and side effects;
- marketing;
- availability of alternative treatments;
- levels of reimbursement and insurance coverage; and
- activities by our competitors.

We may experience delays in clinical trials and regulatory approval relating to our products that could adversely affect our financial results and our commercial prospects for our pharmaceutical or stem cell products.

In addition to the regulatory requirements for our pharmaceutical programs, we will also require regulatory approvals for each distinct application of our stem cell product. In each case, we will be required to conduct clinical trials to demonstrate safety and efficacy of MultiStem, or various products that incorporate or use MultiStem. For product candidates that advance to clinical testing, we cannot be certain that we or a collaborator will successfully complete the clinical trials necessary to receive regulatory product approvals. This process is lengthy and expensive.

We intend to seek approval for our product candidates through the FDA approval process. To obtain regulatory approvals, we must, among other requirements, complete clinical trials showing that our products are safe and effective for a particular indication. Under the approval process, we must submit clinical and non-clinical data to demonstrate the medication is safe and effective. For example, we must be able to provide data and information, which may include extended pharmacology, toxicology, reproductive toxicology, bioavailability and genotoxicity studies to establish suitability for Phase II or large scale Phase III clinical trials.

All of our product candidates are at an early stage of development. As these programs enter and progress through early stage clinical development, or complete additional non-clinical testing, an indication of a lack of safety or lack of efficacy may result in the early termination of an ongoing trial, or may cause us or any of our collaborators to forego further development of a particular product candidate or program. The FDA or other regulatory agencies may require

extensive clinical trials or other testing prior to granting approval, which could be costly and time consuming to conduct. Any of these developments would hinder, and potentially prohibit, our ability to commercialize our product candidates. We cannot assure you that clinical trials will in fact demonstrate that our products are safe or effective.

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Additionally, we may not be able to find acceptable patients or may experience delays in enrolling patients for our currently planned or any future clinical trials. The FDA or we may suspend our clinical trials at any time if either believes that we are exposing the subjects participating in the trials to unacceptable health risks. The FDA or institutional review boards and/or institutional biosafety committees at the medical institutions and healthcare facilities where we seek to sponsor clinical trials may not permit a trial to proceed or may suspend any trial indefinitely if they find deficiencies in the conduct of the trials.

Product development costs to us and our potential collaborators will increase if we have delays in testing or approvals or if we need to perform more or larger clinical trials than planned. We expect to continue to rely on third party clinical investigators at medical institutions and healthcare facilities to conduct our clinical trials, and, as a result, we may face additional delaying factors outside our control. Significant delays may adversely affect our financial results and the commercial prospects for our product candidates and delay our ability to become profitable.

If our pharmaceutical product candidates do not successfully complete the clinical trial process, we will not be able to partner or market them. Even successful clinical trials may not result in a partnering transaction or a marketable product and may not be entirely indicative of a product s safety or efficacy.

Many factors, known and unknown, can adversely affect clinical trials and the ability to evaluate a product s efficacy. During the course of treatment, patients can die or suffer other adverse events for reasons that may or may not be related to the proposed product being tested. Even if unrelated to our product, certain events can nevertheless adversely impact our clinical trials. As a result, our ability to ultimately develop and market the products and obtain revenues would suffer.

Even promising results in preclinical studies and initial clinical trials do not ensure successful results in later clinical trials, which test broader human use of our products. Many companies in our industry have suffered significant setbacks in advanced clinical trials, despite promising results in earlier trials. Even successful clinical trials may not result in a marketable product or be indicative of the efficacy or safety of a product. Many factors or variables could affect the results of clinical trials and cause them to appear more promising than they may otherwise be. Product candidates that successfully complete clinical trials could ultimately be found to be unsafe or ineffective.

In addition, our ability to complete clinical trials depends on many factors, including obtaining adequate clinical supplies and having a sufficient rate of patient recruitment. For example, patient recruitment is a function of many factors, including:

- the size of the patient population;
- the proximity of patients to clinical sites;
- the eligibility criteria for the trial;
- the perceptions of investigators and patients regarding safety; and
- the availability of other treatment options.

Even if we obtain regulatory approval of any of our product candidates, the approved products may be subject to post-approval studies and will remain subject to ongoing regulatory requirements. If we fail to comply, or if concerns are identified in subsequent studies, our approval could be withdrawn and our product sales could be suspended.

If we are successful at obtaining regulatory approval for MultiStem or any of our other product candidates, regulatory agencies in the United States and other countries where a product will be sold may require extensive additional clinical trials or post-approval clinical studies that are expensive and time consuming to conduct. In particular, therapeutic products administered for the treatment of persistent or chronic conditions, such as obesity, are likely to require extensive follow-up studies and close monitoring of patients after regulatory approval has been granted, for any signs of adverse effects that occur over a long period of time. These studies may be expensive and time consuming to conduct and may reveal side effects or other harmful effects in patients that use our therapeutic products after they are on the market, which may result in the limitation or withdrawal of our drugs from the market.

Alternatively, we may not be able to conduct such additional trials, which might force us to abandon our efforts to develop or commercialize certain product candidates. Even if post-approval studies are not requested or required, after our products are approved and on the market, there might be safety issues that emerge over time that require a change in product labeling or that require withdrawal of the product from the market, which would cause our revenue to decline.

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Additionally, any products that we may successfully develop will be subject to ongoing regulatory requirements after they are approved. These requirements will govern the manufacturing, packaging, marketing, distribution, and use of our products. If we fail to comply with such regulatory requirements, approval for our products may be withdrawn, and product sales may be suspended. We may not be able to regain compliance, or we may only be able to regain compliance after a lengthy delay, significant expense, lost revenues and damage to our reputation.

We may rely on third parties to manufacture our MultiStem product candidate.

Our current business strategy relies on third parties to manufacture our MultiStem product candidates in accordance with good manufacturing practices established by the FDA, or similar regulations in other countries. These third parties may not deliver sufficient quantities of our MultiStem product candidates, manufacture MultiStem product candidates in accordance with specifications, or comply with applicable government regulations. Additionally, if the manufactured products fail to perform as specified, our business and reputation could be severely impacted.

We expect to enter into additional manufacturing agreements for the production of product materials. If any manufacturing agreement is terminated or any third party collaborator experiences a significant problem that could result in a delay or interruption in the supply of product materials to us, there are very few contract manufacturers who currently have the capability to produce our MultiStem product on acceptable terms, or on a timely and cost-effective basis. We cannot assure you that manufacturers on whom we will depend will be able to successfully produce our MultiStem product on acceptable terms, or on a timely or cost-effective basis. We cannot assure you that manufacturers will be able to manufacture our products in accordance with our product specifications or will meet FDA or other requirements. We must have sufficient and acceptable quantities of our product materials to conduct our clinical trials and ultimately to market our product candidates, if and when such products have been approved by the FDA for marketing. If we are unable to obtain sufficient and acceptable quantities of our product material, we may be required to delay the clinical testing and marketing of our products.

If we do not comply with applicable regulatory requirements in the manufacture and distribution of our product candidates, we may incur penalties that may inhibit our ability to commercialize our products and adversely affect our revenue.

Our failure or the failure of our potential collaborators or third party manufacturers to comply with applicable FDA or other regulatory requirements including manufacturing, quality control, labeling, safety surveillance, promoting and reporting may result in criminal prosecution, civil penalties, recall or seizure of our products, total or partial suspension of production or an injunction, as well as other regulatory action against our product candidates or us. Discovery of previously unknown problems with a product, supplier, manufacturer or facility may result in restrictions on the sale of our products, including a withdrawal of such products from the market. The occurrence of any of these events would negatively impact our business and results of operations.

If we are unable to create and maintain sales, marketing and distribution capabilities or enter into agreements with third parties to perform those functions, we will not be able to commercialize our product candidates.

We currently have no sales, marketing or distribution capabilities. Therefore, to commercialize our product candidates, if and when such products have been approved and are ready for marketing, we expect to collaborate with third parties to perform these functions. We will either need to share the value generated from the sale of any products and/or pay a fee to the contract sales organization. If we establish any such relationships, we will be dependent upon the capabilities of our collaborators or contract service providers to effectively market, sell, and distribute our product. If they are ineffective at selling and distributing our product, or if they choose to emphasize other products over ours, we may not achieve the level of product sales revenues that we would like. If conflicts arise, we may not be able to resolve them easily or effectively, and we may suffer financially as a result. If we cannot rely on the sales, marketing and distribution capabilities of our collaborators or of contract service providers, we may be forced to establish our own capabilities. We have no experience in developing, training or managing a sales force and will incur substantial additional expenses if we decide to market any of our future products directly. Developing a marketing and sales force is also time consuming and could delay launch of our future products. In addition, we will compete with many companies that currently have extensive and well-funded marketing and sales operations. Our marketing and sales efforts may be unable to compete successfully against these companies.

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If we are unable to attract and retain key personnel and advisors, it may adversely affect our ability to obtain financing, pursue collaborations or develop our product candidates.

We are highly dependent on our executive officers Gil Van Bokkelen, Ph.D., our Chief Executive Officer, as well as other executive and scientific officers, including William Lehmann, J.D., M.B.A., President and Chief Operating Officer, John Harrington, Ph.D., Chief Scientific Officer and Executive Vice President, Robert Deans, Ph.D., Senior Vice President, Regenerative Medicine, and Laura Campbell, CPA, Vice President of Finance, as well as other personnel.

These individuals are integral to the development and integration of our technologies and to our present and future scientific collaborations, including managing the complex research processes and the product development and potential commercialization processes. Given their leadership, extensive technical, scientific and financial expertise and management and operational experience, these individuals would be difficult to replace. Consequently, the loss of services of one or more of these named individuals could result in product development delays or the failure of our collaborations with current and future collaborators, which, in turn, may hurt our ability to develop and commercialize products and generate revenues.

Our future success depends on our ability to attract, retain and motivate highly qualified management and scientific, development and commercial personnel and advisors. If we are unable to attract and retain key personnel and advisors, it may negatively affect our ability to successfully develop, test and commercialize our product candidates.

Our ability to compete in the biopharmaceutical market may decline if we do not adequately protect our proprietary technologies.

Our success depends in part on our ability to obtain and maintain intellectual property that protects our technologies and our pharmaceutical products. Patent positions may be highly uncertain and may involve complex legal and factual questions, including the ability to establish patentability of compounds and methods for using them for which we seek patent protection. We cannot predict the breadth of claims that will ultimately be allowed in our patent applications, if any, including those we have in-licensed or the extent to which we may enforce these claims against our competitors.

We have filed multiple patent applications that seek to protect the composition of matter and method of use related to our small molecule programs. In addition, we are prosecuting numerous distinct patent families directed to composition, methods of production, and methods of use of MultiStem and related technologies. If we are unsuccessful in obtaining and maintaining these patents related to products and technologies, we may ultimately be unable to commercialize products that we are developing or may elect to develop in the future.

The degree of future protection for our proprietary rights is therefore highly uncertain and we cannot assure you that:

- we were the first to file patent applications or to invent the subject matter claimed in patent applications relating to the technologies or product candidates upon which we rely;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- others did not publicly disclose our claimed technology before we conceived the subject matter included in any of our patent applications;
- any of our pending or future patent applications will result in issued patents;
- any of our patent applications will not result in interferences or disputes with third parties regarding priority of invention;

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any patents that may be issued to us, our collaborators or our licensors will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged by third parties;

we will develop additional proprietary technologies that are patentable;

the patents of others will not have an adverse effect on our ability to do business; or

new proprietary technologies from third parties, including existing licensors, will be available for licensing to us on reasonable commercial terms, if at all.

In addition, patent law outside the United States is uncertain and in many countries intellectual property laws are undergoing review and revision. The laws of some countries do not protect intellectual property rights to the same extent as domestic laws. It may be necessary or useful for us to participate in opposition proceedings to determine the validity of our competitors patents or to defend the validity of any of our or our licensor s future patents, which could result in substantial costs and would divert our efforts and attention from other aspects of our business. With respect to certain of our inventions, we have decided not to pursue patent protection outside the United States, both because we do not believe it is cost effective and because of confidentiality concerns. Accordingly, our international competitors could develop and receive foreign patent protection for gene sequences and functions for which we are seeking United States patent protection, enabling them to sell products that we have developed.

Technologies licensed to us by others, or in-licensed technologies, are important to our business. The scope of our rights under our licenses may be subject to dispute by our licensors or third parties. Our rights to use these technologies and to practice the inventions claimed in the licensed patents are subject to our licensors abiding by the terms of those licenses and not terminating them. In particular, we depend on certain technologies relating to our MultiStem technology licensed from the University of Minnesota, and the termination of this license could result in our loss of some of the rights that enable us to utilize this technology, and our ability to develop products based on MultiStem could be seriously hampered.

In addition, we may in the future acquire rights to additional technologies by licensing such rights from existing licensors or from third parties. Such in-licenses may be costly. Also, we generally do not control the patent prosecution, maintenance or enforcement of in-licensed technologies. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we do over our internally developed technologies. Moreover, some of our academic institution licensors, collaborators and scientific advisors have rights to publish data and information to which we have rights. If we cannot maintain the confidentiality of our technologies and other confidential information in connection with our collaborations, our ability to protect our proprietary information or obtain patent protection in the future may be impaired, which could have a significant adverse effect on our business, financial condition and results of operations.

We may not have adequate protection for our unpatented proprietary information, which could adversely affect our competitive position.

In addition to patents, we will substantially rely on trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. However, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose our technology. To protect our trade secrets, we may enter into confidentiality agreements with employees, consultants and potential collaborators. However, these agreements may not provide meaningful protection of our trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information. Likewise, our trade secrets or know-how may become known through other means or be independently discovered by our competitors. Any of these events could prevent us from developing or commercializing our product candidates.

Disputes concerning the infringement or misappropriation of our proprietary rights or the proprietary rights of others could be time consuming and extremely costly and could delay our research and development efforts.

Our commercial success, if any, will be significantly harmed if we infringe the patent rights of third parties or if we breach any license or other agreements that we have entered into with regard to our technology or business.

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We are aware of other companies and academic institutions that have been performing research in the areas of adult derived stem cells. In particular, other companies and academic institutions have announced that they have identified nonembryonic stem cells isolated from bone marrow or other tissues that have the ability to form a range of cell types, or display the property of pluripotency. To the extent any of these companies or academic institutions currently have, or obtain in the future, broad patent claims, such patents could block our ability to use various aspects of our discovery and development process and might prevent us from developing or commercializing newly discovered applications of our MultiStem technology, or otherwise conducting our business. In addition, it is possible that some of the pharmaceutical product candidates we are developing may not be patentable or may be covered by intellectual property of third parties.

We are not currently a party to any litigation, interference, opposition, protest, reexamination or any other potentially adverse governmental, ex parte or inter-party proceeding with regard to our patent or trademark positions. However, the life sciences and other technology industries are characterized by extensive litigation regarding patents and other intellectual property rights. Many life sciences and other technology companies have employed intellectual property litigation as a way to gain a competitive advantage. If we become involved in litigation, interference proceedings, oppositions, reexamination, protest or other potentially adverse intellectual property proceedings as a result of alleged infringement by us of the rights of others or as a result of priority of invention disputes with third parties, we might have to spend significant amounts of money, time and effort defending our position and we may not be successful. In addition, any claims relating to the infringement of third-party proprietary rights or proprietary determinations, even if not meritorious, could result in costly litigation, lengthy governmental proceedings, divert management s attention and resources, or require us to enter into royalty or license agreements that are not advantageous to us. If we do not have the financial resources to support such litigation or appeals, we may forfeit or lose certain commercial rights. Even if we have the financial resources to continue such litigation or appeals, we may lose. In the event that we lose, we may be forced to pay very substantial damages; we may have to obtain costly license rights, which may not be available to us on acceptable terms, if at all; or we may be prohibited from selling products that are found to infringe the patent rights of others.

Should any person have filed patent applications or obtained patents that claim inventions also claimed by us, we may have to participate in an interference proceeding declared by the relevant patent regulatory agency to determine priority of invention and, thus, the right to a patent for these inventions in the United States. Such a proceeding could result in substantial cost to us even if the outcome is favorable. Even if successful on priority grounds, an interference action may result in loss of claims based on patentability grounds raised in the interference action. Litigation, interference proceedings or other proceedings could divert management s time and efforts. Even unsuccessful claims could result in significant legal fees and other expenses, diversion of management s time and disruption in our business. Uncertainties resulting from initiation and continuation of any patent proceeding or related litigation could harm our ability to compete and could have a significant adverse effect on our business, financial condition and results of operations.

An adverse ruling arising out of any intellectual property dispute, including an adverse decision as to the priority of our inventions, could undercut or invalidate our intellectual property position. An adverse ruling could also subject us to significant liability for damages, including possible treble damages, prevent us from using technologies or developing products, or require us to negotiate licenses to disputed rights from third parties. Although patent and intellectual property disputes in the technology area are often settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include license fees and ongoing royalties. Furthermore, necessary licenses may not be available to us on satisfactory terms, if at all. Failure to obtain a license in such a case could have a significant adverse effect on our business, financial condition and results of operations.

Many potential competitors, including those who have greater resources and experience than we do, may develop products or technologies that make ours obsolete or noncompetitive.

We face significant competition with respect to our product candidates. With regard to our efforts to develop MultiStem as a novel stem cell therapy, currently, there are a number of companies that are actively developing stem cell products, which encompass a range of different cell types, including embryonic stem cells, adult-derived stem cells, and processed bone marrow derived cells. Our future success will depend on our ability to maintain a

competitive position with respect to technological advances. Technological developments by others may result in our MultiStem product platform and technologies, as well as our pharmaceutical formulations, becoming obsolete.

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We are subject to significant competition from pharmaceutical, biotechnology and diagnostic companies, academic and research institutions, and government or other publicly funded agencies that are pursuing the development of therapeutic products and technologies that are substantially similar to our proposed therapeutic products and technologies, or that otherwise address the indications we are pursuing. Our most significant competitors include major pharmaceutical companies such as Pfizer, Bristol-Myers Squibb, Merck, Roche, Johnson & Johnson, Sanofi-Aventis and GlaxoSmithKline as well as smaller biotechnology or biopharmaceutical companies such as Arena Pharmaceuticals, Orexigen, Celgene, Vivus, Osiris, Geron, Aastrom, Stem Cells Inc., and Cytori Therapeutics. Most of our current and potential competitors have substantially greater research and development capabilities and financial, scientific, regulatory, manufacturing, marketing, sales, human resources, and experience than we do. Many of our competitors have several therapeutic products that have already been developed, approved and successfully commercialized, or are in the process of obtaining regulatory approval for their therapeutic products in the United States and internationally.

Many of these companies have substantially greater capital resources, research and development resources and experience, manufacturing capabilities, regulatory expertise, sales and marketing resources, established relationships with consumer products companies and production facilities.

Universities and public and private research institutions are also potential competitors. While these organizations primarily have educational objectives, they may develop proprietary technologies related to stem cells or secure patent protection that we may need for the development of our technologies and products. We may attempt to license these proprietary technologies, but these licenses may not be available to us on acceptable terms, if at all.

Our competitors, either alone or with their collaborative partners, may succeed in developing technologies or products that are more effective, safer, more affordable or more easily commercialized than ours, and our competitors may obtain intellectual property protection or commercialize products sooner than we do. Developments by others may render our product candidates or our technologies obsolete.

Our current product discovery and development collaborators are not prohibited from entering into research and development collaboration agreements with third parties in any product field. Our failure to compete effectively would have a significant adverse effect on our business, financial condition and results of operations.

We will use hazardous and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly.

Our products and processes will involve the controlled storage, use and disposal of certain hazardous and biological materials and waste products. We and our suppliers and other collaborators are subject to federal, state and local regulations governing the use, manufacture, storage, handling and disposal of materials and waste products. Even if we and these suppliers and collaborators comply with the standards prescribed by law and regulation, the risk of accidental contamination or injury from hazardous materials cannot be completely eliminated. In the event of an accident, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of any insurance we may obtain and exceed our financial resources. We may not be able to maintain insurance on acceptable terms, or at all. We may incur significant costs to comply with current or future environmental laws and regulations.

If we acquire products, technologies or other businesses, we will incur a variety of costs, may have integration difficulties and may experience numerous other risks that could adversely affect our business.

To remain competitive, we may decide to acquire additional businesses, products and technologies. We currently have no commitments or agreements with respect to, and are not actively seeking, any material acquisitions. We have limited experience in identifying acquisition targets, successfully acquiring them and integrating them into our current infrastructure. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. In addition, future acquisitions could require significant capital infusions and could involve many risks, including, but not limited to the following:

- we may have to issue convertible debt or equity securities to complete an acquisition, which would dilute our stockholders and could adversely affect the market price of our common stock;

an acquisition may negatively impact our results of operations because it may require us to incur large one-time charges to earnings, amortize or write down amounts related to goodwill and other intangible assets, or incur or assume substantial debt or liabilities, or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;

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we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire;

certain acquisitions may disrupt our relationship with existing collaborators who are competitive to the acquired business;

acquisitions may require significant capital infusions and the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs;

an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;

acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience; and

key personnel of an acquired company may decide not to work for us.

Any of the foregoing risks could have a significant adverse effect on our business, financial condition and results of operations.

To the extent we enter markets outside of the United States, our business will be subject to political, economic, legal and social risks in those markets, which could adversely affect our business.

There are significant regulatory and legal barriers in markets outside the United States that we must overcome to the extent we enter or attempt to enter markets in countries other than the United States. We will be subject to the burden of complying with a wide variety of national and local laws, including multiple and possibly overlapping and conflicting laws. We also may experience difficulties adapting to new cultures, business customs and legal systems. Any sales and operations outside the United States would be subject to political, economic and social uncertainties including, among others:

changes and limits in import and export controls;

increases in custom duties and tariffs;

changes in currency exchange rates;

economic and political instability;

changes in government regulations and laws;

absence in some jurisdictions of effective laws to protect our intellectual property rights; and

currency transfer and other restrictions and regulations that may limit our ability to sell certain products or repatriate profits to the United States.

Any changes related to these and other factors could adversely affect our business to the extent we enter markets outside the United States.

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Foreign governments often impose strict price controls on approved products, which may adversely affect our future profitability in those countries, and the re-importation of drugs to the United States from foreign countries that impose price controls may adversely affect our future profitability.

Frequently foreign governments impose strict price controls on newly approved therapeutic products. If we obtain regulatory approval to sell products in foreign countries, we may be unable to obtain a price that provides an adequate financial return on our investment. Furthermore, legislation in the United States may permit re-importation of drugs from foreign countries into the United States, including re-importation from foreign countries where the drugs are sold at lower prices than in the United States due to foreign government-mandated price controls. Such a practice, especially if it is conducted on a widespread basis, may significantly reduce our potential United States revenues from any drugs that we are able to develop.

If we elect not to sell our products in foreign countries that impose government mandated price controls because we decide it is uneconomical to do so, a foreign government or patent office may attempt to terminate our intellectual property rights in that country, enabling competitors to make and sell our products.

In some cases we may choose not to sell a product in a foreign country because it is uneconomical to do so under a system of government-imposed price controls, or because it could severely limit our profitability in the United States or other markets. In such cases, a foreign government or patent office may terminate any intellectual property rights we may obtain with respect to that product. Such a termination could enable competitors to produce and sell our product in that market. Furthermore, such products may be exported into the United States through legislation that authorizes the importation of drugs from outside the United States. In such an event, we may have to reduce our prices, or we may be unable to compete with low-cost providers of our drugs, and we could be financially harmed as a result.

We may encounter difficulties managing our growth, which could adversely affect our business.

At various times we have experienced periods of rapid growth in our employee numbers as a result of a dramatic increase in activity in technology programs, genomics programs, collaborative research programs, discovery programs, and scope of operations. At other times, we have had to reduce staff in order to bring our expenses in line with our financial resources. Our success will also depend on the ability of our officers and key employees to continue to improve our operational capabilities and our management information and financial control systems, and to expand, train and manage our work force.

We may be sued for product liability, which could adversely affect our business.

Because our business strategy involves the development and sale by either us or our collaborators of commercial products, we may be sued for product liability. We may be held liable if any product we develop and commercialize, or any product our collaborators commercialize that incorporates any of our technology, causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing, sale or consumer use. In addition, the safety studies we must perform and the regulatory approvals required to commercialize our pharmaceutical products, will not protect us from any such liability.

We carry product liability insurance, as well as liability insurance for conducting clinical trials. Currently, we carry a $5 million per event, $5 million annual aggregate coverage for both our products liability policy and our clinical trials protection. We also intend to seek product liability insurance for any approved products that we may develop or acquire. However, in the event there are product liability claims against us, our insurance may be insufficient to cover the expense of defending against such claims, or may be insufficient to pay or settle such claims. Furthermore, we may be unable to obtain adequate product liability insurance coverage for commercial sales of any of our approved products. If such insurance is insufficient to protect us, our results of operations will suffer. If any product liability claim is made against us, our reputation and future sales will be damaged, even if we have adequate insurance coverage.

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The availability, manner, and amount of reimbursement for our product candidates from government and private payers are uncertain, and our inability to obtain adequate reimbursement for any products could severely limit our product sales.

We expect that many of the patients who seek treatment with any of our products that are approved for marketing will be eligible for Medicare benefits. Other patients may be covered by private health plans. If we are unable to obtain or retain adequate levels of reimbursement from Medicare or from private health plans, our ability to sell our products will be severely limited. The application of existing Medicare regulations and interpretive coverage and payment determinations to newly approved products is uncertain and those regulations and interpretive determinations are subject to change. The Medicare Prescription Drug Improvement and Modernization Act, enacted in December 2003, provides for a change in reimbursement methodology that reduces the Medicare reimbursement rates for many drugs, which may adversely affect reimbursement for any products we may develop. Medicare regulations and interpretive determinations also may determine who may be reimbursed for certain services, and may limit the pool of patients our product candidates are being developed to serve.

Federal, state and foreign governments continue to propose legislation designed to contain or reduce health care costs. Legislation and regulations affecting the pricing of products like our potential products may change further or be adopted before any of our potential products are approved for marketing. Cost control initiatives by governments or third-party payers could decrease the price that we receive for any one or all of our potential products or increase patient coinsurance to a level that make our products under development become unaffordable. In addition, government and private health plans persistently challenge the price and cost-effectiveness of therapeutic products. Accordingly, these third parties may ultimately not consider any or all of our products under development to be cost effective, which could result in products not being covered under their health plans or covered only at a lower price. Any of these initiatives or developments could prevent us from successfully marketing and selling any of our products that are approved for commercialization.

Public perception of ethical and social issues surrounding the use of adult-derived stem cell technology may limit or discourage the use of our technologies, which may reduce the demand for our therapeutic products and technologies and reduce our revenues.

Our success will depend in part upon our ability to develop therapeutic products incorporating or discovered through our adult-derived stem cell technology. For social, ethical, or other reasons, governmental authorities in the United States and other countries may call for limits on, or regulation of the use of, adult-derived stem cell technologies. Although we do not use the more controversial stem cells derived from embryos or fetuses, claims that adult-derived stem cell technologies are ineffective, unethical or pose a danger to the environment may influence public attitudes. The subject of stem cell technologies in general has received negative publicity and aroused public debate in the United States and some other countries. Ethical and other concerns about our adult-derived stem cell technology could materially hurt the market acceptance of our therapeutic products and technologies, resulting in diminished sales and use of any products we are able to develop using adult-derived stem cells.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal offices are located at 3201 Carnegie Avenue in Cleveland, Ohio. We currently lease approximately 45,000 square feet of space for our corporate offices and laboratories, with state-of-the-art laboratory space. The lease currently expires in March 2012, and we have an option to extend the lease in annual increments through March 2013 at our current rent of $267,000 per year. Also, we currently lease office and laboratory space for our Belgian subsidiary. The lease currently expires in January 2012, and we have an option to renew annually through December 2014. The annual rent in Belgium is subject to adjustments based on an inflationary index.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become subject to various legal proceedings that are incidental to the ordinary conduct of our business. Currently, there are no such proceedings.

ITEM 3A. EXECUTIVE OFFICERS OF THE REGISTRANT

The information under this Item is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

There exists no arrangement or understanding between any executive officer and any other person pursuant to which such executive officer was elected. Each executive officer serves until his or her successor is elected and qualified.

The following sets forth the name, age, current position and principal occupation and employment during the past five years of our executive officers.

Gil Van Bokkelen, Ph.D.

Age: 50

Dr. Van Bokkelen has served as our Chief Executive Officer and Chairman since August 2000. Dr. Van Bokkelen co-founded Athersys in October 1995 and served as Chief Executive Officer and Director since Athersys founding. Prior to May 2006, he also served as Athersys President. Dr. Van Bokkelen is the current Chairman of the Alliance for Regenerative Medicine, a Washington D.C. based consortium of companies, patient advocacy groups, disease foundations, and clinical and research institutions that are committed to the advancement of the field of regenerative medicine. He is also the Chairman of the board of Governors for the National Center for Regenerative Medicine, and has served on a number of other boards, including the Biotechnology Industry Organization s ECS board of directors (from 2001 to 2004, and from 2008 to present) and the Kent State University Board of Trustees from 2001 to 2004. He received his Ph.D. in Genetics from Stanford University, his B.A. in Economics from the University of California at Berkeley, and his B.A. in Molecular Biology from the University of California at Berkeley.

William (BJ) Lehmann, Jr., J.D.

Age: 45

Mr. Lehmann has served as our President and Chief Operating Officer since June 2006. Mr. Lehmann joined Athersys in September 2001 and was Athersys Executive Vice President of Corporate Development and Finance from August 2002 until June 2006, when he became Athersys President and Chief Operating Officer. From 1994 to 2001, Mr. Lehmann was with McKinsey & Company, Inc., an international management consulting firm, where he worked extensively with new technology and service-based businesses in the firm s Business Building practice. Prior to joining McKinsey, he worked at Wilson, Sonsini, Goodrich & Rosati, a Silicon Valley law firm, and worked with First Chicago Corporation, a financial institution. Mr. Lehmann received his J.D. from Stanford University, his M.B.A. from the University of Chicago, and his B.A. from the University of Notre Dame.

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John J. Harrington, Ph.D.
Age: 43
Dr. Harrington has served as our Chief Scientific Officer, Executive Vice President and Director since Athersys founding. Dr. Harrington co-founded Athersys in October 1995. Dr. Harrington led the development of the RAGE technology as well as its application for gene discovery, drug discovery and commercial protein production applications. He is a listed inventor on over 20 issued or pending United States patents, has authored numerous scientific publications, and has received numerous awards for his work, including being named one of the top international young scientists by MIT Technology Review in 2002. Dr. Harrington has overseen the therapeutic product development programs at Athersys since their inception, and during his career he has also held positions at Amgen and Scripps Clinic. He received his B.A. in Biochemistry and Cell Biology from the University of California at San Diego and his Ph.D. in Cancer Biology from Stanford University.
Robert J. Deans, Ph.D.
Age: 59
Dr. Deans has served as our Senior Vice President, Regenerative Medicine since June 2006. Dr. Deans has led Athersys regenerative medicine research and development activities since February 2003 and has served as Vice President of Regenerative Medicine since October 2003, until he was named Senior Vice President of Regenerative Medicine in June 2006. Dr. Deans is highly regarded as an expert in stem cell therapeutics, with over fifteen years of experience in this field. From 2001 to 2003, Dr. Deans worked for early-stage biotechnology companies. Dr. Deans was formerly the Vice President of Research at Osiris Therapeutics, Inc., a biotechnology company, from 1998 to 2001 and Director of Research and Development with the Immunotherapy Division of Baxter International, Inc., a global healthcare company, from 1992 to 1998. Dr. Deans was also previously on faculty at USC Medical School in Los Angeles, between 1981 and 1998, in the departments of Microbiology and Neurology at the Norris Comprehensive Cancer Center. Dr. Deans was an undergraduate at MIT, received his Ph.D. at the University of Michigan, and did his post-doctoral work at UCLA in Los Angeles.
Laura K. Campbell, CPA
Age: 47
Ms. Campbell has served as our Vice President of Finance since June 2006. Ms. Campbell joined Athersys in January 1998 as Controller and has served as Vice President of Finance since June 2006. Prior to joining Athersys, she was at Ernst & Young LLP, a public accounting firm, for 11 years, in the audit practice. During her tenure with Ernst & Young LLP, Ms. Campbell specialized in entrepreneurial services and the biotechnology industry sector and participated in several initial public offerings. Ms. Campbell received her B.S., with distinction, in Business Administration from The Ohio State University.

ITEM 4. RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Capital Market under the symbol ATHX. Set forth below are the high and low sale prices for our common stock on the NASDAQ Capital Market for the periods indicated.

	High	Low
Year ended December 31, 2010:		
First Quarter	$ 4.40	$ 2.32
Second Quarter	$ 3.63	$ 2.56
Third Quarter	$ 3.55	$ 2.34
Fourth Quarter	$ 3.19	$ 2.42
Year ended December 31, 2009:		
First Quarter	$ 1.28	$ 0.45
Second Quarter	$ 1.04	$ 0.75
Third Quarter	$ 1.35	$ 0.78
Fourth Quarter	$ 6.40	$ 0.97

Holders

As of February 28, 2011, the number of holders of record was approximately 694 of which one is Cede & Co., a nominee for The Depository Trust Company, or DTC. Shares of common stock that are held by financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC, and are considered to be held of record by Cede & Co., as one stockholder.

Dividend Policy

We would have to rely upon dividends and other payments from our wholly-owned subsidiary, ABT Holding Company, to generate the funds necessary to make dividend payments, if any, on our common stock. ABT Holding Company, however, is legally distinct from us and has no obligation to pay amounts to us. The ability of ABT Holding Company to make dividend and other payments to us is subject to, among other things, the availability of funds and applicable state laws. However, 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. We did not pay cash dividends on our common stock during the past two years. We do not anticipate that we will pay any dividends on our common stock in the foreseeable future. Rather, we anticipate that we will retain earnings, if any, for use in the development of our business.

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ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per share data)

	Year Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Consolidated Statement of Operations Data:					
Revenues:					
Contract revenue	$ 6,685	$ 1,079	$ 1,880	$ 1,433	$ 1,908
Grant revenue	2,254	1,080	1,225	1,827	1,817
Total revenues	8,939	2,159	3,105	3,260	3,725
Costs and expenses:					
Research and development	14,779	11,920	16,500	15,817	9,741
General and administrative	5,387	5,621	5,479	7,975	3,347
Depreciation	284	233	218	283	528
Loss from operations	(11,511)	(15,615)	(19,092)	(20,815)	(9,891)
Other (expense) income:					
Other (expense) income, net	(69)	(126)	48	2,017	208
Interest income	203	375	1,146	1,591	119
Interest expense			(94)	(1,263)	(1,047)
Accretion of premium on convertible debt				(456)	(260)
Loss before cumulative effect of change in accounting principle	(11,377)	(15,366)	(17,992)	(18,926)	(10,871)
Cumulative effect of change in accounting principle					306
Net loss	$ (11,377)	$ (15,366)	$ (17,992)	$ (18,926)	$ (10,565)
Preferred stock dividends				(659)	(1,408)
Deemed dividend resulting from induced conversion of convertible preferred stock				(4,800)	
Net loss attributable to common stockholders	$ (11,377)	$ (15,366)	$ (17,992)	$ (24,385)	$ (11,973)
Basic and diluted net loss per common share attributable to common stockholders:					
Loss before cumulative effect of change in accounting principle	$ (0.60)	$ (0.81)	$ (0.95)	$ (2.26)	$ (41.89)
Cumulative effect of change in accounting principle					1.05
Net loss per share	$ (0.60)	$ (0.81)	$ (0.95)	$ (2.26)	$ (40.84)

Weighted average shares outstanding, basic and diluted	18,929,749	18,928,379	18,927,988	10,811,119	293,142

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	December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,105	$ 11,167	$ 12,552	$ 13,248	$ 1,528
Available-for-sale securities, short-tem	13,076	10,135	15,460	22,477	
Working capital (deficit)	9,106	16,291	26,789	32,849	(3,206)
Available-for-sale securities, long-tem		5,080	3,601	13,850	
Total assets	19,106	28,331	33,877	52,225	4,266
Long-term obligations, less current portion					9,310
Accrued dividends					8,882
Total stockholders equity (deficit)	9,005	18,957	31,563	47,631	(20,007)

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with Item 8. Financial Statements and Supplementary Data included below in this annual report on Form 10-K.

Overview and Recent Developments

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

Current Programs

By applying our proprietary cell therapy platform, MultiStem, we have established therapeutic product development programs in the areas of treating cardiovascular disease, neurological disease, and immune system disorders. To date, we have advanced four programs to clinical development stage, including:

An ongoing Phase II clinical study involving administration of MultiStem to patients suffering from ulcerative colitis, the most common form of IBD. This study was authorized by the FDA in November 2010, and is being conducted with our partner Pfizer. This trial began enrolling patients in the study in February 2011;

A Phase I clinical study involving administration of MultiStem to patients that have suffered an AMI, more commonly referred to as a heart attack. We successfully completed patient enrollment for this study in February 2010 and announced initial results in July 2010, demonstrating a consistent safety profile and encouraging signs of improvement in heart function among patients that had received treatment. We intend to initiate a Phase II study with our partner, Angiotech, to evaluate the safety and efficacy of MultiStem administration to AMI patients in 2011;

An ongoing Phase I clinical study involving administration of MultiStem to patients suffering from leukemia or certain other blood-borne cancers, in which patients undergo radiation therapy and then receive a HSC transplant. Such patients are at risk for serious complications, including GVHD, which is an imbalance of immune system function caused by transplanted immune cells that attack various tissues and organs in the patient. In January 2011, we announced that we had successfully completed enrollment for the single ascending dose portion of this clinical trial and expect to announce preliminary results in the second quarter of 2011. In addition, the multiple ascending dose portion of this study is ongoing.

An FDA authorized Phase I clinical study to evaluate administration of MultiStem to patients that have suffered an ischemic stroke. We are currently working with our clinical advisors to modify the proposed study design, including increasing the size of the study so that we can evaluate safety and efficacy.

In addition to our current and anticipated clinical development activities, we are also engaged in preclinical development and evaluation of MultiStem in other disease indications in the cardiovascular, neurological and 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 U.S. and in Europe. We are also engaged in the development of novel small molecule therapies to treat obesity and related metabolic conditions, including diabetes, as well as 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 that controls appetite the 5HT2c serotonin receptor. We are conducting preclinical evaluation of novel compounds that we have developed that exhibit outstanding selectivity, and intend to select a clinical development candidate for this program in 2011.

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In September 2010, we entered into an agreement with RTI to develop and commercialize MAPC technology-based biologic implants for certain orthopedic applications in the bone graft substitutes market. The agreement provides for a $5.0 million license fee paid in installments, of which $3.0 million is guaranteed and $2.0 million is contingent, potential milestone payments and tiered royalties on worldwide commercial sales of implants using our technologies. We are currently working with RTI to develop products for these applications.

Financial

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.

We have incurred losses since inception of operations in December 1995 and had an accumulated deficit of $205 million at December 31, 2010. Our losses have resulted principally from costs incurred in research and development, clinical and preclinical product development, acquisition and licensing costs, and general and administrative costs associated with our operations. We have used the financing proceeds from private and public equity and debt offerings and other sources of capital to develop our technologies, to discover and develop therapeutic product candidates and to acquire certain technologies and assets. We have also built drug development capabilities that have enabled us to advance product candidates into clinical trials. We have established strategic collaborations that have provided revenues and capabilities to help further advance our product candidates, and we have also built a substantial portfolio of intellectual property.

Results of Operations

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

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

Revenues

	Year ended December 31,		
	2010	**2009**	**2008**
Contract revenue	$ 6,685	$ 1,079	$ 1,880
Grant revenue	2,254	1,080	1,225
	$ 8,939	$ 2,159	$ 3,105

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Research and development expenses

	Year ended December 31,		
Type of expense	**2010**	**2009**	**2008**
Personnel costs	$ 4,124	$ 3,607	$ 2,924
Research supplies	1,218	907	849
Facilities	870	826	817
Clinical and preclinical development costs	4,394	1,904	7,878
Sponsored research	1,149	878	393
Patent legal fees	1,477	1,351	1,481
Other	1,002	1,151	1,431
Stock-based compensation	545	1,296	727
	$ 14,779	$ 11,920	$ 16,500

General and administrative expenses

	Year ended December 31,		
Type of expense	**2010**	**2009**	**2008**
Personnel costs	$ 1,897	$ 1,975	$ 1,726
Facilities	279	299	342
Legal and professional fees	1,007	916	1,032
Other	1,283	919	1,250
Stock-based compensation	921	1,512	1,129
	$ 5,387	$ 5,621	$ 5,479

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Revenues increased to $8.9 million for the year ended December 31, 2010 from $2.2 million for 2009. Contract revenue increased $5.6 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as a result of our collaboration with Pfizer that we entered into in December 2009 and our collaboration with RTI that we entered into in September 2010. Contract revenues for the year ended December 31, 2010 primarily consist of the recognition of revenue from these multi-element arrangements. We expect our contract revenues related to the Pfizer collaboration in 2011 and 2012 to reflect the amortization of the $6.0 million non-refundable up-front license fee, research and development funding, and the performance of manufacturing services over the estimated performance period, and expect our contract revenues related to the RTI collaboration to reflect the amortization of the $3.0 million license fee over the next several quarters aligned with the estimated performance period. Grant revenue increased $1.2 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily due a grant received in October 2010 from the Internal Revenue Service under section 48D of the Internal Revenue Code aggregating $733,000 for qualifying therapeutic discovery investments, as well as additional new grants that began late in 2009 and in 2010. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

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Research and Development Expenses. Research and development expenses increased to $14.8 million for the year ended December 31, 2010 from $11.9 million in 2009. The increase of approximately $2.9 million related primarily to an increase in clinical and preclinical development costs of $2.5 million, an increase in personnel costs of $517,000, an increase in research supply costs of $311,000 and an increase in sponsored research costs of $271,000 for the year ended December 31, 2010 compared to 2009. These increases were partially offset by a decrease in stock-based compensation expense of $751,000, which declined as a result of a significant number of options becoming fully vested mid-2010. The increase in clinical and preclinical development costs for the year ended December 31, 2010 related primarily to increased manufacturing and process development costs, and costs associated with our MultiStem clinical trials. Our clinical costs for the year ended December 31, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $628,000 and $847,000, respectively. The increase in personnel costs and research supplies related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Sponsored research costs increased primarily due to grant-funded programs that require collaboration with certain academic research institutions. We expect our research and development expenses to increase in 2011, primarily due to increased MultiStem clinical trial and clinical manufacturing expenses. 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 decreased to $5.4 million in 2010 from $5.6 million in 2009. The $234,000 decrease was due primarily to a decrease in stock-based compensation expense of $591,000, partially offset by an increase in other expenses of $364,000 in 2010 compared to 2009. The decrease in stock-based compensation expense related to a significant number of options becoming fully vested mid-2010. The increase in other expenses for 2010 was primarily a result of increased investor and public relations costs and travel costs. We expect our general and administrative expenses to continue at similar levels in 2011.

Depreciation. Depreciation expense increased to $284,000 in 2010 from $233,000 in 2009. The increase in depreciation expense was due to depreciation on capital purchases made in 2010.

Other Expense. Included in other expense are impairment losses of $46,000 and $115,000 in 2010 and 2009, respectively, related to an investment in a privately-held company.

Interest Income. Interest income decreased to $203,000 in 2010 from $375,000 in 2009. The change in interest income was due to the decline in cash and investment balances during the period. We expect our 2011 interest income to continue at similar levels in 2011, taking into consideration the expected increase in our clinical development costs in 2011 and the investment of the proceeds from the February 2011 equity offering.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues. Revenues decreased to $2.2 million for the year ended December 31, 2009 from $3.1 million for 2008. Contract revenues for the year ended December 31, 2009 included $171,000 of revenues from Pfizer in connection with our collaboration agreement entered into in December 2009. Also included in contract revenues are license fees and milestone payments from our collaboration with Bristol-Myers Squibb, which decreased in 2009 as a result of a decline in activity and as a result of a clinical development milestone achieved in September 2008. We intend to continue to prepare and deliver validated drug targets as needed by Bristol-Myers Squibb for use in its drug discovery efforts, and will remain entitled to receive license fees, milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology. Grant revenue decreased $145,000 primarily due to the completion of a state grant in 2008 and due to the timing of expenditures that are reimbursed with grant proceeds.

Research and Development Expenses. Research and development expenses decreased to $11.9 million in 2009 from $16.5 million in 2008. The decrease of $4.6 million related primarily to a decrease in clinical and preclinical development costs of $6.0 million, a decrease in other research and development expenses of $280,000 and a decrease in patent legal fee expense of $130,000 in 2009 compared to 2008. These decreases were partially offset by an increase in personnel costs of $683,000, an increase in stock-based compensation expense of $569,000, an increase in sponsored research of $485,000, and an increase in research supplies and facilities expenses of $67,000 in 2009 compared to 2008. Of the $6.0 million decrease in clinical and preclinical development costs, $5.3 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.

ATHX-105 development was suspended early in 2009 and there will be no future costs incurred for this product candidate. The remaining $700,000 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, reduced manufacturing costs associated with our MultiStem clinical trials, and reduced external costs for regulatory consulting and preclinical studies. Our clinical costs in 2009 and 2008 are reflected net of Angiotech s cost-sharing reimbursements related to our MultiStem acute myocardial infarction collaboration in the amount of $847,000 and $943,000, respectively. Patent legal fee expense for 2009 decreased compared to 2008, but continued to be significant as a result of further development and maintaining our portfolio of patent applications. The increase in personnel costs related to the addition of personnel in support of our clinical programs and regulatory affairs, a 2009 company-wide performance bonus, salary increases and increased benefit costs. The increase in stock-based compensation expense related to a change in our estimated forfeiture rate, increased expense related to options held by certain consultants that are computed using variable accounting, and the issuance of stock option awards in 2009. Sponsored research costs increased primarily due to grant-funded programs that require collaboration with certain academic research institutions. 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.

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General and Administrative Expenses. General and administrative expenses increased to $5.6 million in 2009 from $5.5 million in 2008. The $100,000 increase was due primarily to an increase in stock-based compensation expense of $383,000 and an increase in personnel costs of $249,000, partially offset by a decrease in other expenses of $331,000, a decrease in legal and professional fees of $116,000 and a decrease in facilities expense of $43,000 in 2009 compared to 2008. The increase in stock-based compensation expense related to a change in our estimated forfeiture rate and the issuance of stock option awards in 2009. The increase in personnel costs related to a 2009 company-wide performance bonus, salary increases and increased benefit costs. The decrease in other expenses for 2009 was primarily a result of reduced temporary help and outsourced accounting services in 2009. The decrease in legal and professional fees in 2009 was primarily a result of reduced legal fees incurred in connection with SEC filings and transactional work.
Depreciation. Depreciation expense increased to $233,000 in 2009 from $218,000. The increase in depreciation expense was due to depreciation on capital purchases made in 2009.
Other Expense. Included in other expense for 2009 is an impairment loss of $115,000 related to an investment in a privately-held company.
Interest Income. Interest income decreased to $375,000 in 2009 from $1.1 million in 2008. The change in interest income was due to the decline in cash and investment balances during the period. While we received $6.0 million in fees from Pfizer in 2009, this payment had limited impact on interest income given its receipt in late December 2009.
Interest Expense. Interest expense decreased to $0 in 2009 from $94,000 in 2008 due to the repayment of our senior loan in June 2008.

Liquidity and Capital Resources

Our sources of liquidity include our cash balances and available-for-sale securities. At December 31, 2010, we had $2.1 million in cash and cash equivalents and $13.1 million in available-for-sale securities. We have primarily financed our operations through private equity and debt 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 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.

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Our former 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 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 amounts have been recorded for the milestone in December 31, 2010, 2009 or 2008. In connection with the offering in February 2011, the lenders were entitled to a milestone payment under this obligation in the amount of $810,000, of which $202,500 was paid in cash in February 2011 and $607,500 was paid through the issuance of our common stock to the former lenders at $2.96 per share. 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 December 31, 2010.

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

In connection with our MultiStem collaboration with Angiotech, upon the successful achievement of specified clinical development and commercialization milestones, we may also receive up to $63.75 million of aggregate cash payments and $3.75 million from an additional equity investment, though there can be no assurance that we will achieve any milestones. Under the terms of the collaboration, the parties are jointly funding clinical development activity, whereby preclinical costs are borne solely by us, costs for Phase I and Phase II clinical trials are borne 50% by us and 50% by Angiotech, costs for the first Phase III clinical trial will be borne 33% by us and 67% by Angiotech, and costs for any subsequent Phase III clinical trial will be borne 25% by us and 75% by Angiotech. We have lead responsibility for preclinical and early clinical development and manufacturing of the MultiStem product, and Angiotech has lead responsibility for later clinical trials and commercialization. Upon product commercialization, we will receive nearly half of the net profits from the sale of any jointly developed, approved products. In January 2011, Angiotech announced its plans to pursue a recapitalization transaction through its voluntary filing under the Companies Creditors Arrangement Act in Canada. In the event that Angiotech elects not to continue with our collaboration, Angiotech would return all rights to us and we would have an outstanding claim related to Angiotech s reimbursement of our fourth quarter 2010 collaboration costs and the costs through January 28, 2011, which was Angiotech s petition date. In the event that Angiotech fails to fund its obligations under the terms of our collaboration agreement, our net costs for subsequent AMI clinical trials would increase or alternative funding would be required for such clinical trials.

In September 2010, we entered into an agreement with RTI to develop and commercialize MAPC technology-based biologic implants for certain orthopedic applications in the bone graft substitutes market. Under the terms of the agreement, we are entitled to a $5.0 million license fee paid in installments, of which $3.0 million is guaranteed and $2.0 million is contingent, of which $2.0 million has been received by December 31, 2010. We are also eligible to receive an additional $35.5 million in cash payments upon the successful achievement of certain development and commercial milestones, though there can be no assurance that we will achieve any milestones. In addition, we will receive tiered royalties on worldwide commercial sales of implants using our technologies.

Our collaboration agreement with Bristol-Myers Squibb, which was initially established in 2001, is now in its final phase since the requirement for Bristol-Myers Squibb to nominate new targets ended in 2009. We are preparing and

delivering the final validated drug target for use by Bristol-Myers Squibb in its drug discovery efforts under the collaboration and do not expect any significant demand for new targets. We will remain entitled to receive license fees for targets that were delivered to Bristol-Myers Squibb over the course of the collaboration, as well as milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology, though there can be no assurance that we will achieve any milestones or royalties.

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In October 2010, we were awarded grants from the Internal Revenue Service under section 48D of the Internal Revenue Code aggregating $733,000 for qualifying therapeutic discovery investments that have been incurred.

Our available-for-sale securities typically include U.S. government obligations and corporate debt securities. As of December 31, 2010, approximately 85% of our investments were in U.S. government obligations, including government-backed agencies. We have been investing conservatively due to economic conditions and have prioritized liquidity and the preservation of principal in lieu of potentially higher returns. As a result, we have experienced no losses on the principal of our investments and have held our investments until maturity. Also, although these unfavorable market and economic conditions have resulted in a decrease to our market capitalization, there has been no impairment to the value of our assets. Our fixed assets are used for internal research and development and, therefore, are not impacted by these external factors.

We will require substantial additional funding in order to continue our research and product development programs, including preclinical testing and clinical trials of our product candidates. We expect to have available cash to fund our operations through 2011 based on our current business and operational plans and assuming no new financings or collaborations. Our capital requirements beyond that will depend on a number of factors, including scientific progress in our research and development programs, additional personnel costs, progress in preclinical testing and clinical trials, and the costs in filing and prosecuting patent applications and enforcing patent claims. Further, these requirements may change at any time due to technological advances or competition from other companies. We will continue to explore and consider new opportunities for funding our operations and activities through grants and business partnerships involving our technologies and product candidates, as well as selling equity securities and possibly borrowings from financial institutions. We cannot assure you that adequate funding will be available to us or, if available, that it will be available on acceptable terms. Any shortfall in funding could result in our having to curtail research and development efforts.

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

Net cash used in operating activities was $10.6 million, $4.6 million and $15.7 million in 2010, 2009 and 2008, respectively, and represented the use of cash in funding clinical and preclinical product development activities. We expect that net cash used in operating activities will increase in 2011 in connection with increased research and development expenses of our MultiStem clinical trials and our Pfizer and Angiotech collaborations.

Net cash provided by investing activities was $1.5 million in 2010, $3.2 million in 2009 and $16.8 million in 2008. The fluctuations from period to period are due to the timing of purchases and maturity dates of investments and the purchase of equipment. Purchases of equipment were $390,000, $381,000 and $532,000 in 2010, 2009 and 2008, respectively. We expect that our capital equipment expenditures will continue at similar levels in 2011 compared to 2010.

Financing activities neither used nor provided cash in 2010 and 2009, and used cash of $1.8 million in 2008 related to repayment of our senior loan in 2008.

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, Radius Venture Partners, invested $10.0 million and 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, bridge investors 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 December 31, 2010.

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Our contractual payment obligations as of December 31, 2010 are as follows:

	Payment due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 3 Years**	**3 5 Years**	**More than 5 Years**
Operating leases for facilities and equipment lease	$ 487,000	$ 390,000	$ 97,000	$	$
Research funding	465,000	327,000	138,000		
Total	$ 952,000	$ 717,000	$ 235,000	$	$

We lease office and laboratory space under an operating lease and have options to renew the lease in annual increments through March 2013 at the initial rental rate, and we executed options to renew through March 2012. Also, we lease office and laboratory space for our Belgian subsidiary that includes options to renew annually through December 2014 and the annual rent is subject to adjustments based on an inflationary index. We executed an option to renew this lease through January 2012.

The research funding in the table above represents our current funding commitment for a research program that began in 2007. We approved the funding for the final stage of the collaboration that will continue through August 2012.

We filed a resale registration statement with the SEC for 18,508,251 shares of common stock, which includes all shares of common stock issued in the equity offering in June 2007 and shares of common stock issuable upon exercise of the warrants issued in the offering (as well as the 531,781 shares of common stock issued to the bridge investors and the 132,945 shares underlying their warrants). The resale registration statement was declared effective by the SEC on October 18, 2007. Under the registration rights agreement entered into in connection with the offering, subject to certain exceptions, if the resale 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 we received from the equity offering. Because the penalty is based on the number of unregistered shares of common stock held by investors in the offering, our maximum penalty exposure will decline over time as investors sell their shares of common stock that were included in the registration statement.

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 operation are based on Athersys consolidated financial statements, which have been prepared in accordance with United States 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.

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A discussion of the material implications of uncertainties associated with the methods, assumptions and estimates underlying our critical accounting polices is as follows:

Revenue Recognition

Our license and collaboration agreements may contain multiple elements, including license and technology access fees, research and development funding, manufacturing revenue, cost-sharing, milestones and royalties. The deliverables under such an arrangement are evaluated under Accounting Standards Codification, or ASC, 605-25, Multiple-Element Arrangements, (which originated primarily from the guidance in EITF 00-21) to assess whether they have standalone value and objective and reliable evidence of fair value, and if so, are accounted for as a single unit. We then recognize revenue for each unit based on the culmination of the earnings process under ASC 605-S25 (issued as SAB Topic 13) and our estimated performance period for the single units of accounting based on the specific terms of each collaborative agreement. We subsequently adjust the estimated performance periods, if appropriate, on a prospective basis based upon available facts and circumstances. Future changes in estimates of the performance period may materially impact the timing of future revenue recognized. Amounts received prior to satisfying the revenue recognition criteria for contract revenues are recorded as deferred revenue in the accompanying balance sheets. Reimbursement amounts (other than those accounted for using collaboration accounting) paid to us are recorded on a gross basis in the statements of operations as contract revenues.

We entered into collaboration agreements with Pfizer and RTI that contain multiple elements and deliverables. For a description of the collaboration agreement and the determination of contract revenues, see Note E to our consolidated financial statements included in this annual report on Form 10-K.

Also included in contract revenue are license fees received from Bristol-Myers Squibb, which are specifically set forth in the license and collaboration agreement as amounts due to us based on our completion of certain tasks (e.g., delivery and acceptance of a cell line) and development milestones (e.g., clinical trial Phases), and as such, are not based on estimates that are susceptible to change. Such amounts are invoiced and recorded as revenue as tasks are completed and as milestones are achieved.

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

Collaborative Arrangements

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

Clinical Trial Costs

Clinical trial costs are accrued based on work performed by outside contractors who manage and perform the trials. We obtain initial estimates of total costs based on enrollment of subjects, project management estimates and other activities. Actual costs are typically charged to us and recognized as the tasks are completed by the contractor. Accrued clinical trial costs may be subject to revisions as clinical trials progress, and any revisions are recorded in the period in which the facts that give rise to the revisions become known. Since such actual costs are typically invoiced as incurred or based on contractual amounts for services rendered, the amounts are generally not susceptible to significant changes in estimates.

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Investments in Available-for-Sale Securities

We determine the appropriate classification of investment securities at the time of purchase and re-evaluate such designation as of each balance sheet date. Our investments typically consist primarily of United States government obligations and corporate debt securities, which are classified as available-for-sale and are valued based on quoted prices in active markets for identical assets (Level 1). Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization or accretion is included in interest income. Realized gains and losses on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest earned on securities classified as available-for-sale is included in interest income. Since the elements related to accounting for these investments are reflected on monthly statements, the amounts are not based on estimates that are susceptible to change. None of our financial assets are in markets that are not active.

Stock-Based Compensation

We recognize stock-based compensation expense on the straight-line method and use a Black-Scholes option-pricing model to estimate the grant-date fair value of share-based awards. The expected term of options granted represent the period of time that option grants are expected to be outstanding. We use the simplified method to calculate the expected life of option grants given our limited history and beginning in 2010, determine volatility by using our historical stock volatility. Prior to 2010, we determined volatility by using the historical stock volatility of other companies with similar characteristics since we did not have meaningful historical volatility of our own stock at that time. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and if our expectations on forfeitures changes. If actual forfeitures vary from the estimate, we will recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest. All of the aforementioned estimates and assumptions are evaluated on a quarterly basis and may change as facts and circumstances warrant. Changes in these assumptions can materially affect the estimate of the fair value of our share-based payments and the related amount recognized in our financial statements.

Recently Issued Accounting Standards

In September 2009, ASC 605-25, *Multiple-Element Arrangements*, was updated (Accounting Standards Update, or ASU, No. 2009-13) related to revenue recognition for arrangements with multiple elements. The revised guidance provides for two significant changes to the existing guidance, the first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting, which will likely result in the requirement to separate more deliverables within an arrangement leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. The new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The new guidance is effective for the Company for new arrangements entered into on or after January 1, 2011. The future adoption of this new guidance may have the potential effect of less revenue deferral for new collaborations than we have historically experienced.

In March 2010, ASC 605-28, *Milestone Method of Revenue Recognition*, was amended (ASU No. 2010-17) related to the ratification of the application of the proportional performance model of revenue recognition when applied to milestones in research and development arrangements. Accordingly, the consensus states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The new guidance is effective for the Company for new arrangements entered into on or after January 1, 2011. This new guidance will not have a material effect on our financial statements upon adoption, since we have been historically recognizing milestone revenue consistent with this guidance.

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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. The following risks and uncertainties 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:

- the possibility of delays in, adverse results of and excessive costs of the development process;
- our ability to successfully initiate and complete clinical trials;
- 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 agreements;
- our possible inability to execute our strategy due to changes in our industry or the economy generally;
- changes in productivity and reliability of suppliers;
- the success of our competitors and the emergence of new competitors; and
- the risks mentioned elsewhere in this annual report under Item 1A, Risk Factors.

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 otherwise 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.

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ITEM 7A. 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, if any. Fixed rate investments and borrowings may have their fair market value adversely impacted from changes in interest rates. Due in part to these factors, our future investment income may fall short of expectations. Further, we may suffer losses in investment principal if we are forced to sell securities that have declined in market value due to changes in interest rates. We invest our excess cash primarily in debt instruments of the U.S. government and its agencies and corporate debt securities. As of December 31, 2010, approximately 85% of our investments were in U.S. government obligations, including 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. We enter into loan arrangements with financial institutions when needed and when available to us. At December 31, 2010, we had no borrowings outstanding.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Financial Statements
Athersys, Inc.
Years Ended December 31, 2010, 2009 and 2008

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Athersys, Inc.
Consolidated Financial Statements
Years Ended December 31, 2010, 2009 and 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Athersys, Inc.

We have audited the accompanying consolidated balance sheets of Athersys, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Athersys, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U. S. generally accepted accounting principles.

Cleveland, Ohio
March 25, 2011

/s/ ERNST & YOUNG LLP

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Athersys, Inc.
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Amounts)

	December 31, 2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,105**	$ 11,167
Available-for-sale securities	**13,076**	10,135
Accounts receivable	**2,328**	352
Receivable from Angiotech	**106**	229
Investment interest receivable	**71**	93
Prepaid expenses and other	**258**	173
Total current assets	**17,944**	22,149
Available-for-sale securities		5,080
Deposits and other	**38**	38
Equipment, net	**955**	849
Equity investments	**169**	215
Total assets	**$ 19,106**	$ 28,331
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 1,498**	$ 1,128
Accrued compensation and related benefits	**580**	667
Accrued clinical trial costs	**207**	83
Accrued expenses	**1,012**	857
Deferred revenue	**5,541**	3,123
Total current liabilities	**8,838**	5,858
Deferred revenue	**1,263**	3,516
Stockholders equity:		
Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at December 31, 2010 and December 31, 2009		
Common stock, $0.001 par value; 100,000,000 shares authorized, 18,930,678 and 18,929,333 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	**19**	19
Additional paid-in capital	**214,174**	212,704
Accumulated other comprehensive income	**26**	71
Accumulated deficit	**(205,214)**	(193,837)
Total stockholders equity	**9,005**	18,957

Total liabilities and stockholders equity	**$ 19,106**	$ 28,331

See accompanying notes.

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Athersys, Inc.
Consolidated Statements of Operations
(In Thousands, Except Share and Per Share Amounts)

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues			
Contract revenue	**$ 6,685**	$ 1,079	$ 1,880
Grant revenue	**2,254**	1,080	1,225
Total revenues	**8,939**	2,159	3,105
Costs and expenses			
Research and development (including stock compensation expense of $545, $1,296 and $727 in 2010, 2009 and 2008, respectively)	**14,779**	11,920	16,500
General and administrative (including stock compensation expense of $921, $1,512 and $1,129 in 2010, 2009 and 2008, respectively)	**5,387**	5,621	5,479
Depreciation	**284**	233	218
Total costs and expenses	**20,450**	17,774	22,197
Loss from operations	**(11,511)**	(15,615)	(19,092)
Other (expense) income, net	**(69)**	(126)	48
Interest income	**203**	375	1,146
Interest expense			(94)
Net loss	**$ (11,377)**	$ (15,366)	$ (17,992)
Basic and diluted net loss per common share	**$ (0.60)**	$ (0.81)	$ (0.95)
Weighted average shares outstanding, basic and diluted	**18,929,749**	18,928,379	18,927,988

See accompanying notes.

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Athersys, Inc.
Consolidated Statements of Stockholders Equity
(In Thousands, Except Share Amounts)

	Preferred Stock Number of Shares	Preferred Stock Stated Value	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
Balance at January 1, 2008		$	18,927,988	$ 19	$ 208,039	$ 52	$ (160,479)	$ 47,631
Stock based compensation					1,856			1,856
Comprehensive loss:								
Net loss							(17,992)	(17,992)
Unrealized gain on available-for-sale securities						68		68
Total comprehensive loss								(17,924)
Balance at December 31, 2008			18,927,988	19	209,895	120	(178,471)	31,563
Stock based compensation					2,808			2,808
Issuance of common stock			1,345		1			**1**
Comprehensive loss:								
Net loss							(15,366)	(15,366)
Unrealized loss on available-for-sale securities						(49)		(49)
Total comprehensive loss								(15,415)
Balance at December 31, 2009			**18,929,333**	**19**	**212,704**	**71**	**(193,837)**	**18,957**
Stock based compensation					**1,466**			**1,466**
Issuance of common stock			**1,345**		**4**			**4**
Comprehensive loss:								
Net loss							**(11,377)**	**(11,377)**
Unrealized loss on available-for-sale securities						**(45)**		**(45)**
Total comprehensive loss								**(11,422)**
Balance at December 31, 2010		$	**18,930,678**	**$ 19**	**$ 214,174**	**$ 26**	**$ (205,214)**	**$ 9,005**

See accompanying notes.

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Athersys, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31,		
	2010	2009	2008
Operating activities			
Net loss	**$ (11,377)**	$ (15,366)	$ (17,992)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	**284**	233	218
Gain on sale of equipment		(21)	(24)
Provision on notes receivable			74
Stock-based compensation	**1,466**	2,808	1,856
Amortization of premium on available-for-sale securities and other	**225**	305	28
Changes in operating assets and liabilities:			
Accounts receivable	**(1,976)**	(92)	618
Receivable from Angiotech	**123**	5	(171)
Prepaid expenses and other assets	**(63)**	449	178
Accounts payable and accrued expenses	**562**	479	(467)
Deferred revenue	**165**	6,581	(29)
Net cash used in operating activities	**(10,591)**	(4,619)	(15,711)
Investing activities			
Purchase of available-for-sale securities	**(8,834)**	(11,692)	(26,594)
Proceeds from maturities of available-for-sale securities	**10,753**	15,300	43,917
Investment in privately-held company		(14)	
Proceeds from sale of equipment		21	24
Purchases of equipment	**(390)**	(381)	(532)
Net cash provided by investing activities	**1,529**	3,234	16,815
Financing activities			
Principal payments on debt			(1,800)
Net cash used in financing activities			(1,800)
Decrease in cash and cash equivalents	**(9,062)**	(1,385)	(696)
Cash and cash equivalents at beginning of year	**11,167**	12,552	13,248
Cash and cash equivalents at end of year	**$ 2,105**	$ 11,167	$ 12,552

See accompanying notes.

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Athersys, Inc.
Notes to Consolidated Financial Statements

A. Background

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

B. Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and results of operations and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Investments in joint ventures are accounted for using the equity method when we do not control the investee, but have the ability to exercise significant influence over the investee s operations and financial policies.

Revenue Recognition

Our license and collaboration agreements may contain multiple elements, including license and technology access fees, research and development funding, manufacturing revenue, cost-sharing, milestones and royalties. The deliverables under such an arrangement are evaluated under Accounting Standards Codification (ASC) 605-25, *Multiple-Element Arrangements*, (which originated primarily from the guidance in EITF 00-21) to assess whether they have standalone value and objective and reliable evidence of fair value, and if so, are accounted for as a single unit. We then recognize revenue for each unit based on the culmination of the earnings process under ASC 605-S25 (issued as SAB Topic 13) and our estimated performance period for the single units of accounting based on the specific terms of each collaborative agreement. We subsequently adjust the estimated performance periods, if appropriate, on a prospective basis based upon available facts and circumstances. Future changes in estimates of the performance period may materially impact the timing of future revenue recognized. Amounts received prior to satisfying the revenue recognition criteria for contract revenues are recorded as deferred revenue in the accompanying balance sheets. Reimbursement amounts (other than those accounted for using collaboration accounting) paid to us are recorded on a gross basis in the statements of operations as contract revenues.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Revenue Recognition, continued

Also included in contract revenue are license fees received from Bristol-Myers Squibb, which are specifically set forth in the license and collaboration agreement as amounts due to us based on our completion of certain tasks (e.g., delivery and acceptance of a cell line) and development milestones (e.g., clinical trial phases), and as such, are not based on estimates that are susceptible to change. Such amounts are invoiced and recorded as revenue as tasks are completed and as milestones are achieved.

Similarly, grant revenue consists of funding under cost reimbursement programs primarily from federal and state sources for qualified research and development activities performed by us, and as such, are not based on estimates that are susceptible to change. Such amounts are invoiced (unless prepaid) and recorded as revenue as tasks are completed. Included in 2010 grant revenues is a grant of $733,000 received from the Internal Revenue Service under section 48D of the Internal Revenue Code for qualifying therapeutic discovery investments that have been incurred.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are primarily invested in money market funds and commercial paper. The carrying amount of our cash equivalents approximates fair value due to the short maturity of the investments.

Research and Development

Research and development expenditures, which consist primarily of costs associated with external clinical and preclinical study fees, manufacturing costs, salaries and related personnel costs, legal expenses resulting from intellectual property application processes, and laboratory supply and reagent costs, including direct and allocated overhead expenses, are charged to expense as incurred.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Collaborative Arrangements

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

Clinical Trial Costs

Clinical trial costs are accrued based on work performed by outside contractors, who manage and perform the trials. We obtain initial estimates of total costs based on enrollment of subjects, project management estimates and other activities. Actual costs are typically charged to us and recognized as the tasks are completed by the contractor. Accrued clinical trial costs may be subject to revisions as clinical trials progress, and any revisions are recorded in the period in which the facts that give rise to the revisions become known.

Royalties

We may be required to make royalty payments to certain parties based on product sales under license agreements. We did not pay any royalties during the three-year period ended December 31, 2010.

Investments in Available-for-Sale Securities

We determine the appropriate classification of investment securities at the time of purchase and re-evaluate such designation as of each balance sheet date. Our investments typically consist of U.S. government obligations and corporate debt securities, which are classified as available-for-sale and are valued based on quoted prices in active markets for identical assets (Level 1). Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of applicable tax, reported as a component of accumulated other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization or accretion is included in interest income. Realized gains and losses on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest earned on securities classified as available-for-sale is included in interest income. None of our financial assets are in markets that are not active.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Long-Lived Assets

Equipment is stated at acquired cost less accumulated depreciation. Laboratory and office equipment are depreciated on the straight-line basis over the estimated useful lives (three to seven years).

Long-lived assets are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the asset or related group of assets may not be recoverable. If the expected future undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized at that time. Measurement of impairment may be based upon appraisal, market value of similar assets or discounted cash flows.

In connection primarily with a milestone that was achieved in 2006, we and an affiliate own preferred stock in a privately-held company with an aggregate value of approximately $300,000. We evaluated this cost-method investment and deemed the investment to be other-than-temporarily impaired at March 31, 2010 and December 31, 2009, recognizing $46,000 and $115,000 of impairment loss in 2010 and 2009, respectively. No impairment losses were recorded in 2008.

Patent Costs and Rights

Costs of prosecuting and maintaining patents and patent rights are expensed as incurred. As of December 31, 2010, we have filed for broad intellectual property protection on our proprietary technologies. We currently have numerous U.S. patent applications and corresponding international patent applications related to our technologies, as well as many issued U.S. and international patents.

Comprehensive Income (Loss)

Unrealized gains and losses on our available-for-sale securities are the only components of accumulated other comprehensive income (loss). Total comprehensive income or loss is disclosed in the consolidated statement of stockholders equity.

Concentration of Credit Risk

Accounts receivable are subject to concentration of credit risk due to the absence of a large number of customers. At December 31, 2010, three customers accounted for 83% of accounts receivable. We do not require collateral from our customers.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-Based Compensation

We recognize stock-based compensation expense on the straight-line method and use a Black-Scholes option-pricing model to estimate the grant-date fair value of share-based awards. The expected term of options granted represent the period of time that option grants are expected to be outstanding. We use the simplified method to calculate the expected life of option grants given our limited history and beginning in 2010, determine volatility by using our historical stock volatility. Prior to 2010, we determined volatility by using the historical stock volatility of other companies with similar characteristics since we did not have meaningful historical volatility of our own stock at that time. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. If actual forfeitures vary from the estimate, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest.

All of the aforementioned estimates and assumptions are evaluated on a quarterly basis and may change as facts and circumstances warrant. Changes in these assumptions can materially affect the estimate of the fair value of our share-based payments and the related amount recognized in our financial statements

The following weighted-average input assumptions were used in determining the fair value:

	December 31,		
	2010	**2009**	**2008**
Volatility	**119.5%**	89.5%	69.6%
Risk-free interest rate	**1.0%**	2.4%	3.0%
Expected life of option	**4.09 years**	5.01 years	5.09 years
Expected dividend yield	**0.0%**	0.0%	0.0%

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Income Taxes

Deferred tax liabilities and assets are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using the tax rate and laws currently in effect. We evaluate our deferred income taxes to determine if a valuation allowance should be established against the deferred tax assets or if the valuation allowance should be reduced based on consideration of all available evidence, both positive and negative, using a more likely than not standard.

We had no liability for uncertain income tax positions as of December 31, 2010 and 2009. Our policy is to recognize potential accrued interest and penalties related to the liability for uncertain tax benefits, if applicable, in income tax expense. Net operating loss and credit carryforwards since inception remain open to examination by taxing authorities, and will for a period post utilization.

Net Loss per Share

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

Outstanding stock options to purchase 4,308,013, 4,001,149 and 3,738,473 shares of common stock for the years ended December 31, 2010, 2009 and 2008, respectively; and

Warrants to purchase 5,125,496 shares of common stock for each of the years ended December 31, 2010, 2009 and 2008.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

B. Accounting Policies, continued

Recently Issued Accounting Standards

In September 2009, ASC 605-25, *Multiple-Element Arrangements*, was updated (Accounting Standards Update (ASU) No. 2009-13) related to revenue recognition for arrangements with multiple elements. The revised guidance provides for two significant changes to the existing guidance, the first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting, which will likely result in the requirement to separate more deliverables within an arrangement leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. The new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The new guidance is effective for the Company for new arrangements entered into on or after January 1, 2011. The future adoption of this new guidance may have the potential effect of less revenue deferral for new collaborations than we have historically experienced.

In March 2010, ASC 605-28, *Milestone Method of Revenue Recognition*, was amended (ASU No. 2010-17) related to the ratification of the application of the proportional performance model of revenue recognition when applied to milestones in research and development arrangements. Accordingly, the consensus states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The new guidance is effective for the Company for new arrangements entered into on or after January 1, 2011. This new guidance will not have a material effect on our financial statements upon adoption, since we have been historically recognizing milestone revenue consistent with this guidance.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentations.

C. Equipment

Equipment consists of (in thousands):	December 31, 2010	2009
Laboratory equipment	**$ 5,915**	$ 6,262
Office equipment and leasehold improvements	**3,731**	3,639
	9,646	9,901
Accumulated depreciation	**(8,691)**	(9,052)
	$ 955	$ 849

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

D. Financial Instruments

Investments in Available-for-Sale Securities

Our available-for-sale securities typically include U.S. government obligations and corporate debt securities. As of December 31, 2010, approximately 85% of our investments were in U.S. government obligations, including government-backed agencies.

We classify 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 financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 (in thousands):

		Fair Value Measurements at December 31, 2010 Using		
Description	**Balance as of December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale securities	$ 13,076	$ 13,076	$	$

Fair value is based upon quoted market prices in active markets. We had no Level 2 or Level 3 assets at December 31, 2010. We review and reassess the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels. There have been no such reclassifications.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

D. Financial Instruments, continued

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

	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Estimated Fair Value
December 31, 2010:				
U.S. government obligations, including government-backed agencies	$ 11,034	$	$ 23	$ 11,057
Corporate debt securities	2,016		3	2,019
	$ 13,050	**$**	**$ 26**	**$ 13,076**
December 31, 2009:				
U.S. government obligations, including government-backed agencies	$ 12,613	$ (12)	$ 52	$ 12,653
Corporate debt securities	2,531		31	2,562
	$ 15,144	$ (12)	$ 83	$ 15,215

We had no realized gains or losses on the sale of available-for-sale securities for any of the periods presented. Unrealized gains and losses on our available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity within accumulated other comprehensive income until realized. When available-for-sale securities are sold in the future, the cost of the securities will be specifically identified and used to determine any realized gain or loss. The net unrealized gain on available-for-sale securities was $26,000 and $71,000 as of December 31, 2010 and 2009, respectively.

The amortized cost of and estimated fair value of available-for-sale securities at December 31, 2010 by contractual maturity are shown below (in thousands). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to repay the obligations without prepayment penalties.

	December 31, 2010	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 13,050	$ 13,076
Due after one year through two years		
	$ 13,050	**$ 13,076**

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

D. Financial Instruments, continued

Financing Arrangements

We lease office and laboratory space under an operating lease and have options to renew the lease in annual increments through March 2013 at the initial rental rate, and we executed options to renew through March 2012. Also, we entered into a lease agreement for office and laboratory space for our Belgian subsidiary, which includes options to renew annually through December 2014, subject to adjustments based on an inflationary index, and the lease included an option to expand that was exercised in 2009. We executed an option to renew this lease through January 2012. Aggregate rent expense was approximately $387,000, $337,000, and $314,000 in 2010, 2009 and 2008, respectively. The future annual minimum lease commitments at December 31, 2010 are approximately $390,000 for 2011, $93,000 for 2012 and $4,000 for 2013.

Our former 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 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 amounts have been recorded for the milestone in December 31, 2010, 2009 or 2008. In connection with our February 2011 equity offering, the lenders were entitled to a milestone payment under this obligation in the amount of $810,000, of which $202,500 was paid in cash in February 2011 and $607,500 was paid through the issuance of our common stock to the former lenders at $2.96 per share. We paid no interest during the years ended December 31, 2010 and 2009, and $76,000 during the year ended December 31, 2008.

E. Collaborations and Revenue Recognition

Pfizer

In December 2009, we entered into a collaboration with Pfizer to develop and commercialize MultiStem to treat inflammatory bowel disease (IBD) for the worldwide market. Under the terms of the agreement, we received a non-refundable up-front license and technology access payment of $6.0 million from Pfizer and receive research funding and support. In addition, we are also eligible to receive milestone payments upon the successful achievement of certain development, regulatory and commercial milestones, for which we evaluated the nature of the events triggering these contingent payments and concluded that these events constituted substantive milestones that will be recognized as revenue in the period in which the underlying triggering event occurs. No revenue for milestones was recognized in 2010 or 2009.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

E. Collaborations and Revenue Recognition, continued

Pfizer, continued

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 had obligations constituting deliverables and concluded that it had multiple deliverables, including deliverables relating to the grant of a license and access to our technology, performance of research and development services, and performance of certain manufacturing services, and concluded that these deliverables should be combined into a single unit of accounting, and further concluded that our participation on a joint steering committee was primarily for governance type activities and did not represent a substantive obligation or deliverable. We are recognizing the license and technology access fee and research and development funding ratably on a straight-line basis over the estimated performance period, which began in December 2009 and is estimated to be completed in 2012, and are recognizing manufacturing revenue beginning upon the culmination of the earnings process and amortizing 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 is amortized on a straight-line basis over the performance period.

Angiotech

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

We continue to jointly fund clinical development activities with Angiotech in accordance with our co-development collaboration. Our clinical costs are recorded net of Angiotech s cost-share, which amounted to $628,000, $847,000 and $943,000 in 2010, 2009 and 2008, respectively. The amount due from Angiotech was $106,000 and $229,000 at December 31, 2010 and 2009, respectively, and is disclosed separately on the balance sheet.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

E. Collaborations and Revenue Recognition, continued

RTI Biologics, Inc.

In September 2010, we entered into an agreement with RTI, a provider of orthopedic and other biologic implants, under which we provided RTI a license to our Multipotent Adult Progenitor Cell (MAPC) technologies to enable RTI to develop and commercialize MAPC technology-based biologic implants exclusively for certain orthopedic applications in the bone graft substitutes market. Under the terms of the agreement, we will receive a $5 million license fee in installments, of which $3.0 million is guaranteed and $2.0 million is contingent on future milestone events. The first $1.0 million of guaranteed fees was received at inception, with the remaining $2.0 million to be received in $1.0 million installments in each of December 2010 and March 2011. The December 2010 installment was received timely, and the final $1.0 million to be received in March 2011 is reflected in receivables on the balance sheet at December 2010. We are also eligible to receive milestone payments upon the successful achievement of certain development and commercial milestones. Included in these milestones are two $1.0 million license fee payments that are contingent on certain events. We evaluated the nature of the events triggering these contingent payments and concluded that these events are substantive and that revenue will be recognized in the period in which the underlying triggering event occurs. In addition, we will receive tiered royalties on worldwide commercial sales, if any, of implants using our technologies. No milestone or royalty revenue was recognized in 2010.

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 recognize the license fee ratably on a straight-line basis over the estimated performance period, which began in September 2010 and is estimated to be completed in the fourth quarter of 2011.

F. Capitalization

At December 31, 2010, we had 100.0 million shares of common stock and 10.0 million shares of undesignated preferred stock authorized. No shares of preferred stock have been issued as of December 31, 2010.

We may issue shares of common stock to our former lenders and to Angiotech in connection with future milestones. Also, we entered into a license and sponsored research agreement in 2007 with an academic institution whereby, in addition to annual research funding, the institution may receive 1,345 shares of common stock on each of four anniversary dates.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

F. Capitalization, continued

The following shares of common stock were reserved for future issuance (in thousands):

		December 31	
		2010	2009
Stock option plans		**4,500**	4,500
Warrants to purchase common stock	2007 offering	**4,976**	4,976
Warrants to purchase common stock	Lenders	**149**	149
		9,625	9,625

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.

G. Stock-Based Compensation

We have two incentive plans that authorized 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 December 31, 2010, a total of 193,063 shares were available for issuance under our equity compensation plans and options to purchase 4,308,013 shares of common stock were outstanding (including certain assumed options from 2007 covering 1,075 shares). We recognized $1,466,000, $2,808,000 and $1,856,000 of stock compensation expense in 2010, 2009 and 2008, respectively, which included approximately $264,000 in 2009 related to a change in estimate of our forfeiture rate. At December 31, 2010, total unrecognized estimated compensation cost related to unvested stock options was approximately $798,000, which is expected to be recognized by the end of 2014 using the straight-line method.

The weighted average fair value of option shares granted in 2010, 2009 and 2008 was $2.22, $2.04 and $2.00 per share, respectively. The total fair value of option shares vested in 2010, 2009 and 2008 was $1,835,000, $2,257,000 and $2,337,000, respectively. There is no aggregate intrinsic value of fully vested option shares and option shares expected to vest as of December 31, 2010 since the market value was less than the exercise price of the options at the end of the year.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

G. Stock-Based Compensation, continued

A summary of our stock option activity and related information is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding January 1, 2008	3,679,884	$ 5.24
Granted	218,000	3.36
Exercised		
Forfeited / Terminated / Expired	(159,411)	6.64
Outstanding December 31, 2008	3,738,473	5.07
Granted	272,000	3.17
Exercised		
Forfeited / Expired	(9,324)	8.26
Outstanding December 31, 2009	4,001,149	4.94
Granted	**390,437**	**2.96**
Exercised		
Forfeited / Expired	**(83,573)**	**6.39**
Outstanding December 31, 2010	**4,308,013**	**$ 4.73**
Vested during 2010	**680,570**	**$ 4.46**
Vested and exercisable at December 31, 2010	**3,921,601**	**$ 5.05**

	December 31, 2010					
	Options Outstanding			Options Vested and Exercisable		
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$1.35 3.20	584,938	5.28	$ 2.59	234,317	4.62	$ 2.40
$4.00 4.99	137,000	6.89	$ 4.32	101,209	6.83	$ 4.34
$5.00 7.80	3,585,000	5.63	$ 5.07	3,585,000	5.63	$ 5.07
$90.66	1,075	2.39	$ 90.66	1,075	2.39	$ 90.66
	4,308,013			**3,921,601**		

The weighted average contractual life of unvested options at December 31, 2010 was 5.84 years.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

H. Income Taxes

At December 31, 2010, we had net operating loss and research and development tax credit carryforwards of approximately $40,526,000 and $2,990,000, respectively, for income tax purposes. Such losses and credits may be used to reduce future taxable income and tax liabilities and will expire in 2030.

We have net operating loss carryforwards of approximately $7,626,000 (Pre-Merger NOL) that are limited for use under Section 382 of the Internal Revenue Code to an annual net operating loss carryforward of $464,000. The Pre-Merger NOL may be used to reduce future taxable income and tax liabilities and will expire at various dates between 2012 and 2026.

Significant components of our deferred tax assets are as follows (in thousands):

	December 31,	
	2010	2009
Net operating loss carryforwards	**$ 13,779**	$ 9,892
Net operating loss carryforwards Pre-Merger NOL	**2,593**	2,751
Research and development credit carryforwards	**2,990**	2,070
License fee	**1,195**	2,011
Compensation expense	**2,715**	2,432
Other	**636**	506
Total deferred tax assets	**23,908**	19,662
Valuation allowance for deferred tax assets	**(23,908)**	(19,662)
Net deferred tax assets	**$**	$

Because of our cumulative losses, the deferred tax assets have been fully offset by a valuation allowance. We have not paid income taxes for the three-year period ended December 31, 2010.

I. Profit Sharing Plan and 401(k) Plan

We have a profit sharing and 401(k) plan that covers substantially all employees and allows for discretionary contributions by us. We made no contributions to this plan for the three-year period ended December 31, 2010.

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Athersys, Inc.
Notes to Consolidated Financial Statements, (continued)

J. Quarterly Financial Data (unaudited)

The following table presents quarterly data for the years ended December 31, 2010 and 2009, in thousands, except per share data:

	2010				
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
Revenues	**$ 1,740**	**$ 1,871**	**$ 1,996**	**$ 3,332**	**$ 8,939**
Net loss	**$ (2,561)**	**$ (3,077)**	**$ (3,688)**	**$ (2,051)**	**$ (11,377)**
Basic and diluted net loss per common share	**$ (0.14)**	**$ (0.16)**	**$ (0.19)**	**$ (0.11)**	**$ (0.60)**

	2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	$ 370	$ 436	$ 484	$ 869	$ 2,159
Net loss	$ (3,625)	$ (3,347)	$ (3,380)	$ (5,014)	$ (15,366)
Basic and diluted net loss per common share	$ (0.19)	$ (0.18)	$ (0.18)	$ (0.26)	$ (0.81)

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures: An evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, these officers have concluded that as of December 31, 2010, our disclosure controls and procedures are effective.

Management s report on internal control over financial reporting: Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

Changes in internal control: During the fourth quarter of 2010, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On March 25, 2011, the Board of Directors of the Company, upon the recommendation of the Compensation Committee of the Board of Directors of the Company, approved a cash bonus incentive plan, or the Plan, for the year ended December 31, 2011 for the named executive officers of the Company. The Plan provides that each participant is eligible to earn a bonus during the award term of January 1, 2011 through December 31, 2011. The Plan provides for the following target bonus percentages of the named executive officer s salary during the award term, weighted as set forth below on the achievement of specified corporate goals, with the remainder based on individual/functional performance. The corporate goals include advancing the Company s clinical programs for MultiStem, executing against the established operating plan and capital acquisition objectives, and advancement of strategic partnership and program activities. There is no formally adopted plan document for the Plan.

Title	Target Bonus	Weighting on Corporate Goals
Chief Executive Officer	40%	100%
President & Chief Operating Officer	33%	80%
Executive Vice President & Chief Scientific Officer	33%	80%
Sr. Vice President, Regenerative Medicine	30%	60%
Vice President of Finance	25%	60%

A summary of the plan is attached to this annual report on Form 10-K as Exhibit 10.41 and is hereby incorporated herein by reference thereto.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding Athersys directors, including the identification of the audit committee and the audit committee financial expert, is incorporated by reference to the information contained in Athersys Proxy Statement with respect to the 2011 Annual Meeting of Stockholders, or the 2011 Proxy Statement, under the headings Election of Directors and The Board of Directors and its Committees . Information concerning executive officers is contained in Item 3A of Part I of this annual report on Form 10-K under the heading Executive Officers of the Registrant.

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The information regarding Section 16(a) beneficial ownership reporting compliance is incorporated by reference to the material under the heading Section 16(a) Beneficial Ownership Reporting Compliance in the 2011 Proxy Statement. Athersys has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. Athersys code of ethics is posted under the Investors tab of its website at www.athersys.com. Athersys will post any amendments to, or waivers of, its code of ethics that apply to its principal executive officer, principal financial officer and principal accounting officer on its website.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive officer and director compensation is incorporated by reference to the information contained in the 2011 Proxy Statement under the heading Executive Compensation .

The compensation committee report is incorporated by reference to the information contained in the 2011 Proxy Statement under the heading Compensation Committee Report .

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information contained in the 2011 Proxy Statement under the heading Beneficial Ownership of Common Stock .

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information regarding certain relationships and related transactions and director independence is incorporated by reference to the information contained in the 2011 Proxy Statement under the heading The Board of Directors and its Committees .

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees paid to and services provided by our independent registered public accounting firm during the fiscal years ended December 31, 2010 and 2009 and the pre-approval policies and procedures of the audit committee is incorporated by reference to the information contained in the 2011 Proxy Statement under the heading Ratification of the Appointment of Independent Auditors .

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following consolidated financial statements of Athersys, Inc. are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Operations for each of the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Stockholders Equity for each of the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flow for each of the years ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

All schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable and, therefore, omitted.

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(a)(3) Exhibits.

Exhibit No.	Exhibit Description
3.1	Certificate of Incorporation of Athersys, Inc., as amended as of August 31, 2007 (incorporated herein by reference to Exhibit 3.1 to the registrant s Registration Statement on Form S-3/A (Registration No. 333-144433) filed with the Commission on October 10, 2007)
3.2	Bylaws of Athersys, Inc., as amended as of October 30, 2007 (incorporated herein by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on October 31, 2007)
4.1	Form of Warrant (incorporated herein by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on January 28, 2011)
10.1*	Research Collaboration and License Agreement, dated as of December 8, 2000, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.2*	Cell Line Collaboration and License Agreement, dated as of July 1, 2002, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K/A (Commission No. 000-52108) filed with the Commission on September 27, 2007)
10.3*	Extended Collaboration and License Agreement, dated as of January 1, 2006, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.3 to the registrant s Current Report on Form 8-K/A (Commission No. 000-52108) filed with the Commission on September 27, 2007)
10.4	License Agreement, effective as of May 5, 2006, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.4 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.5	Sublicense Agreement, effective as of May 5, 2006, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.5 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.6	Amended and Restated Registration Rights Agreement, dated as of April 28, 2000, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto (incorporated herein by reference to Exhibit 10.6 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.7	Amendment No. 1 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of January 29, 2002, by and among Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the Amended and Restated Registration Rights Agreement, dated as April 28, 2000, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.7 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.8	Amendment No. 2 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of November 19, 2002, by and among Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the Amended and Restated Registration Rights Agreement, dated as April 28, 2000, as amended, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.8 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

10.9	Amendment No. 3 to Amended and Restated Registration Rights Agreement, dated as of May 15, 2007, by and among Athersys, Inc. and the Existing Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.9 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.10	Athersys, Inc. Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.11	Axthersys, Inc. Equity Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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Exhibit No.	Exhibit Description
10.12	Loan and Security Agreement, and Supplement, dated as of November 2, 2004, by and among Athersys, Inc., Advanced Biotherapeutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q (Commission No. 000-52108) filed with the Commission on November 14, 2007)
10.13	Second Amendment to Loan and Security Agreement, dated as of October 30, 2007, by and among ABT Holding Company, Advanced Biotherapeutics, Inc., Venture Lending and Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.2 to the registrant s Quarterly Report on Form 10-Q (Commission No. 000-52108) filed with the Commission on November 14, 2007)
10.14	Amendment to Loan and Security Agreement, dated as of September 29, 2006, by and among Athersys, Inc., Advanced Biotherapeutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.13 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.15	Amended and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and between Athersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.14 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.16	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.15 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.17	Non-Competition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.16 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.18	Amended and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and between Athersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.17 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.19	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and John Harrington (incorporated herein by reference to Exhibit 10.18 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.20	Non-Competition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.19 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.21	Employment Agreement, dated as of May 22, 1998, by and between Athersys, Inc. and Laura K. Campbell (incorporated herein by reference to Exhibit 10.20 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.22	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Laura Campbell (incorporated herein by reference to Exhibit 10.21 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.23	

	Employment Agreement, dated as of September 25, 2000, by and between Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.22 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.24	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.23 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.25	Non-Competition and Confidentiality Agreement, dated as of September 25, 2000, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.24 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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Exhibit No.	Exhibit Description
10.26	Employment Agreement, dated as of October 3, 2003, by and between Advanced Biotherapeutics, Inc. and Robert Deans, Ph.D. (incorporated herein by reference to Exhibit 10.25 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.27	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Robert Deans (incorporated herein by reference to Exhibit 10.26 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.28	Non-Competition and Confidentiality Agreement, dated as of October 3, 2003, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Robert Deans (incorporated herein by reference to Exhibit 10.27 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.29	Employment Agreement, dated as of January 1, 2004, by and between Advanced Biotherapeutics, Inc. and William Lehmann (incorporated herein by reference to Exhibit 10.28 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.30	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and William Lehmann (incorporated herein by reference to Exhibit 10.29 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.31	Non-Competition and Confidentiality Agreement, dated as of September 10, 2001, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and William Lehmann (incorporated herein by reference to Exhibit 10.30 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.32	Form Incentive Agreement by and between Advanced Biotherapeutics, Inc. and named executive officers, and acknowledged by Athersys, Inc. and ReGenesys, LLC (incorporated herein by reference to Exhibit 10.31 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.33	Form Amendment No. 1 to Incentive Agreement by and between Advanced Biotherapeutics, Inc. and named executive officers, and acknowledged by Athersys, Inc. and ReGenesys, LLC (incorporated herein by reference to Exhibit 10.32 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.34	Securities Purchase Agreement, dated as of June 8, 2007, by and among Athersys, BTHC VI, Inc. and Investors (as defined therein) (incorporated herein by reference to Exhibit 10.33 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
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	Amendment No. 1 to Cell Line Collaboration and License Agreement, dated as of January 1, 2006, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.36 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.38	Consulting Agreement, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Dr. Kurt Brunden, dated as of July 23, 2007 (incorporated herein by reference to Exhibit 10.13 to the registrant s Quarterly Report on Form 10-Q (Commission No. 000-52108) filed with the Commission on August 17, 2007)
10.39	Form Indemnification Agreement for Directors, Officers and Directors and Officers (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on August 6, 2007)

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10.42*	Collaboration and License Agreement, dated as of December 18, 2009, by and between Athersys, Inc., ABT Holding Company, and Pfizer Inc. (incorporated herein by reference to Exhibit 10.42 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2009 (Commission No. 001-33876) filed with the Commission on March 11, 2010)
10.43*	Stand-by License Agreement, dated as of December 18, 2009, by and between Regents of the University of Minnesota, ABT Holding Company and Pfizer Inc. (incorporated herein by reference to Exhibit 10.43 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2009 (Commission No. 001-33876) filed with the Commission on March 11, 2010)
10.44	Amendment dated as of March 31, 2009 to the Extended Collaboration and License Agreement, by and between Athersys, Inc. and Bristol-Myers Squibb Company effective January 1, 2006 (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 April 9, 2009)
10.45	Amendment No. 4 to Amended and Restated Registration Rights Agreement, dated as of March 8, 2010, by and among Athersys, Inc. and the Existing Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.45 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2009 (Commission No. 001-33876) filed with the Commission on March 11, 2010)
10.46*	License and Technical Assistance Agreement, dated as of September 10, 2010, between ABT Holding Company and RTI Biologics, Inc. (incorporated herein by reference to Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q (Commission No. 001-33876) filed with the Commission on November 8, 2010)
10.47	Form of Incentive Stock Option Agreement
10.48	Form of Nonqualified Stock Option Agreement for Non-Employee Directors
21	List of Subsidiaries
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney
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 Campbell, Vice President of Finance, pursuant to SEC Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Gil Van Bokkelen, Chairman and Chief Executive Officer, and Laura Campbell, Vice President of Finance, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the registrant may be participants

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the city of Cleveland, State of Ohio, on March 25, 2011.

ATHERSYS, INC.

By: /s/ Gil Van Bokkelen
Gil Van Bokkelen
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Gil Van Bokkelen Gil Van Bokkelen	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 25, 2011
/s/ Laura K. Campbell Laura K. Campbell	Vice President of Finance (Principal Financial Officer and Principal Accounting Officer)	March 25, 2011
* John J. Harrington	Executive Vice President, Chief Scientific Officer and Director	March 25, 2011
* Lorin J. Randall	Director	March 25, 2011
* George M. Milne, Jr.	Director	March 25, 2011
* Jack L. Wyszomierski	Director	March 25, 2011
* Lee Babiss	Director	March 25, 2011
* Ismail Kola	Director	March 25, 2011

* Gil Van Bokkelen, by signing his name hereto, does hereby sign this Form 10-K on behalf of each of the above named and designated directors of the Company pursuant to Powers of Attorney executed by such persons and filed with the Securities and Exchange Commission.

By: /s/ Gil Van Bokkelen
Gil Van Bokkelen
Attorney-in-fact

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EXHIBIT INDEX

Exhibit No.	Exhibit Description
3.1	Certificate of Incorporation of Athersys, Inc., as amended as of August 31, 2007 (incorporated herein by reference to Exhibit 3.1 to the registrant s Registration Statement on Form S-3/A (Registration No. 333-144433) filed with the Commission on October 10, 2007)
3.2	Bylaws of Athersys, Inc., as amended as of October 30, 2007 (incorporated herein by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on October 31, 2007)
4.1	Form of Warrant (incorporated herein by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K (Commission No. 001-33876) filed with the Commission on January 28, 2011)
10.1*	Research Collaboration and License Agreement, dated as of December 8, 2000, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.2*	Cell Line Collaboration and License Agreement, dated as of July 1, 2002, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K/A (Commission No. 000-52108) filed with the Commission on September 27, 2007)
10.3*	Extended Collaboration and License Agreement, dated as of January 1, 2006, by and between Athersys, Inc. and Bristol-Myers Squibb Company (incorporated herein by reference to Exhibit 10.3 to the registrant s Current Report on Form 8-K/A (Commission No. 000-52108) filed with the Commission on September 27, 2007)
10.4	License Agreement, effective as of May 5, 2006, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.4 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.5	Sublicense Agreement, effective as of May 5, 2006, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.5 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.6	Amended and Restated Registration Rights Agreement, dated as of April 28, 2000, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto (incorporated herein by reference to Exhibit 10.6 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.7	Amendment No. 1 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of January 29, 2002, by and among Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the Amended and Restated Registration Rights Agreement, dated as April 28, 2000, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.7 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.8	Amendment No. 2 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of November 19, 2002, by and among Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the Amended and Restated Registration Rights Agreement, dated as April 28, 2000, as amended, by and among Athersys, Inc. and the stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.8 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

10.9	Amendment No. 3 to Amended and Restated Registration Rights Agreement, dated as of May 15, 2007, by and among Athersys, Inc. and the Existing Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.9 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.10	Athersys, Inc. Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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Exhibit No.	Exhibit Description
10.11	Athersys, Inc. Equity Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.12	Loan and Security Agreement, and Supplement, dated as of November 2, 2004, by and among Athersys, Inc., Advanced Biotherapeutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q (Commission No. 000-52108) filed with the Commission on November 14, 2007)
10.13	Second Amendment to Loan and Security Agreement, dated as of October 30, 2007, by and among ABT Holding Company, Advanced Biotherapeutics, Inc., Venture Lending and Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.2 to the registrant s Quarterly Report on Form 10-Q (Commission No. 000-52108) filed with the Commission on November 14, 2007)
10.14	Amendment to Loan and Security Agreement, dated as of September 29, 2006, by and among Athersys, Inc., Advanced Biotherapeutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to Exhibit 10.13 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.15	Amended and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and between Athersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.14 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.16	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.15 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.17	Non-Competition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.16 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.18	Amended and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and between Athersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.17 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.19	Amendment No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and John Harrington (incorporated herein by reference to Exhibit 10.18 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.20	Non-Competition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.19 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.21	Employment Agreement, dated as of May 22, 1998, by and between Athersys, Inc. and Laura K. Campbell (incorporated herein by reference to Exhibit 10.20 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.22	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Laura Campbell (incorporated herein by reference to

	Exhibit 10.21 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.23	Employment Agreement, dated as of September 25, 2000, by and between Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.22 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.24	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.23 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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Exhibit No.	Exhibit Description
10.25	Non-Competition and Confidentiality Agreement, dated as of September 25, 2000, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Kurt Brunden (incorporated herein by reference to Exhibit 10.24 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.26	Employment Agreement, dated as of October 3, 2003, by and between Advanced Biotherapeutics, Inc. and Robert Deans, Ph.D. (incorporated herein by reference to Exhibit 10.25 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.27	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Robert Deans (incorporated herein by reference to Exhibit 10.26 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.28	Non-Competition and Confidentiality Agreement, dated as of October 3, 2003, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Robert Deans (incorporated herein by reference to Exhibit 10.27 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.29	Employment Agreement, dated as of January 1, 2004, by and between Advanced Biotherapeutics, Inc. and William Lehmann (incorporated herein by reference to Exhibit 10.28 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
10.30	Amendment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and William Lehmann (incorporated herein by reference to Exhibit 10.29 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)
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