ATHERSYS, INC / NEW
Form 10-Q
May 06, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _____ to _____.

Commission file number: 001-33876

Athersys, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

The number of outstanding shares of the registrant s common stock, $0.001 par value, as of May 1, 2010 was 18,929,333.

ATHERSYS INC.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements 1

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations 10

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk 17

ITEM 4. Controls and Procedures 17

PART II. OTHER INFORMATION

ITEM 6. Exhibits 18

SIGNATURES 19

EXHIBIT INDEX 20

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

Athersys, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 4,779	$ 11,167
Available-for-sale securities	8,625	10,135
Accounts receivable	188	352
Receivable from Angiotech	244	229
Investment interest receivable	102	93
Prepaid expenses and other	189	173
Total current assets	14,127	22,149
Available-for-sale securities	9,095	5,080
Equipment, net	1,031	849
Deposits and other	253	253
Total assets	$ 24,506	$ 28,331
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,275	$ 1,128
Accrued compensation and related benefits	197	667
Accrued clinical trial costs	115	83
Accrued expenses and other	798	857
Deferred revenue	2,372	3,123
Total current liabilities	4,757	5,858
Deferred revenue	2,916	3,516
Stockholders equity:		
Preferred stock, at stated value; 10,000,000 shares authorized, and no shares issued and outstanding at March 31, 2010 and December 31, 2009		
Common stock, $0.001 par value; 100,000,000 shares authorized, and 18,929,333 shares issued and outstanding at March 31, 2010 and December 31, 2009	19	19
Additional paid-in capital	213,154	212,704
Accumulated other comprehensive income	58	71
Accumulated deficit	(196,398)	(193,837)

Total stockholders equity		16,833		18,957
Total liabilities and stockholders equity	$	24,506	$	28,331

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2010	**2009**
Revenues		
Contract revenue	$ 1,395	$ 188
Grant revenue	345	182
Total revenues	1,740	370
Costs and expenses		
Research and development	2,822	2,611
General and administrative	1,437	1,453
Depreciation	75	59
Total costs and expenses	4,334	4,123
Loss from operations	(2,594)	(3,753)
Interest income and other	33	128
Net loss	$ (2,561)	$ (3,625)
Basic and diluted net loss per share	$ (0.14)	$ (0.19)
Weighted average shares outstanding, basic and diluted	18,929,333	18,927,988

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2010	**2009**
Operating activities		
Net loss	$ (2,561)	$ (3,625)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	75	59
Stock-based compensation	450	513
Amortization of premium on available-for-sale securities and other	50	61
Changes in operating assets and liabilities:		
Accounts receivable	164	123
Receivable from Angiotech	(15)	(309)
Prepaid expenses and other assets	(25)	65
Accounts payable and accrued expenses	(350)	23
Deferred revenue	(1,351)	(53)
Net cash used in operating activities	(3,563)	(3,143)
Investing activities		
Purchase of available-for-sale securities	(6,068)	(4,073)
Maturities of available-for-sale securities	3,500	7,800
Purchases of equipment	(257)	(24)
Net cash (used in) provided by investing activities	(2,825)	3,703
Financing activities		
(Decrease) increase in cash and cash equivalents	(6,388)	560
Cash and cash equivalents at beginning of the period	11,167	12,552
Cash and cash equivalents at end of the period	$ 4,779	$ 13,112

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Athersys, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
Three-Month Periods Ended March 31, 2010 and 2009

1. Background and Basis of Presentation

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

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

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

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

2. Recently Issued Accounting Standards

In September 2009, Accounting Standards Codification (ASC) 605-25, *Multiple-Element Arrangements*, was updated (Accounting Standards Update (ASU) No. 2009-13) related to revenue recognition for arrangements with multiple elements. The revised guidance provides for two significant changes to the existing guidance, the first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting, which will likely result in the requirement to separate more deliverables within an arrangement leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. The new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The new guidance is effective for our annual report on Form 10-K for the year ended December 31, 2010, however, early adoption is permitted provided that the new guidance is retroactively applied to the beginning of the year of adoption. We have not yet evaluated the potential effect of the future adoption of this new guidance.

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

Table of Contents

3. Net Loss per Share

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

1) Outstanding stock options to purchase 4,026,149 and 3,745,149 shares of common stock for the three-month periods ended March 31, 2010 and 2009, respectively; and
2) Warrants to purchase 5,125,496 shares of common stock for each of the three-month periods ended March 31, 2010 and 2009.

4. Comprehensive Loss

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

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

	Three Months Ended March 31,	
	2010	**2009**
Net loss	$ (2,561)	$ (3,625)
Unrealized loss on available-for-sale securities	(13)	(53)
Comprehensive loss	$ (2,574)	$ (3,678)

5. Fair Value of Financial Instruments

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

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

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

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

Level 3 Unobservable inputs for the asset or liability.

Table of Contents

The following table provides a summary of the fair values of our assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 (in thousands):

		Fair Value Measurements at March 31, 2010 Using		
Description	**Balance as of March 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	$ 17,720	$ 17,720	$	$

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

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

	Amortized Cost	**Gross Unrealized Losses**	**Gross Unrealized Gains**	**Estimated Fair Value**
March 31, 2010:				
U.S. government obligations, which included government-backed agencies	$ 15,108	$ (2)	$ 37	$ 15,143
Corporate debt securities	2,554	(1)	24	2,577
	$ 17,662	**$** (3)	**$ 61**	**$ 17,720**
December 31, 2009:				
U.S. government obligations, which included government-backed agencies	$ 12,613	$ (12)	$ 52	$ 12,653
Corporate debt securities	2,531		31	2,562
	$ 15,144	**$ (12)**	**$ 83**	**$ 15,215**

We had no realized gains or losses on the sale of available-for-sale securities for any of the periods presented. Unrealized gains and losses on our available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity within accumulated other comprehensive income until realized. When available-for-sale securities are sold in the future, the cost of the securities will be specifically identified and used to determine any realized gain or loss. The net unrealized gain on available-for-sale securities was $58,000 and $71,000 as of March 31, 2010 and December 31, 2009, respectively.

Table of Contents

The amortized cost of and estimated fair value of available-for-sale securities at March 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. Although the investments are available-for-sale, it is our intention to hold the investments classified as long-term for more than a year from March 31, 2010.

	March 31, 2010	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 8,568	$ 8,625
Due after one year through two years	9,094	9,095
	$ 17,662	**$ 17,720**

6. Collaborative Arrangements and Revenue Recognition

Collaborative Arrangements

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

Revenue Recognition

Our license and collaboration agreements may contain multiple elements, including license and technology access fees, research and development funding, manufacturing revenue, cost-sharing, milestones and royalties. The deliverables under such an arrangement are evaluated under ASC 605-25, *Multiple-Element Arrangements*, (which originated primarily from the guidance in EITF 00-21) to assess whether they have standalone value and objective and reliable evidence of fair value, and if so, are accounted for as a single unit. We then recognize revenue for each unit based on the culmination of the earnings process under ASC 605-S25 (issued as SAB Topic 13) and our estimated performance period for the single units of accounting based on the specific terms of each collaborative agreement. We subsequently adjust the estimated performance periods, if appropriate, on a prospective basis based upon available facts and circumstances. Future changes in estimates of the performance period may materially impact the timing of future revenue recognized. Amounts received prior to satisfying the revenue recognition criteria for contract revenues are recorded as deferred revenue in the accompanying balance sheets. Reimbursement amounts (other than those accounted for using collaboration accounting) paid to us are recorded on a gross basis in the statements of operations as contract revenues. We entered into a collaboration agreement with Pfizer Inc. (Pfizer) in December 2009 that contains multiple elements and deliverables, as described below.

Table of Contents

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.

Angiotech

In our co-development collaboration with Angiotech, we bear all preclinical costs and the parties jointly fund clinical development activity. We have primary responsibility for preclinical and early clinical development and clinical manufacturing, and Angiotech will take the lead on pivotal and later clinical trials and commercialization. The parties will share net profits from the future sale of approved products and we may receive equity investments and cash payments based on the successful achievement of specified clinical development and commercialization milestones. We continue to jointly fund clinical development activities with Angiotech in accordance with our co-development collaboration, and $244,000 was due from Angiotech as of March 31, 2010. Our clinical costs for the three months ended March 31, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $244,000 and $309,000, respectively.

Pfizer

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

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

Table of Contents

We evaluated the facts and circumstances of the agreement to determine whether the Pfizer agreement has obligations constituting deliverables and concluded that it has multiple deliverables, including deliverables relating to the grant of a license and access to our technology, performance of research and development services and performance of certain manufacturing services, and concluded that these deliverables should be combined into a single unit of accounting. We recognize the license and technology access fee and research and development funding ratably on a straight-line basis over the estimated performance period, which began in December 2009 and is estimated to be completed in 2012, and recognize manufacturing revenue when services are performed. Prepaid license and technology access fee and prepaid research and development funding are recorded as deferred revenue and are amortized on a straight-line basis over the research period.

7. Stock-based Compensation

Our equity incentive plans authorize an aggregate of 4,500,000 shares of common stock for awards to employees, directors and consultants. These incentive plans authorize the issuance of equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other stock-based awards to qualified employees, directors and consultants.

As of March 31, 2010, a total of 476,000 shares were available for issuance under our equity compensation plans and options to purchase 4,026,149 shares of common stock were outstanding (which includes options to purchase 2,149 shares of common stock related to our old option plans prior to our merger in June 2007). For the three-month period ended March 31, 2010, stock-based compensation expense was approximately $450,000. At March 31, 2010, total unrecognized estimated compensation cost related to unvested stock options was approximately $1,024,000, which is expected to be recognized by the middle of 2013 using the straight-line method.

8. Warrants

As of March 31, 2010, we had the following outstanding warrants to purchase shares of common stock:

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

9. Income Taxes

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

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview and Recent Developments

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

Current Programs

In 2008, we advanced two MultiStem programs into clinical development, initiating phase I studies in cardiovascular disease (treating patients that have suffered an acute myocardial infarction, or AMI) and in oncology treatment support (administering MultiStem to leukemia or lymphoma patients who are receiving a traditional bone marrow or hematopoietic stem cell transplant to reduce the risk or severity of graft-versus-host disease, or GvHD). We are conducting the AMI clinical trial with our partner Angiotech Pharmaceuticals, Inc., and we completed phase I enrollment in the first quarter of 2010. We intend to utilize the phase I results, combined with information from our extensive development efforts, to design a robust AMI phase II efficacy trial. In our GvHD trial, we have now successfully completed dosing patients at the first two dosing levels and are currently dosing patients at the third dose level. In the first quarter of 2010, we received authorization from the independent safety committee to commence the multi-dose arm of the GvHD trial and are currently dosing patients.

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

In December 2009, we entered into a collaboration agreement with Pfizer Inc. to develop and commercialize MultiStem for the treatment of inflammatory bowel disease, or IBD, for the worldwide market. We are currently planning and preparing for a phase I clinical study in IBD and plan to initiate the study as soon as possible after regulatory approval.

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

Table of Contents

Financial

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of $196 million at March 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 equity and debt offerings and other sources of capital to develop our technologies, to discover and develop therapeutic product candidates and to acquire certain technologies and assets. We have also built drug development capabilities that have enabled us to advance product candidates into clinical trials. We have established strategic collaborations that have provided revenues and capabilities to help further advance our product candidates, and we have also built a substantial portfolio of intellectual property.

Results of Operations

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

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

Revenues

	Three months ended March 31,	
	2010	**2009**
Contract revenue	$ 1,395	$ 188
Grant revenue	345	182
	$ 1,740	$ 370

Research and development expenses

	Three months ended March 31,	
Type of expense	**2010**	**2009**
Personnel costs	$ 952	$ 823
Research supplies	262	253
Facilities	219	208
Clinical and preclinical development costs	478	509
Sponsored research	205	130
Patent legal fees	301	267
Other	252	207
Stock-based compensation	153	214
	$ 2,822	$ 2,611

Table of Contents

General and administrative expenses

Type of expense	Three months ended March 31, 2010	2009
Personnel costs	$ 480	$ 499
Facilities	67	82
Legal and professional fees	282	324
Other	311	249
Stock-based compensation	297	299
	$ 1,437	$ 1,453

Three Months Ended March 31, 2010 and 2009

Revenues. Revenues increased to $1.7 million for the three months ended March 31, 2010 from $370,000 in the comparable period in 2009. Contract revenue increased $1.2 million for the three months ended March 31, 2010 compared to the three months ended March 31, 2009, primarily as a result of our collaboration with Pfizer that we entered into in December 2009, partially offset by less revenues from our collaboration with Bristol-Myers Squibb due to a decline in activity. We expect our contract revenues related to the Pfizer collaboration in the next few years to reflect the amortization of the $6.0 million up-front license fee over the estimated performance period, research and development funding, and the performance of manufacturing services. Our collaboration with Bristol-Myers Squibb is now in its final phase since the requirement for Bristol-Myers Squibb to nominate new targets ended in 2009, and we anticipate that Bristol-Myers Squibb s demand for new targets will be substantially reduced or cease altogether. However, 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 increased $163,000 for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 primarily due to new grants that started late in 2009. Our grant revenues could fluctuate from period to period based on the timing of grant-related activities and the award of new grants.

Research and Development Expenses. Research and development expenses increased to $2.8 million for the three months ended March 31, 2010 from $2.6 million in the comparable period in 2009. The increase of approximately $200,000 related primarily to an increase in personnel costs of $129,000, an increase in sponsored research of $75,000, an increase in other research and development expenses of $45,000 and an increase in patent legal fee expense of $34,000 for the three months ended March 31, 2010 from the comparable period in 2009. These increases were partially offset by a decrease in stock compensation expense of $61,000 and a decrease in clinical and preclinical development costs of $31,000 for the three months ended March 31, 2010 from the comparable period in 2009. The increase in personnel costs related to the addition of personnel in support of our preclinical and clinical programs and regulatory affairs. Sponsored research costs increased primarily due to an increase in grant-funded programs that require collaboration with certain academic research institutions. Patent legal fees vary from period to period while we further develop and maintain our portfolio of patent applications. Our clinical costs for the three months ended March 31, 2010 and 2009 are reflected net of Angiotech s cost-sharing amount of $244,000 and $309,000, respectively. We expect our research and development expenses in 2010 to be higher than in 2009, though this impact will be largely offset by increased revenues. Other than external expenses for our clinical and preclinical programs, we do not track our research expenses by project; rather, we track such expenses by the type of cost incurred.

Table of Contents

General and Administrative Expenses. General and administrative expenses remained consistent at approximately $1.5 million for both the three months ended March 31, 2010 and 2009. We expect our general and administrative expenses to continue at similar levels during 2010.

Depreciation. Depreciation expense increased to $75,000 for the three months ended March 31, 2010 from $59,000 in the comparable period in 2009. The increase in depreciation expense was due to depreciation on capital purchases made in 2009 and 2010.

Interest Income and Other. Interest income represents interest income earned on our cash and available-for-sale securities and other income includes foreign currency gains and losses, if any, related to our activities in Europe and certain contracts denominated in foreign currencies. Interest income and other decreased to $33,000 for the three months ended March 31, 2010 from $128,000 for the comparable period in 2009 due to the decline in our investment balances as they are used to fund our operations and foreign currency losses related to our European subsidiary. Due to low interest rates and declining cash balances as a result of our ongoing and planned clinical and preclinical development, we expect our 2010 interest income to be less than 2009 absent any new financings or business transactions.

Liquidity and Capital Resources

Our sources of liquidity include our cash balances and available-for-sale securities. At March 31, 2010, we had $4.8 million in cash and cash equivalents and $17.7 million in available-for-sale securities. We have primarily financed our operations through private equity and debt financings that have resulted in aggregate cumulative proceeds of approximately $200 million.

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

In connection with our MultiStem collaboration with Angiotech, upon the successful achievement of specified clinical development and commercialization milestones, we may also receive up to $3.75 million of additional equity investments and $63.75 million of aggregate cash payments, though there can be no assurance that we will achieve any milestones. Under the terms of the collaboration, the parties are jointly funding clinical development activity, whereby preclinical costs are borne solely by us, costs for phase I and phase II clinical trials are borne 50% by us and 50% by Angiotech, costs for the first phase III clinical trial will be borne 33% by us and 67% by Angiotech, and costs for any phase III clinical trials subsequent to the first phase III clinical trial will be borne 25% by us and 75% by Angiotech. We have lead responsibility for preclinical and early clinical development and manufacturing of the MultiStem product, and Angiotech has lead responsibility for later clinical trials and commercialization. Upon product commercialization, we will receive nearly half of the net profits from the sale of any jointly developed, approved products.

Table of Contents

Our collaboration agreement with Bristol-Myers Squibb,