

UNITED BANKSHARES INC/WV

Form 11-K

June 26, 2013

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

**For the fiscal year ended December 31, 2012**

.. **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

**COMMISSION FILE NO. 0-13322**

A. Full title of the plan and address of the plan, if different from that of issuer named below:

**United Bankshares, Inc. Savings and Stock Investment Plan**

B. Name of issuer of the securities held pursuant to the plan and address of its principal executive office:

**United Bankshares, Inc.**

**300 United Center**

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**500 Virginia Street, East**

**Charleston, West Virginia 25301**

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Form 11-K

United Bankshares, Inc.

Savings and Stock Investment Plan

Year Ended December 31, 2012

**Required Information**

The United Bankshares, Inc. Savings and Stock Investment Plan (the Plan) is subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA). Accordingly, in lieu of the requirements of Items 1-3 of this section, the Plan is filing financial statements and supplemental schedules prepared in accordance with the financial reporting requirements of ERISA. The following financial statements and supplemental schedules, attached hereto, are filed as part of the Annual Report:

<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Statements of Net Assets Available for Benefits Modified Cash Basis</u>	2
<u>Statement of Changes in Net Assets Available for Benefits Modified Cash Basis</u>	3
<u>Notes to Financial Statements Modified Cash Basis</u>	4-14
<u>Schedule H, Line 4i Schedule of Assets (Held at End of Year) Modified Cash Basis</u>	15
<u>Schedule H, Line 4j Schedule of Reportable Transactions Modified Cash Basis</u>	16
Item 9(b) Exhibit:	
Exhibit 23 Consent of Independent Registered Public Accounting Firm	

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Report of Independent Registered Public Accounting Firm

United Bankshares, Inc. Plan Sponsor

We have audited the accompanying statements of net assets available for benefits (modified cash basis) of the United Bankshares, Inc. Savings and Stock Investment Plan (the Plan) as of December 31, 2012 and 2011, and the related statement of changes in net assets available for benefits (modified cash basis) for the year ended December 31, 2012. These financial statements are the responsibility of the Plan'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 Plan'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 Plan'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.

As described in Note 1 to the financial statements, the financial statements and supplemental schedules have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits (modified cash basis) of the Plan as of December 31, 2012 and 2011, and the changes in its net assets available for benefits (modified cash basis) for the year ended December 31, 2012, on the basis of accounting described in Note 1.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules (modified cash basis) of assets (held at end of year) as of December 31, 2012, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Charleston, West Virginia

June 26, 2013

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United Bankshares, Inc.

Savings and Stock Investment Plan

Statements of Net Assets Available for Benefits

Modified Cash Basis

	December 31	
	2012	2011
<b>Assets</b>		
Cash equivalents	\$ 3	\$ 47
Investments, at fair value	<b>54,816,172</b>	53,188,415
Loans to participants	<b>55,618</b>	49,680
<b>Total assets</b>	<b>54,871,793</b>	53,238,142
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<b>(133,629)</b>	(166,529)
<b>Net assets available for benefits</b>	<b>\$ 54,738,164</b>	\$ 53,071,613

*See accompanying notes.*

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United Bankshares, Inc.

Savings and Stock Investment Plan

Statement of Changes in Net Assets Available for Benefits

Modified Cash Basis

Year Ended December 31, 2012

<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 2,251,772
Contributions:	
Employees	3,090,029
Employer	1,416,210
Total contributions	4,506,239
Total additions	6,758,011
<b>Deductions</b>	
Net depreciation in fair value of investments	769,082
Withdrawals and benefits paid directly to participants	4,322,378
Total deductions	5,091,460
Net increase in net assets available for benefits	1,666,551
Net assets available for benefits:	
Beginning of year	53,071,613
End of year	\$ 54,738,164

*See accompanying notes.*

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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis

December 31, 2012

**1. Significant Accounting Policies**

**Accounting Method**

The accounting records of the United Bankshares, Inc. (United) Savings and Stock Investment Plan (the Plan) are maintained on a modified cash basis of accounting, a basis of accounting permitted by the Department of Labor. Such accounting method includes recording investments at fair value and the recording of contributions receivable. Interest income on investments is recorded as it is earned while all other additions and deductions are recognized as received or paid rather than as earned or incurred. Accordingly, the accompanying financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The preparation of financial statements requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash Equivalents**

Cash equivalents are primarily investments in the Federated Prime Obligations Fund, the underlying assets of which are highly liquid United States government obligations. The fair value of cash equivalents approximates cost.

**Investments**

Investments held by the Plan are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price) (see Note 5 for further discussion of fair value measurements).

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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis (continued)

The Federated Capital Preservation Fund is a common collective fund that has underlying investments in fully benefit-responsive guaranteed investment contracts (GICs) and synthetic investment contracts (synthetic GICs). These investment contracts are recorded at fair value (see Note 5). However, since these contracts are fully benefit-responsive, an adjustment is reflected in the statements of net assets available for benefits to present these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value of the fully benefit-responsive investment contracts represents contributions plus earnings, less participant withdrawals and administrative expenses.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Net appreciation and depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

**Loans to Participants**

The participant loans are measured at their principal balance, plus any accrued but unpaid interest.

**New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to substantially converge the guidance in U.S. GAAP and IFRS on fair value measurements and disclosures. The amended guidance changes several aspects of the fair value measurement guidance Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, and includes several new fair value disclosure requirements. ASU 2011-04 is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Plan's financial statements.



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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis (continued)

**2. Description of the Plan**

The following description of the Plan provides only general information. Participants should refer to the Summary Plan Description for a complete description of the Plan's provisions.

**General**

The Plan is a contributory defined contribution plan, which is available to all employees of United or any of its subsidiaries who have completed 90 days of continuous service for employee deferral and one year and 1,000 hours of service for employer match. The UBSI Pension Committee (the Committee) is responsible for the general administration of the Plan. United Bank, Inc. is the trustee of the Plan. FAScore, LLC is the recordkeeper of the Plan. The Plan was established December 29, 1989, and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

There were no amendments to the Plan in 2012. In 2011, Section 14 of the Plan Description was amended by adding subsection 14.3 to include details of the merger of Centra Bank, Inc.'s (Centra) 401(k) Plan into the Plan, effective July 8, 2011. In addition, on July 8, 2011, Employee Deferrals discussed in the first full paragraph of Section 4.1 of the Plan was amended and restated in its entirety, effective on the first business day of the month immediately following or coinciding with the effective date of the Plan merger. The merger of Centra's plan added \$5.05 million to the Plan's assets during 2011.

**Contributions**

Active participants may defer up to 100% of their annual pretax compensation subject to the Internal Revenue Code's limitations. United matches 100% of the first 3% of the participant's deferral and 25% of the next 1% of the participant's deferral. These matching contributions are made by United on a semi-monthly basis and consist of cash, which is used by the Plan to purchase shares of United's common stock.

Participants may choose to have their deferral contributions directed to any of 23 investment options, including United Bankshares, Inc. Common Stock, U.S. Government Securities Funds, various common stock funds, and an international equity fund. Investment elections must be made in multiples of 1%.

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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis (continued)

### **Participant Accounts**

Plan earnings are allocated to each participant's account based upon the respective account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

### **Vesting**

Participating employees are immediately fully vested as to employee and employer contributions to the Plan.

### **Payment of Benefits**

On termination of service, a participant may receive a lump-sum or installment amount or keep funds invested in the Plan until reaching the age of 70  $\frac{1}{2}$ . Benefits payments under the Plan must commence by April 1st of the calendar year following the date a participant attains age 70  $\frac{1}{2}$  or April 1st of the calendar year following the year in which a participant separates from service with the Employer, whichever is later, except that distributions for a five-percent owner must commence by April 1st of the calendar year following the calendar year in which the participant attains age 70  $\frac{1}{2}$ .

### **Plan Merger**

Effective July 8, 2011, Centra Financial Holdings, Inc. (Centra) was acquired by United Bankshares, Inc. and Centra's 401(k) Plan was merged into the Plan. Former employees of Centra began participating in the Plan effective September 1, 2011.

### **Plan Termination**

Although it has not expressed any intent to do so, United has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of termination, partial termination, or complete discontinuance of contributions to the Plan, the assets of the Plan will remain in trust and will be distributed in accordance with the Plan Agreement.

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United Bankshares, Inc.
Savings and Stock Investment Plan
Notes to Financial Statements
Modified Cash Basis (continued)

**3. Investments**

Each investment is subject to market risk. The degree of market risk varies by investment type based upon the nature of the applicable underlying net assets. The Plan's maximum exposure to accounting loss from such investments is represented by the amounts appearing in the statements of net assets available for benefits.

The estimated fair value of individual investments representing 5% or more of the Plan's net assets is as follows:

	December 31	
	2012	2011
American Funds Growth Fund of America	\$ 3,989,052	\$ 3,380,180
Federated Capital Preservation Fund (at contract value)*	7,602,717	7,703,625
Janus Balanced Fund	3,204,021	2,768,613
United Bankshares, Inc. Common Stock:		
Participant-Directed	6,713,612	7,226,806
Non-participant-Directed	13,384,621	14,480,420

\* The fair value of the Plan's investment in the Federated Capital Preservation Fund was \$7,736,346 at December 31, 2012 and \$7,870,154 at December 31, 2011.

During 2012, the current value of the Plan's investments (including investments purchased, sold, and held during the year), as determined principally by quoted market values, depreciated as follows:

	Net Realized and Unrealized Depreciation in Fair Value of Investments	
Shares of registered investment companies	\$	2,391,382
United Bankshares, Inc. Common Stock		(3,160,464)
	\$	(769,082)

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United Bankshares, Inc.
Savings and Stock Investment Plan
Notes to Financial Statements
Modified Cash Basis (continued)

**4. Non-Participant-Directed Investments**

Information about the net assets and the significant components of changes in net assets related to the non-participant-directed investments is as follows:

	December 31	
	2012	2011
Investments, at fair value:		
United Bankshares, Inc. Common Stock	\$ 13,384,621	\$ 14,480,420

	Year Ended December 31, 2012
Change in net assets:	
Contributions	\$ 1,416,210
Dividends	651,699
Net realized and unrealized depreciation in fair value	(2,112,365)
Transfers to participant-directed investments	(114,126)
Distributions to participants	(937,217)
	\$ (1,095,799)

**5. Fair Value Measurements**

The Plan determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which also clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Fair Value Measurements and Disclosures topic in ASC Topic 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Plan's market assumptions.

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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis (continued)

The three levels of the fair value hierarchy based on these two types of inputs, are as follows:

Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The level in the fair value hierarchy within which the fair value measurement is classified is based on the lowest level of input that is significant in the fair value measurement.

The following describes the valuation techniques used by plan management to measure financial assets recorded at fair value on a recurring basis in the financial statements.

Investments held by the Plan are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). Mutual funds and common stock are valued at Level 1. Some of the Plan's investment choices represent funds of funds and are valued at Level 2 because quoted market prices are not available. The value of these types of investments is calculated daily by the fund administrator. The initial pricing input is the quoted share prices obtained for the underlying mutual funds, which is then adjusted to apply any applicable expense factor.

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United Bankshares, Inc.
Savings and Stock Investment Plan
Notes to Financial Statements
Modified Cash Basis (continued)

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2012:

	Balance	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Company stock	\$ 20,098,233	\$ 20,098,233	\$	\$
Mutual funds	26,981,593	25,060,318	1,921,275	
Common Collective Trust Fund (a)	7,736,346		7,736,346	
Total assets at fair value	\$ 54,816,172	\$ 45,158,551	\$ 9,657,621	\$

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2011:

	Balance	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Company stock	\$ 21,707,226	\$ 21,707,226	\$	\$
Mutual funds	23,611,035	22,091,842	1,519,193	
Common Collective Trust Fund (a)	7,870,154		7,870,154	
Total assets at fair value	\$ 53,188,415	\$ 43,799,068	\$ 9,389,347	\$

- (a) This category is designed to deliver safety and stability by preserving principal and accumulating earnings. This fund is primarily invested in guaranteed investment contracts and synthetic investment contracts. Participant-directed redemptions have no restrictions; however, the Plan is required to provide a one-year redemption notice to liquidate its entire share in the fund. The fair value of this fund has been estimated based on the fair value of the underlying investment contracts in the fund as reported by the issuer of the fund. The fair value differs from the contract

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United Bankshares, Inc.
Savings and Stock Investment Plan
Notes to Financial Statements
Modified Cash Basis (continued)

value. As previously discussed in Note 1, contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

**6. Benefits Payable**

Participants elected to withdraw \$483 and \$9 as of December 31, 2012 and 2011, respectively. These amounts were approved and processed for payment but were not paid as of the respective year-end.

**7. Reconciliation of Financial Statements to Form 5500**

For purposes of Form 5500, interest-bearing cash equivalents are classified as plan investments. The amount of interest-bearing cash equivalents classified as investments on the Form 5500 was \$3 and \$47 as of December 31, 2012 and 2011, respectively.

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2012 and 2011, to the Form 5500:

	December 31	
	2012	2011
Net assets available for benefits per the financial statements	\$ 54,738,164	\$ 53,071,613
Add: Adjustment from fair value to contract value for fully benefit-responsive contracts	133,629	166,529
Net assets available for benefits per the Form 5500	\$ 54,871,793	\$ 53,238,142

**8. Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

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United Bankshares, Inc.
Savings and Stock Investment Plan
Notes to Financial Statements
Modified Cash Basis (continued)

**9. Income Tax Status**

The Plan has received a determination letter from the Internal Revenue Service dated July 31, 2003, stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

**10. Transactions With Parties-in-Interest**

The Plan holds units of common/collective trust funds managed by Federated Investors Trust Company, the sub-custodian of the Plan. The Plan also invests in the common stock of the Company. These transactions qualify as party-in-interest transactions; however, they are exempt from the prohibited transactions rules under ERISA. During 2012, the Plan received approximately \$980,000 in common stock dividends from the Company. The Plan also holds 826,408 shares of United common stock, which had a fair value of \$24.34 per share at December 31, 2012.

United pays certain administrative expenses on behalf of the Plan and provides certain services at no cost to the Plan.

United Bank, Inc., a wholly owned subsidiary of United, acts as Trustee for the Plan.

Participants may choose to have their contributions directed to various mutual funds made available by FASCore, LLC, record-keeper for the Plan.

**11. Subsequent Events**

After the close of business on January 29, 2013, United Bankshares, Inc. (United) entered into an Agreement and Plan of Reorganization (the Agreement) with Virginia Commerce Bancorp, Inc. (Virginia Commerce), a Virginia corporation headquartered in Arlington, Virginia. In accordance with the Agreement, Virginia Commerce will merge with and into George Mason Bankshares, Inc., a wholly-owned subsidiary of United. At the effective time of the merger, Virginia Commerce will cease to exist and George Mason Bankshares, Inc. shall survive and continue to exist as a Virginia corporation.



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United Bankshares, Inc.

Savings and Stock Investment Plan

Notes to Financial Statements

Modified Cash Basis (continued)

Prior to the effective time, Virginia Commerce shall one hundred percent vest all accrued benefits provided under Virginia Commerce's 401(k) plan, subject to consummation of the merger. United and Virginia Commerce shall use reasonable efforts to take such action as may be necessary to merge Virginia Commerce's 401(k) plan with and into United's 401(k) plan, including, in the United's sole discretion, the receipt of a favorable determination letter from the IRS relating to such merger.

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Supplemental Schedules

Modified Cash Basis

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United Bankshares, Inc.  
Savings and Stock Investment Plan  
EIN #55-0641179 Plan #003  
Schedule H, Line 4i Schedule of Assets (Held at  
End of Year) Modified Cash Basis  
December 31, 2012

(b)  
Identity of  
Issue,  
Borrower or  
Lessor or  
Similar Party  
Description  
Investment  
Income  
Maturity  
Rate of Interest  
Par or  
Value

* Federated Prime Obligations Fund (cash equivalents)	
Allianz NFJ Small Cap Value Fund	18,1
American Funds Growth Fund of America	116,8
* Federated Capital Preservation Fund	773,6

s, provided no clinical studies concerning such product candidate are currently ongoing. If Angiotech should decide g 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.

*orators receive regulatory approval for our products, those products may never be commercially successful.*

maceuticals or MultiStem related products that obtain the necessary regulatory approval, and we have access to the , sales, marketing and distribution capabilities that we need, our success depends to a significant degree upon the ose products. If these products fail to achieve or subsequently maintain market acceptance or commercial viability, nificantly harmed because our future royalty revenue or other revenue would be dependent upon sales of these ay affect the market acceptance and commercial success of any potential products that we may discover,

whether actual or perceived, or unfavorable publicity regarding our obesity drugs, stem cell products or those of

market entry as compared to competitive products;

ion of products by our collaborators and other companies in the industry;

ling that may be required by the FDA or other United States or foreign regulatory agencies for our products or  
comparable products;

ease of administration;

cy and side effects;

ternative treatments;

rsement and insurance coverage; and

competitors.

***ys in clinical trials and regulatory approval relating to our products that could adversely affect our financial prospects for our pharmaceutical or stem cell products.***

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

val for our pharmaceutical formulations through the FDA approval process. To obtain regulatory approvals, we must complete clinical trials showing that our products are safe and effective for a particular indication. Under the FDCA, we must submit clinical and non-clinical data to demonstrate the medication is safe and effective. For example, we must submit data and information, including extended pharmacology, toxicology, reproductive toxicology, bioavailability and pharmacokinetics, to establish suitability for Phase II or large scale Phase III clinical trials.

ates, including ATHX-105 and MultiStem, are at an early stage of development, and none have yet been tested in humans. 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 additional clinical trials prior to granting approval, which could be costly and time consuming to conduct. Any of these developments could materially prohibit, our ability to commercialize our product candidates.

I clinical trial for ATHX-105 in July 2007, but we do not know precisely when clinical trials for our other products will be initiated or completed. We cannot assure you that clinical trials for our products will be initiated or completed on schedule or at all. We cannot assure you that clinical trials will demonstrate that our products are safe or effective.

t be able to find acceptable patients or may experience delays in enrolling patients for our clinical trials. The FDA may suspend or terminate clinical trials at any time if either believes that we are exposing the subjects participating in the trials to unreasonable risks. The FDA or institutional review boards and/or institutional biosafety committees at the medical institutions and other regulatory agencies we seek to sponsor clinical trials may not permit a trial to proceed or may suspend any trial indefinitely if they determine that the conduct of the trials

ts to us and our potential collaborators will increase if we have delays in testing or approvals or if we need to conduct more clinical trials than planned. We expect to continue to rely on third party clinical investigators at medical institutions to conduct our clinical trials, and, as a result, we may face additional delaying factors outside our control. Any of these developments could adversely affect our financial results and the commercial prospects for our product candidates and delay our ability

***product candidates do not successfully complete the clinical trial process, we will not be able to partner or market our product candidates. Clinical trials may not result in a partnering transaction or a marketable product and may not be entirely successful due to safety or efficacy.***

and unknown, can adversely affect clinical trials and the ability to evaluate a product's efficacy. During the course of clinical trials, we or our collaborators may experience adverse events or suffer other adverse events for reasons that may or may not be related to the proposed product being tested. Even if a product is approved, certain events can nevertheless adversely impact our clinical trials. As a result, our ability to ultimately commercialize our products and obtain revenues would suffer.

n preclinical studies and initial clinical trials do not ensure successful results in later clinical trials, which test our products. Many companies in our industry have



checks in advanced clinical trials, despite promising results in earlier trials. Even successful clinical trials may not predict or be indicative of the efficacy or safety of a product. Many factors or variables could affect the results of clinical trials, making them appear more promising than they may otherwise be. Product candidates that successfully complete clinical trials may later be found to be unsafe or ineffective.

Successful completion of clinical trials depends on many factors, including obtaining adequate clinical supplies and having adequate patient recruitment. For example, patient recruitment is a function of many factors, including:

- patient population;

- access to patients to clinical sites;

- eligibility criteria for the trial;

- communication of investigators and patients regarding safety; and

- availability of other treatment options.

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

Obtaining regulatory approval for ATHX-105, MultiStem or any of our other product candidates, regulatory agencies in other countries where a product will be sold may require extensive additional clinical trials or post-approval studies, which are expensive and time consuming to conduct. In particular, therapeutic products administered for the treatment of chronic conditions, such as ATHX-105 for obesity, are likely to require extensive follow-up studies and close monitoring of patients after 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 on the market, which may result in the limitation or withdrawal of our drugs from the market. Alternatively, we may be required to conduct 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 changes over time that require a change in product labeling or that require withdrawal of the product from the market, which could cause our revenue to decline.

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

***Our dependence on third parties to manufacture our pharmaceutical product candidates and our MultiStem product candidate. There can be no assurance that we can obtain sufficient and acceptable quantities of our pharmaceutical product candidates on acceptable terms, which may delay or impair our ability to develop, test and market such products.***

We rely on third parties to manufacture and produce our pharmaceutical product candidates and MultiStem product candidate in accordance with good manufacturing practices established by the FDA, or similar regulations in other countries. Our product candidates or MultiStem product may be in competition with other products or companies for access to these manufacturing facilities, which may result in delays in manufacture if third parties give other products greater priority than our product.





parties may not deliver sufficient quantities of our pharmaceutical or MultiStem product candidates, manufacture MultiStem product candidates in accordance with specifications, or comply with applicable government regulations. If the manufactured products fail to perform as specified, our business and reputation could be severely impacted.

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

If our current suppliers are not satisfying our needs and we decide not to establish our own manufacturing capabilities, it could be difficult for us to change suppliers. Any change in the location of manufacturing would require FDA inspection and approval, which could delay the supply of products and may be time-consuming and expensive to obtain. If we are unable to identify alternative suppliers that are qualified to produce our products, we may have to temporarily suspend the production of products, and thereby reduce revenue from the sale of products.

***If we are unable to obtain sufficient and acceptable quantities of our product material, we may be required to delay the marketing of our products.***

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 penalties, recall or seizure of our products, total or partial suspension of production or an injunction, as well as other restrictions on the sale of our products or us. Discovery of previously unknown problems with a product, supplier, manufacturer or third party collaborator 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 could negatively impact our business and results of operations.

***If we are unable to obtain sufficient and acceptable quantities of our product material, we may be required to delay the marketing of our products.***

sales, marketing or distribution capabilities. Therefore, to commercialize our product candidates, if and when such products are approved and are ready for marketing, we expect to collaborate with third parties to perform these functions. We will not receive any revenue generated from the sale of any products and/or pay a fee to the contract sales organization. If we establish any sales, marketing or distribution capabilities, we will be dependent upon the capabilities of our collaborators or contract service providers to effectively market, sell, promote and distribute our products. 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 in our favor, and we may suffer financially as a result. If we cannot rely on the sales, marketing and distribution capabilities of our current contract service providers, we may be forced to establish our own capabilities. We have no experience in developing, managing and maintaining a sales force and will incur substantial additional expenses if we decide to market any of our future products directly. Establishing and maintaining a sales force is also time consuming and could delay launch of our future products. In addition, we will compete

have extensive and well-funded marketing and sales operations. Our marketing and sales efforts may be unable to compete against these companies.

***Attract and retain key personnel and advisors, it may adversely affect our ability to obtain financing, pursue commercialization of our product candidates.***

On Gil Van Bokkelen, Ph.D., our Chief Executive Officer, as well as other executive and scientific officers, including Dr. John J. Mann, J.D., M.B.A., President and Chief Operating Officer, John Harrington, Ph.D., Chief Scientific Officer and Dr. Robert Deans, Ph.D., Senior Vice President, Regenerative Medicine, and Laura Campbell, C.P.A., Vice President of Finance.

Integral to the development and integration of our technologies and to our present and future scientific collaborations, are the complex research processes and the product development and potential commercialization processes. Given their 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 individuals could result in product development delays or the loss of relationships with current and future collaborators, which, in turn, may hurt our ability to develop and commercialize our technologies and product candidates. Additionally, Kurt R. Brunden, Ph.D., our former Senior Vice President of Biopharmaceuticals, recently resigned from a faculty position. Dr. Brunden has entered into a consulting agreement with us, but eventually we may have to replace him.

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

***Our success 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. The process of obtaining patents may be highly uncertain and may involve complex legal and factual questions, including the ability to establish the novelty of an invention relating to chemical synthesis techniques, 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 may seek to enforce to the extent to which we may enforce these claims against our competitors. We have filed four patent applications that relate to the composition of matter and method of use related to ATHX-105, as well as other compounds that we have identified in our research. In addition, we are prosecuting more than 20 distinct patent applications directed to composition, methods of production, and use of MultiStem and related technologies. We have also filed four patent applications with claims directed to compounds and methods of use related to our regenerative medicine program. If we are unsuccessful in obtaining these patents, we may ultimately be unable to commercialize our technologies and products or other products that we are developing or may elect to develop in the future.

Our protection for our proprietary rights is therefore highly uncertain and we cannot assure you that:

• we will be able to file patent applications or to invent the subject matter claimed in patent applications relating to the technologies and product candidates upon which we rely;

• our competitors will independently develop similar or alternative technologies or duplicate any of our technologies;

• we will publicly disclose our claimed technology before we conceived the subject matter included in any of our patent applications;

• our existing or future patent applications will result in issued patents;



t applications will not result in interferences or disputes with third parties regarding priority of invention;

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

additional proprietary technologies that are patentable;

ners will not have an adverse effect on our ability to do business; or

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

outside the United States is uncertain and in many countries intellectual property laws are undergoing review and ne countries do not protect intellectual property rights to the same extent as domestic laws. It may be necessary or e in opposition proceedings to determine the validity of our competitors' patents or to defend the validity of any of are patents, which could result in substantial costs and would divert our efforts and attention from other aspects of ct to certain of our inventions, we have decided not to pursue patent protection outside the United States, both e it is cost effective and because of confidentiality concerns. Accordingly, our international competitors could ign patent protection for gene sequences and functions for which we are seeking U.S. patent protection, enabling t we have developed.

us by others, or in-licensed technologies, are important to our business. The scope of our rights under our licenses e by our licensors or third parties. Our rights to use these technologies and to practice the inventions claimed in the ct to our licensors abiding by the terms of those licenses and not terminating them. In particular, we depend on ing to our MultiStem technology licensed from the University of Minnesota. As a result of this license, we have lly reasonable efforts to develop and commercialize this technology. If we fail to comply with those obligations, rights that enable us to utilize this technology, and our ability to develop products based on MultiStem could be

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

***ate protection for our unpatented proprietary information, which could adversely affect our competitive position.***

e will substantially rely on trade secrets, know-how, continuing technological innovations and licensing and maintain our competitive position. However, others may independently develop substantially equivalent and techniques or otherwise gain access to our trade secrets or disclose our technology. To protect our trade secrets, entiality agreements with employees, consultants and potential collaborators. However, these agreements may not ection of our trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information. ts or know-how may become known through other means or be independently discovered by our competitors. Any vent us from developing or commercializing our product candidates.



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

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

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

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

Third parties who 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 in the United States. Such a proceeding could result in substantial cost to us even if the outcome is favorable. If we lose on priority grounds, an interference action may result in loss of claims based on patentability grounds raised in the interference proceeding, interference proceedings or other proceedings could divert management's time and efforts. Even unsuccessful proceedings could result in significant legal fees and other expenses, diversion of management's time and disruption in our business. Uncertainties regarding the outcome and continuation of any patent proceeding or related litigation could harm our ability to compete and could have a negative impact on our business, financial condition and results of operations.

Settlement of any intellectual property dispute, including an adverse decision as to the priority of our inventions, could harm our intellectual property position. An adverse ruling could also subject us to significant liability for damages, including attorney's fees and costs, prevent us from using technologies or developing products, or require us to negotiate licenses to third parties. Although patent and intellectual property disputes in the technology area are often settled through negotiation or mediation, costs associated with these arrangements may be substantial and could include license fees and ongoing royalties. If necessary licenses may not be available to us on

11. Failure to obtain a license in such a case could have a significant adverse effect on our business, financial operations.

*others, including those who have greater resources and experience than we do, may develop products or ours obsolete or noncompetitive.*

aged in the pursuit of safe and effective obesity drugs. Our future success will depend on our ability to maintain a respect to technological advances. Technological developments by others may result in our MultiStem product s, as well as our pharmaceutical formulations, such as ATHX-105, becoming obsolete.

cant competition from pharmaceutical, biotechnology and diagnostic companies, academic and research ment or other publicly funded agencies that are pursuing the development of therapeutic products and technologies ilar to our proposed therapeutic products and technologies, or that otherwise address the indications we are fificant competitors include major pharmaceutical companies such as Pfizer, Bristol-Myers Squibb, Merck, Roche, oSmithKline as well as smaller biotechnology or biopharmaceutical companies such as Arena Pharmaceuticals, s, Geron, Aastrom, Stem Cells Inc., Viacell and Cytori Therapeutics. Most of our current and potential competitors r research and development capabilities and financial, scientific, regulatory, manufacturing, marketing, sales, perience than we do. Many of our competitors have several therapeutic products that have already been developed, y commercialized, or are in the process of obtaining regulatory approval for their therapeutic products in the tionally.

s have substantially greater capital resources, research and development resources and experience, manufacturing xpertise, sales and marketing resources, established relationships with consumer products companies and

nd private research institutions are also potential competitors. While these organizations primarily have hey may develop proprietary technologies related to stem cells or secure patent protection that we may need for the nologies and products. We may attempt to license these proprietary technologies, but these licenses may not be able terms, if at all.

lone or with their collaborative partners, may succeed in developing technologies or products that are more ordable or more easily commercialized than ours, and our competitors may obtain intellectual property protection ts sooner than we do. Developments by others may render our product candidates or our technologies obsolete.

overy and development collaborators are not prohibited from entering into research and development collaboration rties in any product field. Our failure to compete effectively would have a significant adverse effect on our tion and results of operations.

*nd biological materials in our business. Any claims relating to improper handling, storage or disposal of these consuming and costly.*

ses will involve the controlled storage, use and disposal of certain hazardous and biological materials and waste pliers and other collaborators are subject to federal, state and local regulations governing the use, manufacture, posal of materials and waste products. Even if we and these suppliers and collaborators comply with the standards gulation, the risk of accidental contamination or injury from hazardous materials cannot be completely eliminated. nt, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the e we may obtain and exceed our financial resources. We may not be able to maintain insurance on acceptable incur significant costs to comply with current or future environmental laws and regulations.





***technologies or other businesses, we will incur a variety of costs, may have integration difficulties and may face other risks that could adversely affect our business.***

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

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

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

- We may experience difficulties in assimilating and integrating the business, technologies, products, personnel or operations of the businesses we acquire;

- 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;

- Acquisitions 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

- An acquired company may decide not to work for us.

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

***Markets outside of the United States, our business will be subject to political, economic, legal and social risks in which we may experience difficulties that could adversely affect our business.***

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

- Fluctuations in import and export controls;

- Changes in duties and tariffs;

- Volatility in currency exchange rates;

- Political instability;

government regulations and laws;

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

and other restrictions and regulations that may limit our ability to sell certain products or repatriate profits to the

These and other factors could adversely affect our business to the extent we enter markets outside the United States.

***When we impose strict price controls on approved products, which may adversely affect our future profitability in the United States from foreign countries that impose price controls may adversely affect our future profitability.***

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

***When we decide not to sell our products in foreign countries that impose government mandated price controls because we decide it is not in our best interest, a foreign government or patent office may attempt to terminate our intellectual property rights in that country, which may make it difficult for us to make and sell our products.***

We may choose not to sell a product in a foreign country because it is uneconomical to do so under a system of government price controls, or because it could severely limit our profitability in the U.S. or other markets. In such cases, a foreign government may terminate any intellectual property rights we may obtain with respect to that product. Such a termination may prevent us from producing and selling our product in that market. Furthermore, such products may be exported into the United States under the Drug Importation Act of 2005, which authorizes the importation of drugs from outside the United States. In such an event, we may have to reduce our prices, which may make it difficult for us to compete with low-cost providers of our drugs, and we could be financially harmed as a result.

***Our rapid growth, which could adversely affect our business.***

We have experienced periods of rapid growth in our employee numbers as a result of a dramatic increase in activity in our clinical programs, collaborative research programs, discovery programs, and scope of operations. At other times, we may need to reduce our staff in order to bring our expenses in line with our financial resources. Our success will also depend on the ability of our employees to continue to improve our operational capabilities and our management information and financial control systems. We may not be able to attract and retain and manage our work force.

In 2006 audit, Athersys received a letter regarding a material weakness in internal control over financial reporting and dividend that caused Athersys to restate its 2005 audited financial statements. Such restatement resulted in a decrease in our net assets.

When our company reporting obligations began on June 8, 2007, we will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 for the first time in 2007, and will be required to provide a management report on internal control over financial reporting in connection with our annual report on Form 10-K for the year ending December 31, 2007. We are preparing for Section 404 by strengthening, assessing and testing our system of internal controls, but have not yet completed this process. If we are unable to successfully implement improvements to our management information and financial control systems in a timely manner, or if we encounter deficiencies in existing systems and controls, our management may not have adequate internal controls over our day-to-day operations and our inability to manage our growth effectively could increase our losses.



***duct liability, which could adversely affect our business.***

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

product liability insurance, as well as liability insurance for conducting clinical trials. Currently, we carry a \$5 million per event, aggregate coverage for both our products liability policy and our clinical trials protection. We also intend to seek product liability insurance for 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. If we are unable to obtain adequate product liability insurance coverage for commercial sales of any of our products, or if the insurance is insufficient to protect us, our results of operations will suffer. If any product liability claim is made against us, our current and future sales will be damaged, even if we have adequate insurance coverage.

***Uncertainty of reimbursement, and amount of reimbursement for our product candidates from government and private payers are uncertain, and inadequate reimbursement for any products could severely limit our product sales.***

Only patients who seek treatment with any of our products that are approved for marketing will be eligible for reimbursement. Medicare 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 Medicare regulations and interpretive coverage and payment determinations to newly approved products is uncertain and those determinations are subject to change. The Medicare Prescription Drug Improvement and Modernization Act, 2003, provides for a change in reimbursement methodology that reduces the Medicare reimbursement rates for many products. These changes will affect reimbursement for any products we may develop. Medicare regulations and interpretive determinations may be revised to limit reimbursement for certain services, and may limit the pool of patients our product candidates are being marketed to.

As governments continue to propose legislation designed to contain or reduce health care costs. Legislation and regulatory changes 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 our products or increase patient coinsurance to a level that make our products under development become commercially unviable. In addition, government and private health plans persistently challenge the price and cost-effectiveness of therapeutic products. These third parties may ultimately not consider any or all of our products under development to be cost effective, or may require our products not being covered under their health plans or covered only at a lower price. Any of these initiatives or changes could prevent us from successfully marketing and selling any of our products that are approved for commercialization.

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

Our success in part upon our ability to develop therapeutic products incorporating or discovered through our adult-derived stem cell technology. For ethical, ethical, or other reasons, governmental authorities in the United States and other countries may call for limits on the use of, adult-derived stem cell technologies. Although we do not use the more controversial stem cells derived from

ns that adult-derived stem cell technologies are ineffective, unethical or pose a danger to the environment may s. The subject of stem cell technologies in general has received negative publicity and aroused public debate in the other countries. Ethical and other concerns about our adult-derived stem cell technology could materially hurt the r therapeutic products and technologies, resulting in diminished sales and use of any products we are able to ved stem cells.

## Common Stock; Liquidity Risks

*Our common stock is expected to be volatile and an investment in our common stock could decline in value.*

Our common stock, and the market prices for securities of biotechnology companies in general, are expected to be low. The following factors, in addition to other risk factors described in this prospectus, and the potentially low volume of trades may have a significant impact on the market price of our common stock, some of which are beyond our control:

- the pace of technological innovations and discoveries by us or our competitors;

- the results of our research and development, clinical trials, manufacturing, and marketing collaborations;

- the quality of the services that we or our competitors offer;

- the timing of our planned variations in operating results;

- the timing and outcome of intellectual property and/or litigation matters;

- the accuracy of financial estimates by securities analysts;

- the performance of our products in bio-pharmaceutical or other healthcare industries;

- the results of our clinical trials and other developments in the United States and other countries;

- the economic performance and/or market valuations of other biotechnology and flavor companies;

- the announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

- the departure of key personnel;

- terrorist activities, and economic and other external factors; and

- transactions involving our common stock.

Our common stock has recently experienced relatively large price and volume fluctuations. In particular, market prices of biotechnology companies have experienced fluctuations that often have been unrelated or disproportionate to the operating results. Continued market fluctuations could result in extreme volatility in the price of the common stock, which could result in a decline in the value of the common stock. Prospective investors should also be aware that price volatility may be worse if the market price of our common stock is low.

*Our common stock is expected to be volatile and an investment in our common stock could decline in value.*

number of shares of our common stock in the public market could harm the market price of our common stock. As common stock become gradually available for resale in the public market pursuant to the registration of those lock-up agreements, the supply of our common stock will increase, which could decrease its market price. We 00 shares of common stock in the June offering and 5,628,368 additional shares as a result of the

and such June offering. Some or all of the shares of common stock may be offered from time to time in the open market (or pursuant to a registration statement, if one is effective), and these sales may have a depressive effect on the price of our common stock. In general, a person who has held restricted shares for a period of one year may, upon filing of a registration statement with the Securities and Exchange Commission, or SEC, sell into the market common stock in an amount up to the number of shares outstanding or the average weekly number of shares sold in the last four weeks before such sale. Such sales may be made at any time, and any of the restricted shares may be sold by a non-affiliate after they have been held two years. Our common stock after consummation of the merger and the June offering are subject to lock-up provisions relating to shares of common stock that will prevent the sale or transfer of their shares of common stock until 180 days after the effective date of the registration statement.

***there will be an active public market for our common stock in the near term and you may have to hold your shares for an indefinite period of time.***

Because our common stock is eligible for trading on the OTC Bulletin Board, there currently is a limited trading market for the common stock. We cannot assure you that any market will further develop or be sustained. Because our common stock is expected to be thinly traded, you may not be able to liquidate your investment in case of an emergency or if you otherwise desire to do so. It may be difficult to sell a large number of your shares of common stock in a short period of time or at or above their purchase price. Sales of common stock may have adverse federal income tax consequences.

***if a resale registration statement is required, we may be required to pay damages to investors if the registration statement is not effective.***

We intend to use our best efforts to have the resale registration statement of which this prospectus forms a part declared effective by the SEC as soon as possible and, in any event, within 90 days after the filing (or within five days after receipt of a no review letter from the SEC). We cannot assure the effectiveness until such time as all securities registered under the resale registration statement have been sold or disposed of under Rule 144 of the Securities Act without regard to volume limitations, whichever is earlier. We cannot assure we will be able to follow the required procedures or obtain or maintain the effectiveness of the registration statement of which this prospectus forms a part. Subject to certain exceptions, if the registration statement of which this prospectus forms a part is not declared effective by the SEC or ceases to remain effective, a 1% cash penalty will be assessed for each 30-day period until the registration statement becomes effective or becomes effective again, as applicable, capped at 10%. In addition, there are other issues affecting the effectiveness of the registration statement of which this prospectus forms a part.

***our common stock may be considered a penny stock and may be difficult to sell.***

SEC regulations which generally define penny stock to be an equity security that has a market or exercise price of less than \$5.00 per share, with no specific exemptions. The market price of our common stock may drop below \$5.00 per share and therefore may be considered penny stock according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is qualified to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may make it difficult for stockholders to sell their shares. In addition, since our common stock is eligible for trading on the OTC Bulletin Board, stockholders may find it difficult to obtain accurate quotations of our common stock and may experience a lack of liquidity for our stock or a lack of market makers to support the stock price.



***experience future dilution.***

board of directors, without stockholder approval, to authorize shares of preferred stock, which may also be issued without stockholder approval. The board of directors may classify or reclassify any preferred stock to set the other terms of the classified or reclassified shares, including the issuance of shares of preferred stock that have the same rights as common stock with respect to dividends, liquidation, voting and other matters or shares of common stock having the same rights as common stock.

Additional shares of our capital stock could be substantially dilutive to your shares and may negatively affect the market price of our common stock.

***Issuances of our common stock could depress our stock price.***

Our common stock could decline, perhaps significantly, as a result of issuances of a large number of shares of our common stock in the public market or even the perception that such issuances could occur. Under an existing registration rights agreement, the holders of common stock and other securities will have demand, piggy-back and Form S-3 registration rights. Sales of a large number of shares of our common stock, or the perception that holders of a large number of shares intend to sell their shares, could depress the market price of our common stock. The existence of such registration rights could also make it more difficult for us to complete future offerings of our equity securities.

***Exercise of warrants could experience additional dilution upon the exercise of warrants and options.***

We have granted warrants to investors to acquire 3,750,000 shares of common stock, warrants to the placement agents to acquire 1,000,000 shares of common stock, warrants to the former holders of Athersys 10% secured convertible promissory notes to acquire 1,000,000 shares of common stock, and warrants to our senior secured lenders to acquire 149,026 shares of common stock, which is an aggregate of 6,750,026 shares of common stock underlying such warrants that, if exercised or converted, could decrease the net tangible book value of our common stock. In addition, there are 4,500,000 shares of common stock that may be granted pursuant to our equity incentive plan, under which options to purchase 3,625,000 shares of common stock have been granted. If the holders of equity awards exercise their options, we may experience dilution in the net tangible book value of our common stock.

***Dividends in the foreseeable future.***

At this time, we intend to retain any earnings to finance the development of our business, and we do not anticipate paying any dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will be based on our existing conditions, including our financial condition and results of operations, capital requirements, contractual obligations and other factors that our board of directors considers relevant. Accordingly, investors must rely on sales of our common stock and price appreciation, which may never occur, as the only way to realize their investment.

***Ability to meet the listing standards established by the NASDAQ Capital Market or other similar markets, the common stock and the warrants to be listed for trading on one of those markets.***

If we are able to list our common stock on the NASDAQ Capital Market, we intend to apply to list our common stock for trading on the NASDAQ Capital Market. The NASDAQ Capital Market has established certain quantitative criteria and qualitative standards that companies must meet in order to become and remain listed on these markets. We believe that we are currently eligible for trading on the NASDAQ Capital Market. However, even if we have our common stock listed, we cannot guarantee that we will be able to continue to meet all other necessary requirements for continued listing; therefore, we cannot guarantee that our common stock will continue to be listed for trading on the NASDAQ Capital Market or other similar markets.



*our financial reporting may be insufficient to allow us to accurately report our financial results or prevent fraud, financial statements to become materially misleading and adversely affect the trading price of our common*

It will be necessary for us to provide reliable financial reports and effectively prevent fraud and to operate our company. Athersys' independent registered public accounting firm has issued a letter to Athersys in which they state, as a result of a restatement related to accounting for dividends associated with a past partnership that they consider a weakness in its internal control over financial reporting. If measures suggested by the independent registered public accounting firm with other remedial measures that management is in the process of implementing, are insufficient to address the identified weaknesses or additional significant deficiencies in our internal control over financial reporting are discovered, we may not be able to meet our financial reporting obligations. If we fail to meet these obligations, our financial statements could be materially misstated, which could adversely affect the trading price of our common stock.

## FORWARD-LOOKING STATEMENTS

forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, expected timetable for development of our product candidates, our growth strategy, and our future financial operations, economic performance, financial condition, prospects, and other future events. We have attempted ng statements by using such words as anticipates, believes, can, continue, could, estimates, expects, intends, n should, will, or other similar expressions. These forward-looking statements are only predictions and are largely based on These forward-looking statements appear in a number of places in this prospectus.

known and unknown risks, uncertainties, and other factors could affect the accuracy of these statements, including Risk Factors and elsewhere in this prospectus. Some of the more significant known risks that we face are the risks t in the process of discovering, developing, and commercializing products that are safe and effective for use as udging the uncertainty regarding market acceptance of our product candidates and our ability to generate revenues. ur actual results, levels of activity, performance, or achievements to differ materially from any future results, levels or achievements expressed or implied by these forward-looking statements.

to consider in evaluating our forward-looking statements include:

f delays in, adverse results of, and excessive costs of the development process;

nal market factors;

dustry's overall performance;

usiness strategy;

protect our intellectual property portfolio;

ility to realize commercially valuable discoveries in our collaborations with pharmaceutical and other ompanies;

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

activity and reliability of suppliers; and

ur competitors and the emergence of new competitors.

elieve that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our ctivity or performance. We do not expect to update any of the forward-looking statements after the date of this t these statements to actual results, except as may be required by law.

## DETERMINATION OF OFFERING PRICE

f the common stock that we are registering. The common stock will be sold by the selling stockholders listed in this stockholders may sell the common stock at the market price as of the date of sale or a price negotiated in a private is currently traded on the OTC Bulletin Board under the symbol AHYS.

## USE OF PROCEEDS

of the proceeds from the sale of shares of our common stock by the selling stockholders, but will receive proceeds from the exercise of the warrants for cash held by selling stockholders. We intend to use the net proceeds generated by such warrant exercise for general corporate purposes. We cannot estimate how many, if any, warrants may be exercised as a result of this offering. We

and fees in connection with the registration of shares of our common stock to be sold by the selling stockholders. We will bear all commissions and discounts, if any, attributable to their respective sales of shares.

## DIVIDEND POLICY

of the capital stock of ABT Holding Company. We would have to rely upon dividends and other payments from ABT Holding Company to generate the funds necessary to make dividend payments, if any, on our common stock. ABT Holding Company, as a subsidiary of us, has no obligation to pay amounts to us. The ability of ABT Holding Company to make dividend payments is subject to, among other things, the availability of funds, the terms of our indebtedness and applicable state laws. We do not intend to pay any dividends on our common stock in the foreseeable future. Rather, we anticipate that we will retain the funds for the development of our business.

## MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### Outstanding Equity

BTHC VI was a shell company with no operations and no or nominal assets. BTHC VI's common stock was eligible for trading on the OTC Bulletin Board, although no trading took place prior to the merger because none of BTHC VI's then-outstanding shares were traded under the terms of BTHC VI's bankruptcy plan until the merger was consummated. Since June 8, 2007, our common stock has been quoted on the OTC Bulletin Board at the following prices:

	High	Low
<b>September 31, 2007:</b>		
	\$ 10.00	\$ 5.25
(September 10, 2007)	\$ 8.75	\$ 7.00

Our market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On September 10, 2007, the last reported sales price of our common stock on the OTC Bulletin Board was \$8.75 per share. As soon as reasonably practicable, we intend to apply to list the common stock for trading on the New York Stock Exchange.

As of September 30, 2007, we have 18,927,988 shares of common stock issued and outstanding. Additionally, 5,125,496 shares of common stock are subject to outstanding warrants to purchase our common stock. Of these warrant shares, 4,976,470 are subject to five-year warrants with an exercise price of \$6.00 per share, and 149,026 are subject to seven-year warrants with an exercise price of \$7.00 per share.

As of September 30, 2007, the number of holders of record was approximately 962.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

financial information has been developed by application of pro forma adjustments to the historical financial information appearing elsewhere in this prospectus. The unaudited pro forma information gives effect to the merger, the convertible notes, the June offering, and the specific application of the net proceeds from the June offering and the transactions as a result of the June offering. Such transactions have been assumed to have occurred as of January 1, 2006 and the period of operations for the year ended December 31, 2006 and the six months ended June 30, 2007.

The adjustments are based upon available information and certain assumptions, as described in the accompanying prospectus, which are reasonable under the circumstances. The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what the results of our operations or financial position would have been had the transactions actually occurred on the dates indicated, nor do they purport to project our financial condition for any future period. The unaudited pro forma financial information should be read in conjunction with the information contained in the Prospectus and the Discussion and Analysis of Financial Condition and Results of Operations and Athersys' financial statements and notes included in this prospectus.

**Athersys, Inc.****Unaudited Pro Forma Statements of Operations**

Year Ended December 31, 2006			Six Months Ended June 30, 2007		
As Reported (1)	Adjustments (2)	Pro Forma (3)	As Reported (1)	Adjustments (2)	Pro Forma
(In thousands, except share and per share amounts)					
\$ 1,908	\$	\$ 1,908	\$ 623	\$	\$ 623
1,817		1,817	979		979
3,725		3,725	1,602		1,602
9,741		9,741	7,354		7,354
3,347		3,347	4,105		4,105
528		528	155		155
13,616		13,616	11,614		11,614
(9,891)		(9,891)	(10,012)		(10,012)
208		208	1,500		1,500
119		119	222		222
(1,047)	214	(833)	(1,043)	317	(726)
(260)	260		(456)	456	
(10,871)	474	(10,397)	(9,789)	773	(9,016)

Effect of principle s	(1,408)	1,408	(659)	659
<b>ive effect</b>				
	\$ (12,279)	\$ (10,397)	\$ (10,448)	\$ (9,016)
	\$ (41.89)	\$ (0.55)	\$ (4.10)	\$ (0.48)
luted	293,142	18,927,988	2,547,265	18,927,988
		26		



stments:

balances for the period indicated.

on in interest expense and accretion of premium on convertible debt, related to the convertible notes, which are  
verted into common stock as of January 1, 2006.

enses are nonrecurring charges that resulted directly from the June offering and, therefore, have not been included  
statement of operations for the year ended December 31, 2006: (A) \$350,000 of merger costs, (B) \$438,000 of  
related to the issuance of the senior lender warrants for 149,026 shares of common stock and (C) \$507,000 related  
one. These expenses were incurred in June 2007 and are included in the statement of operations for the six months  
07.

tion for the year ended December 31, 2006 and the six months ended June 30, 2007 have been reported on a basis  
e consolidated financial statements. Pro forma per share information has been calculated using the weighted  
of shares issued as a result of the June offering, assuming that those shares were issued at January 1, 2006.

**SELECTED FINANCIAL DATA**

(In thousands, except share and per share data)

of Athersys on June 8, 2007 effected a change in control and was accounted for as a reverse acquisition whereby the acquiror for financial statement purposes. Accordingly, for all periods after the June 8, 2007 reverse acquisition, the financial statements reflect the financial statements of Athersys since its inception and the operations of BTHC from June 8, 2007.

The following selected financial data for Athersys for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and for the periods ended June 30, 2006 and 2007. Athersys derived the selected financial data as of December 31, 2004, 2005 and 2006 and for the periods ended June 30, 2006 and 2007 from its consolidated audited financial statements, which are included elsewhere in this prospectus. Athersys has derived the selected financial data as of June 30, 2006 and 2007 and for the six-month periods then ended from its unaudited condensed financial statements, which are included elsewhere in this prospectus. Athersys has prepared its unaudited condensed financial statements on the same basis as its audited financial statements. In the opinion of management, the unaudited condensed financial statements include all adjustments, consisting of normal recurring adjustments, that it considers necessary for a fair presentation of its financial position and operating results for these periods. Historical results are not necessarily indicative of results to be expected in the future, and results for interim periods are not necessarily indicative of a full year's operations.

The following selected financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and Athersys' financial statements and related notes, each included elsewhere in this prospectus.

		Year Ended December 31,				Six Months Ended June 30,	
	2002	2003	2004	2005	2006	2006	2007
						(Unaudited)	
Cost of sales	\$ 1,285	\$ 1,393	\$ 820	\$ 763	\$ 1,908	\$ 481	\$ 623
	51	759	2,318	2,833	1,817	638	979
Operating expenses	1,336	2,152	3,138	3,596	3,725	1,119	1,602
Operating income	13,760	13,675	12,415	12,578	9,741	4,945	7,354
Interest expense		9,500					
Interest income	6,280	10,882	4,717	3,755	3,347	1,754	4,105
Other income	1,996	1,803	1,297	982	528	293	155
		1,076	107	251			
Income before income taxes	(20,700)	(34,784)	(15,398)	(13,970)	(9,891)	(5,873)	(10,012)
Income tax expense	489	1,114		18	208	208	1,500
	1,213	644	317	317	119	67	222
Net income	(185)	(135)	(73)	(964)	(1,047)	(490)	(1,043)

					(260)		(456)
Effect of							
nciple	\$ (19,183)	\$ (33,161)	\$ (15,154)	\$ (14,599)	\$ (10,871)	\$ (6,088)	\$ (9,789)
nge in					306	306	

	Year Ended December 31,				Six Months Ended June 30,	
	2002	2003	2004	2005	2006	2006 2007 (Unaudited)
	\$ (19,183)	\$ (33,161)	\$ (15,154)	\$ (14,599)	\$ (10,565)	\$ (5,782) \$ (9,789)
	(2,012)	(2,164)	(2,325)	(2,253)	(1,408)	(695) (659)
	\$ (21,195)	\$ (35,325)	\$ (17,479)	\$ (16,852)	\$ (11,973)	\$ (6,477) \$ (10,448)
	\$ (82.22)	\$ (130.90)	\$ (59.82)	\$ (57.79)	\$ (41.89)	\$ (23.19) \$ (4.10)
					1.05	1.05
	\$ (82.22)	\$ (130.90)	\$ (59.82)	\$ (57.79)	\$ (40.84)	\$ (22.14) \$ (4.10)
	257,771	269,861	292,173	291,612	293,142	292,513 2,547,265

	2002	2003	December 31, 2004	2005	2006	June 30, 2006 2007 (Unaudited)
Sheet Data:						
nd	\$ 43,871	\$ 25,992	\$ 17,279	\$ 4,561	\$ 1,528	\$ 3,975 \$ 58,939
	26,753	18,514	17,018	1,828	(3,106)	(87) 54,401
	49,780	30,503	20,894	7,309	4,266	6,212 61,065
ess current	1,062	578	7,215	4,684	9,310	8,289
	6,747	8,911	11,236	7,473	8,882	8,168
ty (deficit)	35,913	14,951	1,151	(8,584)	(20,007)	(14,971) 55,710

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*contains forward-looking statements that involve numerous risks and uncertainties, such as statements of our intentions, and intentions. Our actual results could differ materially from those anticipated in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in this prospectus under "Risk Factors" and "Selected Financial Data" and Athersys' financial statements and related notes, each included elsewhere in this*

cal company engaged in the discovery and development of therapeutic product candidates designed to extend and improve human life. Through the application of our proprietary technologies, we have established a pipeline of therapeutic development programs in multiple diseases. We have one product candidate in clinical development (ATHX-105) and intend to advance additional product development programs (from MultiStem cardiovascular, oncology support or stroke, or from our other programs) into clinical trials in 2007 and 2008. Our ability to initiate these trials will depend on the success of our development efforts and our obtaining necessary regulatory approvals. Our lead product candidate is ATHX-105, which is designed to treat stroke. We are also developing pharmaceutical products for the treatment of certain conditions affecting the central nervous system, including ADHD, narcolepsy and other cognitive or attention disorders. In addition to these drug development programs, we are collaborating with Angiotech to jointly develop our proprietary non-embryonic stem cell product, MultiStem, for the treatment of myocardial infarction and peripheral vascular disease. We are also developing MultiStem for stroke, oncology support, and other indications.

Since inception of operations in December 1995 and had an accumulated deficit of \$151.3 million at June 30, 2006. These losses have resulted principally from costs incurred in research and development, acquisition and licensing costs, and other costs associated with its operations. Athersys has used the financing proceeds from private equity and debt offerings of capital to develop its technologies, such as RAGE, and to acquire its stem cell technology. Athersys has also developed capabilities that have enabled it to advance product candidates into clinical trials, such as its lead product candidate, ATHX-105. Athersys has established strategic collaborations that provide revenues and capabilities to help to further advance its product development efforts. Athersys also built a substantial portfolio of intellectual property.

Athersys completed restructurings that resulted in reductions in its personnel. Athersys refocused its activities to focus on the development of its lead product opportunities and reduced its spending in discovery activities. As Athersys has evolved from a research-oriented company to a product-oriented company, its staffing needs have evolved, resulting in the reductions in personnel. Athersys is optimizing the mix of its internal capabilities with the capabilities of its outside collaborators, academic institutions, and research organizations.

In connection with the merger, all of Athersys' shares of preferred stock were converted into common stock of Athersys and exchanged for common stock. Also, all accrued dividends related to the preferred stock were eliminated and shares of stock held in

Athersys completed the offering of 13,000,000 shares of our common stock and received gross proceeds of \$65.0 million. Athersys also 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, 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 offering also received cash fees in an amount equal to approximately \$5.5 million, which was based on 8.5% of the gross proceeds, from existing investors. The placement agents also received



purchase an aggregate of 1,093,525 shares of common stock with a cash or cashless exercise price of \$6.00 per share. In connection with the June offering, all of Athersys' convertible notes were converted into shares of our common stock. In connection with the June offering, we paid an affiliate of BTHC VI, its then-largest stockholder a one-time fee of \$350,000 in cash for advisory services. In connection with the June offering, all of Athersys' convertible notes were converted into shares of our common stock.

At closing, we terminated the majority of stock option awards to its officers, employees, directors and consultants. Only a nominal number of stock options (5,052 option shares) held by former employees and consultants were assumed by us. Upon closing the merger, shares of common stock were issued under our equity incentive plans to employees, directors and consultants at \$5.00 per share. For the six month period ended June 30, 2007, stock compensation expense was approximately \$4.1 million, of which approximately \$2.1 million was recorded as research and development expense and \$2.1 million was recorded as general and administrative expense. At closing, our estimated compensation cost related to unvested stock options was approximately \$6.6 million, which is being amortized by June 2010 using the straight-line method.

We sold certain non-core assets related to its asthma discovery program to Wyeth Pharmaceuticals for \$2.0 million, of which \$1.5 million was received at closing. The remaining \$0.5 million was received in August 2007 when Athersys delivered certain documents to the program.

Since its inception, its revenues have consisted of license fees from its collaborators and grant proceeds from federal and state grants. Athersys has not generated any revenue on the sale of FDA-approved products to date. Research and development expenses consist primarily of personnel costs, legal expenses resulting from intellectual property application processes, contracted service costs, and other direct costs. Athersys expenses research and development costs as they are incurred. We expect to continue to make substantial investments in research and development to enhance our technologies, conduct preclinical studies and clinical trials of our product candidates. General and administrative expenses consist primarily of salaries and related expenses for executive, management, finance, and other administrative personnel; professional fees; and other corporate expenses. Our general and administrative expenses are expected to increase as we expand our regulatory affairs and product development capabilities, as well as our operations and assume the obligations of a public reporting company. Athersys depreciates its fixed assets on a straight-line basis. To date, Athersys has financed its operations through private equity and debt financing and investments by strategic partners. We expect to continue to incur substantial losses through at least the next several years. We expect our development costs to increase significantly in connection with clinical trials of our product candidates in 2007 and 2008.

Set forth Athersys' revenues and expenses for the periods indicated. The following tables are stated in thousands.

Years Ended December 31,			Six Months Ended June 30,	
2004	2005	2006	2006	2007
\$ 820	\$ 763	\$ 1,908	\$ 481	\$ 623
2,318	2,833	1,817	638	979
\$ 3,138	\$ 3,596	\$ 3,725	\$ 1,119	\$ 1,602

## ent expenses

	Years Ended December 31,			Six Months Ended June 30,	
	2004	2005	2006	2006	2007
	\$ 4,451	\$ 4,587	\$ 2,721	\$ 1,430	\$ 1,446
	2,661	2,286	1,208	663	359
	1,079	1,127	879	463	375
clinical and clinical costs	647	2,095	3,281	1,596	1,614
	366	714	595	230	661
	1,203	968	781	404	868
ense	2,008	801	276	159	2,031
	\$ 12,415	\$ 12,578	\$ 9,741	\$ 4,945	\$ 7,354

## ative expenses

	Years Ended December 31,			Six Months Ended June 30,	
	2004	2005	2006	2006	2007
	\$ 2,096	\$ 1,858	\$ 1,891	\$ 999	\$ 999
	319	286	291	140	151
es	303	446	590	340	279
	518	508	392	184	574
ense	1,481	657	183	91	2,102
	\$ 4,717	\$ 3,755	\$ 3,347	\$ 1,754	\$ 4,105

## 30, 2007 Compared to Six Months Ended June 30, 2006

reased to \$1.6 million for the six months ended June 30, 2007 from \$1.1 million in the comparable period in 2006. reased \$142,000 for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The venue over this period was a result of the nature and timing of target acceptances and milestone payments under agreements with Bristol-Myers Squibb and Pfizer. Grant revenue increased \$341,000 for the six months ended to the six months ended June 30, 2006. In July 2003, Athersys was awarded a \$5.0 million state grant that spanned pleted in February 2006. This grant was renewed in May 2006 for approximately \$3.5 million that will also span in grant revenue for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 was recognizing six months of revenue under this state grant in the six months ended June 30, 2007 versus only three venue in the comparable period of 2006.



*ent Expenses.* Research and development expenses increased to \$7.4 million for the six months ended June 30, 2007, compared to \$4.9 million for the comparable period in 2006. The increase of approximately \$2.5 million relates primarily to an increase of compensation expense, an increase of \$464,000 in other expenses, an increase of \$431,000 in patent legal fees, an increase of \$392,000 in sponsored research, preclinical and clinical costs and an increase of \$16,000 in personnel costs, partially offset by a decrease of \$392,000 in supplies and facilities costs of \$392,000, related to the restructuring and reduction in force effected in late 2005 that was included in other expenses for the six months ended June 30, 2006. Included in other expenses for the six months ended June 30, 2007 was a milestone payment related to our collaboration of \$507,000 paid in cash and stock to the former holders of the technology in connection with a collaboration agreement. For the six months ended June 30, 2006 was a milestone payment related to our stem cell

paid in stock to the former holders of the technology, in connection with the issuance of a patent. The increase in six months ended June 30, 2007 was a result of maintaining Athersys' growing and maturing portfolio of patent performance of patent legal work related to the May 2007 asthma asset sale. Included in personnel costs for the six 2007 and 2006 was approximately \$262,000 and \$121,000, respectively, of expense related the Athersys cash paid in bonus payments upon the achievement of certain milestones. We do not track our research expenses by such expenses by the type of cost incurred.

*ive Expenses.* General and administrative expenses increased to \$4.1 million for the six months ended June 30, 2007, compared to \$1.8 million for the comparable period in 2006. The increase of approximately \$2.3 million relates primarily to a \$2.0 million amortization expense, a \$390,000 increase in other expenses, and an \$11,000 increase in personnel and facilities costs, offset by a \$100,000 decrease in legal and professional fees. Included in other expenses for the six months ended June 30, 2007 was \$350,000 related to the merger and approximately \$50,000 of other costs related to being a public company. Compensation costs for the six months ended June 30, 2007 and 2006 was approximately \$308,000 and \$89,000, respectively, of which \$250,000 and \$80,000, respectively, related to the 2006 and 2005 Hersys cash incentive plan that resulted in bonus payments upon the achievement of milestones. Also included in compensation costs for the six months ended June 30, 2006 was approximately \$122,000 (\$146,000 including taxes) in connection with the forgiveness of a 2002 loan to the Company.

depreciation expense decreased to \$155,000 in the six months ended June 30, 2007 from \$293,000 in the six months ended June 30, 2006. The decrease in depreciation expense was due to more laboratory equipment, computer equipment, furniture, and leasehold improvements becoming fully depreciated, combined with fewer purchases of new equipment.

2007, Athersys sold certain non-core assets related to its asthma discovery program to a pharmaceutical company. \$1.5 million was received at closing and recorded in other income. The remaining \$0.5 million was received and recorded in other income in August 2007 upon Athersys' delivery of certain ancillary assets related to the program. In January 2006, a milestone payment was received from a related to Athersys' joint venture with Oculus Pharmaceuticals, Inc. As a result, Athersys received \$100,000 of proceeds from Oculus, which was recorded in other income. Similarly, Oculus also received stock-based proceeds in another transaction of \$260,000. Athersys recorded its share of Oculus' net income (after recapturing past losses) of \$117,000 in equity income from related affiliate on the statement of operations. No additional milestones were achieved related to this joint venture in the year ended December 31, 2007.

income represents interest earned on Athersys' cash and available for sale securities. Interest income increased to \$1.0 million for the three months ended June 30, 2007 from \$67,000 for the comparable period in 2006 due to the increase in Athersys' average cash balance over these periods. Athersys obtained \$5.0 million in each of January 2007 and May 2006 as a result of issuing promissory notes to Angiotech related to its co-development collaboration agreement. In addition, in June 2007, Athersys received \$58.5 million from the June offering.

net expense on Athersys' debt outstanding under its senior loan and its subordinated convertible promissory notes. For the six months ended June 30, 2007 from \$490,000 for the comparable period in 2006. The increase in interest expense was primarily due to the issuance of subordinated convertible promissory notes issued by Athersys in May 2006, October 2006 and January 2007, and the increase in interest expense associated with the issuance of warrants to the senior lenders in connection with the June 2006 offering.

**Convertible Debt.** The accretion of premium on convertible debt in the amount of \$456,000 for the six months a result of the \$2.5 million subordinated convertible promissory notes issued in October 2006. The notes, if not e with accrued interest at maturity, plus a repayment fee of 200% of the outstanding principal. Athersys computed the amount of \$5.25 million due upon redemption, which was being accreted over the term of the

interest method. This accretion was reversed and recorded in additional paid-in-capital in June 2007 when the common stock upon the closing of the June offering.

*Change in Accounting Principle.* Effective January 1, 2006, Athersys adopted the fair value recognition provisions of the modified-prospective-transition method. SFAS No. 123R requires Athersys to estimate forfeitures in calculating share-based compensation, while previously Athersys was permitted to recognize forfeitures as an expense reduction adjustment to apply estimated forfeitures to previously recognized share-based compensation was accounted for as a change in accounting principle at January 1, 2006 and reduced net loss by \$306,000 for the six months ended

### ***2006 Compared to Year Ended December 31, 2005***

reased to \$3.7 million for the year ended December 31, 2006 from \$3.6 million for the comparable period in 2005. reased \$1.1 million over this period as a result of the nature and timing of target acceptances under Athersys with Bristol-Myers Squibb. Grant revenue decreased \$1.0 million for the year ended December 31, 2006 compared December 31, 2005. In July 2003, Athersys was awarded a \$5.0 million state grant that spanned three years and was 2006. This grant was renewed in May 2006 for approximately \$3.5 million that will also span three years. The e for the year ended December 31, 2006 is principally the result of recognizing eight months of revenue under this s twelve months of revenue in 2005. In addition, Athersys had fewer active NIH grant awards in 2006 as compared

*Research Expenses.* Research and development expenses decreased to \$9.7 million in 2006 from \$12.6 million in 2005. Approximately \$2.9 million in research and development expenses relates primarily to a decrease in personnel costs of \$1.1 million, a decrease in research supplies expenses of \$1.1 million, and a decrease in facilities and other costs of \$435,000 related to the transition in force that occurred late in 2005. In addition, patent legal fees decreased \$119,000 and stock compensation expense decreased \$116,000 in 2006 compared to 2005. These decreases were offset by an increase in sponsored research, preclinical and clinical research of \$1.1 million in 2006 compared to 2005. As Athersys has evolved from a research-oriented company to a commercial company, its staffing needs have evolved, resulting in the reductions in personnel and related costs. Athersys is currently leveraging its internal capabilities with the capabilities of its outside collaborators, academic institutions, and third party contract organizations, resulting in an increase in these costs.

*General and Administrative Expenses.* General and administrative expenses decreased to \$3.3 million in 2006 from approximately \$4.4 million in 2005. The decrease in general and administrative expenses was due primarily to a decrease in stock compensation expense of \$1.1 million and a decrease in other expenses of \$116,000. These decreases were offset by an increase in legal and professional fees of \$116,000 as a result of legal costs associated with potential financing and strategic transactions.

*Depreciation Expense.* Depreciation expense decreased to \$528,000 in 2006 from \$982,000 in 2005. The decrease in depreciation expense was due to computer equipment, furniture, and leasehold improvements becoming fully depreciated, combined with the sale of computer equipment.

*Restructuring Costs.* Restructuring costs for the year ended December 31, 2005 were a result of the restructuring and reduction in force, which resulted in a net expense of \$1.1 million in 2005.

*Share of Earnings of Unconsolidated Affiliate.* In January 2006, a milestone was achieved related to Athersys' joint venture with Oculus. As a result, Athersys received \$100,000 of stock-based proceeds from Oculus, which was recorded in other income. Athersys also received stock-based proceeds in another company in the amount of \$260,000. Athersys recorded its share of Oculus' (including past net losses) of \$117,000 in equity in earnings of unconsolidated affiliate on the statement of operations.



income decreased to \$119,000 for the year ended December 31, 2006 from \$317,000 in 2005. Changes in interest income were primarily due to changes in Athersys' average cash balances and available for sale securities during those periods.

Interest expense on Athersys' debt outstanding under its senior loan and its subordinated convertible promissory notes for the year ended December 31, 2006 from \$964,000 for the comparable period in 2005. The increase in interest expense was primarily due to the issuance of subordinated convertible promissory notes issued by Athersys in May 2006 and October 2006.

**Convertible Debt.** The accretion of premium on convertible debt for the year ended December 31, 2006, is a result of the issuance of subordinated secured convertible promissory notes issued in October 2006. The notes, if not converted, are due at maturity, plus a repayment fee of 200% of the outstanding principal. Athersys has computed a premium on the notes of \$5,250,000 due upon redemption, which is being accreted over the term of the notes using the effective interest method. The premium was reversed and recorded in additional paid-in-capital in June 2007 when the notes were converted into common stock as part of the June offering.

**Change in accounting principle.** Effective January 1, 2006, Athersys adopted the fair value recognition provisions of SFAS No. 123R, which requires Athersys to estimate forfeitures in calculating share-based compensation, while previously Athersys was permitted to recognize forfeitures as an expense reduction. The adjustment to apply estimated forfeitures to previously recognized share-based compensation was accounted for as a change in accounting principle at January 1, 2006 and reduced net loss by \$306,000 for the year ended December 31, 2006.

#### **2005 Compared to Year Ended December 31, 2004**

Revenue increased to \$3.6 million in 2005 from \$3.1 million in 2004. License fee revenue decreased \$57,000 from 2004 to 2005 due to the timing of target acceptances under Athersys' collaboration agreement with Bristol-Myers Squibb. The remaining revenue increase from 2004 to 2005 was due primarily to increased grant revenue. In 2003, Athersys was awarded a \$5 million state contract which was completed in February 2006.

**Research and Development Expenses.** Research and development expenses increased to \$12.6 million in 2005 from \$12.4 million in 2004. The increase in research and development expenses relates to a decrease in stock compensation expense of \$1.2 million, a decrease in outside sponsored research and preclinical expenses of \$1.5 million, and an increase in other costs of \$348,000.

**General and Administrative Expenses.** General and administrative expenses decreased to \$3.8 million in 2005 from \$4.7 million in 2004. The decrease in general and administrative expenses of \$962,000 is due primarily to a decrease in stock option expense of \$824,000, a decrease in professional fees and other expense of \$281,000 related to the restructuring and reduction in force late in 2005, and an increase in other fees of \$143,000.

**Depreciation Expense.** Depreciation expense decreased to \$1.0 million in 2005 from \$1.3 million in 2004. The decrease in depreciation expense was due to computer equipment, furniture, and leasehold improvements becoming fully depreciated, combined with the sale of equipment.

**Restructuring Costs.** Restructuring costs for the year ended December 31, 2005 were a result of the restructuring and reduction in force, while restructuring costs for the year ended December 31, 2004 were a result of the restructuring and reduction in force in 2003.

Interest income was \$317,000 in 2006 and 2005. Interest income was as result of Athersys' average cash balances and available for sale securities during those periods.



st expense on Athersys' debt under credit agreements increased to \$964,000 in 2005 from \$73,000 in 2004. The expense was attributable to Athersys' borrowing \$7.5 million under its senior loan late in 2004.

## Resources

financed its operations through private equity and debt financings that have resulted in aggregate cumulative cash of approximately \$200 million, which includes gross proceeds of \$65.0 million received in the June offering described below.

Completed an offering of 13,000,000 shares of our common stock. Investors in the June offering also received 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, Radius, invested \$10,000,000 in the June offering and received additional five-year warrants to purchase an aggregate of 1,093,525 shares of common stock with a cash or cashless exercise price of \$6.00 per share. The placement agents for the June offering received 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. Upon the closing of the June offering, we received net proceeds of approximately \$58.5 million. The placement agents received approximately \$5.5 million in fees from the gross proceeds.

Athersys entered into a Loan and Security Agreement, or Senior Loan, with Venture Lending & Leasing IV, Inc. and the Senior Lenders, pursuant to which it borrowed \$7.5 million pursuant to notes that mature on June 1, 2008. The Senior Loan is payable in 30 monthly installments following an initial interest-only period that expired on June 1, 2007. The Senior Loan has an implied fixed interest rate of approximately 13%. A final payment of \$487,500 is due on June 1, 2007, the outstanding balance of the Senior Loan is approximately \$3.2 million. Athersys' obligations under the Senior Loan are secured by substantially all of its assets other than its intellectual property. However, a lien on our intellectual property could constitute a lien on our unrestricted cash to four months' expenses is less than one-to-one. The agreement governing the Senior Loan contains covenants and negative covenants customary for such financings and customary events of default. As of June 30, 2007, Athersys is in compliance with these covenants.

Athersys has the right to receive a milestone payment of \$2.25 million upon the first to occur of the following milestone events: (1) the initial public offering of common stock; (2) Athersys' merger with or into another entity where its stockholders do not retain a majority of the voting power of the surviving entity; (3) the sale of all or substantially all of Athersys' assets; and (4) the liquidation or dissolution. The milestone payment is payable in cash, except that if the milestone event is an initial public offering, Athersys will elect to pay 75% of the milestone in shares of common stock at the per share offering price to the public. Although the initial public offering does not constitute a milestone event under the Senior Loan, we are discussing an amendment with the Senior Lenders to add the completion of an additional significant financing or financings as a milestone event that would obligate it to make such payment. Athersys may otherwise restructure the milestone payment since an initial public offering technically can no longer occur. The Senior Lenders have agreed to convert the warrants to purchase 149,026 shares of common stock with an exercise price of \$5.00 upon the closing of the June offering, thereby eliminating the potential restructuring or prepayment of the Senior Loan.

Athersys completed a bridge financing of \$2.5 million in the form of 10% secured convertible promissory notes. The notes were converted into common stock at a conversion price of \$5.00 upon the closing of the June offering. The Senior Lenders also received warrants to purchase 999,977 shares of common stock, which were exercised in connection with the merger and the June offering.

Athersys is developing MultiStem for the treatment of the cardiovascular disorders of myocardial infarction and peripheral vascular disease. In connection with a commercial collaboration with Angiotech that was entered into in May 2006, in support of the collaboration, Angiotech provided Athersys with convertible promissory notes in the aggregate principal amount of \$10.0 million, which were converted along with

back upon the closing of the June offering at a conversion price of \$5.50, which was 110% of the price per share paid. Athersys may also receive additional equity investments and cash payments based upon the successful achievement of development and commercialization milestones.

Payment obligations as of June 30, 2007 are as follows:

	Total	Less Than 1 Year	1	3 Years	3	5 Years	More Than 5 Years
Properties	\$ 201,000	\$ 201,000					
(L), net	\$ 3,235,000	\$ 3,235,000					
(t)	\$ 54,000	\$ 54,000					
(o)	\$ 252,000	\$ 252,000					
	\$ 3,742,000	\$ 3,742,000					

For Lenders have the right to receive a one-time milestone payment of \$2.25 million under the Senior Loan upon the completion of the Phase I study. Also, Athersys may be required to make a cash payment in the amount of \$0.5 million to the former holders of the Senior Loan upon the achievement of a milestone in connection with Athersys' filing of an IND with the FDA.

Athersys has a long lease for its office and laboratory space with options to renew through March 2009 at the existing rental rate. Athersys has options to renew the lease through March 2008.

Athersys eliminated all dividends on its capital stock, and all accrued cumulative dividends were eliminated in June 2007 in connection with the completion of the Phase I study.

Athersys had \$58.9 million in cash and cash equivalents.

Operating activities was \$8.4 million, \$12.1 million, and \$11.7 million in 2006, 2005, and 2004, respectively, and was primarily used to fund Athersys' research and product development initiatives. Net cash used in operating activities was \$8.4 million for the six months ended June 30, 2007 and \$4.3 million for the six months ended June 30, 2006, and was primarily used to fund Athersys' research and product development activities.

Investing activities was \$3.4 million, \$10.3 million, and \$6.4 million in 2006, 2005, and 2004, respectively. Net cash provided was \$3,000 in the six months ended June 30, 2007 and net cash provided was \$713,000 in the six months ended June 30, 2006. Fluctuations from period to period are due to the timing of purchases and maturity dates of investments, and the purchases of equipment were \$3,000 in the six months ended June 30, 2007 and \$67,000 in the six-month period ended June 30, 2006.

Financing activities was \$5.4 million in 2006 and \$4.0 million in 2004 and used cash of \$446,000 in 2005. These fluctuations were due to the timing of borrowings and repayments of loans and the issuance of a convertible promissory note in 2006. Financing activities provided cash of \$5.4 million in the six months ended June 30, 2007 and \$3.8 million in the six months ended June 30, 2006. The proceeds from the June 2007 offering were received in the second quarter of 2007. Also, proceeds from the issuance of convertible notes to Athersys were received in January 2007 in the amount of \$5.0 million, and in May 2006 also in the amount of \$5.0 million. The financing activities were offset by the repayment of debt in each period.



incur substantial losses through at least the next several years and may incur losses in subsequent periods. The future losses are highly uncertain. Our ability to achieve and thereafter sustain profitability will be dependent on, successfully developing, commercializing and obtaining regulatory approval or clearances for our technologies from these technologies.

al additional funding in order to continue our research and product development programs, including preclinical of our product candidates. While we believe that the

the offering, combined with current capital resources and anticipated cash flows from licensing activities, will be sufficient to meet our capital and operating requirements through at least 2009, we cannot assure you that we will not require additional funding. Our current monthly burn rate, excluding capital expenditures and non-cash charges, is approximately \$1.5 million per month, and we anticipate a higher burn rate over certain periods during the next several years as we begin to commercialize our products and continue to advance our various research and product development activities. Our funding requirements may increase due to technological advances or competition from other companies. Our future capital requirements will also depend on the timing and progress of our clinical trials, the time and cost related to proposed regulatory approvals, if any, and the costs in filing and prosecuting patent applications and enforcing patent claims. We cannot assure you that adequate funding will be available to us or, if available, on acceptable terms. Any shortfall in funding could result in our having to curtail our research and development activities.

## Accounting Policies and Management Estimates

Athersys uses accounting policies as those that are, in management's view, important to the portrayal of our financial condition and results of operations, and demanding of management's judgment. Our discussion and analysis of financial condition and results of operations are based on Athersys's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements requires Athersys to make estimates on experience and on assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Accounting policies include:

Revenue recognition policies are in accordance with the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," and Emerging Issues Committee Abstracts 99-021, "Revenue Arrangements with Multiple Deliverables," which provide guidance on revenue recognition in the absence of authoritative guidance. Our revenue policies are based on the interpretations and practices developed by the SEC. Some of our agreements contain multiple components, including technology access and development fees, research funding, milestones and royalty obligations.

Revenue is recognized over the period that Athersys performs its required activities under the terms of various agreements. Revenue from agreements that require future performance obligations from Athersys is recognized when performance is complete and upon receipt of payment (if applicable), and when collectibility is reasonably assured. License fee revenue with no future service obligations is recognized when the required performance is completed. We defer nonrefundable upfront fees under our collaborations to the period in which we perform services, using various factors specific to the collaboration. Amounts we receive from collaborations are recognized as revenue as the services are performed. Revenue resulting from the achievement of milestone events is recognized when the milestone is achieved.

Research and development costs consist primarily of funding under cost reimbursement programs from federal and state sources for qualified research and development activities performed by Athersys. Revenue from grants is recorded when earned under the terms of the agreements.

*Research and development*

Research and development expenditures, including direct and allocated overhead expenses, are charged to expense as incurred.

to remit royalty payments based on product sales to certain parties under license agreements. Athersys has not for the three-year period ended December 31, 2006 or the six-month period ended June 30, 2007.

quired cost less accumulated depreciation. Laboratory and office equipment are depreciated on the straight-line useful lives (three to seven years).

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

e expensed as incurred. Athersys has filed for broad intellectual property protection on its proprietary technologies. numerous U.S. patent applications and corresponding international patent applications related to its technologies, as and international patents.

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S No. 123R, was issued as a revision to Statement of Financial Accounting Standards No. 123, Accounting for S No. 123. SFAS No. 123R was required to be adopted by nonpublic companies in January 2006. Prior to January 1, to account for its stock-based compensation in accordance with the intrinsic value method as described in the g Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as 23. As such, compensation was recorded in 2004 and 2005 on the date of issuance or grant as the excess of the value of the underlying stock over the purchase or exercise price of the stock option. Any unearned compensation respective vesting periods of the equity instruments, if any, using the graded vesting method as prescribed by standards Board Interpretation No. 28.

6, Athersys adopted the fair value recognition provisions of SFAS No. 123R using the nsition method. Under that transition method, compensation cost recognized in 2006 includes: (1) compensation payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in inal provisions of SFAS No. 123; and (2) compensation cost for all share-based payments granted subsequent to n the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods or some of the awards granted prior to the adoption of SFAS No. 123R, Athersys recognized compensation ed method. For awards granted subsequent to adoption of SFAS No. 123R, Athersys will recognize expense on the

6, Athersys had net operating loss and research and development credit carryforwards of approximately million, respectively. These carryforwards may be used to reduce future tax liabilities and expire at various dates Athersys use of its current net operating loss and research and development credit carryforwards will be er the Internal Revenue Code as a result of the change in ownership related to the merger and June offering.



## Accounting Standards

The Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," applicable for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income tax positions in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes the recognition and measurement attribute for financial statement recognition and measurement of a tax position reported or expected to be reported on a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and transition. Athersys adopted the provisions of FIN 48 on January 1, 2007. Upon adoption of FIN 48 and after a thorough review, Athersys determined that it had no liability for uncertain income taxes as prescribed by FIN 48. Athersys' policy is to recognize interest and penalties related to the liability for uncertain tax benefits, if applicable, in income tax expense. Net operating loss carryforwards since inception remain open to examination by taxing authorities, and will for a period post-adoption participate any events during 2007 that would require Athersys to record a liability related to any uncertain income tax positions.

## Qualitative Disclosures About Market Risk

Interest rate risk is related to Athersys' investment portfolio and its borrowings. Fixed rate investments and borrowings may be adversely impacted from changes in interest rates. Floating rate borrowings will lead to additional interest expense if rates increase. Due in part to these factors, Athersys' future investment income may fall short of expectations, and its return may be above its expectations due to changes in U.S. interest rates. Further, Athersys may suffer losses in its investment portfolio if it is forced to sell securities that have declined in market value due to changes in interest rates. Athersys invests in debt instruments of the U.S. government and its agencies.

Athersys maintains credit arrangements with financial institutions when needed. At June 30, 2007, Athersys had borrowings of \$10.0 million outstanding under its Senior Loan, which bears interest at a fixed rate of approximately 13%. All principal and interest on the subordinated convertible promissory notes were converted into common stock upon consummation of the

## BUSINESS

cal company engaged in the discovery and development of therapeutic product candidates designed to extend and human life. Through the application of our proprietary technologies, we have established a pipeline of therapeutic programs in multiple diseases. We have one product candidate in clinical development (ATHX-105) and intend to additional product development programs (from MultiStem cardiovascular, oncology support or stroke, or from our program) into clinical trials in 2007 and 2008. Our ability to initiate these trials will depend on the success of our development efforts and our obtaining necessary regulatory approvals. Our lead product candidate is ATHX-105, which we are independently developing that acts by stimulating the 5HT2c receptor, a key neurotransmitter receptor in appetite. ATHX-105 has been shown in preclinical testing in animal models to reduce food intake and body appetite without appearing to cause the adverse side effects that have been observed with other weight loss drugs. As we conduct in humans may differ from our preclinical results.

l a Phase I clinical trial for ATHX-105 in the United Kingdom. The primary objective of the Phase I clinical trial is safety of ATHX-105 and to establish an appropriate dose range for subsequent clinical studies that will be less safety and effectiveness. Following successful completion of the Phase I clinical trial and concurrent must be completed, we intend to initiate a Phase II clinical trial in the United States that will examine safety and y overweight or obese patients. In addition to ATHX-105, we have a portfolio of other compounds that we are treatments for obesity.

ly developing novel orally active pharmaceutical products for the treatment of central nervous system disorders, such as narcolepsy or excessive daytime sleepiness, and other potential indications such as attention deficit and other cognitive disorders. These histamine H3 antagonist compounds are designed to act by elevating levels of sleep and cognitive centers of the brain and stimulating neurological tone, resulting in an enhanced state of on, without causing hyperactivity or addiction.

aceutical development programs, we are developing MultiStem<sup>®</sup>, a proprietary stem cell product for the treatment ations. MultiStem is a biologic product that consists of human stem cells obtained from adult bone marrow or other rces. After cells are isolated from a qualified donor, the cells may be produced on a large scale for future clinical form until needed. We believe that MultiStem may potentially be used to treat a range of distinct disease indication representing a distinct product development program requiring separate clinical trials. In May 2006, we -development collaboration with Angiotech to jointly develop and ultimately market MultiStem for the treatment ocardial infarction and peripheral vascular disease. We are also independently developing MultiStem for bone ogy support, ischemic stroke and potentially other disease indications. We retain the commercial rights to these ntial applications of MultiStem.

e product development programs, we have developed our RAGE technology, a patented technology that provides us e human cell lines that express specific, biologically well validated drug targets without relying upon cloned and While our RAGE technology is not a product, it is a commercial technology that we have been successfully tions for the benefit of our partners and that we have also used for our own internal drug development programs. approaches typically require the physical isolation and structural modification of a gene of interest (an approach ng) in order to create a cell line that expresses a drug target of interest. Researchers may then use the genetically tify pharmaceutical compounds that inhibit or stimulate the target of interest. The RAGE technology enables us to pression of a drug target without having to physically clone or isolate



chnology works through the random insertion of tiny, proprietary genetic switches that randomly turn genes on or off without physical isolation, or any advance knowledge of their structure. This technology provides us with broad freedom to explore areas that may be inaccessible to most other companies as a result of intellectual property restrictions on the use of specific technologies.

For example, we have produced cell lines that express drug targets in a range of disease areas such as metabolic disease, cancer, neurodegenerative disease, cardiovascular disease, inflammation, and central nervous system disorders. Many of these were produced for our collaborative programs at major pharmaceutical companies that we have collaborated with, such as our ongoing collaboration with Amgen, and some have been produced for our internal drug development programs.

Our primary objective is to discover, develop, and commercialize novel therapeutic products for disease indications that represent significant unmet medical need and commercial opportunity. The key elements of our strategy are outlined below.

*Application of our proprietary technologies toward the rapid identification, validation, and development of therapeutic product candidates.* We will continue to use our proprietary technologies to identify and validate therapeutic product candidates. Our technologies, including RAGE and MultiStem, provide us a competitive advantage in drug discovery and product development, allowing us to move products quickly from the discovery phase into clinical trials using a “fast follower” approach, thereby reducing risk and reducing costs.

*Licensing or co-development arrangements for certain product candidates.* We intend to license certain of our product candidates or co-develop them with, qualified collaborators to broaden and accelerate our product development efforts. In order to maximize the value of our product candidates in these potential licensing or collaboration arrangements, we plan to internally develop our product candidates through at least Phase II clinical trials whenever possible. We anticipate that this strategy will help us to realize a greater return on product candidates for which we enter into collaborations through the receipt of strategic equity investments, license fees, milestone payments, and profit sharing or royalties.

*Commercialization, development, manufacture, and market other therapeutic products.* We will apply the capital we obtain from financing and other activities toward the development of our other therapeutic product candidates. Our intention is to ultimately commercialize, market, and distribute these product candidates on our own after they have received FDA approval. We will select the mode of commercial development based on several factors, including the required regulatory approval pathway and the potential market for the product can be sold, and our ability to feasibly fund development activities through commercialization and other sources for an approved product.

*Protection of our intellectual property portfolio.* Our intellectual property is important to our business and we take significant steps to protect its value. We have an ongoing research and development effort, both through internal activities and collaborative research activities with others, which aims to develop new intellectual property and enable us to file patent applications to cover new applications of our existing technologies or product candidates, including MultiStem.

*Other potential commercial applications of our technologies.* Certain elements of our technologies, such as their application toward the development of novel diagnostics or their use for the analysis and characterization of therapeutic product candidates, may not be the primary focus of our corporate strategy. We believe these applications may have significant potential value, however, we do not have the capital to us that can be applied to our other development efforts. Where appropriate, we may seek to license certain elements of our technologies to others to realize this value.



technologies and capabilities, we have established preclinical drug development programs in the areas of obesity and disorders. In addition, applying our proprietary cell therapy platform, MultiStem, we have established therapeutic programs in the areas of cardiovascular disease, oncology support and stroke. We currently intend to advance multiple development in 2007 and 2008.

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contributing factor to a range of diseases that represent the major causes of death and disability in the developed that are clinically obese have elevated rates of cardiovascular disease, stroke, certain types of cancer and diabetes. Individuals who are defined as clinically obese has risen dramatically over the past several decades. According to the Center for Disease Control and Prevention, or CDC, the incidence of obesity in the United States has increased at an average of 1% per year over the past 20 years. CDC now estimates that 66% of all Americans are overweight and more than 30% are obese. This is true for both men and women. The percentage of young people who are overweight has more than tripled since 1980. Among children and adolescents, 16% (over nine million young people) are considered overweight. There has been a similar dramatic rise in the incidence of obesity in Europe and Asia. Furthermore, the cost of this epidemic is significant. The FDA estimates that the total economic cost of obesity is \$117 billion per year in the United States, including more than \$50 billion in avoidable medical costs. Despite the magnitude of the problem, current approaches to clinical obesity are largely ineffective, and we are aware of relatively few new therapeutic development.

pharmaceutical treatments for obesity. Our most advanced drug development candidate is ATHX-105, a drug that we have developed internally and have extensively analyzed and validated in preclinical studies. We believe that ATHX-105 is a best-in-class obesity drug, based on its well validated mechanism of action, as well as the potency and overall safety profile demonstrated in preclinical studies. We are developing ATHX-105 as a once-per-day orally administered pill to regulate food intake in clinically obese individuals, defined as those individuals with a body mass index greater than 30. In addition, we are developing a diverse portfolio of back-up compounds that act by the same mechanism as ATHX-105, as well as other obesity programs that act according to different biological mechanisms of action.

to act by stimulating a key receptor in the brain that regulates appetite and food intake – the 5HT2c receptor. The role of the 5HT2c receptor in regulating food intake is well understood in both animal models and humans. In 1996, Wyeth Pharmaceuticals launched Redux® (dexfenfluramine), a non-specific serotonin receptor agonist that was used with the stimulant phentermine in a combination known as fen-phen. This diet drug combination gained rapid and widespread acceptance in the clinical market and was known to be highly effective at regulating appetite, reducing food intake, and causing weight loss. Unfortunately, in 1997, it was discovered that the 5HT2c receptor, fen-phen also stimulated the 5HT2b receptor that is found in the heart. The activation of 5HT2b is thought to have caused significant cardiovascular problems in a number of patients and, as a result, Redux® was withdrawn from the market. In 1996, doctors wrote 18 million monthly prescriptions for drugs constituting the fen/phen combination. In that year, the combination generated sales of greater than \$400 million, serving as a benchmark for the substantial market opportunity for an effective treatment for clinical obesity.

Since Redux was withdrawn from the market, several groups have published research that implicates stimulation of the 5HT2b receptor in the development of the cardiovascular problems. These findings suggest that highly selective compounds that stimulate the 5HT2c receptor but do not appreciably stimulate the 5HT2b receptor, could be developed that maintain the desired appetite suppressive effects without the associated cardiovascular toxicity. Recently, Arena Pharmaceuticals developed a selective 5HT2c agonist,



ts significant selectivity for the 5HT2c receptor relative to the 5HT2b receptor. In a Phase II clinical trial recently rmaceuticals, Lorcaserin was demonstrated to reduce appetite and cause statistically significant weight loss in stered the drug for a period of three months, without causing any apparent cardiovascular effects. However, at s been shown to cause dizziness, nausea and headaches, which is believed to be a consequence of its apparently for the 5HT2c receptor relative to another serotonin receptor expressed in the brain, the 5HT2a receptor. Currently, a large scale, two-year Phase III clinical study that is designed to evaluate safety, including cardiovascular safety, ing weight loss in patients that are administered Lorcaserin for a period of one year. Lorcaserin is being ay at a dosage level that is half the level previously observed to cause unacceptable levels of dizziness, nausea and al studies.

opment program focused on creating potent and selective compounds that stimulate the 5HT2c receptor, but that r and other receptors, such as 5HT2a. Our specific goal is to develop a once-per-day orally administered pill that ating the 5HT2c receptor, but that does not stimulate the 5HT2b receptor, the 5HT2a receptor, or other receptors side effects. Based on extensive preclinical studies that we have conducted with ATHX-105, it has been shown to lective compound that fulfills all of our criteria. We believe that the superior selectivity displayed by ATHX-105 relative to both the 5HT2b receptor and the 5HT2a receptor will result in a cleaner safety profile in clinical studies, eve better efficacy, as well as a more convenient dosing schedule than other 5HT2C agonist programs.

odents, obese animals that received once-daily doses of ATHX-105 exhibited a 57% reduction in daily food intake eceiving placebo alone. In addition, after receiving once-daily doses of ATHX-105 for two weeks, these animals ne animals that were treated with placebo alone. The effect was dose proportional, and animals that received X-105 showed progressively greater weight loss.

on of a low dose (0.1mg/kg) of ATHX-105 resulted in a short-term reduction of food intake of approximately ving a 10-fold higher dose (1.0 mg/kg) of ATHX-105 exhibited a complete cessation of short-term food intake that drug cleared. Based upon these results, and the results of other studies that we have conducted, we calculate the ogs to be approximately 0.1 to 0.2 mg/kg.

esting in both dogs and monkeys, ATHX-105 appeared to be safe and well tolerated, even when administered at r than those that caused a significant reduction in food intake. In dogs, the maximum tolerated dose was a dose level approximately 180 to 360 times higher than the effective dose range observed in short-term food studied the safety profile of ATHX-105 in cynomolgous monkeys, administering doses for two weeks that are 40 to expected effective dose levels in humans, which were well tolerated with no signs of adverse effects.

l a Phase I clinical trial for ATHX-105 in the United Kingdom. The Phase I clinical trial will have a standard dose administration, dose escalation, and maximum tolerated dose, followed by a one-week study examining the of multiple doses of ATHX-105 to healthy overweight or obese individuals, with a body mass index of 25 to 35 at vels. Safety monitoring will include the assessment of various cardiovascular parameters. We believe that the Phase pleted within approximately six months from the time we began enrollment. Concurrent with the Phase I clinical t certain non-clinical studies that must be completed prior to the commencement of subsequent clinical studies.

oping other compounds that are designed to stimulate the 5HT2c receptor with greater potency and/or specificity of these compounds have demonstrated significant reductions in food intake in rodent models. We plan to subject er safety and efficacy testing in animals while we continue to develop ATHX-105. Furthermore, we have created esity targets that are distinct from 5HT2c by utilizing our other technologies and have screened for

compound library that are designed to significantly reduce food intake by acting against these targets. Although these stages of preclinical development, we believe they represent promising opportunities for future development.

#### *Treatment of Sleep Disorders and Certain Other Cognitive Disorders*

In our program, we are developing a class of pharmaceuticals that are designed to enhance wakefulness and promote alertness in individuals that suffer from narcolepsy or other conditions that result in excessive daytime sleepiness, or EDS, may fatigue and lack of energy. As a result, such individuals may experience significant difficulty in performing certain tasks and impaired quality of life. More than 100,000 individuals in the U.S. suffer from narcolepsy or EDS. Historically, individuals have been treated with amphetamines and related stimulants that had substantial side-effects, but more recently have been prescribed a new compound works by an unknown mechanism, but appears to be relatively free of the stimulant side-effects of amphetamines. In addition to its use for narcolepsy, Provigil is also approved for the treatment of shift work sleep disorder, or SWSD, and Provigil in 2006 were reported to be over \$700 million. Although Provigil appears to be an improvement over amphetamines, certain safety concerns were raised by the FDA when Cephalon, Inc. attempted to gain approval of modafinil for the treatment of narcolepsy, subsequently abandoned efforts in this market.

Individuals with attention or cognitive disorders may suffer from an inability to focus, solve problems, process information, and have memory impairment. Attention and cognitive disorders include ADHD, Alzheimer's disease and other forms of dementia. Research estimates that 23 million children in the seven major pharmaceutical markets (United States, France, Germany, Italy, Japan, and Japan) that suffer from ADHD. Research also shows that 60% of children with ADHD maintain the disorder into adulthood. Despite the low rate of diagnosis, ADHD drug revenues reached \$2.5 billion in 2004, 97% of which was generated by stimulants. Currently available treatments cause side effects and do not adequately address the clinical need. Ritalin® is the most widely prescribed ADHD therapy. As a stimulant with abuse potential, it has been classified as a controlled substance by the U.S. Drug Enforcement Agency. We believe there exists a tremendous market opportunity as diagnosis and treatment are improved.

We have developed multiple classes of highly selective and potent compounds designed to block the H3 receptor and have established a pipeline of stimulant, non-addictive, orally administered drugs for the treatment of narcolepsy or other conditions related to excessive daytime sleepiness.

H3 antagonists represent a new class of drugs that could have an improved efficacy and safety profile relative to stimulants for the treatment of narcolepsy and related sleep disorders. The H3 receptor regulates levels of histamine and other neurotransmitters in certain areas of the brain that play a direct role in regulating sleep and cognitive function. In animal models, H3 antagonists have been shown to increase histamine release in the brain and improve wakefulness, attention and learning. In a study conducted at an independent lab, we have tested one of our more advanced compounds in a well validated rodent model of narcolepsy. In this study, this compound significantly enhanced wakefulness without causing apparent adverse events. In comparison to amphetamines, this compound was far more potent, achieving a comparable or better effect on wakefulness at substantially lower doses. Amphetamines did not appear to cause the excessive rebound sleepiness that is a characteristic of other agents used to treat narcolepsy such as amphetamines.

We are currently conducting a study of this compound for potential applications in treating narcolepsy, excessive daytime sleepiness, and other cognitive disorders. In addition, we intend to conduct additional pharmacology and safety testing. If these studies are successful, and depending on the availability of capital resources, we would consider filing an IND for the initiation of clinical trials. Other pharmaceutical companies such as Glaxo-SmithKline and Johnson & Johnson have advanced H3 antagonists into clinical trials for conditions such as narcolepsy and dementia, respectively.

## Programs

### *Approach to Regenerative Medicine*

In our pharmaceutical programs, we are developing a proprietary nonembryonic stem cell product candidate, MultiStem, that we believe has the potential for treating a broad range of diseases and could have widespread application in the field of clinical regenerative medicine. MultiStem represents a significant advancement in the field of stem cell therapy.

Bone marrow transplantation has been recognized for decades, and its clinical use has grown since Congress passed the National Marrow Transplant Act in 1984, and the National Marrow Donor Registry was established in 1990. However, for several decades, bone marrow or stem cell transplantation has yet to become a reality. Some of the limitations that have prevented widespread use of bone marrow or stem cell transplantation include the requirement for tissue matching between donor and recipient, the difficulty of efficiently produce significant quantities of stem cells, and a range of potential safety issues. While the field of bone marrow transplantation is promising, it is also highly controversial and fraught with challenges.

MultiStem has the potential to address the challenges mentioned above could represent a breakthrough in the field of regenerative medicine. Since its inception, it could greatly expand the clinical areas that utilize stem cell therapy or other forms of regenerative medicine. In 2006, Dr. Jeffrey M. Perfaillie and her team published research first describing a rare and novel stem cell, the MAPC, which may be derived from bone marrow as well as other nonembryonic tissues. In their potential product form, we refer to these cells as MultiStem cells. MultiStem cells exhibit several important biological properties, including:

*and multiple potential mechanisms of action.* MultiStem cells have a demonstrated ability in animal models to differentiate into all three germ layers and appear to be able to deliver therapeutic benefit through multiple mechanisms, such as producing new cells to replace damaged tissues against damage and inflammation, as well as enhancing or playing a direct role in revascularization or angiogenesis.

*Production.* Unlike conventional stem cells, such as blood-forming or hematopoietic stem cells, MultiStem cells may be produced on a large scale, processed, and cryogenically preserved, and then used clinically in a rapid and efficient manner. A single donor may be used to produce hundreds of thousands or even millions of individual doses.

*Utility.* Unlike traditional bone marrow or hematopoietic stem cell transplants, which require extensive genetic matching between donor and recipient, MultiStem cells do not appear, based on preclinical testing in animals, to require extensive matching prior to administration. MultiStem treatment may be allogeneic, meaning that these cells do not need to be matched between donor and recipient. This feature, combined with the ability to establish large MultiStem banks, could allow for clinicians to efficiently deliver stem cell therapy to a large number of patients.

Embryonic stem cell types, such as embryonic stem cells, can pose serious safety risks, such as the formation of tumors or teratomas. In contrast, MultiStem cells have an outstanding safety profile that has been compiled over several years of testing in a range of animal models by a variety of investigators.

MultiStem production process, cells are analyzed and qualified according to pre-established criteria to ensure that a high quality product candidate is produced. Cells are harvested from a pre-qualified donor and then expanded to form a large number of cells. In March 2007, we and our manufacturing partner, Lonza, announced the successful establishment of a Master Cell Bank and the production of clinical grade material for our initial clinical trials.

MultiStem has the potential to pursue multiple high value commercial opportunities from a single product platform, since we believe it has the potential to be used in a wide range of disease states and therapeutic areas. For example, based on numerous preclinical discussions with the FDA, we believe we will be able to use data and information from preclinical safety studies for the development of MultiStem for



will be achieved by establishing a central file with the FDA, also known as a Master File, that contains data from as well as information related to product manufacturing and characterization. As a result, we expect to be able to advance clinical indications as we further expand the scope of potential applications for MultiStem, enabling us to reduce development timelines in comparison to traditional single-use drug development programs.

#### *Myocardial Infarction, Stroke & Bone Marrow Transplant Support/GVHD*

Investigations by leading investigators at a number of leading institutions, such as the University of Minnesota, the Cleveland Clinic, the University of Alabama at Birmingham, the Medical College of Georgia, and the University of Oregon Health Sciences Center, have studied animal models that reflect various types of human disease or injury, such as myocardial infarction, stroke, brain injury, and blood flow in newborns, vascular disease, and bone marrow transplant support/GVHD. In addition, we are exploring the potential application of MultiStem in the treatment of a range of other conditions such as certain blood disorders and various autoimmune diseases.

We have consistently observed that MultiStem is safe and effective in animal models. As a result, we initially plan, subject to adequate resources, to advance MultiStem into clinical development in three areas: damage caused by myocardial infarction; oncology setting to reduce certain complications associated with bone marrow transplantation; and for stroke and blood flow in the brain. For these areas, we intend to use one MultiStem cell product, produced and validated with our platform.

Myocardial infarction is one of the leading causes of death and disability in the United States. Myocardial infarction is caused by the blockage of the arteries that supply blood to the heart. Such blockages can be caused, for example, by the rupture of an artery. According to the American Heart Association 2007 Statistical Update, there were approximately 865,000 cases of myocardial infarction that occurred in the United States in 2004 and approximately 7.9 million individuals living in the United States that had a heart attack. In addition, there were more than 452,000 deaths that occurred from various forms of ischemic heart disease due directly to myocardial infarction in 2004. A variety of risk factors are associated with an elevated risk of atherosclerosis, including age, high blood pressure, smoking, sedentary lifestyle, and genetics. While advances in prevention, diagnosis, and treatment of heart disease have had a positive impact, there is clearly room for improvement in myocardial infarction, a leading cause of death and disability in the United States and the rest of the world.

Studies conducted in validated animal models of acute myocardial infarction at both the Cleveland Clinic and the University of Minnesota demonstrated that the administration of allogeneic MultiStem into the hearts of animals damaged by myocardial infarction resulted in significant functional improvement in cardiac output and other functional parameters compared to animals that received placebo or no treatment. Further, the administration of immunosuppressive drug was not required and was not a benefit in this study, and supports the concept of potentially using MultiStem as an allogeneic product.

In collaboration with a contract research organization, we have initiated additional preclinical studies in established pig models of acute myocardial infarction, examining various factors such as the route and method of MultiStem administration, dose ranging, and timing of administration. Based on the results of these and other studies, we intend to file an IND for the use of MultiStem for the treatment of acute myocardial infarction.

One of the key applications of our regenerative medicine program is the use of MultiStem for bone marrow transplant and oncology support. For many types of leukemia or other blood-borne cancers, treatment typically involves radiation therapy or chemotherapy, alone or in combination with bone marrow transplant. MultiStem can substantially





ood and immune system, by reducing the number of stem cells in the bone marrow from which they arise. The n treatment or chemotherapy, the more severe the resulting depletion of the bone marrow, blood, and immune issues may also be affected, such as cells in the digestive tract and in the pulmonary system. The result may be efficiency, significant reduction in digestive capacity, and other problems, which may result in significant disability

the depletion of bone marrow is to perform a bone marrow transplant. This approach may augment the patient s and immune cells and provide a significant survival advantage. However, finding a closely matched donor is en impossible. Even when such a donor is found, in many cases there are immunological complications, such as t in death or serious disability.

ports in the stem cell and bone marrow transplantation field, we have studied MultiStem in animal models of VH. In multiple animal models, MultiStem has been shown to be non-immunogenic, even when administered hing that is typically required for conventional bone marrow or stem cell transplantation. Furthermore, in animal mune reactivity of T-cells against unrelated donor tissue, MultiStem has been shown to suppress the responses that are an important factor in causing GVHD. MultiStem-treated animals also displayed a significant ve to controls. As a result, we believe that the administration of MultiStem in conjunction with or following nsplantation may have the potential to reduce the incidence or severity of complications and may enhance other

ors are leading experts in the field of bone marrow transplantation, including Dr. Richard Maziarz from Oregon ty, Dr. John Wagner from the University of Minnesota and Dr. Hillard Lazarus from University Hospitals of itiate a company-sponsored Phase I clinical trial to evaluate MultiStem administration in support of bone marrow eatment of certain cancers of the blood and immune system. We are currently completing multiple preclinical us items such as cell distribution and persistence following intravenous administration, general safety and toxicity, tem in acute GVHD models in rodents. Upon the successful completion of these studies, we would expect to file

enerative medicine program is the use of MultiStem for the treatment of neurological injury as a result of ischemic or 80% of all strokes. Recent progress toward the development of safer and more effective treatments for ischemic ntng. Despite the fact that stroke is one of the leading causes of death and disability in the United States, affecting oations annually according to the CDC, there has been little progress toward the development of treatments that r stroke victims. The only FDA-approved drug currently available for ischemic stroke is the anti-clotting factor, nistered to the patient within three to six hours of the onset of the stroke. Administration of tPA after this time ed, since it can cause bleeding or even death. Given this limited therapeutic window, it is estimated that less than ctims currently receive treatment with tPA.

ducted by investigators at both the University of Minnesota and the Medical College of Georgia, significant ave been observed in rodents that have undergone an experimentally induced stroke, or that have incurred damage as a result of neonatal hypoxic ischemia, and then received treatment with MultiStem. Through research rs at the Medical College of Georgia and presented at the annual American Academy of Neurology meeting in that administration of MultiStem even one week after a surgically induced stroke results in substantial long-term idenced by the improvement of treated animals compared with controls in a battery of tests examining mobility, s, and other aspects of neurological functional improvement. These results have been confirmed in subsequent



reatment is well tolerated, does not require immunosuppression, and results in a robust and durable therapeutic  
 istered one week after the initial stroke event.

aining preclinical safety studies, we intend to submit an IND for this application. The initiation of the initial  
 d on the availability of capital resources.

m could have broad potential to treat a range of conditions. In addition to the above programs, we are actively  
 o collaborate with other highly qualified investigators to evaluate the potential benefits of MultiStem in other  
 as various blood and immune deficiencies, certain autoimmune diseases, and other potential indications.

s  
 t development programs, we have developed RAGE, a patented technology that provides us with the ability to  
 that express specific, biologically well validated drug targets without relying upon cloned and isolated gene  
 gy platform provides us with broad freedom to work with drug targets that may be inaccessible to most other  
 intellectual property restrictions on the use of specific cloned and isolated genes. Over the past several years, we  
 that express drug targets in a range of disease areas such as metabolic disease, infectious disease, oncology,  
 nflammation, and central nervous system disorders. Many of these were produced for drug development programs  
 companies that we have collaborated with, and some have been produced for our internal drug development

petition with respect to the various dimensions of our business. With regards to our efforts to develop ATHX-105  
 he treatment of obesity, there are already approved therapeutic products on the market, such as Xenical, which is  
 Meridia, which is marketed by Abbott Pharmaceuticals. However, both of these drugs can have side effects that we  
 r adoption by patients and clinicians. For example, potential side effects associated with taking Xenical include  
 omfort, flatulence, diarrhea, and leakage of oily stool. Potential side effects associated with taking Meridia include  
 and heart rate, headache, dry mouth, constipation, and insomnia. Individuals with high blood pressure, heart  
 eat, or a history of stroke are cautioned not to take Meridia.

ucts, other companies are actively developing therapeutic products for the treatment of obesity, including  
 developing the drug Rimonabant, which acts by suppressing appetite by blocking the CB1 receptor, also known as  
 or its recognized role as the site of action of the cannabinoids found in marijuana that can stimulate appetite.  
 proved for use in Europe in treating obesity, but is not approved for use in the United States. In Phase III clinical  
 nonabant exhibited statistically significant weight loss. Notable adverse events among some patients taking the  
 y infection, dizziness, nausea, anxiety, and depression, which were observed at higher frequency among patients  
 o those taking placebo in the control group.

o attempting to develop novel 5HT2c agonists. One company, Arena Pharmaceuticals, recently completed a  
 n its novel product candidate APD356, also referred to as Lorcaserin. Clinically obese patients taking 10 mg of the  
 ited statistically significant weight loss over the three-month study period, exhibiting an average loss of 7.9 lbs,  
 g the placebo, who lost an average of 0.7 lbs. All patients on the study underwent cardiovascular safety monitoring  
 study, and there were no reported adverse events with respect to cardiovascular safety according to the company.  
 erved among patients taking the drug at 10 mg dose twice per day included headache (26.7% vs. 17.8% in the  
 s (7.8% vs. 0% in the placebo group), nausea (11.2% vs. 3.4% in the placebo group), and vomiting (5.2% vs. 0.8%



Pharmaceuticals announced that it had completed enrollment of 3,182 patients in a double blind, randomized and III study of Lorcaserin designed to evaluate safety and efficacy of twice daily 10 mg doses of Lorcaserin r. The primary efficacy endpoint is the percentage of patients exhibiting greater than 5% weight loss over baseline dent Data Safety Monitoring Board will evaluate cardiovascular safety in all patients at 6, 12, 18 and 24 months l. The results of the initial six-month review are expected in the third quarter of 2007.

companies attempting to develop novel treatments for obesity, and a wide range of approaches are being taken. Some de large, multinational pharmaceutical companies such as Pfizer, Bristol-Myers Squibb, Merck, Roche, mithKline, Eli Lilly and others. There are also a variety of biotechnology companies developing treatments for n, Inc., Regeneron, Nastech Pharmaceutical Company, Alizyme, Amylin Pharmaceuticals, Neurocrine Biosciences, rmaceuticals, Kyorin Pharmaceutical, VIVUS and others. It is likely that, given the magnitude of the market anies will continue to focus on the obesity area, and that competition will remain high. If we are successful at r another compound as a safe and effective treatment for obesity, it is likely that other companies will attempt to effective 5HT2c agonists, or will attempt to combine therapies in an effort to establish a safer and more effective

competition with respect to our efforts to develop MultiStem as a novel stem cell therapy. Currently, there are a t are actively developing stem cell products, which encompass a range of different cell types, including embryonic d stem cells, adult-derived stem cells, and processed bone marrow derived cells. These include both public s, Genzyme, Geron, Genentech, Aastrom Biosciences, Stem Cells Inc., Cell Genesys, Viacell, Celgene, Advanced -CELL International, Mesoblast Limited and Cytori Therapeutics, and private companies, such as Cognate Gamida Cell, Arteriocyte, Plureon and others. Given the magnitude of the potential opportunity for stem cell etition in this area to intensify in the coming years.

tion with respect to our ability to produce drug targets for our drug development programs. There are many ed intellectual property that seek to restrict or protect the use of specific drug targets, including Incyte, Millennium Genome Sciences, Lexicon Genetics, CuraGen, Exelixis, Myriad Genetics, Sangamo BioSciences, and others.

nificant competitors are fully integrated pharmaceutical companies and more established biotechnology companies reater financial, technical, sales, marketing, and human resources than we do. These companies may succeed in roval for competitive products more rapidly than we can for our products. In addition, our competitors may develop s that are cheaper, safer or more effective than those being developed by us or that would render our technology me of these companies may feel threatened by our activities, and attempt to delay or impede our efforts to develop r technologies.

n of patent applications, patents, trademarks, and contractual provisions to protect our proprietary rights. We mpetitive advantage, we must develop and maintain the proprietary aspects of our technologies. Currently, we loyees, consultants, contractors, manufacturers, outside scientific collaborators and sponsored researchers, and confidentiality agreements in connection with their employment, consulting, or advisory relationships with us, so require our employees, consultants, and advisors who we expect to work on our products to agree to disclose tions conceived during the work day, developed using our property, or which relate to our business.

oad intellectual property portfolio related to our key functional genomics technologies and product candidates. We e with claims directed to compositions,

methods of using our small molecule drug candidates. In our 5HT2c program, we have filed four patent claims directed to ATHX-105, related compounds in the same chemical series from which ATHX-105 was derived, and generation compounds from distinct chemical series. In our Histamine H3 program, we have filed four patent claims directed to compounds from two distinct chemical series. All compounds described in these patent claims are owned by Athersys. In addition, we currently have twelve issued U.S. patents and various issued international patents and methods for the RAGE technology. These patents will expire in 2017. In addition, we have five U.S. and international patents relating to the RAGE technology. There are also several patent applications relating to human proteins that we have identified through the application of RAGE and our other technologies. The RAGE technology was developed by Dr. James Harrington and other Athersys scientists internally in the mid-1990s.

We also own patents with claims directed to compositions, methods of production, and methods of use of MultiStem and related technology, and ownership of the stem cell technology for our MultiStem product candidate, MAPCs, as a result of our 2003 acquisition of the intellectual property related to stem cells originally discovered at the University of Minnesota. We also own patents related to this technology, and three U.S. patent applications, as well as many corresponding international patents. In addition, there are five pending applications related to research conducted by us and our collaborators.

We have a license to additional MAPC-related inventions (or in other words, improvements) developed by the University of Minnesota covering 16 pending patent applications, and covers inventions made at the University of Minnesota through May 2009. This license requires us to pay a portion of the patent prosecution costs for the inventions that we elect to license. This license agreement terminates when the last patent issued under the license expires (currently, no patents have been granted for inventions subject to the license agreement). We may terminate the license at any time. The University of Minnesota may terminate the license if we fail to pay royalties when due or fail to perform under the license, such as our obligation to use commercially reasonable efforts to commercialize the MAPC technology. The University of Minnesota is entitled to a royalty on net sales of products developed from the MAPC technology.

We have a broad freedom to use and commercially develop our technologies and product candidates. However, if successful, our commercialization efforts may be brought against us may force us or any of our collaborators or licensees to stop or delay developing, or may require us to abandon, our potential products that are claimed to infringe a third party's intellectual property, unless that party grants us rights to use the intellectual property. In such cases, we may be required to obtain licenses to patents or proprietary rights of others to continue to develop and commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties, or at all. Even if we were able to obtain rights to the third party's intellectual property, these rights may be limited, or may give our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize our products or may have to cease some of our business operations as a result of patent infringement claims, which could harm our business.

n

Our development and our research and development activities are subject to stringent government regulation in the United States and in many instances, by corresponding foreign and state regulatory agencies. The European Union, or EU, has vested regulatory authority in the European Medicines Evaluation Agency and Committee on Proprietary Medicinal Products to standardize drug development across EU member nations.

The FDA enforces comprehensive statutes, regulations, and guidelines governing the drug development process. This process includes several steps. Initially, the company must generate preclinical data to show safety before human testing may be initiated. A drug company must submit an IND to the FDA prior to securing authorization for human testing. The IND must

stry, toxicology and metabolism and, where appropriate, animal research testing to support initial safety.

equivalent of the U.S. IND. CTA requirements are issued by the Medicines and Healthcare Products Regulatory  
dom's health authority and were enacted through the U.K. Medicines for Human Use (Clinical Trials) Regulations  
and the EU Clinical Trials Directive in the United Kingdom.

dates will require regulatory approval and compliance with regulations made by U.S. and foreign government  
cialization in such countries. The process of obtaining FDA or foreign regulatory agency approval has historically  
d time consuming. The FDA regulates, among other things, the development, testing, manufacture, safety,  
labeling, storage, approval, advertising, promotion, sale, and distribution of biologics and new drugs.

quired by the FDA before a pharmaceutical agent may be marketed in the United States includes:

in animals that demonstrate a reasonable likelihood of safety and effectiveness in human patients;

the FDA of an IND, which must become effective before clinical trials in humans can commence. If Phase I clinical  
conducted initially outside the United States, a different regulatory filing is required, depending on the location of

all controlled human clinical trials to establish the safety and efficacy of the drug or biologic in the intended disease

ssion of a New Drug Application, or NDA, or a Biologic License Application, or BLA, with the FDA; and

f the NDA or BLA before any commercial sale or shipment of the drug.

ke several years to complete, and there is no guarantee that an IND based on those studies will become effective to  
egin. Once clinical trials are initiated, they generally take five to seven years, or longer, to complete. After  
als of a new drug or biologic product, FDA approval of the NDA or BLA must be obtained. This process requires  
rt and there is no assurance that the FDA will accept the NDA or BLA for filing and, even if filed, that the FDA  
e past, the FDA's approval of an NDA or BLA has taken, on average, one to two years, but in some instances may  
If questions regarding safety or efficacy arise, additional studies may be required, followed by a resubmission of  
w and approval of an NDA or BLA can take up to several years.

FDA approval for each product, each drug manufacturing facility must be inspected and approved by the FDA. All  
ments are subject to inspections by the FDA and by other federal, state, and local agencies, and must comply with  
do not currently have any GMP manufacturing capabilities, and will rely on contract manufacturers to produce  
n for any clinical studies that we may conduct.

ulatory approval in other countries in which we intend to market any drug. The requirements governing conduct of  
ensing, pricing, and reimbursement vary widely from country to country. FDA approval does not ensure regulatory  
es. The current approval process varies from country to country, and the time spent in gaining approval varies from  
proval. In some countries, the sale price of the drug must also be approved. The pricing review period often begins  
granted. Even if a foreign regulatory authority approves a drug product, it may not approve satisfactory prices for

enforced by the FDA, we are also subject to regulation under the Occupational Safety and Health Act, the  
n Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and other present and  
tate, or local regulations. Our





that involves the controlled use of hazardous materials, chemicals, biological materials, and various radioactive materials. We believe that our safety procedures for handling and disposing of such materials currently comply in all material respects with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials is minimal. In the event of such an accident, we could be held liable for any damages that result and any such liability could be a drain on our financial resources.

## Partnerships

We entered into a collaboration with Angiotech that is focused on co-developing MultiStem for the treatment of damage to the heart or peripheral vascular disease. In support of the collaboration, Angiotech purchased \$10.0 million in principal amount of subordinated convertible promissory notes, the principal amount of which was automatically converted along with our common stock upon the closing of the June offering. We may also receive additional equity investments and royalties upon the successful achievement of specified clinical development and commercialization milestones, through there may be any milestones.

Under the collaboration, the parties plan to jointly fund clinical development activity as follows: preclinical costs will be borne by us; costs for phase I, II and III studies will be shared by us and Angiotech. We will have lead responsibility for preclinical and development and manufacturing of the MultiStem product, and Angiotech will take the lead on pivotal and later clinical trials. The parties will share net profits from the sale of any approved products. In addition, we will retain the commercial rights to all other therapeutic applications, including treatment of stroke, bone marrow transplantation and oncology support, autoimmune disorders, autoimmune disease, and other indications that we may elect to pursue.

The collaboration does not have a specific termination date, but will terminate upon the earliest to occur of:

- the three-year anniversary if we and Angiotech have not approved any clinical development program;

- the date that a cell therapy product has obtained regulatory approval and we and Angiotech have shared profits with respect to sales of that cell therapy product, the date that there has been no sales for 12 months of any cell therapy product that has been the subject of the collaboration, unless a clinical development candidate is in at least a Phase III clinical or later; and

- the expiration date of the last-to-expire patent licensed to Angiotech and (2) the 15-year anniversary.

We may terminate the collaboration at will; however, either party may elect at certain points to not move forward with certain development programs. If either party breaches its material obligations and fails to cure that breach within 60 days of the breach, the non-breaching party may terminate the collaboration. Angiotech has a right to immediately terminate the collaboration upon certain bankruptcy events involving us. Angiotech also has the right to terminate the collaboration upon the occurrence of certain events, in its reasonable judgment, determines that:

- we have not met a milestone in a clinical study within a clinical development plan has not been fulfilled or met;

- we have not filed prior to the three-year anniversary;

- we have not met a milestone in a clinical study within a clinical development plan has not been fulfilled or met;

- we have not met a milestone in a clinical study within a clinical development plan has not been fulfilled or met;



ing cells, a clinical development candidate or a cell therapy product were obtained, in whole or in part, through or

product is not (or is not expected to be) commercially viable or profitable in at least one major market.

entered into a collaboration with Bristol-Myers Squibb to provide cell lines expressing well validated drug targets E technology for compound screening and development. This initial collaboration was expanded in 2002 and again quibb uses the cell lines in its internal drug development programs and, in exchange, we receive license fee and will be entitled to receive royalties on the sale of any approved products. Depending on the use of a cell line by and the progress of drug development programs benefiting from the use of such a cell line, we may receive additional e payments related to cell lines currently in use, though we cannot assure you that we will meet any milestones or through June 30, 2007, we have received an aggregate of approximately \$5.2 million in license fees and milestone Myers Squibb.

b collaboration does not have a specific termination date, but will terminate when Bristol-Myers Squibb no longer us royalties, which obligation generally continues until the later of the expiration of the Bristol-Myers Squibb ved product and ten years after commercial sales of that product began. If either party breaches its material ure that breach within 60 days after notice from the non-breaching party, the non-breaching party may terminate

ay become subject to various legal proceedings that are incidental to the ordinary conduct of our business. We do dings, if any, to date, either individually or in the aggregate, to be material to our business or likely to result in a n our future operating results, financial condition, or cash flows.

ess will be based on, among other things, the quality of our science, our ability to invent and develop superior and and products, and our ability to attract and retain capable management and other personnel. We have assembled a ntists and executives with significant experience in the biotechnology and pharmaceutical industries.

employed 26 individuals, of whom 11 hold Ph.D. degrees and four hold other advanced degrees. In addition to our he service and support of several outside consultants and advisors. None of our employees is represented by a ationships with our employees are good.

located at 3201 Carnegie Avenue in Cleveland, Ohio. We currently lease approximately 53,000 square feet of ffices and laboratories, with about 40,000 square feet of state-of-the-art laboratory space. The lease currently nd we have an option to extend the lease in six-month increments through March 2009 at our current rent of

## MANAGEMENT

### Officers

responsible for the overall management of Athersys and elects the executive officers who are responsible for day-to-day operations. Our management team is comprised of experienced executives of understanding that have development stage, venture capital-funded, start-up companies and corporate development transactions and have held private and publicly traded companies.

have been elected to serve as our officers and directors:

	Age	Position
	46	Chief Executive Officer and Chairman of the Board of Directors
Jr.	41	President and Chief Operating Officer
	40	Executive Vice President, Chief Scientific Officer and Director
	56	Senior Vice President    Regenerative Medicine
	43	Vice President    Finance
2)	53	Director
	63	Director
	45	Director
	70	Director
	56	Director
	64	Director

compensation committee.

audit committee.

### and Chairman

served as our Chief Executive Officer and Chairman since June 2007. Dr. Van Bokkelen co-founded Athersys in 2001 as Chief Executive Officer and Director since Athersys' founding. Prior to May 2006, he also served as Athersys' Chairman of Athersys' board of directors since August 2000. Dr. Van Bokkelen is the current Chairman of the Board of Regenerative Medicine, and has served on a number of other boards, including the Biotechnology Industry Board of directors from 2001 to 2004, the Kent State University Board of Trustees from 2001 to 2004 and serves as an advisor to Partners, a venture capital firm. 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.

, Jr.

### Operating Officer

as our President and Chief Operating Officer since June 2007. Mr. Lehmann joined Athersys in September 2001 as Executive Vice President of Corporate Development and Finance from August 2002 until May 2006, when he became Chief Operating Officer. From 1994 to 2001, Mr. Lehmann was with McKinsey & Company, Inc., an international consulting firm, where he worked extensively with new technology and service-based businesses in the firm's Business Development Group. Prior to joining McKinsey, he worked at Wilson, Sonsini, Goodrich & Rosati, a Silicon Valley law firm, and worked at a financial institution. Mr. Lehmann

Stanford University, his M.B.A. from the University of Chicago, and his B.A. from the University of Notre Dame.

### ***and Executive Vice President, and Director***

ed as our Chief Scientific Officer, Executive Vice President and Director since June 2007. Dr. Harrington October 1995 and has served as Athersys Executive Vice President and Chief Scientific Officer and as Director g. Dr. Harrington led the development of the RAGE technology as well as its application for gene discovery, drug al protein production applications. He is a listed inventor on 20 issued or pending U.S. patents, has authored 20 and has received numerous awards for his work, including being named one of the top international young scientists view in 2002. Dr. Harrington has overseen the therapeutic product development programs at Athersys since their career he has also held positions at Amgen and Scripps Clinic. He received his Ph.D. in Cancer Biology from his B.A. in Biochemistry and Cell Biology from the University of California at San Diego.

### ***Regenerative Medicine***

our Senior Vice President Regenerative Medicine since June 2007. Dr. Deans has led Athersys regenerative development activities since February 2003 and has served as Vice President of Regenerative Medicine since named Senior Vice President of Regenerative Medicine in June 2006. Dr. Deans is highly regarded as an expert in with over fifteen years of experience in this field. From 2001 to 2003, Dr. Deans worked for early-stage s. Dr. Deans was formerly the Vice President of Research at Osiris Therapeutics, Inc., a biotechnology company, Director of Research and Development with the Immunotherapy Division of Baxter International, Inc., a global n 1992 to 1998. Dr. Deans was also previously on faculty at USC Medical School in Los Angeles, between 1981 ents of Microbiology and Neurology at the Norris Comprehensive Cancer Center. Dr. Deans was an undergraduate D. at the University of Michigan, and did his post-doctoral work at UCLA in Los Angeles.

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as our Vice President Finance since June 2007. Ms. Campbell joined Athersys in January 1998 as Controller and ent of Finance since May 2006. Prior to joining Athersys, she was at Ernst & Young LLP, a public accounting audit practice. During her tenure with Ernst & Young LLP, Ms. Campbell specialized in entrepreneurial services industry sector and participated in several initial public offerings. Ms. Campbell received her B.S., with distinction, on from The Ohio State University.

our Director since June 2007. Dr. Milne has been Director of Athersys since January 2003 after his retirement in pharmaceutical company, where he most recently served as President of Worldwide Strategic and Operations ive Vice President of Global Research and Development. He joined Pfizer Inc in 1970 and held a variety of n chemistry and pharmacology research. Dr. Milne is a Venture Partner of Radius. Dr. Milne became Director of nology and Infectious Diseases at Pfizer Inc in 1981, was Executive Director from 1984 to 1985 and was Vice d Development from 1985 to 1988. He was



resident in 1988 and President of Central Research in 1993 with global responsibility for Human and Veterinary. He serves as a director of Mettler-Toledo, Inc., Charles River Laboratories, Inc., MedImmune Inc., and Aspreva. He also serves on the board of the New York Botanical Garden and the Mystic Aquarium/Institute for Exploration. He has a B.S. in Chemistry from Yale University and his Ph.D. in Organic Chemistry from Massachusetts Institute of Technology.

Mr. Mulligan has been our Director since June 2007. Mr. Mulligan has been Director of Athersys since October 1998. Mr. Mulligan is a Managing Partner at Partners, a Cleveland-based private equity firm and an investor in Athersys, in 1985 from McKinsey & Company, and served as a Managing Director of Primus since 1987. His previous work experience includes management positions at First Chicago Corporation. Mr. Mulligan serves as a director of several private companies and Universal (NYSE: UEIC). Mr. Mulligan is a trustee of The Cleveland Clinic Foundation and chairs the Advisory Board of CCF responsible for commercializing technology developed at the Cleveland Clinic. Mr. Mulligan is also a trustee of Western Reserve Land Conservancy. Mr. Mulligan received his B.A. in economics from Denison University and his M.B.A. from the University of Chicago.

Mr. Davis has been our Director since June 2007. Mr. Davis is a Managing Partner of Radius Ventures, a health and life sciences venture capital firm which he co-founded in 1997. Mr. Davis currently serves on the board of directors of several Radius portfolio companies including Health Language, Inc., Heartscape Technologies, Inc., Impliant, Inc., and Zettacore, Inc. He also serves on the board of directors of Holographics, Inc. (OTC: ABHH). Mr. Davis earned an M.B.A. from the Kellogg School of Management at Northwestern University and a B.A. in Economics from The State University of New York at Binghamton.

Dr. Loop has been our Director since June 2007. Dr. Loop is currently retired. Until his retirement in October 2004, Dr. Loop was the Chairman of the Board of Governors of The Cleveland Clinic Foundation from 1989 to 2004. Earlier, he chaired the Department of Vascular Surgery at the Cleveland Clinic from 1975 to 1989. Dr. Loop and his colleagues were responsible for the development of arterial conduits in coronary artery surgery, innovations in valve repair, reoperations and numerous changes in the practice of cardiac surgery. As a surgeon, Dr. Loop performed more than 12,000 open heart operations and authored 350 papers on all aspects of cardiac surgery. During his tenure as CEO, the Cleveland Clinic revenues grew from \$650 million to \$3.6 billion. His leadership resulted in a significant development of basic and applied research, creation of a delivery system comprised of 12 hospitals and a new medical school for physician investigators and construction of two hospitals in Florida. Dr. Loop is a Venture Partner at Radius Ventures. Dr. Loop was president of the American Association for Thoracic Surgery, Chairman of the Residency Review Committee for the American Board of Thoracic Surgery. Dr. Loop has received honorary degrees from Cleveland State University, and St. Louis University among many other international awards. He currently serves on two public boards, the Board of Directors of Intuitive Surgical, Inc. Dr. Loop received his M.D. from the George Washington University.



is our Director since June 2007. Dr. Sheffery is a founding General Partner of OrbiMed Advisors, LLC and a member of the board of directors of OrbiMed Advisors, LLC. Dr. Sheffery was formerly Head of the Laboratory of Gene Structure and Expression at Memorial Sloan-Kettering Cancer Center. He received both his Ph.D. in Molecular Biology and his B.A. in Biology from Princeton University. Dr. Sheffery joined OrbiMed Advisors, LLC in 1996 as a Senior Analyst covering the biotechnology industry. Since 1998, Dr. Sheffery has been a General Partner of OrbiMed Advisors, LLC. He is currently a Director of Affimed Therapeutics, AG, Supernus Pharmaceuticals, Inc., and Contra, Inc.

is our Director since September 4, 2007. Mr. Randall is an independent financial consultant and previously was the Chief Financial Officer of Eximias Pharmaceutical Corporation, a development-stage drug development company. From 2002 to 2004, Mr. Randall served as Senior Vice President and Chief Financial Officer of i-STAT, a publicly-traded manufacturer of medical diagnostic devices that was acquired by Abbott Laboratories in 2004. From 1995 to 2002, Mr. Randall served as Vice President and Chief Financial Officer of CFM Technologies, Inc., a publicly-traded manufacturer of medical imaging equipment. Mr. Randall currently serves on the boards of directors of Point 5 Technologies, Inc., Rapid Therapeutics, Inc. and Acorda Therapeutics, Inc. Mr. Randall received a B.S. in accounting from The Pennsylvania State University and a M.S. from Northeastern University.

## **Board Interlocks and Insider Participation**

We did not maintain a compensation committee. Since June 2007, the compensation committee of the board of directors consisted of Messrs. Davis and Mulligan and Dr. Sheffery. Messrs. Timothy G. Biro and Mulligan served as members of the compensation committee of the Athersys board of directors during 2006. Upon the closing of the merger and the June offering, all existing members of the board of directors, other than Mr. Timothy Biro, along with some new individuals, were appointed to our board of directors. No relationship within the meaning of the rules of the SEC exists regarding any of our executive officers and any other company, and no interlocking relationship has existed in the past.

## **COMPENSATION DISCUSSION & ANALYSIS**

The following discussion describes the principles underlying our executive compensation policies and decisions and the most important factors relevant to our executive compensation policies and decisions. It provides qualitative information regarding the manner and context in which compensation decisions are made by our named executive officers, which we refer to further under "Executive Compensation" below, and places in context the compensation tables and narratives that follow.

## **Purpose and Philosophy**

Our board of directors has been responsible for establishing and approving the compensation of its executive officers and key consultants. In connection with the completion of the June offering, the compensation committee of the board of directors was established. The compensation committee is responsible for overseeing executive and other employee compensation, as well as certain other matters. With respect to executive compensation matters, the initial objective of the board of directors and compensation committee will be to establish a compensation policy that attracts and helps retain talented and experienced individuals for senior level positions throughout the company and to authorize appropriate compensation for our employees and key consultants.



and the compensation committee will oversee compensation programs designed to also:

and motivate executives and employees that can help us achieve our core business goals;

es to promote and reward superior performance throughout the organization;

ownership and retention by our executives and other employees; and

ent between executives and other employees and the long term interests of stockholders.

and compensation committee will seek to achieve these objectives by:

compensation program that is market competitive and internally fair; and

ance with certain elements of compensation through the use of equity options, stock grants, cash performance

means of compensation the value of which is substantially tied to the achievement of our company goals.

#### **nsation**

tion program will include the following elements:

d performance-based bonuses;

tive plan awards; and

health insurance benefits.

mittee will set a competitive rate of annual base salary for each executive officer in order to attract and retain top  
ever, the compensation committee has not yet committed to the means by which it will determine competitive rates  
the market, which means might include executive officer and director input, input from a compensation consultant  
on.

c formula for allocating total compensation between current and long-term compensation or between cash and  
However, we do vary the mix of our executive officers' compensation elements based on competitive practices and  
at level to recognize each individual's operating responsibilities and reward his or her ability to impact short- and

#### **Compensation**

ve officers the following compensation:

se salaries in order to attract executive officers and provide a basic level of financial security. We establish base  
es based on the scope of their responsibilities, taking into account competitive market compensation paid by other  
sitions. Base salaries are reviewed (1) at the time of renewal of an executive's employment agreement, or  
ments based on the individual's responsibilities, performance and experience during the year. This review occurs  
review.

*Performance-Based Bonuses.* The board of directors expects to adopt a formal process for determining and awarding performance-based annual bonuses later in 2007. The board of directors intends to utilize annual incentive bonuses to reward employees for achieving financial and operational goals and for achieving individual annual performance. Bonuses will vary depending on the individual executive and employee, but will relate generally to strategic factors, achievement of key strategic relationships, advancement of our product candidates, identification and development of new programs or product candidates, and to financial

capital, improving our results of operations and increasing the price per share of our common stock. Commencing in 2006, our directors will have authority to award discretionary annual bonuses to, or enter into commitments for the award of an annual bonus to, our executive officers.

Grants to our named executive officers and others under our cash incentive plan that was implemented in 2005. We have established the 2006 Summary Compensation Table, to reward our named executive officers and others for their performance in which Angiotech purchased \$10.0 million in aggregate principal amount of subordinated convertible preferred stock, the principal amount of which was automatically converted along with accrued interest into our common stock upon the closing of the merger. Under the cash incentive plan, bonuses generally equal two months of our named executive officers' salary at the end of the year. However, at the direction of our Compensation Committee, only one-half of the earned bonus was paid to our named executive officers in 2006, with the remainder paid in 2007. The entire amount of the earned bonus is reflected in the 2006 Summary Compensation Table. Please see the discussion under "2006 Grants of Plan Based Awards" and "Incentive Plans" below for more information about our cash incentive plan.

*Program.* We believe that we can encourage superior long-term performance by our executive officers and directors by encouraging them to own, and assisting them with the acquisition of, our stock. We have established the BTHC VI, Inc. 2006 Equity Incentive Compensation Plan, which we refer to as our equity compensation plan. The plan provides that our employees, including executive officers, with incentives to help align their interests with the interests of our shareholders. The board of directors believes that the use of stock and stock-based awards offers the best approach to achieving our long-term goals of fostering a culture of ownership, which it believes will, in turn, motivate our executive officers to create and sustain long-term shareholder value. Historically, Athersys has elected to use stock options as its primary long-term equity incentive vehicle. We have established ownership guidelines, but our equity compensation plans provide a principal method for our executive officers to acquire our common stock.

Our equity compensation plans authorize us to grant options to purchase shares of common stock to our employees, including executive officers. The compensation committee of the board of directors administers our equity compensation plans. Stock options are granted to our employees at the commencement of employment and, on occasion, following a significant change in job responsibilities or to meet other business objectives. The compensation committee annually reviews and approves stock option awards to executive officers based on competitive compensation data, its assessment of individual performance, a review of each executive officer's existing stock options, and retention considerations. Periodic stock option grants are made at the discretion of the compensation committee to our named executive officers, and, in appropriate circumstances, the compensation committee considers the needs of other members of management. Our stock options are generally exercisable for a period of ten years, have an exercise price equal to the fair market value of our common stock on the day of grant and typically vest over a four-year period, with 25% vesting twelve months after the commencement date and the remainder vesting 25% per year (on a quarterly basis) thereafter based upon continued employment. Our stock options also include certain other terms necessary to assure compliance with particular provisions of the Securities and Exchange Act of 1934.

Following the closing of the merger, we granted option awards to purchase 3,250,000 shares of common stock with an exercise price of \$5.00 per share to our employees, including our executive officers, and certain consultants. These option awards generally vest 40% on the first day of each of the three years (on a quarterly basis) thereafter. Dr. Van Bokkelen received stock option grants to purchase 1,000,000 shares of common stock at \$5.00 per share; Dr. John Harrington received stock option grants to purchase 700,000 shares of common stock at \$5.00 per share; Mr. Lehmann received stock option grants to purchase 400,000 shares of common stock at \$5.00 per share; Dr. Deans received stock option grants to purchase 50,000 shares of common stock at \$5.00 per share; Dr. Deans received stock option grants to purchase 240,000 shares of common stock at \$5.00 per share; and Ms. Campbell received stock option grants to purchase 100,000 shares of common stock at \$5.00 per share. Also in June 2007, option awards to purchase 75,000 shares of common stock with an exercise price of \$5.00 per share were granted to each of our directors (options for a total of 75,000 shares).

stock options vest at a rate of 50% in the first year (on a quarterly basis), and 25% in each of the two years (on a quarterly basis).

We use stock options as a long-term incentive vehicle because we believe:

• Align the interests of our executives with those of our stockholders, support a pay-for-performance culture, foster an ownership culture and focus the management team on increasing value for our stockholders;

• The value of stock options is based on our performance, because all the value received by the recipient of a stock option is based on the increase in our stock price;

• The long-term nature of stock options helps to provide a balance to the overall executive compensation program because, while base salary and our annual bonus program focus on short-term compensation rewards, vesting stock options reward increases in value over the longer term; and

• The ownership of stock options encourages executive retention and their efforts to preserve stockholder value.

In determining the number of stock options to be granted to executives, we take into account the individual's position, scope of responsibilities, the impact on profits and stockholder value and the individual's historic and recent performance and the value of stock options as a component of the individual executive's total compensation.

**Restricted Stock Units.** Our equity compensation plans authorize us to grant restricted stock and restricted stock units to our directors, officers and consultants. To date, we have not granted any restricted stock or restricted stock units under our equity compensation plans. We anticipate that in order to implement the long-term incentive goals of the compensation committee, we may grant restricted stock units in the future.

**Insurance Benefits.** Consistent with our compensation philosophy, we intend to continue to maintain our current compensation and benefits for our executive officers, including medical, dental, vision and life and disability insurance coverage and the ability to contribute to a 401(k) plan; however, the board of directors, in its discretion, may revise, amend or add to the executive officer's benefits if we believe these benefits are currently lower than median competitive levels for comparable companies. We have no intention of changing the level of benefits provided to our executive officers.

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**Potential Payments Upon Termination or Change of Control** for more information about severance arrangements for our executive officers.

## ts and Arrangements

Athersys entered into employment agreements with its most senior executive officers, and currently has employment agreements with its named executive officers (except for Mr. Halter). We believe that entering into these agreements was necessary to attract and retain talented and experienced individuals for our senior level positions. In this way, the employment agreements help to ensure the success of our compensation program.

The table below contains terms and arrangements that Athersys agreed to through arms-length negotiation with its named executive officers. We view these employment agreements as reflecting the minimum level of compensation that our named executive officers should receive to remain employed with us, and thus the bedrock of our compensation program for our named executive officers.

On December 1, 1998, Athersys entered into a one-year employment agreement, effective April 1, 1998, with  
to serve initially as president and chief executive officer. The agreement automatically renews for subsequent  
1 of each year unless either party gives notice of termination at least 30 days before the end of any term. Dr. Van  
base

h may be increased at the discretion of the Athersys board of directors, and an annual discretionary incentive bonus salary. Dr. Van Bokkelen also received options to purchase shares of Athersys common stock. Dr. Van Bokkelen is insurance coverage for the benefit of his family in the amount of approximately \$2 million and is provided the use of a vehicle for business use. The agreement was amended as of May 31, 2007 to provide technical accommodations for the merger and June offering. For more information about severance arrangements under the amended agreement, see the disclosure under Potential Payments Upon Termination or Change of Control. Dr. Van Bokkelen has also entered into a non-competition and confidentiality agreement under which, during his employment and for a period of 18 months thereafter, he is restricted from, among other things, competing with Athersys.

On December 1, 1998, Athersys entered into a one-year employment agreement, effective April 1, 1998, with Dr. Harrington to serve initially as executive vice president and chief scientific officer. The agreement automatically renews for one-year terms on April 1 of each year unless either party gives notice of termination at least thirty days before the end of any term. Dr. Harrington is entitled to a base salary of \$300,000, which may be increased at the discretion of the Athersys board of directors, and an annual incentive bonus of up to 33% of his base salary. Dr. Harrington also received options to purchase shares of Athersys common stock. Dr. Harrington is also entitled to life insurance coverage for the benefit of his family in the amount of approximately \$2 million. The agreement was amended as of May 31, 2007 to provide technical accommodations for the merger and June offering. For more information about severance arrangements under the amended agreement, see the disclosure under Potential Payments Upon Termination or Change of Control. Dr. Harrington has also entered into a non-competition and confidentiality agreement with Athersys under which, during his employment and for a period of 18 months thereafter, he is restricted from, among other things, competing with Athersys.

On May 22, 1998, Athersys entered into a two-year employment agreement with Laura K. Campbell to serve initially as vice president of drug discovery. The agreement automatically renews for subsequent one-year terms on May 22 of each year unless either party gives notice of termination at least thirty days before the end of any term. Ms. Campbell is entitled to a base salary of \$195,000, which may be increased at the discretion of the Athersys board of directors. Ms. Campbell also received options to purchase shares of Athersys common stock. The agreement was amended as of May 31, 2007 to provide technical accommodations for the merger and June offering. For more information about severance arrangements under the amended agreement, see the disclosure under Potential Payments Upon Termination or Change of Control.

On September 25, 2000, a subsidiary of Athersys entered into a four-year employment agreement with our former president, Dr. Brunden, to serve initially as vice president of drug discovery. The agreement automatically renewed for subsequent one-year terms on September 25 of each year unless either party gives notice of termination at least thirty days before the end of any term. Dr. Brunden terminated his employment with us, but has entered into a consulting agreement with us, as described below.

Dr. Brunden was entitled to a base salary of \$240,000, which could have been increased at the discretion of the Athersys board of directors, and guaranteed bonuses for 2001 and 2002. Dr. Brunden also received options to purchase shares of Athersys common stock. Dr. Brunden was also entitled to life insurance coverage for the benefit of his family of approximately \$1 million. The agreement was amended as of May 31, 2007 to provide technical accommodations for the merger and June offering.

For more information about severance arrangements under the amended agreement, see the disclosure under Potential Payments Upon Termination or Change of Control. Dr. Brunden had also entered into a non-competition and confidentiality agreement with Athersys under which, during his employment and for a period of 18 months thereafter, he was and is restricted from, among other things, competing with Athersys.

On October 3, 2003, a subsidiary of Athersys entered into a four-year employment agreement with Dr. Robert Deans to serve initially as president of regenerative medicine. The agreement automatically renews for subsequent one-year terms on October 3 of each year unless either party gives notice of termination at least thirty days before the end of any term. Dr. Deans is entitled to a base salary of \$300,000, which may be increased at the discretion of the Athersys board of directors, and an annual





onus of up to 30% of his base salary. Dr. Deans also received options to purchase shares of Athersys common entitled to life insurance coverage for the benefit of his family of approximately \$1 million. The agreement was 2007 to provide technical accommodations for the merger and June offering. For more information about severance amended agreement, see the disclosure under Potential Payments Upon Termination or Change of Control. ed into a non-competition and confidentiality agreement with Athersys under which, during his employment and s thereafter, he is restricted from, among other things, competing with Athersys.

On January 1, 2004, a subsidiary of Athersys entered into a four-year employment agreement with William (BJ) y as executive vice president of corporate development and finance. The agreement automatically renews for ns on January 1 of each year unless either party gives notice of termination at least 30 days before the end of any titled to a base salary of \$300,000, which may be increased at the discretion of the Athersys board of directors. to life insurance coverage for the benefit of his family in the amount of approximately \$1 million. The agreement 31, 2007 to provide technical accommodations for the merger and June offering. For more information about under the amended agreement, see the disclosure under Potential Payments Upon Termination or Change of has also entered into a non-competition and confidentiality agreement with Athersys under which, during his eriod of 18 months thereafter, he is restricted from, among other things, competing with Athersys.

## Potential Payments

policy regarding adjusting or recovering discretionary or performance-based bonuses or long-term incentive plan e relevant performance metrics upon which such awards or payments are based are later restated or otherwise t reduces the actual size of the award or payment. We will consider making such adjustments on a case-by-case ise.

## Policy of Executive Compensation

our compensation program to comply with Internal Revenue Code Sections 162(m) and 409A. Under ternal Revenue Code, a limitation was placed on tax deductions of any publicly-held corporation for individual executives of such corporation exceeding \$1.0 million in any taxable year, unless the compensation is e executive is entitled to nonqualified deferred compensation benefits that are subject to Section 409A, and such ith Section 409A, then the benefits are taxable in the first year they are not subject to a substantial risk of he executive is subject to regular federal income tax, interest and an additional federal income of 20% of the me. We intend for our compensation committee to generally manage our incentive programs to qualify for the ption. The compensation committee also reserves the right to provide compensation that does not meet the ts sole discretion, it determines that doing so advances our business objectives.

## EXECUTIVE COMPENSATION

narratives provide, for the fiscal year ended December 31, 2006, descriptions of (1) the compensation paid by o Timothy Halter, BTHC VI s President, Chief Executive Officer, Chief Financial Officer and Director (BTHC VI s and (2) the cash compensation paid by us, as well as certain other compensation paid or accrued, for that year to hief Executive Officer; and Laura Campbell, Vice President Finance; and the four most highly compensated han Dr. Van Bokkelen and Ms. Campbell who were serving as executive officers as of December 31, 2006. We as our named executive officers. The stock option information set forth in this section is historical information and d executive officers other than Mr. Halter, the option plans of Athersys. All employee and director options under

Plans were terminated upon closing of the merger, and new options were granted under our incentive plans. BTHC equity plans during 2006.

### Compensation Table

Our compensation information for 2006 for our named executive officers:

Position	Year (b)	Salary \$(1) (c)	Option Awards \$(2) (f)	Non-Equity Incentive Plan	All Other		Total \$(j)
				Compensation \$(3) (g)	Compensation \$(i)		
Chairman and Chief Executive Officer (4)	2006	\$ 350,000	\$ 0	\$ 50,000	\$ 149,604(7)	\$ 549,604	
	2006	\$ 300,000	\$ 91,015	\$ 41,666	\$ 1,000	\$ 433,681	
	2006	\$ 300,000	\$ 0	\$ 42,334	\$ 1,000	\$ 343,334	
	2006	\$ 240,000	\$ 75,570	\$ 36,666	\$ 2,000	\$ 354,236	
Vice Chairman and Chief Financial Officer	2006	\$ 235,000	\$ 105,119	\$ 33,334	\$ 6,000	\$ 379,453	
	2006	\$ 195,000	\$ 20,056	\$ 28,438	\$ 0	\$ 243,494	
Executive Officer and	2006	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	

The increase was approved by Athersys' compensation committee effective June 1, 2006, but payment was deferred until the June offering.

Column (f) do not necessarily reflect compensation actually received by Athersys' named executive officers. The column (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended 2006, in accordance with SFAS No. 123R, for option awards granted prior to 2006. Assumptions used in the above amounts are included in Notes A and J to Athersys' audited consolidated financial statements for the fiscal year ended December 31, 2006, included elsewhere in this prospectus.

Column (g) reflect payments under our cash incentive plan, of which one-half was actually paid in 2006 and the other half was paid in 2007.

n and Harrington also served as Athersys Directors for 2006, but did not receive any compensation as Athersys

ned effective July 31, 2007 and returned to a faculty position. Dr. Brunden has entered into a consulting agreement described in Compensation Discussion and Analysis.

ed as our President, Chief Executive Officer, Chief Financial Officer and Director, effective June 8, 2007, in the merger. He did not receive compensation from BTHC VI for his service as an officer or director of BTHC VI.

representing a loan which was forgiven by Athersys board of directors, including certain tax benefits.

#### **sed Awards**

n incentive plan in 2005, which was amended in June 2007, which provides the named executive officers with cash bonus payments upon the achievement of certain thresholds from financing transactions, mergers or acquisitions, s. Payments under this plan are set forth in the 2006 Summary Compensation Table. No plan-based awards were executive officers during 2006.

Executive officers are parties to employment agreements with us. For more information about these agreements, see [Item 10 & Analysis Employment Agreements and Arrangements](#) above. For more information about the compensation of our named executive officers participate and the proportion of our named executive officers' total compensation salary and bonus, see [2006 Summary Compensation Table](#) above.

#### **Awards at 2006 Fiscal Year End Table**

As of all outstanding equity awards held by our named executive officers at the end of 2006. Upon the close of the 2006 fiscal year, all outstanding stock options were terminated, including all of the stock options listed in the table below. No new grants were made to employees, including the named executive officers. The Athersys equity awards in the table below were assumed by BTHC VI, and therefore the shares underlying the equity awards in the following table have not been adjusted to reflect shares of BTHC VI common stock after giving effect to the merger.

Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1) (c)	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)
199,980			\$ 1.65	April 1, 2008
100,020			\$ 1.20	April 1, 2008
45,000			\$ 3.25	April 2, 2013
345,000				
50,000			\$ 1.00	November 14, 2011
10,000			\$ 15.60	November 14, 2011
75,000			\$ 4.00	December 9, 2013
	25,000		\$ 4.00	December 9, 2013
135,000	25,000			
199,980			\$ 1.50	April 1, 2008
100,020			\$ 1.50	April 1, 2008
457,500			\$ 1.50	April 1, 2008
757,500				
50,000			\$ 1.00	September 25, 2010
10,000			\$ 15.60	September 25, 2010
70,000			\$ 4.00	December 9, 2013

	20,000	\$ 4.00	December 9, 2013
130,000	20,000		
7,500		\$ 13.00	October 3, 2013
37,500		\$ 3.25	October 3, 2013
30,000		\$ 4.00	December 9, 2013
	2,500	\$ 13.00	October 3, 2013
	12,500	\$ 3.25	October 3, 2013
	10,000	\$ 4.00	December 9, 2013
75,000	25,000		
60,000		\$ 1.50	May 22, 2008
30,000		\$ 1.00	February 22, 2010
30,000		\$ 7.00	February 22, 2010
30,000		\$ 4.00	December 9, 2013
150,000			

listed in column (c) for Mr. Lehmann were granted on December 9, 2003, vest at a rate of 25% on each grant date and will be fully exercisable on December 9, 2007. The stock options listed in column (c) for Dr. Brunden were granted on December 9, 2003, vest at a rate of 11% on the date of grant, and 22% on each subsequent grant date anniversary thereafter, and will be fully exercisable on December 9, 2007. The stock options listed in column (c) for Dr. Deans were granted on October 3, 2003, and December 9, 2003, respectively, vest at a rate of 25% on each grant date anniversary, and will be fully exercisable on October 3, 2007, October 3, 2007 and December 9, 2007, respectively.

## and Stock Vested

Executive officers' stock awards vested during 2006, and none of our named executive officers exercised any stock awards during 2006.

## Termination or Change of Control

Named executive officers may be entitled to certain potential payments. In the event that an executive officer is terminated or terminates employment for good reason including a change of control, we would be obligated to pay full base salary for a defined period, subject to mitigation related to other employment. For Dr. Gil Van Bokkelen and Dr. John Harrington, the period is eighteen months, and for all other executive officers, the period is six months. Assuming a termination event for named executive officers on December 29, 2006, we estimate that the named executive officers would have received the following termination amounts, consisting of salary and monthly health and dental benefits: Dr. Van Bokkelen, \$543,730; Dr. Harrington, \$468,730; Dr. Brunden, \$126,243; Dr. Deans, \$119,473; Ms. Campbell, \$103,743; and Dr. Lehmann, \$90,743. In addition, we would be obligated to continue the participation of the executive officer in all medical, life and other benefit programs for a period of eighteen months to the extent available and possible under the programs.

If a named executive officer is terminated for cause, other than for good reason, or as a result of death, we would be obligated to pay full base salary and other benefits, including any unpaid expense reimbursements, through the date of termination, and would have no obligation to continue the participation of the executive officer in all medical, life and other benefit programs. In the event that an executive officer is unable to perform duties as a result of a disability, we would be obligated to pay full base salary and other benefits until employment is terminated and for a period of twelve months from the date of termination.

## Compensation Table

The following table sets forth the compensation received by our named executive officers for 2006. The Athersys equity awards referenced in the notes to the table were assumed by BTHC VI, and therefore the shares underlying the equity awards in the notes to the following table have been restated to reflect shares of BTHC VI common stock after giving effect to the merger:

	<b>Fees Earned or Paid in Cash (\$) (b)</b>	<b>Option Awards \$(1) (d)</b>	<b>All Other Compensation (\$) (g)</b>	<b>Total (\$) (h)</b>
	\$ 25,000	\$ 38,481(2)	\$ 0	\$ 63,481
	\$ 0	\$ 0	\$ 0	\$ 0
	\$ 0	\$ 0	\$ 0	\$ 0

nn (d) do not necessarily reflect compensation actually received by Athersys directors. The amounts in column  
ar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in  
FAS No. 123R, for option awards granted prior to 2006. Assumptions used in the calculation of these amounts are  
A and J to Athersys audited consolidated financial statements for the fiscal year ended December 31, 2006, which



where in this prospectus. No grants of stock awards or stock options were made by Athersys to its directors in 2006. The directors had option awards outstanding as of December 31, 2006 for the following number of shares of Athersys (which option awards were terminated upon the closing of the merger): Dr. Milne, 100,000; Mr. Mulligan, 150,000; and Mr. Brunden, 100,000.

Column (d) for Dr. Milne relates to an option that Athersys granted Dr. Milne in January 2003 for 33,000 shares of common stock, at an exercise price of \$10.00 per share, and an option that Athersys granted Dr. Milne in January 2003 for 100,000 shares of Athersys common stock at an exercise price of \$3.25 per share. These options vested over a four-year period, and in connection with the merger.

Directors have not received cash for services they provide as directors; however, Dr. Milne has historically received compensation for services as a board member. Also, Athersys non-employee directors have historically received grants of options to purchase Athersys common stock. During 2006, none of Athersys other non-employee directors received any compensation for services.

At the time of the merger and the June offering, all existing members of the Athersys board of directors, other than Mr. Timothy Biro, were appointed to our board of directors. The new directors are Mr. Jordan Davis, Dr. Floyd Loop, and Mr. Brunden.

Our compensation program for the Board beginning in June 2007. The new compensation program includes an initial grant of 75,000 shares of common stock at fair market value on the date of grant, which options vest at a rate of 50% (on a quarterly basis), and 25% in each of the two years (on a quarterly basis) thereafter. Each of our non-employee directors will receive an option award to purchase 75,000 shares of common stock at \$5.00 per share in June 2007.

Non-employee directors will receive, at each anniversary of service, an option award to purchase 15,000 shares of common stock at fair market value on the date of grant. These additional awards will vest at a rate of 50% in the first year (on a quarterly basis), and 25% in each of the two years (on a quarterly basis) thereafter.

Directors also receive cash compensation of \$30,000 per year, paid quarterly, plus daily fees of \$1,500 for participating in Board meetings by telephone, at Board meetings. The chair of the audit committee receives additional cash compensation of \$10,000 per year, paid quarterly, and the chair of the compensation committee receives additional cash compensation of \$10,000 per year, paid quarterly. All audit committee and compensation committee members also receive additional daily fees of \$1,000 for participating in Board meetings by telephone, at each audit committee or compensation committee meeting. Directors, other than the chair, will receive no more than \$2,500 in any one day for participation in Board and committee meetings. Directors will be reimbursed for travel expenses incurred while attending Board and committee meetings.

Our incentive plan that generally will result in the payment of bonuses of one month of salary to its employees (two months of salary) upon achievement of certain milestones, which included the sale of certain non-core assets related to Athersys asthma inhalers, upon the completion of this June offering. Additionally, Mr. Lehmann was eligible for a one-time bonus in the amount of \$100,000 with the completion of the June offering pursuant to the terms of his employment agreement. In connection with the merger and the completion of the June offering, the named executive officers received the following cash bonuses: Mr. Brunden \$53,537; Dr. Harrington \$63,889; Mr. Lehmann \$113,889; Dr. Brunden \$51,111; Dr. Deans \$50,047; and Mr. Milne \$50,047.

merger, the majority of Athersys' outstanding options were terminated. However, pursuant to the terms of the merger, 15,052 options granted to former employees and consultants of Athersys. In June 2007, we adopted our equity compensation plan, or a committee thereof, to provide equity-based compensation in the form of stock options, stock restricted stock, restricted stock units, performance shares and units, and other stock-based awards, which will be used to compensate employees, directors and consultants. Equity awards will be granted from time to time under the guidance and approval of the compensation committee. Total awards under these plans are limited to 4,500,000 shares of common stock. Option awards consist of shares of common stock with an exercise price of \$5.00 were granted to our employees, including our executive consultants in June 2007 upon the closing of the merger. These option awards generally vest 40% on the date of grant, 20% one year (on a quarterly basis) thereafter. Also in June 2007, option awards to purchase 375,000 shares of common stock with an exercise price of \$5.00 were granted to our non-employee directors, which options vest 50% in the first year (on a quarterly basis) and 50% in each of the two years (on a quarterly basis) thereafter.

## Equity Compensation Plan Information Table

Equity compensation information as of December 31, 2006 regarding BTHC VI:

### Equity Compensation Plan Information(1)

Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
----------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Plans approved by security holders  
Plans not approved by security holders

We did not maintain any equity plans during 2006.

We have a tax-qualified employee savings and retirement plan, also known as a 401(k) plan, that covered all of its employees. In 2004, we replaced with a new plan in 2004. Under Athersys' current 401(k) plan, eligible employees may elect to reduce their contributions up to the statutorily prescribed annual limit, which was \$15,000 in 2006 and is \$15,500 in 2007, and have the contributions contributed to the 401(k) plan. The trustees of the 401(k) plan, at the direction of each participant, invest the assets in designated investment options. Athersys may make matching or profit-sharing contributions to the 401(k) plan in amounts determined by its board of directors. Athersys has not made any matching or profit-sharing contributions to the 401(k) plan in 2006. The 401(k) plan is intended to qualify under Section 401 of the Internal Revenue Code, so that contributions to the 401(k) plan and income earned on the 401(k) plan contributions are not taxable until withdrawn, and so that any

akes will be deductible when made.

## and Indemnification Matters

that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as follows:

of their duty of loyalty to the company or its stockholders;

actions not in good faith or which involve intentional misconduct or a knowing violation of law;

payment of dividend or unlawful stock repurchase or redemption, as provided under Section 174 of the DGCL; or

from which the director derived an improper personal benefit.

are law that relate to indemnification expressly state that the rights provided by the statute are not exclusive and are provided in bylaws, by agreement, or otherwise.

certificate of incorporation requires us to indemnify, to the fullest extent permitted by the DGCL, any and all persons indemnify under the DGCL from and against any and all expenses, liabilities or other matters covered by the DGCL. Our amended certificate of incorporation requires us to indemnify each of our directors and officers in each and every way that the DGCL permits or empowers us (but does not obligate us) to provide such indemnification, subject to the provisions of the DGCL. We require us to indemnify our directors to the fullest extent permitted by the DGCL, and permit us, to the extent permitted by the DGCL, of directors, to indemnify our officers and any other person we have the power to indemnify against liability, and other matters.

Our amended certificate of incorporation, indemnification may be provided to directors and officers acting in their official capacities. Indemnification will continue for persons who have ceased to be directors, officers, employees or agents of the company for the benefit of their heirs, executors and administrators. Additionally, under our current amended certificate of incorporation, under certain circumstances, our directors are not personally liable to us or our stockholders for monetary damages for their actions as a director. At present, there is no pending litigation or proceeding involving any of our directors, officers, or agents for which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

We intend to secure insurance on behalf of any officer, director, employee, or agent for any liability arising out of actions in which the officer, director, employee, or agent. We have obtained an insurance policy that insures our directors and officers for a deductible amount, from specified types of claims. Finally, we have entered into indemnification agreements with our officers, which agreements, among other things, require us to indemnify them and advance expenses to them for their actions in suits to the fullest extent permitted by law. We believe that these provisions, policies, and agreements will help protect our officers and directors as directors and executive officers.

Indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the company, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy under the Securities Act and is, therefore, unenforceable.

## CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

### Related Parties, Indebtedness, and Related Party Transactions

United Bankshares Healthcare LLC and affiliated limited liability companies, including BTHC VI, LLC, which we refer to as "United Bankshares Healthcare," was organized for the purpose of operating nursing homes throughout the United States. On March 28, 2003, United Bankshares Healthcare filed for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court,



2004, the Bankruptcy Court approved the First Amended Joint Plan of Reorganization of Ballantrae and its bankruptcy plan. On April 11, 2006, pursuant to the bankruptcy plan, BTHC VI, LLC was merged into BTHC VI, Inc., a

L.P., or HFG, participated with Ballantrae and their creditors in structuring the bankruptcy plan. As part of the plan, HFG provided \$76,500 to be used to pay professional fees associated with the bankruptcy plan confirmation process. HFG was to be repaid through the issuance of equity securities in 17 of the reorganized Ballantrae entities, including the entities that exercised the option, and as provided in the bankruptcy plan, 70% of BTHC VI's then-outstanding common stock, or 350,000 shares, were issued to HFG, in satisfaction of HFG's administrative claims. The remaining 30% of the registrant's then-outstanding common stock, or 150,000 shares, were issued to 499 holders of administrative and tax claims and unsecured debt. The 500,000 shares, known as Plan Shares, were issued pursuant to Section 1145 of the Bankruptcy Code. As further consideration for the issuance of Plan Shares to HFG, the bankruptcy plan required HFG to assist BTHC VI in identifying a potential merger or acquisition. HFG was responsible for the payment of BTHC VI's operating expenses and HFG was obligated to provide BTHC VI with certain services at no cost to BTHC VI, including assisting BTHC VI with formulating the structure of any proposed merger or acquisition. HFG was responsible for paying BTHC VI's expenses incurred in consummating a merger or acquisition. On June 8, 2007, HFG transferred its 350,000 Plan Shares to Halter Financial Investments L.P., a Texas limited partnership controlled by Timothy P. Halter. Timothy P. Halter is the sole officer, director and shareholder of HFG and an officer and member of Halter Financial Investments, LLC, general partner of HFI. Mr. Halter recently served as BTHC VI's President, Chief Executive Officer, Chief Financial Officer and director until his resignation in connection with the merger.

In connection with the merger, HFG and Timothy P. Halter received compensation in the Plan of Reorganization and the issuance to HFG of 350,000 shares of common stock in satisfaction of certain administrative claims and for HFG's agreement to provide BTHC VI with certain services as a result of the relationships or transactions between BTHC VI and any of its directors, officers and principal stockholders.

HFG received a one-time consulting fee of \$350,000 in cash in connection with the merger.

## **Indebtedness, and Related Person Transactions**

Athersys has disclosed all transactions during 2004, 2005 and 2006 to which Athersys has been a party, in which the amount of compensation exceeds \$120,000 and in which any of Athersys' directors, executive officers or holders (or immediate family members) own more than 5% of its capital stock had or will have a direct or indirect material interest, other than compensation described under Executive Compensation. Athersys believes the terms obtained or consideration that was paid or received in connection with the transactions described below were comparable to terms available or the amounts that would have been obtained, in arm's-length transactions.

Athersys issued \$10.0 million in aggregate principal amount of 5% unsecured convertible promissory notes to its employees and independent contractors. In 2006, Athersys also issued \$2,500,000 in aggregate principal amount of 10% secured convertible promissory notes to independent investors. Investors in the bridge financing consisted primarily of existing Athersys stockholders and Drs. Van Bokkelen and Ms. Campbell. Upon the closing of the June offering on June 8, 2007, the convertible promissory notes were converted into common stock. The securities offered in these financings to such persons were sold at their fair market value upon the same conditions that were given to unaffiliated third parties.

Athersys forgave a 2002 loan made to Dr. Van Bokkelen in aggregate principal and accrued interest amount of \$24,000. In connection with loan forgiveness, Athersys paid Dr. Van Bokkelen approximately \$24,000 as a partial gross up for taxes in connection with such forgiveness.

will review at least annually the independence of each director. During these reviews, our board of directors will review relationships between each director (and his or her immediate family and affiliates) and our company and its subsidiaries to determine whether any such transactions or relationships are inconsistent with a determination that the director was independent. Our board of directors will conduct its annual review of director independence and to determine if any transactions or relationships would disqualify any of the individuals who then served as a director under the rules of the NASDAQ Capital Market. Our board of directors is also our Chairman and Chief Executive Officer, and Dr. Harrington, who is our Chief Scientific Officer and President. Neither Dr. Van Bokkelen nor Dr. Harrington would be considered independent under the independence rules of the NASDAQ Capital Market.

that we will have to meet in order for our common stock to be listed on the NASDAQ Capital Market is that a majority of our board of directors will have to be independent. Additionally, although we currently only have two directors on our audit committee, we will also be required to have an audit committee comprised of at least three members, all of whom must be independent.

## Director Independence Policy

We have a policy regarding related person transactions because they may present the potential for conflicts of interest. We refer to related person transactions, arrangements, or relationships in which:

the director or director nominee is to be a participant;

the transaction exceeds \$120,000; and

the director or director nominee, executive officers or greater-than five percent shareholders (or any of their immediate family members) had or will have a direct or indirect material interest.

In reviewing related person transactions in advance, we rely on information supplied by our executive officers, directors and certain subsidiaries. Although we currently do not have a comprehensive written policy for the review, approval or ratification of related person transactions, our board of directors reviews all related person transactions identified by us, and memorializes its decisions in minutes of board meetings. The board of directors approves or ratifies only those related person transactions that are determined to be in the best interest of the company, under all of the circumstances, in the best interest of our company and its shareholders.

## Director and Executive Officers

We have employment agreements with each of our executive officers. See Compensation Discussion & Analysis Employment Agreements.

## Indemnification

We have indemnification agreements with our directors and executive officers, which agreements, among other things, require the company to advance expenses to them relating to indemnification suits to the fullest extent permitted by law. See Executive Compensation and Indemnification Matters.

including any loans from our company to our officers, directors, principal stockholders, or affiliates, will be of the board of directors, including a majority of the independent and disinterested members of the board of directors, by law, a majority of disinterested stockholders, and will be on terms no less favorable to our company than could be obtained from third parties.



**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

forth certain information known to us regarding the beneficial ownership of our common stock as of September 10,

own by us to beneficially own more than 5% of our common stock;

tors;

utive officers named in the summary compensation table; and

rs and executive officers as a group.

eficial ownership in accordance with the rules of the SEC. In computing the number of shares beneficially owned  
percentage ownership of that person, shares of common stock that could be issued upon the exercise of outstanding  
d by that person that are exercisable within 60 days of September 10, 2007 are considered outstanding. These  
considered outstanding when computing the percentage ownership of each other person.

e footnotes to this table and pursuant to state community property laws, each stockholder named in the table has  
nt power for the shares shown as beneficially owned by them. Percentage of ownership before the offering is based  
common stock outstanding on September 10, 2007.

Owner	Number of Shares	Percent of Class
<b>Stockholders</b>		
and affiliates(1)	3,750,000	19.06%
and affiliates(2)	2,400,000	12.17%
als, Inc.(3)	1,885,890	9.96%
l, LP and affiliates(4)	1,500,000	7.80%
ement LLC and affiliates(5)	1,500,000	7.80%
tal Management LLC and affiliates(6)	1,000,000	5.23%
<b>Executive Officers</b>		
	392,887	2.04%
	371,127	1.93%
	515,235	2.72%
	2,415,000	12.23%
	2,400,000	12.17%
	3,750,000	19.06%
	2,400,000	12.17%
		*
4)	166,250	*
		*
	96,000	*
	83,329	*
	148,850	*
ve officers as a group (11 persons)	7,789,828	39.79%

00 shares (2,971,698 shares held by Caduceus Private Investment III, L.P. and 28,302 shares held by OrbiMed P) of common stock. Also includes 750,000 shares (742,925 shares held by Caduceus Private Investment III, L.P. held by OrbiMed Associates III, LP) of common stock issuable upon the exercise of warrants at \$6.00 per share. indicated it may be deemed a director of ours by virtue of nominating a representative Mr. Sheffery to serve on our rs. OrbiMed has indicated that Samuel Isaly is the beneficial owner of

the address for OrbiMed Advisors LLC and its affiliates is 767 3rd Avenue, 30th Floor, New York, New York 10017.

00 shares (800,000 shares held by Radius Venture Partners II, L.P., 103,766 shares held by Radius Venture Partners III, L.P., and 696,234 shares held by Radius Venture Partners III QP, L.P.) of common stock. Also includes 400,000 shares held by Radius Venture Partners II, L.P., 51,883 shares held by Radius Venture Partners III, L.P., and 10,000 shares held by Radius Venture Partners III QP, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Additionally, each of Daniel C. Lubin, Jordan S. Davis, Radius Venture Partners II, LLC and Radius Venture Partners III, L.P. has a beneficial ownership of the shares held by Radius Venture Partners II, L.P., Radius Venture Partners III, L.P. and Radius Venture Partners III QP, L.P., but Jordan S. Davis reports that he has sole voting and dispositive power with respect to the shares pursuant to an option. The address for Radius Venture Partners II, L.P. and its affiliates is 400 Madison Avenue, 8th Floor, New York, New York 10017.

shares received upon the conversion of subordinated convertible promissory notes upon the closing of the June offering. The address for Angiotech Pharmaceuticals, Inc. is 1618 Station Street, Vancouver, British Columbia, Canada V6A 1B6.

00 shares (1,178,880 shares held by RA Capital Biotech Fund, LP and 21,120 shares held by RA Capital Biotech Fund II, LP) of common stock. Also includes 300,000 shares (294,720 shares held by RA Capital Biotech Fund, LP and 5,280 shares held by RA Capital Biotech Fund II, LP) of common stock issuable upon the exercise of warrants at \$6.00 per share. Additionally, Peter Kolchinsky and Richard Aldrich are the beneficial owners of these shares. The address for RA Capital Biotech Fund, LP and its affiliates is 111 Huntington Avenue, Suite 610, Boston, Massachusetts 02199.

00 shares (319,950 shares held by Accipiter Life Sciences Fund (Offshore), Ltd., 318,500 shares held by Accipiter Life Sciences Fund II (Offshore), Ltd., 271,450 shares held by Accipiter Life Sciences Fund II (QP), L.P., and 132,350 shares held by Accipiter Life Sciences Fund II, L.P.) of common stock. Also includes 79,988 shares held by Accipiter Life Sciences Fund (Offshore), Ltd., 79,625 shares held by Accipiter Life Sciences Fund II (QP), L.P., 67,863 shares held by Accipiter Life Sciences Fund II (Offshore), Ltd., 39,437 shares held by Accipiter Life Sciences Fund II (QP), L.P., and 33,087 shares held by Accipiter Life Sciences Fund II, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Additionally, Cadens Capital, LLC reports that it shares voting and dispositive power with respect to 49 of such 1,500,000 shares, Accipiter Capital Management, LLC reports that it shares voting and dispositive power with respect to 739,251 of such 1,500,000 shares, and Gabe Hoffman reports that he shares voting and dispositive power with respect to all such 1,500,000 shares. The address for Accipiter Capital Management LLC and its affiliates is 399 Park Avenue, New York, New York 10022.

0 shares (472,000 shares held by H&Q Healthcare Investors and 328,000 shares held by H&Q Life Sciences Investors) of common stock. Also includes 200,000 shares (118,000 shares held by H&Q Healthcare Investors and 82,000 shares held by H&Q Life Sciences Investors) of common stock issuable upon the exercise of warrants at \$6.00 per share. Hambrecht & Quist Capital Management, LLC reported that Daniel R. Olmstead is the beneficial owner of these shares. The address for Hambrecht & Quist Capital Management, LLC and its affiliates is 30 Roews Wharf, Boston, Massachusetts 02110.

shares (537 of which are held in trust for his children) of common stock issued upon exchange of the Athersys shares of common stock upon consummation of the merger. Also includes 21,271 shares of common stock issued upon conversion of a subordinated convertible promissory note and the exercise of a related warrant for 39,999 shares of common stock at \$6.00 per share. Also includes warrants to purchase 5,318 shares of common stock at \$6.00 per share that were issued upon the exercise of the note. Also includes vested options of 285,000 granted with an exercise price of \$5.00.

shares of common stock issued upon exchange of the Athersys shares of capital stock upon consummation of the merger. Also includes 21,271 shares of common stock issued upon conversion of a secured subordinated convertible promissory note and the exercise of a related warrant for 39,999 shares of common stock at \$6.00 per share.



common stock at \$0.01 per share. Also includes warrants to purchase 5,318 shares of common stock at \$6.00 per share issued upon the conversion of the note. Also includes vested options of 280,000 granted with an exercise price of

2 shares (175,004 shares held by Primus Capital Fund IV Limited Partnership and 7,288 shares held by Primus Capital Fund V Limited Partnership) of common stock issued upon exchange of the Athersys shares of capital stock upon completion of the merger. Also includes 106,356 (102,102 shares held by Primus Capital Fund IV Limited Partnership and 4,254 shares held by Primus Executive Fund Limited Partnership) shares of Common issued upon conversion of a secured convertible promissory note and the exercise of a related warrant for 199,998 shares (191,999 shares held by Primus Capital Fund IV Limited Partnership and 7,999 shares held by Primus Executive Fund Limited Partnership) of common stock at \$6.00 per share. Also includes warrants to purchase 26,589 shares (25,526 shares held by Primus Capital Fund IV Limited Partnership and 1,063 shares held by Primus Executive Fund Limited Partnership) of common stock at \$6.00 per share that were issued upon conversion of the note. Mr. Mulligan is a limited partner of the General Partner of Primus Venture Partners, L.P. and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein. Mr. Mulligan was appointed to our board of directors in June 2007 (formerly on Athersys board since 1998).

00 shares (800,000 shares held by Radius Venture Partners II, L.P., 103,766 shares held by Radius Venture Partners III, L.P., and 696,234 shares held by Radius Venture Partners III QP, L.P.) of common stock. Also includes warrants to purchase 400,000 shares held by Radius Venture Partners II, L.P., 51,883 shares held by Radius Venture Partners III, L.P., and 348,117 shares held by Radius Venture Partners III QP, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Also includes 10,000 shares of common stock purchased by Dr. Milne in this June offering, and related warrants to purchase 10,000 shares of common stock at \$6.00 per share. Dr. Milne is a venture partner of Radius Ventures, LLC and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein. Dr. Milne was appointed to our board of directors in June 2007 (formerly on Athersys board since 2003). The address for Dr. Milne is c/o Athersys, Inc., 3201 E. 9th Avenue, Cleveland, Ohio 44115.

00 shares (800,000 shares held by Radius Venture Partners II, L.P., 103,766 shares held by Radius Venture Partners III, L.P., and 696,234 shares held by Radius Venture Partners III QP, L.P.) of common stock. Also includes warrants to purchase 400,000 shares held by Radius Venture Partners II, L.P., 51,883 shares held by Radius Venture Partners III, L.P., and 348,117 shares held by Radius Venture Partners III QP, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Mr. Davis is a managing member of the General Partner of each of Radius Venture Partners II, L.P., Radius Venture Partners III, L.P., and Radius Venture Partners III QP, L.P., and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein. Mr. Davis was appointed to our board of directors in June 2007. The address for Radius Ventures, LLC, 400 Madison Avenue, 8th Floor, New York, New York 10017.

00 shares (2,971,698 shares held by Caduceus Private Investment III, L.P. and 28,302 shares held by OrbiMed Associates III, L.P.) of common stock. Also includes 750,000 shares (742,925 shares held by Caduceus Private Investment III, L.P. and 7,075 shares held by OrbiMed Associates III, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Mr. Sheffery is a partner of OrbiMed Advisors LLC and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein. Mr. Sheffery was appointed to our board of directors in June 2007. The address for OrbiMed Advisors LLC, 1767 Third Avenue, 30th Floor, New York, New York 10017.

00 shares (800,000 shares held by Radius Venture Partners II, L.P., 103,766 shares held by Radius Venture Partners III, L.P., and 696,234 shares held by Radius Venture Partners III QP, L.P.) of common stock. Also includes warrants to purchase 400,000 shares held by Radius Venture Partners II, L.P., 51,883 shares held by Radius Venture Partners III, L.P., and 348,117 shares held by Radius Venture Partners III QP, L.P.) of common stock issuable upon the exercise of warrants at \$6.00 per share. Dr. Loop is a venture partner of Radius Ventures, LLC and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein. Dr. Loop was appointed to our board of directors in



address for Dr. Loop is c/o Athersys, Inc., 3201 Carnegie Avenue, Cleveland, Ohio 44115.

shares of common stock purchased by Mr. Lehmann in the June offering, and related warrants to purchase common stock at \$6.00 per share. Also includes vested options of 160,000 granted with an exercise price of \$5.00.

igned on July 31, 2007.

options of 96,000 granted with an exercise price of \$5.00.

shares of common stock issued upon conversion of a secured subordinated convertible promissory note and the ated warrant for 1,999 shares of common stock at \$0.01 per share. Also includes warrants to purchase 266 shares of t \$6.00 per share that were issued upon the conversion of the note. Also includes vested options of 80,000 granted price of \$5.00.

ned as our President, Chief Executive Officer, Chief Financial Officer and Director, effective June 8, 2007, in the merger. Mr. Halter is an officer and member of Halter Financial Investments GP, LLC, a Texas limited liability is the sole general partner of Halter Financial Investments, L.P., a Texas limited partnership, or HFI, controlled by owns the shares disclosed for Mr. Halter in this table, and Mr. Halter may be deemed to be a beneficial owner of f record by HFI.

## DESCRIPTION OF CAPITAL STOCK

Common stock will be entitled to receive dividends if and when declared by the board of directors from funds legally available for dividends. Upon liquidation, dissolution or winding-up of our company will be entitled to share ratably in all assets remaining after the payment of all liabilities. The holders of shares of common stock will not have any preemptive rights, but will be entitled to one vote for each share of common stock held of record. Stockholders will not have the right to cumulate their votes for the election of directors. The shares of common stock offered hereby, when issued, will be fully paid and nonassessable.

We are authorized, without action by our stockholders, to designate and issue up to 10,000,000 shares of preferred stock, in one or more series. The board of directors can fix the rights, preferences and privileges of the shares of each series, including any qualifications, limitations or restrictions. Our board of directors may authorize the issuance of preferred stock with terms that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock providing flexibility in connection with possible future financings, acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of us and could adversely affect the value of our common stock. We do not have any shares of preferred stock outstanding, and we have no current plans to issue any shares of preferred stock.

In the June offering, we issued warrants to investors to acquire 3,750,000 shares of common stock, warrants to the former holders of Athersys to acquire 1,093,525 shares of common stock, warrants to the former holders of Athersys to acquire 10% secured convertible warrants to acquire 132,945 shares of common stock, and warrants to our senior secured lenders to acquire 149,026 shares of common stock described below, for an aggregate of 5,125,496 shares of common stock underlying such warrants.

The warrants held by investors have a cash exercise price of \$6.00 per share and a term of five years from the closing date of the June offering. At any time after the one-year anniversary of the issuance of the warrants there is no effective resale registration statement for the common stock issuable upon exercise of the warrants, then the warrants provide for cashless exercise. The shares of common stock issuable upon exercise of the warrants will be afforded the same registration rights as all other shares of common stock sold in the June offering and are included in the shares of common stock offered by this prospectus.

*Warrants*

The warrants held by the placement agents have a cash or cashless exercise price of \$6.00 per share and a term of five years from the closing date of the June offering. The shares of common stock issuable upon exercise of the placement agents' warrants will be afforded the same registration rights as all other shares of common stock sold in the June offering and are included in the shares of common stock offered by this prospectus.

The warrants held by the lead investor, Radius, have a cash or cashless exercise price of \$6.00 per share and a term of five years from the closing date of the June offering. The shares of common stock issuable upon exercise of the Radius warrants will be afforded the same registration rights as all other shares of common stock sold in the June offering and are included in the shares of common stock offered by this prospectus.





### ***the Promissory Note Warrants***

the former holders of Athersys' 10% secured convertible promissory notes have a cash exercise price of \$6.00 per share. The warrants will expire 10 years from the closing date of the June offering. Additionally, if at any time after the one-year anniversary of the closing date of the June offering, there is no effective resale registration statement for the common stock issuable upon exercise of the warrants, the noteholder warrants will provide for cashless exercise. The shares of common stock issuable upon exercise of the warrants will be afforded the same registration rights as all other shares of common stock sold in the June offering and are treated as common stock offered by this prospectus.

The lenders under Athersys' Senior Loan Agreement have a cash or cashless exercise price of \$5.00 per share and a maturity date of the closing date of the June offering.

Athersys entered into a registration rights agreement that provided demand and piggyback registration rights to some of the holders. The rights are described below. As a condition to the closing of the June offering, the holders: waived their demand registration rights from the effective date of the resale registration statement; and waived their piggyback rights in connection with the resale registration statement.

Of Athersys capital stock that now own 3,256,847 shares of common stock are entitled to piggyback registration. If we register any of our securities, we will be obligated to provide to these holders notice of the registration and include, at their option, shares of common stock in the registration, subject to certain limitations.

If shares of Athersys capital stock that hold shares of common stock have the right to require us to file a long-form registration statement under the Securities Act with respect to shares of common stock owned by them. We will be required to use our best efforts to effect the requested registration.

If shares of Athersys capital stock that hold shares of common stock have the right to require us to file a short-form registration statement under the Securities Act with respect to shares of common stock owned by them, and we will be required to use our best efforts to effect the requested registration; provided, that the reasonably anticipated price to the public for those shares would have equal or exceed \$500,000.

The registration rights are subject to various conditions and limitations, among them our right to limit the number of shares included in a registration. We have the right to not effect a requested registration (1) within 180 days after the effective date of an initial public offering, (2) within 180 days after the effective date of a previous registration on a Form S-1 or (3) within 90 days after the effective date of a registration on a Form S-1 for all shares requested by holders of registrable shares. We will bear all of the expenses incurred in connection with the exercise of registration rights excluding discounts and commissions.



## er Law

Section 203 of the General Corporation Law of the State of Delaware, or DGCL. Section 203 generally prohibits a public corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction, unless:

(1) prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

(2) the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction occurred, including for purposes of determining the number of shares outstanding (1) shares owned by persons who are not officers and (2) shares owned by employee stock plans in which employee participants do not have the right to tender their shares held subject to the plan will be tendered in a tender or exchange offer; or

(3) prior to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting shares owned by the interested stockholder.

The business combination to include:

(1) a consolidation involving the corporation and the interested stockholder;

(2) a sale, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;

(3) any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; and

(4) the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided through the corporation.

Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting shares of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

## Registrar

We have designated National City Bank as the transfer agent and registrar for our common stock.

Our common stock is currently quoted on the OTC Bulletin Board under the symbol AHYS. We will apply to have our common stock listed on the NASDAQ Capital Market under the symbol ATHX.

## SHARES ELIGIBLE FOR FUTURE SALE

7, we have 18,927,988 shares of common stock issued and outstanding. Additionally, 5,125,496 shares of common stock are subject to warrants to purchase our common stock. Of these warrant shares, 4,976,470 are subject to five-year warrants of common stock with an exercise price of \$6.00 per share, and 149,026 are subject to seven-year warrants with an exercise price of \$6.00 per share.

Sales of substantial amounts of our common stock in the public market could cause our prevailing market prices to decline. A large sale of common stock outstanding will not be available for sale shortly after this offering because of contractual and legal restrictions described below. Sales of substantial amounts of our common stock in the public market after these restrictions could depress our prevailing market price and limit our ability to raise equity capital in the future.

Of the common stock that we had issued and outstanding, 299,622 shares of common stock will be freely tradeable in the public market without registration under the Securities Act. The remaining 18,628,366 shares are deemed to be restricted under Rule 144 promulgated under the Securities Act. This includes 13,531,781 shares that are being sold pursuant to the registration statement, all of which, unless purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, may be resold in the public market immediately. We also are registering under this prospectus a reserve by the selling security holders 4,976,470 shares issuable upon the exercise of warrants.

Our directors and substantially all of our employees and the former Athersys stockholders that own greater than 1% of the common stock after consummation of the merger and the June offering have agreed not to transfer or dispose of, directly or indirectly, any shares of our common stock, excluding shares being registered pursuant to the registration statement of which this prospectus is a part or any securities convertible into or exercisable or exchangeable for shares of our common stock for a period of 90 days after the date of the registration statement of which this prospectus is a part is declared effective. Transfers or dispositions can be made only with the prior written consent of Cowen and Company, LLC and National Securities Corporation.

Under Rule 144, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock at the time of the offering would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

(1) 1% of the common stock outstanding immediately after this offering; or

(2) the average daily trading volume of the common stock on the OTC Bulletin Board during the four calendar weeks preceding the date of the offering, as shown on Form 144 with respect to the sale.

Any sale of common stock must comply with manner of sale provisions and notice requirements, and information about us must be publicly disclosed.

A person who has not been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned shares proposed to be sold for at least two years, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, 144(k) shares may be sold at any time after the completion of this offering.



e the number of shares that will be sold under Rules 144 and 144(k) because the number will depend on the market  
ock, the personal circumstances of the sellers and other factors.

ration statement on Form S-8 under the Securities Act covering, among other things, shares of common stock to be  
o granted under our stock option plans. Based on the number of shares covered by outstanding options and  
der our stock plans as of June 8, 2007, the registration statement would cover approximately 4,500,000 shares. The  
ll become effective upon filing. Accordingly, shares registered under the registration statement on Form S-8 will be  
open market immediately thereafter, after complying with Rule 144 volume limitations applicable to affiliates and  
lock-up agreements.

## SELLING STOCKHOLDERS

forth certain information concerning the resale of the shares of our common stock by the selling stockholders as of less otherwise described below, to our knowledge, no selling stockholder nor any of their affiliates has held any been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior ctus. Unless otherwise described below, the selling stockholders have confirmed to us that they are not es of a broker-dealer with the meaning of Rule 405 of the Securities Act.

mes that the selling stockholders will sell all of the shares of our common stock offered by them in this offering. ckholders may offer all or some portion of our shares of common stock or any shares of common stock issuable ding warrants held by them. Accordingly, no estimate can be given as to the amount or percentage of our common r the selling stockholders upon termination of sales pursuant to this prospectus. In addition, the selling stockholders ve sold, transferred or disposed of all or a portion of their shares since the date on which they provided the eir holdings in transactions exempt from the registration requirements of the Securities Act. The term "selling e stockholders listed below and their respective transferees, assignees, pledges, donees and other successors.

expenses and fees in connection with the registration of shares of our common stock to be sold by the selling stockholders will bear all commissions and discounts, if any, attributable to their respective sales of shares.

7, there were 18,927,988 shares of our common stock outstanding. Unless otherwise indicated, the selling e power to direct the voting and investment over shares owned by them.

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
ment III, L.P. (3) oor	3,714,623	18.88%	3,714,623	0	*
1, LP (4) Suite 610	1,473,600	7.67%	1,473,600	0	*
II, L.P. (5) h Floor	1,200,000	6.21%	1,200,000	0	*



III QP, L.P. (6) h Floor	1,044,351	5.42%	1,044,351	0	*
rs (7) Capital Management LLC 30	590,000	3.10%	590,000	0	*
os Terranova 600 Mts. S.O	567,500	2.97%	567,500	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
Corporation (9) Suite 1560	235,242	2.81%	235,242	0	*
C (10) Americas 6th Floor	546,762	2.81%	546,762	0	*
(11) gement, LLC	500,000	2.63%	500,000	0	*
LLC (12) Management Floor	500,000	2.63%	500,000	0	*
ional (13) agement ite 3250 l	500,000	2.63%	500,000	0	*
LP (14) #200	494,631	2.61%	127,628	367,003	1.94%
r Fund L.P. (15) e 350 94080	493,625	2.59%	493,625	0	*

...e Ventures III, LP (16)	423,660	2.23%	423,660	0	*
...tors (17) ...Capital Management LLC ...30	410,000	2.16%	410,000	0	*
...Fund (Offshore), Ltd. (18) ...nagement, LLC ...loor	399,938	2.10%	399,938	0	*
...Fund, L.P. (19) ...nagement, LLC ...loor	398,125	2.09%	398,125	0	*
...	392,887	2.04%	26,589	366,298	1.91%
...34	371,127	1.93%	26,589	344,538	1.79%
...34					
...Fund I, LP (22)	357,944	1.89%	157,945	199,999	1.05%

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
Fund II (Offshore), Management, LLC Floor	339,313	1.79%	339,313	0	*
II LP (24)	297,017	1.57%	47,860	249,157	1.32%
Rule (25)	250,000	1.32%	250,000	0	*
	250,000	1.32%	250,000	0	*
(27) 4000	226,238	1.19%	149,190	77,048	*
ings Corp. (28)	213,750	1.13%	213,750	0	*
ing IV, LLC (29) er Suite 310	211,653	1.11%	39,884	171,769	*

ators LLC (30) C e	206,250	1.09%	206,250	0	*
Fund SPC, Ltd. (31) t 300 1	200,000	1.05%	200,000	0	*
L.P. (32) 3700	200,000	1.05%	200,000	0	*
Fund II (QP), L.P. (33) nagement, LLC loor	197,187	1.04%	197,187	0	*
Fund II, L.P. (34) nagement, LLC loor	165,437	*	165,437	0	*
III, L.P. (35) h Floor	155,649	*	155,649	0	*
(36) e 703	98,750	*	98,750	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
QP), L.P. (37)	88,750	*	88,750	0	*
	87,500	*	87,500	0	*
cho					
	108,953	*	56,906	52,047	*
0					
	50,000	*	50,000	0	*
loor					
	50,000	*	50,000	0	*
Ltd. (42)	50,000	*	50,000	0	*
ors, LLC					
uite 1410					
	50,000	*	50,000	0	*
6					
O O Connor					
pha Master Limited (44)	163,951	*	49,190	114,761	*
Wacker Drive 32 Floor					

LP (45)	47,500	*	47,500	0	*
77 D					
P. (46) Floor	46,250	*	46,250	0	*
47) Management, L.P. Suite 585	43,750	*	43,750	0	*
	37,500	*	37,500	0	*
	37,500	*	37,500	0	*
205					
L.P. (50) oor	35,377	*	35,377	0	*
s LP (51) Suite 1400	135,987	*	26,589	109,398	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
LP (52)	107,079	*	26,589	80,490	*
II, LP (53) Suite 610	26,400	*	26,400	0	*
4)	26,340	*	26,340	0	*
Ste. 210	25,000	*	25,000	0	*
	25,000	*	25,000	0	*
	25,000	*	25,000	0	*
	25,000	*	25,000	0	*
Partners, LC (59)	25,000	*	25,000	0	*



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25,000	*	25,000	0	*
25,000	*	25,000	0	*
25,000	*	25,000	0	*
25,000	*	25,000	0	*
25,000	*	25,000	0	*
25,000	*	25,000	0	*
25,000	*	25,000	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Owned (1)(2)	Percent of Class
(68)	25,000	*	25,000	0	*
Zealand					
Carolyn Hope Knauff (69) WI 54016	18,750	*	18,750	0	*
Vest Thomas Houle (70)	18,750	*	18,750	0	*
	18,750	*	18,750	0	*
s and gyrstrassel					
)	15,000	*	15,000	0	*
	15,000	*	15,000	0	*
a					
)	15,000	*	15,000	0	*
o 16 nor A					
Panama					
(75) irector	70,550	*	13,295	57,255	*

Suite 207

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une  
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3)

33,294	*	13,295	19,999	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*
12,500	*	12,500	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
ock (84) Dr.	12,500	*	12,500	0	*
i Sullivan Wall (85)	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
ch (88)	12,500	*	12,500	0	*
)	12,500	*	12,500	0	*
teuil (90)	12,500	*	12,500	0	*
obago	12,500	*	12,500	0	*

	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
weden					
Schill (94)	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
d					
	12,500	*	12,500	0	*
ta A. Pillari (97)	12,500	*	12,500	0	*
)	12,500	*	12,500	0	*
n J. Gangl (99)	12,500	*	12,500	0	*
ck (100)	12,500	*	12,500	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
	12,500	*	12,500	0	*
3					
ehage (102)	12,500	*	12,500	0	*
5					
o (103)	12,500	*	12,500	0	*
)	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
410					
	12,500	*	12,500	0	*
Arabia					
	12,500	*	12,500	0	*
N 55077					
	12,500	*	12,500	0	*

i (109) e	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
	12,500	*	12,500	0	*
15)	12,500	*	12,500	0	*
0	12,500	*	12,500	0	*
7)	12,500	*	12,500	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
118) radura 272	12,000	*	12,000	0	*
Inc (119) te. 1600	30,791	*	11,965	18,826	*
	11,250	*	11,250	0	*
121)	10,000	*	10,000	0	*
81					
Lane gland ME206XT	10,000	*	10,000	0	*
	10,000	*	10,000	0	*
ue	10,000	*	10,000	0	*
olls (125)	10,000	*	10,000	0	*



	10,000	*	10,000	0	*
A (127)	10,000	*	10,000	0	*
	9,250	*	9,250	0	*
	7,500	*	7,500	0	*
13C	7,500	*	7,500	0	*
Declaration of Trust (131)	16,922	*	6,647	10,275	*
of the Geraldine Heibel	19,494	*	6,647	12,847	*
	20,581	*	6,647	13,934	*
ors Fund LLC (134)	6,375	*	6,375	0	*
e 350					
94080					

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
40)	6,250	*	6,250	0	*
1)	6,250	*	6,250	0	*
42)	6,250	*	6,250	0	*

Baroch (143)	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
Edgemant	6,250	*	6,250	0	*
Ward (148)	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
Defined Benefit Pension Plan	6,250	*	6,250	0	*
191					

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
(151)	166,250	*	6,250	160,000	*
34					
	6,250	*	6,250	0	*
cia Davila (153) Arcos Franco	6,250	*	6,250	0	*
ad (154)	6,250	*	6,250	0	*
4					
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
(157)	6,250	*	6,250	0	*
82					
	6,250	*	6,250	0	*

	6,250	*	6,250	0	*
60)	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
ne (162)	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
915-6QN, UK	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
d.	6,250	*	6,250	0	*
66)	6,250	*	6,250	0	*
9					
	91				

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
ney (167) way	6,250	*	6,250	0	*
evocable Trust (168)	6,250	*	6,250	0	*
rust (169)	6,250	*	6,250	0	*
0)	6,250	*	6,250	0	*
1)	6,250	*	6,250	0	*
d 2564	6,250	*	6,250	0	*
one (173)	6,250	*	6,250	0	*
NSW2076	6,250	*	6,250	0	*
) kay Blvd. ahamas	6,250	*	6,250	0	*

pt

78)

1)

(182)

6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*
6,250	*	6,250	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares Beneficially Owned(1)	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
Partnership (183)	6,250	*	6,250	0	*
L 33308					
	6,250	*	6,250	0	*
)	6,250	*	6,250	0	*
Marta I. Johnson (186)	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
	6,250	*	6,250	0	*
)	6,250	*	6,250	0	*
	15,582	*	5,583	9,999	*
Suite 207					



LP (191)	20,604	*	5,317	15,287	*
#200 4					
Director & CFO (192)	6,658	*	2,659	3,999	*
Suite 207					
Director (193)	6,658	*	2,659	3,999	*
Suite 207					
ng Director (194)	4,393	*	2,393	2,000	*
Suite 207					
	83,329	*	1,330	81,999	*
34					
96)	4,530	*	1,330	3,200	*
0					
	3,172	*	3,172	0	*

Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
276	*	276	0	*
276	*	276	0	*
1,243	*	1,243	0	*
553	*	553	0	*
595	*	595	0	*
595	*	595	0	*
204	*	204	0	*
383	*	383	0	*

276	*	276	0	*
1,714	*	1,714	0	*
1,768	*	1,768	0	*
1,505	*	1,505	0	*
1,205	*	1,205	0	*
300	*	300	0	*
50	*	50	0	*
15,970	*	15,970	0	*
1,155	*	1,155	0	*

Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
3,263	*	3,263	0	*
165	*	165	0	*
330	*	330	0	*
935	*	935	0	*
2,356	*	2,356	0	*
1,870	*	1,870	0	*
1,122	*	1,122	0	*
770	*	770	0	*

	660	*	660	0	*
	20,405	*	20,405	0	*
	3,575	*	3,575	0	*
	2,083	*	2,083	0	*
	825	*	825	0	*
	2,233	*	2,233	0	*
	11	*	11	0	*
	170	*	170	0	*
	511	*	511	0	*

Shares of Common Stock Beneficially Owned Prior to the Offering			Shares of Common Stock Beneficially Owned After the Offering	
Number of Shares	Percent of Class	Number of Shares Being Offered(2)	Number of Shares Beneficially Owned (1)(2)	Percent of Class
128	*	128	0	*
255	*	255	0	*
255	*	255	0	*
16	*	16	0	*
16	*	16	0	*
211	*	211	0	*
211	*	211	0	*
542	*	542	0	*

	1,530	*	1,530	0	*
	833	*	833	0	*
	54,000	*	54,000	0	*
	52,000	*	52,000	0	*
	13,000	*	13,000	0	*
	13,000	*	13,000	0	*
	54,000	*	54,000	0	*
	8,000	*	8,000	0	*
	15,000	*	15,000	0	*

	Shares of Common Stock Beneficially Owned Prior to the Offering		Shares of Common Stock Beneficially Owned After the Offering	
	Number of Shares	Percent of Class	Number of Shares Beneficially Owned (1)(2)	Percent of Class
	8,000	*	8,000	0
	4,000	*	4,000	0
	4,000	*	4,000	0
	10,000	*	10,000	0

common stock issuable under stock options and warrants that are exercisable within 60 days after September 10, 2007 outstanding for computing the percentage ownership of the selling stockholder holding the options or warrants, prior to the offering, but are not deemed outstanding for computing the percentage ownership of any other stockholder.

How often or in what amounts a selling stockholder may offer shares for sale. The selling stockholders might not offer all of the shares offered by this prospectus. Because the selling stockholders may offer all or some of the shares being offered and because there are currently no agreements, arrangements or understandings with respect to the sale of the shares, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares being offered by this prospectus will be held by the selling stockholders.

As Managing Partner of the General Partner, has voting and investment power over the shares of common stock to purchase common stock held by Caduceus Private Investments III, LP. The shares listed in the first column are 71,698 shares of common stock and warrants to purchase 742,925 shares of common stock with an exercise price of \$10.00 per share.



as indicated that Peter Kolchinsky and Richard Aldrich are the beneficial owners of these shares. The shares listed in the first column consist of 1,178,880 shares of common stock and warrants to purchase 294,720 shares of common stock with an exercise price equal to \$6.00 per share.

Mr. Lubin and Daniel C. Lubin have voting and investment power over the shares of common stock and warrants to purchase common stock held by Radius Venture Partners II, L.P. George Milne, a venture partner at Radius Ventures, LLC, the managing member and advisor of Radius Venture Partners II, L.P., serves on our board of directors. The shares listed in the first column consist of 400,000 shares of common stock and warrants to purchase 400,000 shares of common stock with an exercise price of \$6.00 per share.

Mr. Lubin and Daniel C. Lubin have voting and investment power over the shares of common stock and warrants to purchase common stock held by Radius Venture Partners III QP, L.P. George Milne, a venture partner at Radius Ventures, LLC, the managing member and advisor of Radius Venture Partners III QP, L.P., serves on our board of directors. The shares listed in the first column consist of 696,234 shares of common stock and warrants to purchase 348,117 shares of common stock with an exercise price of \$6.00 per share.

Quist has indicated that Daniel Olmstead is the beneficial owner of these shares. The shares listed in the first column consist of 472,000 shares of common stock and warrants to purchase 118,000 shares of common stock with an exercise price equal to \$6.00 per share.

Securities Corporation has indicated that Jaime Montealegre is the beneficial owner of these shares. The shares listed in the first column consist of 400,000 shares of common stock and warrants to purchase 167,500 shares of common stock with an exercise price equal to \$6.00 per share.

include 235,242 shares of common stock that may be purchased upon exercise of presently exercisable warrants at \$6.00 per share. National Securities, a NASD member, was entitled to receive these securities as partial compensation for its services as placement agent in the ordinary course of business and at the time of receiving the securities had no agreements or understandings, directly or indirectly, with any person to distribute them. These securities are subject to a 180-day lock-up agreement in accordance with the requirements of NASD Rule 2710(g)(1).

Company, LLC is a NASD member. Cowen is a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and as such may be deemed to be an "underwriter" within the meaning of the Securities Act with respect to the securities it is offering for resale. David M. Malcolm, on behalf of Cowen in his capacity as Executive Vice Chairman, has sole control and investment discretion over the securities being offered. Mr. Malcolm disclaims beneficial ownership of such securities. The shares listed include 546,762 shares of common stock that may be purchased upon exercise of presently exercisable warrants at \$6.00 per share. Cowen and Company, a NASD member, was entitled to receive these securities as partial compensation for its services as placement agent in the ordinary course of business and at the time of receiving the securities had no agreements or understandings, directly or indirectly, with any person to distribute them. These securities are subject to a lock-up agreement in accordance with the requirements of NASD Rule 2710(g)(1).

Roth and Brian J. Stark have voting and investment power over the shares of common stock and warrants to purchase 100,000 shares of common stock held by SF Capital Partners Ltd., but Messrs. Roth and Stark disclaim beneficial ownership of such securities. SF Capital Partners Ltd. has indicated that it is an affiliate of Reliant Trading, a NASD-registered broker dealer, but used the shares in the ordinary course of business and at a time when it had no agreement or understanding, directly or indirectly, with any person to distribute the shares. The shares listed in the first column consist of 400,000 shares of common stock and warrants to purchase 100,000 shares of common stock with an exercise price equal to \$6.00 per share.

Capital Management, LLC is the trading manager of Highbridge International LLC and has voting control and investment discretion over the securities held by Highbridge International LLC. Glenn Dubin and Henry Swieca control Highbridge Capital Management, LLC and have voting control and investment discretion over the securities held by Highbridge International LLC. Each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities held by Highbridge International LLC. The shares listed in the first column consist of 400,000 shares of common stock and warrants to purchase 100,000 shares of common stock with an exercise price equal to \$6.00 per share.

CVI International is under common control with one or more NASD members, none of whom are currently participating in the offering contemplated by this prospectus. Capital Ventures International has indicated that it has no agreements or understandings, directly or indirectly, with any person to distribute the shares. Heights Capital Management, Inc. has indicated that it, as the authorized manager of CVI International, or CVI, has discretionary authority to vote and dispose of the shares held by CVI and is deemed to be the beneficial owner of these shares. Heights Capital Management, Inc. has also indicated that Martin Kobinger, in his capacity as Investment Manager of Heights Capital Management, Inc., may also be deemed to have investment discretion and voting power over the shares held by CVI, but that Mr. Kobinger disclaims any such beneficial ownership of the shares listed





warrants to purchase 67,863 shares of common stock with an exercise price equal to \$6.00 per share.

nt and John C. McIlwraith, each as Managing Director, have voting and investment power over the shares of k and warrants to purchase common stock held by Blue Chip Capital Fund II LP. The shares listed in the first st of 287,445 shares of common stock and warrants to purchase 9,572 shares of common stock with an exercise \$6.00 per share.

ted in the first column consist of 200,000 shares of common stock and warrants to purchase 50,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 200,000 shares of common stock and warrants to purchase 50,000 shares of k with an exercise price equal to \$6.00 per share.

des has indicated that Tim Flaherty is the beneficial owner of these shares. The shares listed in the first column 5,400 shares of common stock and warrants to purchase 29,838 shares of common stock with an exercise price 0 per share.

ments Holdings has indicated that Alberto Motta, Jr. and Stanley Motta are the beneficial owners of these shares. ted in the first column consist of 151,000 shares of common stock and warrants to purchase 62,750 shares of k with an exercise price equal to \$6.00 per share.

ld Swenson, Salvadore Gutierrez, Martin Eng, Brian Best, Jay Cohan, Maurice Werdegarr and David Wanek have vestment power over the shares of common stock and warrants to purchase common stock held by Venture easing IV, LLC. The shares listed in the first column consist of 91,906 shares of common stock, warrants to 7 shares of common stock with an exercise price equal to \$6.00 per share, and warrants to purchase 111,770 shares ck with an exercise price equal to \$5.00 per share.

pectrum Investors has indicated that Arthur Amron, as investment advisor for Wexford Capital LLC, is the beneficial e shares. The shares listed in the first column consist of 165,000 shares of common stock and warrants to purchase of common stock with an exercise price equal to \$6.00 per share.

agement, LLC has indicated that it, as the investment manager of Passport Global Master Fund SPC Ltd for and on folio A-Global Strategy, or Passport Global, shares voting and dispositive power over these shares with Passport ort Management, LLC has also indicated that Passport Capital, LLC, a Delaware limited liability company, is the mber of Passport Management, LLC and that John H. Burbank III, a natural person, is the sole managing member apital, LLC. As a result, Passport Management, LLC has indicated that each of Passport Management, LLC, tal, LLC and John Burbank may be considered to indirectly beneficially own these shares. The shares listed in the consist of 160,000 shares of common stock and warrants to purchase 40,000 shares of common stock with an equal to \$6.00 per share.

has voting and investment power over the shares of common stock and warrants to purchase common stock held apital Partners, L.P. The shares listed in the first column consist of 160,000 shares of common stock and warrants to 00 shares of common stock with an exercise price equal to \$6.00 per share.

n has voting and investment power over the shares of common stock and warrants to purchase common stock held Life Sciences Fund II, LP. The shares listed in the first column consist of 157,750 shares of common stock and urchase 39,437 shares of common stock with an exercise price equal to \$6.00 per share.

indicated that Gabe Hoffman is the beneficial owner of these shares. The shares listed in the first column consist of s of common stock and warrants to purchase 33,087 shares of common stock with an exercise price equal to \$6.00

is and Daniel C. Lubin have voting and investment power over the shares of common stock and warrants to  
common stock held by Radius Venture Partners III, L.P. George Milne, a

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er at Radius Ventures, LLC, the investment advisor of Radius Venture Partners III, L.P., serves on our board of  
 shares listed in the first column consist of 103,766 shares of common stock and warrants to purchase  
 of common stock with an exercise price equal to \$6.00 per share.

opin, President of Downview Capital, Inc., the general partner of Cranshire Capital, L.P., has sole voting and  
 power over the shares of common stock and warrants to purchase common stock held by Cranshire Capital, L.P.  
 Kopin and Downside Capital, Inc. disclaims beneficial ownership of the securities. The shares listed in the first  
 st of 79,000 shares of common stock and warrants to purchase 19,750 shares of common stock with an exercise  
 \$6.00 per share.

al Partners has indicated that Richard Vanden Broek is the beneficial owner of these shares. The shares listed in the  
 consist of 71,000 shares of common stock and warrants to purchase 17,750 shares of common stock with an  
 equal to \$6.00 per share.

ted in the first column consist of 70,000 shares of common stock and warrants to purchase 17,500 shares of  
 k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 97,572 shares of common stock and warrants to purchase 11,381 shares of  
 k with an exercise price equal to \$6.00 per share.

as indicated that Michael Castor, General Partner of Sio Partners LLC, is the beneficial owner of these shares. The  
 n the first column consist of 40,000 shares of common stock and warrants to purchase 10,000 shares of common  
 exercise price equal to \$6.00 per share.

uang, as General Partner, has voting and investment power over the shares of common stock and warrants to  
 mon stock held by LBJ 8001 LP. The shares listed in the first column consist of 40,000 shares of common stock  
 to purchase 10,000 shares of common stock with an exercise price equal to \$6.00 per share.

l Advisors, LLC is the investment advisor to Bristol Investment Fund, Ltd. Paul Kessler is the manager of Bristol  
 ors, LLC and as such has voting and investment power over the shares of common stock and warrants to purchase  
 k held by Bristol Investment Fund, Ltd. Mr. Kessler disclaims beneficial ownership of such securities. The shares  
 rst column consist of 40,000 shares of common stock and warrants to purchase 10,000 shares of common stock  
 ise price equal to \$6.00 per share.

ted in the first column consist of 40,000 shares of common stock and warrants to purchase 10,000 shares of  
 k with an exercise price equal to \$6.00 per share.

ockholder is a fund that cedes investment control to UBS O Connor LLC, who is the investment manager. The  
 anager makes all of the investment/voting decisions. The shares listed in the first column consist of 154,113 shares  
 ck and warrants to purchase 9,838 shares of common stock with an exercise price equal to \$6.00 per share.

ernak, as Managing Member of the General Partner, has voting and investment power over the shares of common  
 rants to purchase common stock held by Chestnut Ridge Partners, LP. Mr. Pasternak has indicated that he is also a  
 r of Hudson Holdings, which is a NASD member broker dealer. Chestnut Ridge Partners has indicated that it  
 shares in the ordinary course of business and at a time when it had no agreement or understanding, directly or  
 th any person to distribute the shares. Mr. Pasternak is a passive investor and plays no role regarding Hudson  
 e shares listed in the first column consist of 38,000 shares of common stock and warrants to purchase 9,500 shares  
 ck with an exercise price equal to \$6.00 per share.





al Fund has indicated that Stephen Dubois is the beneficial owner of these shares. The shares listed in the first column consist of 37,000 shares of common stock and warrants to purchase 9,250 shares of common stock with an exercise price equal to \$6.00 per share.

Fund, Ltd. is a party to an investment management agreement with Rock Hill Investment Management, L.P., a partnership of which the general partner is RHP General Partner, LLC. Pursuant to such agreement, Rock Hill Investment Management directs the voting and disposition of shares owned by RHP Master Fund. Messrs. Wayne Bloch and Robert own all of the interests in RHP General Partner. The aforementioned entities and individuals disclaim beneficial ownership of securities owned by the RHP Master Fund. The shares listed in the first column consist of 35,000 shares of common stock and warrants to purchase 8,750 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 30,000 shares of common stock and warrants to purchase 7,500 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 30,000 shares of common stock and warrants to purchase 7,500 shares of common stock with an exercise price equal to \$6.00 per share.

indicated that Samuel Isaly is the beneficial owner of these shares. The shares listed in the first column consist of 7,075 shares of common stock and warrants to purchase 7,075 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 130,669 shares of common stock and warrants to purchase 5,318 shares of common stock with an exercise price equal to \$6.00 per share.

iro, Athersys former director, has voting and investment power over the shares of common stock and warrants to purchase common stock held by Ohio Innovation Fund I, LP. The limited partners of the Fund have beneficial ownership of the shares through the Fund. The shares listed in the first column consist of 101,761 shares of common stock and warrants to purchase 25,440 shares of common stock with an exercise price equal to \$6.00 per share.

as indicated that Peter Kolchinsky and Richard Aldrich are the beneficial owners of these shares. The shares listed in the first column consist of 21,120 shares of common stock and warrants to purchase 5,280 shares of common stock with an exercise price equal to \$6.00 per share.

ppas is chairman of the Investment Committee for Pappas Ventures, which has voting power over the shares of common stock and warrants to purchase common stock held by PV III CEO Fund, LP. The shares listed in the first column consist of 5,268 shares of common stock and warrants to purchase 5,268 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of common stock with an exercise price equal to \$6.00 per share.

listed in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of  
k with an exercise price equal to \$6.00 per share.

eythaler has voting and investment power over the shares of common stock and warrants to purchase common  
Meythaler Investment Partners, LC. The shares listed in the first column consist of 20,000 shares of common stock  
to purchase 5,000 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of  
k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

Associates has indicated that Anthony Onurato is the beneficial owner of these shares. The shares listed in the first st of 20,000 shares of common stock and warrants to purchase 5,000 shares of common stock with an exercise \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

an has indicated that he may be affiliated with NASD member Credit Suisse, but that he purchased the shares in the se of business and at a time when he had no agreement or understanding, directly or indirectly, with any person to shares. The shares listed in the first column consist of 20,000 shares of common stock and warrants to purchase of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 20,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 15,000 shares of common stock and warrants to purchase 3,750 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 15,000 shares of common stock and warrants to purchase 3,750 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 15,000 shares of common stock and warrants to purchase 3,750 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 5,000 shares of k with an exercise price equal to \$6.00 per share.

has voting and investment power over the shares of common stock and warrants to purchase common stock held trading Inc. The shares listed in the first column consist of 10,000 shares of common stock and warrants to purchase of common stock with an exercise price equal to \$6.00 per share.

ch has voting and investment power over the shares of common stock and warrants to purchase common stock held irsch IV, L.P. The shares listed in the first column consist of 30,635 shares of common stock, warrants to purchase

of common stock with an exercise price equal to \$6.00 per share, and warrants to purchase 37,256 shares of  
k with an exercise price equal to \$5.00 per share.

a partner in the following limited liability companies that hold our securities: Athersys Investors, LLC; Athersys  
LLC; and Athersys Investors III, LLC. The shares listed in the first column consist of 30.635 shares of common  
rants to purchase 2,659 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of  
k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

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ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

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ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ies has indicated that Ray McGlothlin and Stan McGlothlin are the beneficial owners of these shares. The shares  
rst column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of common stock with  
rice equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of  
k with an exercise price equal to \$6.00 per share.

has indicated that he may be affiliated with NASD member TFS Securities, but that he purchased the shares in the  
se of business and at a time when he had no agreement or understanding, directly or indirectly, with any person to  
shares. The shares listed in the first column consist of 10,000 shares of common stock and warrants to purchase  
of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of  
k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

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ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

sberg has indicated that he may be affiliated with NASD member Carnegie Inc., but that he purchased the shares in course of business and at a time when he had no agreement or understanding, directly or indirectly, with any person he shares. The shares listed in the first column consist of 10,000 shares of common stock and warrants to purchase of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.



ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 10,000 shares of common stock and warrants to purchase 2,500 shares of k with an exercise price equal to \$6.00 per share.

nbaum has voting and investment power over the shares of common stock and warrants to purchase common stock evan Birnbaum Trust. The shares listed in the first column consist of 9,600 shares of common stock and warrants 400 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 28,398 shares of common stock and warrants to purchase 2,393 shares of k with an exercise price equal to \$6.00 per share.

r has indicated that Mohammed Ishaq is the beneficial owner of these shares. The shares listed in the first column 00 shares of common stock and warrants to purchase 2,250 shares of common stock with an exercise price equal to re.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 8,000 shares of common stock and warrants to purchase 2,000 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 7,400 shares of common stock and warrants to purchase 1,850 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 6,000 shares of common stock and warrants to purchase 1,500 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 6,000 shares of common stock and warrants to purchase 1,500 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 15,593 shares of common stock and warrants to purchase 1,329 shares of k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 18,165 shares of common stock and warrants to purchase 1,329 shares of  
k with an exercise price equal to \$6.00 per share.

ted in the first column consist of 19,252 shares of common stock and warrants to purchase 1,329 shares of  
k with an exercise price equal to \$6.00 per share.

ster has voting power over the shares of common stock and warrants to purchase common stock held by MPM  
nvestors Fund LLC. The shares listed in the first column consist of 5,100 shares of common stock and warrants to  
5 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common  
exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

has indicated that Fred Harris is the beneficial owner of these shares. The shares listed in the first column consist of common stock and warrants to purchase 1,250 shares of common stock with an exercise price equal to \$6.00

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ities has indicated that Sanford Ehrlich is the beneficial owner of these shares. The shares listed in the first column 00 shares of common stock and warrants to purchase 1,250 shares of common stock with an exercise price equal to re.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

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ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

s voting and investment power over the shares of common stock and warrants to purchase common stock held by e & Cable Defined Benefit Pension Plan. The shares listed in the first column consist of 5,000 shares of common warrants to purchase 1,250 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock, warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share, and options to purchase 160,000 shares of common stock with an exercise \$5.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

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ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

es has indicated that Isaac Coolie is the beneficial owner of these shares. The shares listed in the first column 00 shares of common stock and warrants to purchase 1,250 shares of common stock with an exercise price equal to re.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

y has indicated that Ou Ou is the beneficial owner of these shares. The shares listed in the first column consist of of common stock and warrants to purchase 1,250 shares of common stock with an exercise price equal to \$6.00 per

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

Rita Petreccia have voting and investment power over the shares of common stock and warrants to purchase k held by Bernie s & Rita s Limited Partnership. The shares listed in the first column consist of 5,000 shares of k and warrants to purchase 1,250 shares of common stock with an exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

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ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 5,000 shares of common stock and warrants to purchase 1,250 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 15,316 shares of common stock and warrants to purchase 266 shares of common exercise price equal to \$6.00 per share.



g directors of Primus Venture Partners IV, Inc. share voting and investment power over the shares of common stock to purchase common stock held by Primus Executive Fund, LP for the benefit of its partners: William C. Mulligan, son, James T. Bartlett, Jonathan E. Dick and Steve Rothman. Mr. Mulligan is one of our directors. Limited partner in has indicated that he may be an affiliate of NASD member Key Banc Capital Markets, Inc. Primus has indicated sed the shares in the ordinary course of business and at a time when it had no agreement or understanding, directly with any person to distribute the shares. The shares listed in the first column consist of 19,541 shares of common rants to purchase 1,063 shares of common stock with an exercise price equal to \$6.00 per share.

is a member of the general partner of Costella Kirsch IV, LP. The shares listed in the first column consist of of common stock and warrants to purchase 532 shares of common stock with an exercise price equal to \$6.00 per

a member of the general partner of Costella Kirsch IV, LP. The shares listed in the first column consist of common stock and warrants to purchase 532 shares of common stock with an exercise price equal to \$6.00 per

ted in the first column consist of 3,064 shares of common stock and warrants to purchase 1,329 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist of 3,063 shares of common stock, warrants to purchase 266 shares of common stock exercise price equal to \$6.00 per share, and options to purchase 80,000 shares of common stock with an exercise price of re.

ted in the first column consist of 4,264 shares of common stock and warrants to purchase 266 shares of common exercise price equal to \$6.00 per share.

ted in the first column consist solely of warrants to purchase shares of common stock with an exercise price equal share. National Securities Corporation, or NSC, has advised us that the listed selling stockholder is an associated C, received these warrants as a designee of NSC in the ordinary course of business and at the time of receiving the no agreements or understandings, directly or indirectly, with any person to distribute them. NSC was entitled to securities as partial compensation for its services as placement agent in the ordinary course of business and at the ing the securities had no agreements or understandings, directly or indirectly, with any person to distribute them. es are subject to a 180-day lock-up agreement in accordance with the requirements of NASD Rule 2710(g)(1).

## **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

### **Accountants**

merger, on June 11, 2007, we elected to dismiss S. W. Hatfield, CPA as our registered independent certified public accountants. The reports of S. W. Hatfield, CPA on the financial statements of BTHC VI for each of the past two fiscal years contained a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

The selection of independent accountants was approved by the audit committee of our board of directors on June 12, 2007.

For the two most recent fiscal years and through the date of this prospectus, BTHC VI has had no disagreements with S. W. Hatfield, CPA on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which would have caused it to make reference to the subject matter of the report on the financial statements of BTHC VI for such periods.

For the two most recent fiscal years and through the date of this prospectus, there were no reportable events as defined under Regulation S-K adopted by the SEC.

S. W. Hatfield, CPA with a copy of this disclosure before its filing with the SEC. BTHC VI requested the S. W. Hatfield, CPA to provide a letter with a letter addressed to the SEC stating whether it agreed with the above statements. A copy of such letter, dated June 14, 2007, is attached as Exhibit 16.1 to our Current Report on Form 8-K filed with the SEC on June 14, 2007.

### **Accountants.**

Our board of directors appointed Ernst & Young, LLP as our new independent registered public accounting firm as of June 11, 2007. For the two most recent fiscal years and through the date of Ernst & Young's engagement by us, BTHC VI did not have any disagreements regarding either (1) the application of accounting principles to a specified transaction, either completed or proposed, or (2) any matter that might be rendered on BTHC VI's financial statements, or (2) any matter that was either the subject of a reportable event (as defined in Regulation S-K Item 304(a)(1)(iv) and the related instructions to Item 304) or a reportable event (as defined in Regulation S-K Item 304(a)(1)(v)). Ernst & Young served as Athersys' independent registered public accounting firm before the merger.

## PLAN OF DISTRIBUTION

may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility, or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any of the following methods when selling shares:

- large transactions and transactions in which the broker-dealer solicits purchasers;

- in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

- as broker-dealer as principal and resale by the broker-dealer for its account;

- in accordance with the rules of the applicable exchange;

- other permitted transactions;

- may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

- any of any such methods of sale; and

- and any other method permitted pursuant to applicable law.

We may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser). Commissions will be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary for the type of transactions involved. No such broker-dealer will receive compensation in excess of that permitted by NASD Rule 2210. In no event will any broker-dealer receive total compensation in excess of 8%. Any profits on the resale of shares by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Commissions, discounts and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. Selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving the sale of shares if liabilities are imposed on that person under the Securities Act.

We may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by us. In the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable Securities Act supplementing or amending the list of selling stockholders to include the pledgee, transferee or other person who may act as selling stockholders under this prospectus.

We may also transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other holders will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable Securities Act supplementing or amending the list of selling stockholders to include the pledgee, transferee or other person who may act as selling stockholders under this prospectus.

and any broker-dealers or agents that are involved in selling the shares of common stock may be deemed to be  
the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such  
and any profit on

f common stock purchased by them may be deemed to be underwriting commissions or discounts under the

ll fees and expenses incident to the registration of the shares of common stock (other than underwriting discounts  
ave agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including  
rities Act.

have advised us that they have not entered into any agreements, understandings or arrangements with any  
ealers regarding the sale of their shares of common stock, nor is there an underwriter or coordinating broker acting  
posed sale of shares of common stock by any selling stockholder. If we are notified by any selling stockholder that  
t has been entered into with a broker-dealer for the sale of shares of common stock, if required, we will file a  
ectus. If the selling stockholders use this prospectus for any sale of the shares of common stock, they will be  
elivery requirements of the Securities Act.

selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the  
s all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the  
(2) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act. Notwithstanding  
n to the contrary, an aggregate of 1,093,525 shares of common stock issuable upon exercise of warrants held by  
oration, Cowen and Company, LLC and/or associated persons of National Securities Corporation are subject to a  
ent in accordance with the requirements of NASD Rule 2710(g)(1) and will not be sold, pledged, assigned,  
ed for a period of 180 days from the effective date of this prospectus except in accordance with the requirements of

les of Regulation M under the Securities Exchange Act of 1934 may apply to sales of our common stock and  
stockholders.

## LEGAL MATTERS

a the validity of shares of common stock being offered hereby. As of September 10, 2007, partners in the firm of  
regate of 3,900 shares of our common stock.

## EXPERTS

al statements of Athersys, Inc. at December 31, 2006 and 2005, and for each of the three years in the period ended  
earing in this prospectus and the registration statement of which this prospectus forms a part have been audited by  
ependent registered public accounting firm, as set forth in their report thereon (which contains an explanatory  
ditions that raise substantial doubt about Athersys, Inc.'s ability to continue as a going concern as described in  
ed financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the  
experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

EC a registration statement on Form S-1 under the Securities Act of 1933 with respect to the common stock we are  
contains all information about us and our common stock that would be material to an investor. The registration  
its and schedules to which you should refer for additional information about us.

of the registration statement and the exhibits and schedules to the registration statement without charge at the SEC, 100 F Street, N.E., Washington, DC 20549. You may obtain copies of all or any part of the registration statement from the SEC, 100 F Street, N.E., Washington, DC 20549, upon the payment of the prescribed fees. You may also obtain copies of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at [www.sec.gov](http://www.sec.gov) where you can obtain reports, proxy, and information statements, and other information regarding registrants like us that file with the SEC. You can also inspect our registration statement on the SEC's website.

annual, quarterly, and current reports, proxy statements, and other information with the SEC. We intend to make these documents available on our website. You may read and copy any reports, statements, or other information we file with the SEC at the SEC's website. You may also request copies of these documents, for a copying fee, by writing the SEC, or you can review these documents on the SEC's website, as described above.

stockholders annual reports containing audited financial statements and to make available quarterly reports containing financial statements for the first three quarters of each fiscal year.

**ATHERSYS, INC.**

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<u>Income Statement of Operations for each of the years ended December 31, 2004, 2005, and 2006</u>	F-4
<u>Statement of Changes in Stockholders' Equity (Deficit) for each of the years ended December 31, 2004, 2005, and 2006</u>	F-5
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## Report of Independent Registered Public Accounting Firm

and Stockholders

ompanying consolidated balance sheets of Athersys, Inc. as of December 31, 2005 and 2006, and the related of operations, changes in stockholders' equity (deficit), and cash flows for each of the three years in the period 6. These financial statements are the responsibility of the Company's management. Our responsibility is to express financial statements based on our audits.

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

cial statements referred to above present fairly, in all material respects, the consolidated financial position of per 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in per 31, 2006, in conformity with U.S. generally accepted accounting principles.

cial statements have been prepared assuming that Athersys, Inc. will continue as a going concern. As more fully Company has incurred recurring operating losses from its inception and lacks sufficient liquidity to fund its ons raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in re also described in Note A. The financial statements do not include any adjustments to reflect the possible future lity and classification of assets or the amounts and classification of liabilities that may result from the outcome of

to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting *Share-Based Payment*, effective January 1, 2006.

the consolidated financial statements, the Company restated the consolidated balance sheet at December 31, 2005, ges in stockholders' equity (deficit) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

For Notes M and N  
July 9, 2007

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**Athersys, Inc.****Consolidated Balance Sheets**

	December 31	
	2005	2006
	(Restated)	
	(In thousands, except share and per share amounts)	
ASSETS		
ts	\$ 1,080	\$ 1,528
ies	3,481	
	628	872
er	375	361
	5,564	2,761
lated parties	682	562
	954	509
		117
her assets	109	317
	\$ 7,309	\$ 4,266
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
	\$ 365	\$ 898
nd related benefits	119	423
her	721	1,214
term debt	2,531	3,332
	3,736	5,867
	4,684	1,800
notes, net		7,510
		214
	7,473	8,882
See Note N:		
ck, at stated value; 13,432,350 shares authorized; 10,168,231 shares issued and		
31, 2005 and 2006; aggregate liquidation preference of \$68,187 at		
2006	68,301	68,301
r value; 40,000,000 shares authorized; 290,941 and 293,770 shares issued and		
31, 2005 and 2006, respectively		
1	55,179	53,495
	(250)	(250)
prehensive loss	(17)	
common stock options	(809)	

	(130,988)	(141,553)
ty (deficit)	(8,584)	(20,007)
holders equity (deficit)	\$ 7,309	\$ 4,266

See accompanying notes.

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**Athersys, Inc.****Consolidated Statements of Operations**

	<b>Year Ended December 31</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In thousands, except share and per share amounts)</b>		
	\$ 820	\$ 763	\$ 1,908
	2,318	2,833	1,817
	3,138	3,596	3,725
nt (including stock compensation expense of \$2,008, \$801, and 2006, respectively)	12,415	12,578	9,741
ve (including stock compensation expense of \$1,481, \$657, and 2006, respectively)	4,717	3,755	3,347
	1,297	982	528
uding stock compensation expense of \$56 and \$(128) in 2004 and	107	251	
	18,536	17,566	13,616
	(15,398)	(13,970)	(9,891)
		18	91
onsolidated affiliate			117
	317	317	119
	(73)	(964)	(1,047)
a convertible debt			(260)
<b>effect of change in accounting principle</b>	(15,154)	(14,599)	(10,871)
nge in accounting principle			306
	\$ (15,154)	\$ (14,599)	\$ (10,565)
<b>ds</b>	(2,325)	(2,253)	(1,408)
<b>common stockholders</b>	\$ (17,479)	\$ (16,852)	\$ (11,973)
<b>ss per common share attributable to common stockholders</b>			
ffect of change in accounting principle	\$ (59.82)	\$ (57.79)	\$ (41.89)
nge in accounting principle			1.05
	\$ (59.82)	\$ (57.79)	\$ (40.84)
<b>es outstanding, basic and diluted</b>	292,173	291,612	293,142

See accompanying notes.

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## Athersys, Inc.

**Consolidated Statements of Changes in Stockholders' Equity (Deficit)**  
(In thousands, except share and per share amounts)

Convertible Preferred Stock		Accumulated Unearned							Total
Number	Stated Value	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Other Comprehensive Income (Loss) (In thousands)	Compensation Common Stock Options	Accumulated Deficit	Stockholders Equity (Deficit)
34,565	\$ 68,301	292,068	\$	\$ 54,720	\$	\$ 35	\$ (6,870)	\$ (101,235)	14,951
		189		15					15
				189					189
				9			(9)		
							3,489		3,489
				56					56
				(833)			833		
				(1,208)					(1,208)
				(1,117)					(1,117)
							(15,154)		(15,154)

					(70)			(70)
								(15,224)
34,565	68,301	292,257	51,831		(35)	(2,557)	(116,389)	1,151
		72	3					3
(6,334)		(1,388)		(250)				(250)
						1,330		1,330
			(418)			418		
			(1,306)					(1,306)
			(947)					(947)
			6,016				(14,599)	6,016 (14,599)
					18			18
								(14,581)
58,231	68,301	290,941	55,179	(250)	(17)	(809)	(130,988)	(8,584)
		<b>2,829</b>	<b>130</b>					<b>130</b>
			<b>250</b>					<b>250</b>

[illegible]

See accompanying notes.

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**Athersys, Inc.****Consolidated Statements of Cash Flows**

	<b>Year Ended December 31</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In thousands)</b>		
	\$ (15,154)	\$ (14,599)	\$ (10,565)
net loss to net cash used in operating activities:			
	1,297	982	528
		87	
		(18)	
consolidated affiliate			(117)
on convertible debt			260
available from related party			122
on stock options	3,545	1,330	459
effect of change in accounting principle			(306)
on (discount) on available for sale securities and other	125	(44)	15
assets and liabilities:			
	(119)	22	(361)
other assets	(65)	10	21
accrued expenses	(1,297)	112	1,546
ing activities	(11,668)	(12,118)	(8,398)
sale securities	(12,238)	(5,006)	(3,426)
or sale securities	18,809	15,563	6,932
equipment		23	
	(173)	(239)	(83)
esting activities	6,398	10,341	3,423
ebt	(4,148)	(199)	(2,083)
debt	7,500		
le promissory notes and warrants			7,500
	(44)		
teral for debt	670		
and preferred stock held in treasury		(250)	
of common stock, net	15	3	6
led by financing activities	3,993	(446)	5,423
sh and cash equivalents	(1,277)	(2,223)	448
ts at beginning of year	4,580	3,303	1,080
ts at end of year	\$ 3,303	\$ 1,080	\$ 1,528

See accompanying notes.

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## Athersys, Inc.

### Notes to Consolidated Financial Statements

#### Accounting Policies

or the Company) is a biopharmaceutical company engaged in the development and commercialization of the business segment. Operations consist primarily of research and product development activities. Prior to 2005, the Company was considered in the development stage.

Consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has incurred annual losses and negative cash flows from operations and has an accumulated deficit at December 31, 2005. The Company expects to incur additional operating losses over the next several years. The Company has limited financial resources and must obtain significant additional capital resources in order to sustain its product development efforts, conduct clinical testing of anticipated products, pursuit of regulatory approval, and establishment of production facilities to meet other working capital requirements. The Company relies on proceeds from equity and debt offerings, proceeds from the sale of intellectual property rights, grant proceeds, and funding from collaborative arrangements to fund its operations. The Company is pursuing multiple potential collaborative and fundraising opportunities. If the Company exhausts its liquid assets and cannot obtain adequate funding, it may be unable to continue operations and meet contractual obligations. The financial statements do not adjust to reflect the possible future effects on the recoverability and classification of assets or the amounts and timing of cash flows that may result from the outcome of this uncertainty.

#### Consolidation

Financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Investments in joint ventures and collaborations are accounted for using the equity method when the Company does not control the investee but has the ability to exercise significant influence over the investee's operations and financial policies.

Revenue recognition policies are in accordance with the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," and SEC Staff Accounting Bulletin No. 00-21, "Revenue Arrangements with Multiple Deliverables," which provide guidance on revenue recognition for certain revenue arrangements and are based on the interpretations and practices developed by the SEC. Some of the Company's revenue arrangements include multiple elements, including technology access and development fees, research funding, milestones and royalty

over the period that Athersys performs its required activities under the terms of various agreements. Revenue from arrangements that require future performance obligations from Athersys is recognized when performance is complete and upon realization (if applicable), and when collectibility is reasonably assured. License fee revenue with no future service obligations is recognized when the required performance is completed. Athersys defers nonrefundable upfront fees under its arrangements and amortizes them over the period in which it performs services, using various factors specific to the collaboration. Research funding for research funding are recognized as revenue as the services are performed. Revenue resulting from the achievement of milestones stipulated in the agreements is recognized when the milestone is achieved.

**Athersys, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

consists primarily of funding under cost reimbursement programs from federal and state sources for qualified researches performed by Athersys. Revenue from grants is recorded when earned under the terms of the agreements.

*ents*

all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash invested in money market funds. The carrying amount of the Company's cash equivalents approximates fair value of the investments.

*ent*

nt expenditures, including direct and allocated overhead expenses, are charged to expense as incurred.

quired to remit royalty payments based on product sales to certain parties under license agreements. The Company royalties for the three-year period ended December 31, 2006.

the appropriate classification of investment securities at the time of purchase and reevaluates such designation as e. The Company's investments typically consist primarily of U.S. government obligations, all of which are r-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, mponent of stockholder's equity. The amortized cost of the debt securities is adjusted for amortization of premiums s to maturity. Such amortization or accretion is included in interest income. Realized gains and losses on ies are included in interest income. The cost of securities sold is based on the specific identification method. ies classified as available-for-sale is included in interest income.

quired cost less accumulated depreciation. Laboratory and office equipment are depreciated on the straight-line useful lives (three to seven years).

l assets is recognized when events or changes in circumstances indicate that the carrying amount of the asset or ay not be recoverable. If the expected future undiscounted cash flows are less than the carrying amount of the is recognized at that time. Measurement of impairment may be based upon appraisal, market value of similar flows. No such impairment losses were recorded in 2004 or 2006. See Note B regarding an impairment loss

e expensed as incurred. As of December 31, 2006, the Company has filed for broad intellectual property protection ogies. The Company currently has numerous U.S. patent applications and corresponding international patent technologies, as well as many issued U.S. and international patents.

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**Athersys, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

es on the Company's available for sale securities is the only component of total comprehensive income or loss. Some or loss has been disclosed in the consolidated statement of changes in stockholders' equity.

**Risk**

subject to concentration of credit risk due to the absence of a large number of customers. At December 31, 2006 accounted for 78% and 15% of accounts receivables, respectively. The Company does not require collateral from

cial statements in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Error from those estimates.

**ion**

B Statement No. 123(R), *Share-Based Payments*, was issued as a revision to FASB Statement No. 123, *Accounting* new statement is required to be adopted by nonpublic companies in January 2006. Prior to January 1, 2006, the amount for its stock-based compensation in accordance with the intrinsic value method as described in the provisions of Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by accounting Standards SFAS No. 123. As such, compensation was recorded in 2004 and 2005 on the date of excess of the current estimated market value of the underlying stock over the purchase or exercise price of the stock. Compensation was recognized over the respective vesting periods of the equity instruments, if any, using the graded method as prescribed by Financial Accounting Standards Board Interpretation No. 28.

2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payments*, modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted on or after January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). The amounts for 2005 have not been restated. For some of the awards granted prior to the adoption of SFAS 123R, the Company recognized an expense on the accelerated method. For awards granted subsequent to adoption of SFAS 123R, the Company will use the straight line method.

the Company to estimate forfeitures in calculating the expense relating to share-based compensation, while the Company was permitted to recognize forfeitures as an expense reduction upon occurrence. The adjustment to apply the straight line method to previously recognized share-based compensation was accounted for as a cumulative effect of a change in accounting principle on January 1, 2006, and reduced net loss by \$305,587 for the year ended December 31, 2006. As a result of adopting the straight line method, the Company's loss from operations for the year ended December 31, 2006 increased \$197,100.



**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

trates the effect on net income if the Company had applied the fair value recognition provisions of Statement 123 the Company's stock option plans in all periods presented prior to the adoption of Statement 123(R). For purposes ure, the value of the options is estimated using a Black-Scholes-Merton option-pricing formula and amortized to vesting periods (in thousands):

	<b>Year Ended December 31</b>	
	<b>2004</b>	<b>2005</b>
Common stockholders:		
	\$ (17,479)	\$ (16,852)
Expense included in net loss, as reported	3,384	1,260
Expense under the fair value method for all awards	(3,030)	(2,312)
Attributable to common stockholders	\$ (17,125)	\$ (17,904)
Expense:		
Reported	\$ (59.82)	\$ (57.79)
Formula	\$ (58.61)	\$ (61.40)

average input assumptions were used in determining the fair value:

	<b>December 31</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	51.9%	49.8%	<b>53.6%</b>
	3.4%	3.7%	<b>4.8%</b>
4 years	4 years	4 years	<b>4 years</b>
	0.0%	0.0%	<b>0.0%</b>

s per share attributable to common stockholders has been computed using the weighted-average number of ng during the period. During the three years ended December 31, 2006, the Company had outstanding certain rtible debt and convertible preferred stock which have not been used in the calculation of diluted net loss per share be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per

ember 31, 2004, 2005 and 2006, outstanding stock options to purchase 149,017, 138,795 and 116,083 shares of ely, were not included in computing diluted earnings per share because their effects were anti-dilutive.



ember 31, 2004, 2005 and 2006, warrants to purchase 39,830, 25,639 and 25,639 shares of common stock, ss that were issuable but not outstanding, were not included in computing diluted earnings per share because their .

ember 31, 2004, 2005 and 2006, 443,798, 385,854 and 385,424 shares, respectively, issuable upon conversion of stock, were not included in the computation of diluted earnings per share because to do so would have been

ember 31, 2006, an estimated 160,000 shares issuable upon conversion of the convertible promissory notes, were not ion of diluted earnings per share because to do so would have been anti-dilutive.

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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

(in thousands):

	<b>December 31</b>	
	<b>2005</b>	<b>2006</b>
Household improvements	\$ 5,755	\$ 5,825
	3,321	3,334
	9,076	9,159
n	(8,122)	(8,650)
	\$ 954	\$ 509

restructuring in 2005 (also see Note J), the Company reduced the carrying value of certain laboratory equipment to its fair value, resulting in an impairment loss of \$87,000. The fair value of the equipment was determined based on prices for similar equipment. This loss is included in restructuring costs in the statement of operations.

**From Related Parties**

The Company has a note receivable from an officer with an unpaid principal and interest balance of \$122,000 in connection with a loan that was forgiven in 2006. Also, the Company has a note receivable from the former owner of MCL LLC (MCL) with an unpaid principal balance of \$511,000 as a result of the merger between the Company and MCL in November 2003 (see Note L). Under the terms of the note, interest accrued on the unpaid principal at approximately 5% per annum for the first two years of the note, at which time the interest is dependent on certain events at the Company, as defined in the note agreement. In November 2005, interest on the unpaid principal and accrued interest is repayable (i) out of a percentage of proceeds, as defined, from the sale of shares of the Company owned by the note holder as he elects to sell his shares (the holder owned 27,359 shares at December 31, 2006), and (ii) out of a \$500,000 cash milestone related to the filing of an investigational new drug application with the U.S. Food and Drug Administration, whereby the Company has the right to offset \$300,000 as repayment on the note unless the holder elects to forgo the cash. If the proceeds that are subject to repayment of the note are insufficient to repay the principal and interest in full, the remaining balance due will be forgiven by the Company after the holder has sold all shares of the Company's stock and the holder has received any milestone consideration related to the merger.

**Assets**

Summary of available for sale securities (in thousands):

	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>
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	<b>Amortized Cost</b>	<b>Unrealized Losses</b>	<b>Unrealized Gains</b>	<b>Fair Value</b>
ons	\$ 3,498	\$ (17)	\$	\$ 3,481

significant realized gains or losses on the sale of available for sale securities for any of the periods presented. The net  
 available for sale securities is included as a component of accumulated other comprehensive income or loss in  
 was \$(17,000) as of December 31, 2005.

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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

available for sale securities approximated fair value at December 31, 2005, and all maturities were due in one year or less. The notes may differ from contractual maturities because the issuers of the securities may have the right to repay the securities at any time without penalty or payment penalties.

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office and laboratory space under an operating lease. The Company entered into the lease in April 1, 2000, and a letter of intent together provide the Company options to renew the lease in six-month increments through March 2009 at the same rate. The Company has executed its option to renew through September 2007. Rent expense for the facility was approximately \$1,200,000 in 2005, and 2006. The future annual minimum lease commitment at December 31, 2006, is approximately \$1,200,000.

The Company's long-term debt outstanding is as follows (in thousands):

	<b>December 31</b>
	<b>2005</b>
	<b>2006</b>
	\$ 7,215
	\$ 5,132
	2,531
	3,332
	\$ 4,684
	\$ 1,800

The Company entered into a \$7,500,000 note payable to lenders, the proceeds of which are unrestricted and used for general corporate purposes. The notes are payable in 30 monthly payments after the initial interest-only period that expired December 1, 2005, at a fixed rate of 13% and a maturity date of June 1, 2008. A terminal payment of \$487,500 (6.5% of the borrowings) is due at maturity. The debt has no financial covenants, and is secured by substantially all of the Company's assets. Intellectual property, patents, and trademarks are subject only to a negative pledge with an automatic spring lien available to the lenders in the event the cash balance falls below a certain threshold. The spring lien is in effect starting February 2006, in accordance with the terms of the agreement. The lien terminates with the agreement upon the achievement of certain levels of financing.

Deferred financing costs of \$44,000 were capitalized in 2004 in connection with the note, which are being amortized over the term of the debt using the interest method. As of December 31, 2006 and 2005, the unamortized deferred financing costs were \$9,000 and \$10,000, respectively.

The Company is entitled to receive a milestone payment of \$2,250,000 upon the Company's initial public offering, sale, merger, or other exit event. The milestone is payable in cash; however, if the milestone payment relates to an initial public offering, the Company may elect to receive 75% of such milestone in common stock at the per share public offering price. No amounts have been recorded for this milestone as of December 31, 2006.

the right to receive warrants upon the Company's initial public offering, sale, merger, or next financing event with warrants will be issued in an amount equal to 7% of loans advanced, and will be exercisable for the type of equity financing event (or common stock if initial public offering, sale or merger) with an exercise price equal to the price paid for the common stock. In connection with the 2006 loan amendment, the lenders also have the right to receive additional warrants equal to the amount of principal payments, with the same terms as the initial warrant rights. No warrants were issued as of

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**Athersys, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

Company's long-term debt at December 31, 2006, is not determinable due to lack of marketability of the fixed-rate debt. Representative of cash paid for the years ended December 31, 2004 and 2005, and the Company paid interest expense of \$1,800 for the year ended December 31, 2006.

Loan was amended to provide for a potential deferral of four monthly principal payments. Two such principal payments were subsequently repaid along with accumulated interest in January 2007. The amortization of the remaining principal was based on the original terms and was not adjusted as a result of the amendment.

Details of long-term debt are as follows (in thousands):

	\$ 3,332
	1,800
	\$ 5,132

Company entered into a co-development collaboration with Angiotech Pharmaceuticals, Inc. ("Angiotech"). The Company issued a convertible promissory note to the collaborator at the inception of the program, which was followed by the issuance of a second convertible promissory note of \$5 million in January 2007 upon the achievement of certain milestones. The notes bear interest at 10%, are unsecured, and are subordinated to the Company's long-term secured debt. The notes are only convertible into shares of common stock of the class as issued in the Company's next bona fide equity financing, as defined, at a conversion price of 110% of the price per share in the next bona fide equity financing. The notes, if not converted, are repayable with accrued interest at maturity.

Company will receive equity investments and cash payments based upon the successful achievement of specified clinical development and commercialization milestones. Under the terms of the collaboration, the parties plan to jointly fund clinical development and manufacturing, and Angiotech will take the lead on pivotal and later clinical trials and commercialization. The Company will pay for the majority of any phase III trial costs. The Company will have lead responsibility for preclinical and manufacturing, and Angiotech will take the lead on pivotal and later clinical trials and commercialization. The Company will receive profits from the sale of any approved products.

Company completed a bridge financing of \$2.5 million in the form of convertible promissory notes. The notes were issued to existing stockholders of the Company. The notes bear interest at 10%, have a 3-year term, and are secured by all the assets of the Company (subordinated to the Company's secured long-term debt). The notes are only convertible into shares of stock of the Company in the Company's next bona fide equity financing, as defined, at a conversion price equal to the price per share in the next bona fide equity financing. The notes, if not converted, are repayable with accrued interest at maturity, plus a repayment fee of 200% of the principal amount. The total amount due under the bridge financing at December 31, 2006, \$205,000 is due to three members of the Company.

Company received warrants in connection with the bridge financing. The warrants are exercisable for shares of common stock of the Company in connection with a bona fide equity financing. The number of shares that can be issued under the warrants is based on a formula whereby the bridge investors would receive warrants valued at two times their pre-money value of the Company upon a restructuring and bona fide equity financing. The exercise price of the warrants is \$0.01.

re. The Company allocated \$250,000 of the purchase price of the debt to the warrants based on the relative fair value of the warrants.

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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

uted a premium on the debt in the amount of \$5,250,000 due upon redemption, which is being accreted over the effective interest method.

he Company had net operating loss and research and development tax credit carry forwards of approximately 9,000, respectively, for income tax purposes. Such losses and credits may be used to reduce future taxable income expire at various dates between 2013 and 2027.

of the Company's deferred tax assets are as follows (in thousands):

	<b>December 31</b>	
	<b>2005</b>	<b>2006</b>
orwards	\$ 31,160	\$ 37,369
nt credit carryforwards	5,132	5,759
	4,224	4,275
ntures	3,077	
	381	568
	43,974	47,971
deferred tax assets	(43,974)	(47,971)
	\$	\$

s cumulative losses, the deferred tax assets have been fully offset by a valuation allowance. The Company has not three-year period ended December 31, 2006.

sued a warrant to purchase 699 shares of the Company's common stock at \$435 per share related to consulting 3. In January 2007, the warrant was repurchased and cancelled by the Company for a nominal fee.

urchased shares of the Company's common stock, Class F Convertible Preferred stock and Class A Convertible stockholder, and the shares are held in treasury at December 31, 2005 and 2006.

g warrants related to the Company's long-term debt, and Note E regarding warrants issued in connection with a



**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

common stock were reserved for future issuance (in thousands):

	<b>December 31</b>	
	<b>2005</b>	<b>2006</b>
	267	<b>277</b>
B, C, D, F, and G preferred stock	364	<b>364</b>
Preferred stock	9	<b>9</b>
Common stock	26	<b>26</b>
	666	<b>676</b>
Issued in connection with collaboration		<b>Note E</b>
Issued in connection with bridge financing		<b>Note E</b>
Warrants related to long-term debt		<b>Note D</b>
Warrants in bridge financing		<b>Note E</b>

Oculus Pharmaceuticals, Inc. (Oculus) related to a 2001 joint venture. Athersys accounts for its investment in Oculus using the equity method due to significant minority investor rights (i.e., substantive participating rights, as defined by EITF 96-16) in Oculus. In 2006, a milestone was achieved and Athersys received \$100,000 of stock-based proceeds in another investment in Oculus, which is included in other income on the Company's 2006 statement of operations.

On the milestone achievement in 2006, Oculus received stock based proceeds in another company in the amount of approximately \$117,000 as its share of the Oculus net income, after recapturing prior losses in excess of the amount of contributions and advances to the joint venture. Consistent with its wind-up strategy, Oculus will remain in existence as long as it is necessary to serve as a pass through of any further milestone-based consideration and final distribution to the stockholders. As of December 31, 2005 and 2006, Oculus had no significant assets, liabilities, stockholders' equity or results of operations. The milestone proceeds in 2006 as described above.

Athersys entered into an agreement to establish a joint venture with a pharmaceutical company. The joint venture had no significant assets, liabilities, stockholders' equity or results of operations as of December 31, 2005 and 2006. In November 2006, the joint venture entered into related collaboration agreements with the pharmaceutical company and dissolved the joint venture effective November 30, 2006. There were no significant costs or proceeds related to this dissolution.

**Preferred Stock**

Athersys's preferred stock, except for Class E Preferred Stock, is convertible at the stockholders' option at any time into Athersys common stock (0.0358493 shares of Athersys common stock giving effect to the Merger - see Notes M and N), if the fair value of each share of common stock is less than the stated value of the convertible preferred shares, as determined by the Board of Directors. Dividends on all classes of preferred stock, except for Class C Convertible Preferred Stock and Class E Preferred Stock, are payable at a dividend rate of 8% per annum. Dividends on the Class C Convertible Preferred Stock are cumulative at a rate of 8%

ckholders, except for Class E Preferred Stockholders, are entitled to the number of votes they would have upon  
rred shares into common stock.

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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

stock has limited voting rights and liquidation rights. As of October 2005, the shares of Class E Preferred stock were 10 shares of common stock, and the 7% accrued dividend was no longer payable. As the dividend was no longer payable for 2005, the balance sheet and statement of changes in stockholders' equity (deficit) at December 31, 2005, have been restated to reflect the reversal of accrued dividends that had been incorrectly recorded in the balance sheet. This restatement decreases retained earnings by \$6,016,000 and increases additional paid-in capital by \$6,016,000. The Company terminated the shares of the Class E Preferred stockholder in November 2006 (see Note H).

As a result of the Company, holders of Class A, B, C, D, E, F, and G Preferred stock shall have liquidation preferences of \$1.00, \$1,000, \$12.00 and \$1.85 per share, respectively, together with any declared, but unpaid, or accrued dividends on such stock. The Class F Preferred Stock has a liquidation preference over the other classes of Preferred Stock.

The number of outstanding Class A, B, C, D, E, F, and G shares of preferred stock were as follows (in thousands, except per share) at December 31, 2005 and 2006:

<b>Shares Authorized</b>	<b>Shares Issued and Outstanding</b>	<b>Issuance Price per Share</b>	<b>Aggregate Liquidation Preference</b>
3,939	2,739	\$ 0.64	\$ 1,753
320	320	\$ 1.25	399
4,116	2,766	\$ 3.67	10,143
150	150	\$ 1.35	202
18	12	\$ 1,000	12,015
4,000	3,541	\$ 12.00	42,492
640	640	\$ 1.85	1,183
13,183	10,168		\$ 68,187

of preferred stock in 2004 through 2006.

The Company had 250,000 shares of Blank Check Preferred Stock authorized at December 31, 2005 and 2006, that are not outstanding. These shares were not issued or outstanding at December 31, 2005 or 2006.

**Stock Options and Restructurings**

The Company adopted the 1995 Incentive Plan of Athersys, Inc. (the 1995 Plan). The 1995 Plan provides for the grant of incentive stock options, stock bonus awards and restricted shares for employees, directors and consultants. The 1995 Plan expired in November 2005. No new awards can be granted under the 1995 Plan, but outstanding awards will continue to have effect according to their terms. As of December 31, 2006, 92,796 shares of common stock are reserved to cover the exercise of the 1995 Plan. The options generally vest over periods ranging from three to four years and generally expire at the end of the term of the 1995 Plan.

adopted the 2000 Stock Incentive Plan (the 2000 Plan). The 2000 Plan provides for the grant of incentive stock options, appreciation rights, performance units, performance shares, restricted shares and deferred shares. The equivalents on awards granted under the plan is also permitted. As of December 31, 2006, 181,995 shares of common stock have been issued under the 2000 Plan. The options generally vest over periods ranging from three to four years and may expire up to ten years.

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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

completed a restructuring that involved a reduction in force and an internal prioritization on certain therapeutic areas. In connection with the restructuring, the Company granted 1,981 options to certain employees who were not previously granted options. These options were granted under a separate plan approved by the Company's Board of Directors, and therefore were not subject to the 2000 Plan. There are no additional options reserved under this plan. The options are immediately exercisable for five years. Of the total restructuring costs, \$107,000 was recognized in 2004 (including stock option compensation of approximately \$56,000) and is disclosed separately on the statement of operations.

completed a restructuring that involved a reduction in force and the refocusing of the Company's internal activities, effective December 31, 2005. The total cost of the 2005 restructuring, which primarily consists of severance payments, stock option compensation, and reversal of stock option compensation, was \$251,000 in 2005, and is disclosed separately on the statement of operations. At December 31, 2005, the severance liability was \$36,000, which was paid in 2006. Also see Note B.

The Company's stock option activity and related information is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value</b>
2004	162,554	\$ 99.86	\$ 132.50
market value	215	130.27	263.32
market value	897	362.63	163.18
	(190)	79.50	47.14
	(14,459)	191.64	186.89
1, 2004	149,017	92.61	127.76
market value	1,470	362.63	154.81
	(63)	41.84	23.71
	(11,628)	133.89	121.62
1, 2005	138,796	92.05	128.59
market value	(72)	83.68	41.00
	(22,641)	150.91	148.40
1, 2006	116,083	\$ 80.62	\$ 124.69

**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)**

<b>December 31, 2006</b>				
<b>Options Outstanding</b>			<b>Options Exercisable</b>	
<b>Number of Options</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>10,038</b>	<b>2.97</b>	\$ 29.85	10,038	\$ 29.85
<b>51,515</b>	<b>1.31</b>	\$ 42.40	51,515	\$ 42.40
<b>21,008</b>	<b>2.18</b>	\$ 70.02	21,008	\$ 70.02
<b>26,496</b>	<b>5.54</b>	\$ 111.02	23,804	\$ 110.18
<b>7,026</b>	<b>4.99</b>	\$ 348.40	6,274	\$ 346.45
<b>116,083</b>			<b>112,639</b>	

December 31, 2004, 2005, and 2006, were approximately 126,082, 127,516, and 112,674, respectively. The total fair value of the options and warrants outstanding at December 31, 2004, 2005, and 2006 was \$3,030,000, \$2,312,000, and \$428,000, respectively. The aggregate intrinsic value of the options and option shares expected to vest as of December 31, 2006 was approximately \$300,000 and \$0, respectively.

**401(k) Plan**

The Company has a profit sharing and 401(k) plan that covers substantially all employees. The Plan allows for discretionary contributions. The Company made no contributions to this Plan in 2004, 2005, or 2006.

**Patent**

The Company completed a merger with MCL related to the multipotent adult stem cell (MAPC) technology. The Company formed a subsidiary, ReGenesys LLC, as the entity into which MCL merged. The results of operations of ReGenesys LLC have been included in the consolidated financial statements from the date of the merger. In addition to the purchase price for the merger, the Company may be obligated to make payments to the holders of the warrants. In 2006, the first milestone was conferred resulting in the issuance of 2,758 shares of Athersys stock to the holders of the warrants related to the issuance of a patent. The value placed on the shares was approximately \$125,000 using fair value of the shares at the time of the milestone achievement. The Company may be required to issue up to an additional 1,379 shares of the common stock and up to \$1,000,000 (payable in cash or shares of common stock at the holders' option) in the event that certain milestones related to the MAPC technology are achieved, which are related to the receipt of license fees or equity payments, as well as revenue from collaboration activities and the filing of an investigational new drug application with the U.S. Food and Drug Administration.

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A warrant was exercised for 3,215 shares of common stock for a nominal exercise price.

Company effected a merger into a wholly-owned subsidiary of a public company (the Merger). The public company, BTHC VI, was a shell corporation with substantially no assets, liabilities or operations as of the date of the merger, and common stock outstanding. Upon the closing of the Merger, the officers and directors of Athersys assumed control of BTHC VI, and Athersys' operations became the sole operations of BTHC VI on a consolidated basis.

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**Athersys, Inc.**

## Notes to Consolidated Financial Statements (Continued)

Upon consummation of the Merger, the Company negotiated with holders of its convertible preferred stock a planned exchange of the convertible preferred stock for common stock, which included the conversion of the preferred stock into shares of the Company's common stock, the cancellation of the warrants issued to the former holders of Class C Convertible Preferred Stock and rights to preferred dividends, including accrued dividends payable to the former holders of Class C Convertible Preferred Stock. As a result, immediately upon closing of the Merger, all convertible preferred stock (including termination of warrants and elimination of accrued dividends) was converted into 53,341,747 shares of common stock. Upon closing of the Merger, the 53,341,747 shares of common stock were issued to the former holders of Class C Convertible Preferred Stock in exchange for 2,356 shares of BTHC VI common stock using the Merger exchange rate. The Company also retired the shares of common stock held in treasury.

erger, BTHC completed an offering of 13,000,000 shares of common stock for aggregate gross proceeds of (ng). The Offering included the issuance of warrants to purchase 3,250,000 shares of common stock to the investors \$6.00 and a five-year term. BTHC also issued warrants to purchase 500,000 shares of common stock to the lead purchase 1,093,525 shares of common stock to the placement agents, both with an exercise price of \$6.00 and a ment agents received fees of 8.5% of the gross proceeds, less proceeds from existing investors in the Company. In advisory services, the Company paid an affiliate and largest stockholder of BTHC a one-time fee of \$350,000 in of the merger.

Convertible notes issued to the pharmaceutical company were converted (See Note E) along with accrued interest upon the maturity of the notes into 1,885,890 shares of common stock at a conversion price of \$5.50 per share, which was 110% of the price of the common stock at the time of conversion, in accordance with the note.

bridge investors (see Note E) were converted along with accrued interest upon the closing of the Offering into common stock, at a conversion price of \$5.00 per share, which was the price per share in the Offering. The bridge investors also received their \$0.01 warrants upon the conversion of convertible preferred stock in connection with the Merger for common stock at an exercise price of \$10,000. Upon the conversion of the bridge notes, the bridge investors also received 1,945 shares of common stock at \$6.00 per share with a five-year term, which was consistent with the warrants in the Offering.

Offering, the Company achieved a milestone related to its stem cell technology and issued 1,379 shares of common cash to the former holders of the technology.

merger and the required Form 8-K Current Report, these consolidated financial statements have been updated to reflect the data in the consolidated statement of operations and notes to the consolidated financial statements. In addition, the unaudited financial data (unaudited), has been included in the notes to the financial statements.

## ted to Merger

have been the accounting acquirer in the Merger, as described in Note M. Accordingly, the financial statements of reflect the historical results of Athersys and do not include the historical financial results of BTHC VI prior to the merger. The Company's authorized and issued shares of common stock have been retroactively restated for all periods shares of BTHC VI common stock after giving effect to the Merger. The preferred stock was converted immediately before, the preferred stock has not been retroactively restated. Basic and diluted net loss per share attributable to has been computed using the retroactively restated common stock.



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**Athersys, Inc.****Notes to Consolidated Financial Statements (Continued)****al Data (Unaudited)**

nts quarterly data for the years ended December 31, 2005 and 2006, in thousands, except per share data:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>2005 Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
	\$ 952	\$ 870	\$ 833	\$ 941	\$ 3,596
	\$ (3,804)	\$ (3,888)	\$ (3,542)	\$ (3,365)	\$ (14,599)
	\$ (617)	\$ (617)	\$ (617)	\$ (402)	\$ (2,253)
s ommon					
	\$ (4,421)	\$ (4,505)	\$ (4,159)	\$ (3,767)	\$ (16,852)
and diluted	\$ (15.13)	\$ (15.41)	\$ (14.30)	\$ (12.95)	\$ (57.79)

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>2006 Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
	\$ 629	\$ 490	\$ 1,126	\$ 1,480	\$ 3,725
effect of change in	\$ (2,793)	\$ (3,295)	\$ (2,067)	\$ (2,716)	\$ (10,871)
	\$ (2,487)	\$ (3,295)	\$ (2,067)	\$ (2,716)	\$ (10,565)
	\$ (348)	\$ (347)	\$ (347)	\$ (366)	\$ (1,408)
s ommon					
	\$ (2,835)	\$ (3,642)	\$ (2,414)	\$ (3,082)	\$ (11,973)
ss per share:					
effect of change in	\$ (10.78)	\$ (12.40)	\$ (8.22)	\$ (10.49)	\$ (41.89)
ange in accounting	1.05				1.05
	\$ (9.73)	\$ (12.40)	\$ (8.22)	\$ (10.49)	\$ (40.84)

**BTHC VI, INC.**

**INDEX TO**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
SIX MONTHS ENDED JUNE 30, 2006 AND 2007**

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<u>Consolidated Statements of Operations</u>	I-3
<u>Consolidated Statements of Cash Flows</u>	I-4
<u>Condensed Consolidated Financial Statements</u>	I-5
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**BTHC VI, Inc.****Unaudited Condensed Consolidated Balance Sheets**

	December 31 2006	June 30 2007
	(In thousands, except share and per share data)	
ASSETS		
ts	\$ 1,528	\$ 58,939
	872	384
er	361	433
	2,761	59,756
lated parties	562	562
	509	355
	117	75
her assets	317	317
	\$ 4,266	\$ 61,065
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
	\$ 898	\$ 1,008
nd related benefits	423	65
her	1,214	1,047
term debt, net	3,332	3,235
	5,867	5,355
	1,800	
notes, net	7,510	
	214	
	8,882	
eficit):		
ck, at stated value; no shares authorized, issued or outstanding at June 30, 2007;		
ized and 10,168,231 shares issued and outstanding December 31, 2006	68,301	
00 shares authorized and no shares issued and outstanding at June 30, 2007; no		
or outstanding at December 31, 2006		
ar value; 100,000,000 shares authorized and 18,927,988 shares issued and		
007; 40,000,000 shares authorized and 293,770 shares issued and outstanding		19
1	53,495	207,033
	(250)	
	(141,553)	(151,342)

ty (deficit)	(20,007)	<b>55,710</b>
holders equity (deficit)	\$ 4,266	<b>\$ 61,065</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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**BTHC VI, Inc.****Unaudited Condensed Consolidated Statements of Operations**

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(In thousands, except share and per share data)</b>	
	\$ 481	\$ 623
	638	979
	1,119	1,602
nt (\$159 and \$2,031 in the six months ended June 30, 2006 and	4,945	7,354
ve (\$91 and \$2,102 in the six months ended June 30, 2006 and	1,754	4,105
	293	155
	6,992	11,614
	(5,873)	(10,012)
	208	1,500
	67	222
ote 7	(490)	(1,043)
n convertible debt		(456)
<b>effect of change in accounting principle</b>	<b>(6,088)</b>	<b>(9,789)</b>
nge in accounting principle	306	
	\$ (5,782)	\$ (9,789)
s	\$ (695)	\$ (659)
<b>common stockholders</b>	<b>\$ (6,477)</b>	<b>\$ (10,448)</b>
<b>common share</b>	<b>\$</b>	<b>\$</b>
<b>ss per common share:</b>		
ve effect of change in accounting principle	\$ (23.19)	\$ (4.10)
nge in accounting principle	1.05	
	\$ (22.14)	\$ (4.10)
<b>es outstanding, basic and diluted</b>	<b>292,513</b>	<b>2,547,265</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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**BTHC VI, Inc.****Unaudited Condensed Consolidated Statements of Cash Flows**

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(In thousands)</b>	
	\$ (5,782)	\$ (9,789)
net loss to net cash used in operating activities:		
	293	155
consolidated affiliate	(117)	
on convertible debt		456
available from related party	122	
on stock options	250	4,133
on loans issued to lenders		438
effect of change in accounting principle	(306)	
on available for sale securities and other	24	7
assets and liabilities:		
	239	530
other assets	143	(72)
accrued expenses	819	(95)
investing activities	(4,315)	(4,237)
sale securities	(3,024)	
for sale securities	3,804	
	(67)	(3)
provided by investing activities	713	(3)
debt	(1,222)	(1,843)
on promissory note	5,000	5,000
of common stock, net	6	58,494
financing activities	3,784	61,651
on equivalents	182	57,411
at beginning of the period	1,080	1,528
at end of the period	\$ 1,262	\$ 58,939

See accompanying notes to unaudited condensed consolidated financial statements.





## BTHC VI, Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements

#### at Merger and Offering

C VI, Inc. ( BTHC VI ) and its wholly owned subsidiary, B-VI Acquisition Corp., entered into an Agreement and Athersys, Inc. ( Athersys ). Pursuant to the terms of the Agreement and Plan of Merger, B-VI Acquisition Corp., which incorporated for the purpose of completing the merger transaction described herein, merged with and into Athersys Athersys continuing as the surviving entity in the merger (the Merger ). As a result of the Merger, Athersys became a subsidiary, and the business of Athersys became our sole operations. Unless otherwise indicated, all references to the BTHC VI, together with its wholly-owned subsidiary, Athersys.

was deemed effective, each share of common stock of Athersys was converted into 0.0358493 shares of BTHC VI common stock at \$0.001 per share. Prior to the Merger, BTHC VI effected a 1-for-1.67 reverse stock split of its shares of common stock to increase the number of authorized shares of common stock to 100,000,000. Also prior to the Merger, all shares of Athersys common stock were converted into shares of Athersys common stock.

of Athersys on June 8, 2007 effected a change in control and was accounted for as a reverse acquisition whereby BTHC VI was the legal acquirer for financial statement purposes. Accordingly, the financial statements of the Company presented herein are the financial statements of Athersys and do not include the historical financial results of BTHC VI prior to the consummation of the Merger. The authorized and issued shares of common stock have been retroactively restated for all periods present to reflect the number of shares of common stock after giving effect to the Merger. The preferred stock was converted immediately prior to the Merger; the common stock has not been retroactively restated. Basic and diluted net loss per share attributable to common stockholders are based on the retroactively restated common stock.

Merger, BTHC VI completed an offering of 13,000,000 shares of common stock for aggregate gross proceeds of approximately \$130 million ( Offering ). Offering costs in the amount of approximately \$6.5 million were netted against the proceeds of the Offering, leaving net proceeds from the Offering of approximately \$58.5 million. The Offering included the issuance of warrants to purchase 1,093,525 shares of common stock to the investors with an exercise price of \$6.00 and a five-year term. BTHC VI also issued warrants to purchase 1,093,525 shares of common stock to the lead investor and warrants to purchase 1,093,525 shares of common stock to the placement agents with an exercise price of \$6.00 and a five-year term. The placement agents also received cash fees in an amount equal to 8.5% of the net proceeds from the Offering, including proceeds from existing investors in the Company. In consideration for certain advisory services, the Company paid to the lead investor and largest stockholder of BTHC VI a one-time fee of \$350,000 in cash upon consummation of the Merger.

Athersys is a pharmaceutical company engaged in the development and commercialization of therapeutic products in one business segment. Athersys consists primarily of research and product development activities.

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The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of Athersys, Inc. included in this filing. The accompanying financial statements have been prepared in accordance with the accounting principles ( GAAP ) for interim financial information and Article 10 of Regulation S-X. Accordingly, the accompanying financial statements do not include all of the information and notes required by GAAP for annual financial statements. The accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, necessary for a fair presentation of the financial statements.

**BTHC VI, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

ults of operations for the interim periods presented. Interim results are not necessarily indicative of results for a

cial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and accompanying notes. The Company's critical accounting policies, estimates and d in Management's Discussion and Analysis of Financial Condition and Results of Operations.

s per share attributable to common stockholders are presented in conformity with SFAS No. 128, *Earnings per* presented. In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the r of common stock outstanding during the period.

nding certain options and warrants, and prior to June 8, 2007, had outstanding certain convertible debt and ck, which have not been used in the calculation of diluted net loss per share because to do so would be e numerator and the denominator used in computing both basic and diluted net loss per share attributable to re equal.

s to purchase 3,629,814 and 127,686 shares of common stock for the six-month periods ended June 30, 2007 and y, were not included in the calculation of diluted net loss per share attributable to common stockholders because utive.

25,496 and 25,639 shares of common stock for the six-month periods ended June 30, 2007 and June 30, 2006, eluded in the calculation of diluted net loss per share attributable to common stockholders because their effects

issuable upon the conversion of convertible preferred stock in the amount of 319,839 on a historical basis nsideration the restructuring of Athersys stock that occurred in 2007 at the time of the Merger) for the six-month 07, and 364,093 on a historical basis (1,912,356 taking into consideration the restructuring of Athersys stock that me of the Merger) for the six-month period ended June 30, 2006, were not included in the calculation of diluted ble to common stockholders because their effects were antidilutive.

issuable upon the conversion of convertible promissory notes in the amount of 224,197 on a historical basis nsideration the closing of the Offering in 2007) for the six-month period ended June 30, 2007, and 31,156 on a taking into consideration the closing of the Offering in 2007) for the six-month period ended June 30, 2006, were ation of diluted net loss per share attributable to common stockholders because their effects were antidilutive.

**BTHC VI, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

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§ No. 130, *Reporting Comprehensive Loss*, all components of comprehensive loss, including net loss, are reported in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period over events and circumstances from non-owner sources. Below is the reconciliation, in thousands, of net loss to all periods presented.

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
able-for-sale securities	\$ (9,789)	\$ (5,782)
		13
	\$ (9,789)	\$ (5,769)

ng

Merger (see Note 1), all shares of Athersys preferred stock were converted into shares of Athersys common stock. The balance sheet was eliminated and accounted for as common stock issued and additional paid-in capital. Also, stock held by Athersys was retired in connection with the Merger and reversed to additional paid-in capital. Accrued convertible preferred stock were eliminated and reversed to additional paid-in capital. Additionally, warrants that holders of convertible preferred stock were terminated.

**ensation**

lans

entive plan prior to closing the Merger that made available 3,035,000 shares of common stock for awards to consultants. Upon closing the Merger, another similar incentive plan was adopted that made available common stock for awards to employees, directors and consultants. These equity incentive plans authorize the issuance in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance or stock-based awards to qualified employees, directors and consultants. Total awards under these plans are limited common stock in the aggregate.

y of Athersys outstanding options were terminated. New option awards to purchase 3,625,000 shares of common stock at an exercise price of \$5.00 were granted to employees, directors and certain consultants in June 2007 upon the closing of the Merger. The awards were granted to employees vest approximately 40% on the date of grant, and ratably over three years thereafter. The awards granted to non-employees and board members generally vest at varying percentages over three years. Upon the closing of the Merger, the company assumed 5,052 options granted to former employees and consultants of Athersys, which will be governed by the Athersys plans until the awards expire.

**FAS No. 123R**

S No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ), was issued as a revision to SFAS No. 123, *Share-Based Payments* ( SFAS No. 123 ). The new statement was adopted by the Company on January 1, 2006. Prior to January 1, 2006, the Company accounted for its stock-based compensation in accordance with the intrinsic value method as described in the Staff Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as amended. As such, compensation was determined prior to 2006 on the

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**BTHC VI, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

as the excess of the current estimated market value of the underlying stock over the purchase or exercise price of compensation expense was recognized over the respective vesting periods of the equity instruments, if any, using the method prescribed by Financial Accounting Standards Board Interpretation No. 28.

The Company adopted the fair value recognition provisions of SFAS No. 123R using the transition method. Under that transition method, compensation cost recognized subsequent to adoption includes: (a) for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, the Company recognized compensation expense on the straight-line method for awards granted subsequent to adoption of SFAS No. 123R, the Company recognizes expense on the straight-line method of SFAS 123R, Athersys estimated forfeitures in calculating the expense relating to share-based compensation, and the Company was permitted to recognize forfeitures as an expense reduction upon occurrence. The adjustment to apply SFAS No. 123R to previously recognized share-based compensation was accounted for as a cumulative effect of a change in accounting principle in January 1, 2006 and reduced net loss by \$306,000 for the six months ended June 30, 2006.

***Compensation under SFAS No. 123R***

The Black-Scholes option pricing model to estimate the grant-date fair value of share-based awards under SFAS No. 123R. The term of options granted represents the period of time that option grants are expected to be outstanding. The simplified method under SAB No. 107 to calculate the expected life of option grants in 2007 given its limited history. The Company is using the historical stock volatility of other companies with similar characteristics. Estimates of fair value are based on actual future events or the value ultimately realized by persons who receive equity awards.

Forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures are determined. If actual forfeitures vary from the estimate, the Company will recognize the difference in compensation expense when forfeitures occur or when options vest.

The Company terminated the majority of stock option awards to its officers, employees, directors and consultants. Only a nominal number of (5,052 option shares) held by former employees and consultants were assumed by BTHC VI. Upon closing the offering, 5,000 shares of stock were issued under the BTHC VI equity incentive plans to employees, directors and consultants at a price of \$5.00 per share.

The Company accounted for the termination of the Athersys options to employees, directors, and consultants as a settlement and any compensation expense (\$385,000) was recognized on the termination date in May 2007. The options for the Company assumed by BTHC VI were fully vested when they were assumed, and no additional compensation was recognized.

The fair value of stock options granted to consultants is measured on a quarterly basis using the Black-Scholes method and the expense is recognized over the period that services are provided. The key assumptions used in the computation of expense at the end of the period are the fair value of the Company's stock of \$7.75 at June 30, 2007, volatility of 75.3%, risk-free interest rate of 5.5%, and the contractual term of 5 years.

**BTHC VI, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

estimated fair value of stock options granted under the equity compensation plans during the six months ended per share for employees and directors using the following assumptions:

	75.9%
	5.5%
ed life (years)	5.75 years
	0.0%

ivity

summarizes the Company's stock option activity during the six months ended June 30, 2007:

	<b>Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (In years)</b>
, 2007	116,083	\$ 80.61	2.86
	3,625,000	5.00	9.68
ed	(111,269)	78.66	2.88
2007	3,629,814	\$ 5.21	9.67
t June 30, 2007	1,225,814	\$ 5.61	9.67

total of 875,000 shares are available for issuance under the Company's equity compensation plans. For the six-month 07, stock compensation expense was approximately \$4.1 million. At June 30, 2007, total unrecognized estimated d to unvested stock options was approximately \$6.6 million, which is expected to be recognized by June 30, 2010 method.

any's long-term debt outstanding is as follows (in thousands):

<b>June 30, 2007</b>	<b>December 31, 2006</b>
\$ 3,235	\$ 5,132
3,235	3,332
\$	\$ 1,800

Company issued \$7.5 million of notes payable to lenders, the proceeds of which are unrestricted and used for  
es. The notes are payable in 30 monthly payments after the initial interest-only period that expired December 1,  
st rate of 13% and a maturity date of June 1, 2008.

at to receive a milestone payment of \$2.25 million upon the first to occur of the following milestone events: (1) a  
al public offering of common stock; (2) a merger with or into another entity where the Company's stockholders do  
ty of the voting power of the surviving entity; (3) the sale of all or substantially all of the Company's assets; and  
solution of the Company. The milestone payment is payable in cash, except that if the milestone event is an initial  
pany may elect to pay 75% of the milestone in shares of

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**BTHC VI, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

share offering price to the public. No amounts have been recorded in relation to the milestone as of June 30, 2007.

Offering, warrants to purchase 149,026 shares of common stock with an exercise price of \$5.00 per share and a value of \$492,000 were issued to the Company's lenders in accordance with the loan agreement. The value of the warrants was \$492,000 less valuation of the underlying security, of which \$438,000 was recognized in June 2007 as additional interest expense. The remaining \$54,000 will be recognized over the remaining term of the loan.

**Convertible Notes**

The Company entered into a collaboration with Angiotech Pharmaceuticals, Inc. The Company issued a \$5.0 million convertible note to the collaborator at the inception of the program, which was followed by the issuance of an additional convertible note with an aggregate principal amount of \$5.0 million in January 2007 upon the achievement of certain milestones. Upon the achievement of the milestones, the convertible notes aggregating \$10.0 million were converted along with accrued interest into 1,885,890 shares of common stock at a conversion price of \$5.50 per share, which was 110% of the price per share in the Offering in accordance with the terms of the collaboration.

**Debt**

The Company completed a bridge financing of \$2.5 million in the form of convertible promissory notes. The notes were issued to the Company's stockholders of the Company. The notes bore interest at 10%, had a three-year term, and were secured by a lien on the assets of the Company. The notes, if not converted, were repayable with accrued interest at maturity, plus a premium of 10% of the outstanding principal. The Company computed a premium on the debt in the amount of \$5.25 million due at maturity, which was being accreted over the term of the notes using the effective interest method.

The Company also received warrants to purchase common stock, which were exercisable only upon a restructuring of the Company in connection with a financing. The exercise price was \$0.01 per share and the number of shares issuable was based on the pre-money value of the Company. The Company recognized a \$250,000 discount on the notes, which was allocated to the warrants in 2006.

Upon the closing of the Offering, the bridge notes were converted along with accrued interest into 531,781 shares of common stock at a price of \$10.00 per share, which was the price per share in the Offering. The notes were reversed and the related premium and discount were recorded as additional paid-in capital. The bridge noteholders also exercised their warrants upon the closing of the Offering to purchase 77 shares of common stock at an aggregate exercise price of \$10,000. Upon the conversion of the bridge notes, the Company also received warrants to purchase 132,945 shares of common stock at \$6.00 per share with a five-year term, which were issued to new investors in the Offering.

The Company had the following outstanding warrants to purchase shares of common stock:

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

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# **BTHC VI, Inc.**

## **Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

### **ents**

old certain non-core assets related to its asthma discovery program to Wyeth Pharmaceuticals, Inc. for \$2.0 million, as received at closing. The remaining \$0.5 million was received in August 2007 upon Athersys' delivery of certain to the program. Athersys recognized a gain on the sale (other income) of these assets in the amount of \$2.0 million, as recognized in May 2007 and \$0.5 million will be recognized in August 2007.

Offering, the Company achieved a milestone related to its stem cell technology and issued 1,379 shares of common cash to the former holders of the technology. The issued shares were recorded at fair value on the date the The consideration paid under this arrangement has been recorded as research and development expense. The ed to pay cash of \$0.5 million to the former holders of the technology upon the achievement of an additional with the Company's filing of an investigational new drug application with the FDA.

resale registration statement with the SEC in July 2007 covering 18,508,251 shares of common stock, which includes stock issued in the Offering and shares of common stock issuable upon exercise of warrants issued in the Offering (as es of common stock issued to the bridge noteholders and the 132,945 shares underlying their warrants). Subject to resale registration statement is not declared effective (within 90 days of the filing date) by the SEC or ceases to penalty will be assessed representing 1% of the amount invested in the Offering for each 30-day period (capped at n statement is either declared effective or becomes effective again, as applicable.

ing loss and research and development credit carryforwards that result in deferred tax assets that have been fully wance. Athersys' use of its current net operating loss and research and development credit carryforwards will be er Section 382 of the Internal Revenue Code as a result of the change in ownership related to the Merger and the

al Accounting Standards Board issued FASB Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in* applicable for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 threshold and measurement attribute for financial statement recognition and measurement of a tax position reported d on a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting sure, and transition. Athersys adopted the provisions of FIN 48 on January 1, 2007. Upon adoption of FIN 48 and Athersys determined that it had no liability for uncertain income taxes as prescribed by FIN 48. Athersys' policy is to ed interest and penalties related to the liability for uncertain tax benefits, if applicable, in income tax expense. Net carryforwards since inception remain open to examination until the statute expires for the period in which the d, and will for a period post utilization. Athersys does not anticipate any events during 2007 that would require it to o any uncertain income taxes.

## PART II

### INFORMATION NOT REQUIRED IN PROSPECTUS

#### *Uses of Issuance and Distribution.*

imate (except for the registration fee and NASD filing fee) of the fees and expenses payable by the registrant in of common stock being registered.

	\$ 4,279
	\$ 14,437
	\$ 75,000
enses	\$ 100,000
rar fees and expenses	\$ 20,000
xpenses	\$ 50,000
	\$ 50,000
	\$ 313,716

#### *tion of Directors and Officers.*

#### **in Certain Circumstances**

that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as lities:

f their duty of loyalty to the company or its stockholders;

tions not in good faith or which involve intentional misconduct or a knowing violation of law;

ment of dividend or unlawful stock repurchase or redemption, as provided under Section 174 of the DGCL; or

on from which the director derived an improper personal benefit.

are law that relate to indemnification expressly state that the rights provided by the statute are not exclusive and are provided in bylaws, by agreement, or otherwise. Our certificate of incorporation also provides that if Delaware law minate or limit the liability of directors, then the liability of our directors shall be eliminated or limited, without n, to the fullest extent permissible under Delaware law as so amended.

#### **urance.**

tificate of incorporation requires us to indemnify, to the fullest extent permitted by the DGCL, any and all persons lemnify under the DGCL from and against any and all expenses, liabilities or other matters covered by the DGCL. amended certificate of incorporation requires us to indemnify each of our directors and officers in each and every L permits or empowers us (but does not obligate us) to provide such indemnification, subject to the provisions of require us to indemnify our directors to the fullest extent permitted by the DGCL, and permit us, to the extent of directors, to indemnify our officers and any other person we have the power to indemnify against liability, her matters.

led certificate of incorporation, indemnification may be provided to directors and officers acting in their official capacities. Indemnification will continue for persons who have ceased to be directors, officers, employees or the benefit of their heirs, executors and administrators. Additionally, under our current amended certificate of under certain circumstances, our directors are not personally liable to us or our stockholders for monetary damages for as a director. At present, there is no pending litigation or

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of our directors, officers, or employees in which indemnification is sought, nor are we aware of any threatened claims for indemnification.

As to secure insurance on behalf of any officer, director, employee, or agent for any liability arising out of actions in which an officer, director, employee, or agent. We have obtained an insurance policy that insures our directors and officers for a deductible amount, from specified types of claims. Finally, we have entered into indemnification agreements with our executive officers. We intend to enter into such agreements with our directors and executive officers, which, in some things, require us to indemnify them and advance expenses to them relating to indemnification suits to the fullest extent possible. We believe that these provisions, policies, and agreements will help us attract and retain qualified persons as officers.

Indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy under the Securities Act and is, therefore, unenforceable.

### *Ballantrae Healthcare LLC and affiliated limited liability companies.*

Ballantrae Healthcare LLC and affiliated limited liability companies, including BTHC VI, LLC, which we refer to as "BTHC VI," was organized for the purpose of operating nursing homes throughout the United States. On March 28, 2003, BTHC VI was reorganized under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Delaware. On November 29, 2004, the Bankruptcy Court approved the First Amended Joint Plan of Reorganization of BTHC VI, or the bankruptcy plan. On April 11, 2006, pursuant to the bankruptcy plan, BTHC VI, LLC was merged into Ballantrae Healthcare Corporation.

HFG, or HFG, participated with Ballantrae and their creditors in structuring the bankruptcy plan. As part of the plan, HFG provided \$76,500 to be used to pay professional fees associated with the bankruptcy plan confirmation process. HFG was to be repaid through the issuance of equity securities in 17 of the reorganized Ballantrae entities, including the option, and as provided in the bankruptcy plan, 70% of BTHC VI's then-outstanding common stock, or 500,000 shares, to HFG, in satisfaction of HFG's administrative claims. The remaining 30% of the registrant's then-outstanding common shares, were issued to 499 holders of administrative and tax claims and unsecured debt. The 500,000 shares, or Plan Shares, were issued pursuant to Section 1145 of the Bankruptcy Code. As further consideration for the Plan Shares to HFG, the bankruptcy plan required HFG to assist BTHC VI in identifying a potential merger or acquisition. HFG was responsible for the payment of BTHC VI's operating expenses and HFG was obligated to provide BTHC VI with no cost to BTHC VI, including assisting BTHC VI with formulating the structure of any proposed merger or acquisition. HFG was responsible for paying BTHC VI's expenses incurred in consummating a merger or acquisition. On June 8, 2007, HFG transferred its 350,000 Plan Shares to Halter Financial Investments L.P., a Texas limited partnership controlled by Mr. Timothy P. Halter. Mr. Halter is the sole officer, director and shareholder of HFG and an officer and member of Halter Financial Investments L.P., LLC, general partner of HFI. Mr. Halter recently served as BTHC VI's President, Chief Executive Officer, Chief Financial Officer and director until his resignation in connection with the merger.

BTHC VI and its wholly owned subsidiary, B-VI Acquisition Corp., entered into an Agreement and Plan of Merger with Athersys, Inc. Pursuant to the terms of the Agreement and Plan of Merger, B-VI Acquisition Corp., which BTHC VI incorporated in the state of Delaware for the purpose of completing the merger transaction described in this subsection, merged with Athersys on June 8, 2007, with Athersys continuing as the surviving entity in the merger. We refer to the merger as the "merger," and to June 8, 2007 as the closing or closing date. As a result of the merger, Athersys became our wholly owned subsidiary and Athersys became our sole operations. After receiving the requisite approval of the stockholders of Athersys, we



certificate of Merger was filed with the Secretary of State of the State of Delaware on the closing date, at which time the merger became effective. At the time the merger was deemed effective, each share of common stock of Athersys was converted into common stock, par value \$0.001 per share, which we refer to as our common stock.

BTHC VI effected a 1-for-1.67 reverse stock split of the shares of its common stock. Following the reverse stock split, 100,000,000 shares of common stock were issued and outstanding. BTHC VI amended its certificate of incorporation to effect the reverse stock split and increase the number of authorized shares of common stock to 100,000,000.

After the closing, we acquired ownership of all of the outstanding capital stock of Athersys, resulting in a change in control of BTHC VI. After the closing, the business of Athersys constitutes our only operations. We experienced, as of the closing date, a change in management and board of directors, which we refer to as the board of directors or board. The sole officer and director of BTHC VI resigned immediately prior to the closing of the merger and, immediately following the merger, Athersys' existing officers and directors became our officers, and certain members of Athersys' board of directors and other individuals selected by Athersys were appointed as our directors.

The sales of our common stock in connection with the merger were exempt from registration under Section 4(2) of the Securities Act. The Agreement and Plan of Merger was filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 8, 2007, and a copy of the First Amendment to Agreement and Plan of Merger, dated as of June 8, 2007, by and among BTHC VI, Inc. and B-VI Acquisition Corp. was filed as Exhibit 2.2 to our Current Report on Form 8-K filed with the SEC on June 8, 2007.

We entered into a Securities Purchase Agreement by and among BTHC VI, Athersys and certain investors pursuant to which we offered 13,000,000 shares of our common stock. We refer to this offering throughout this document as the June offering. The June offering also 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 II, L.P., Radius Venture Partners III, L.P., and their respective affiliates, who we refer to collectively as Radius, invested \$10,000,000 in the June offering and received 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 gross proceeds of \$65 million from the June offering. Cowen & Co., LLC and National Securities Corporation acted as the exclusive financial advisor to the June offering and Punk Ziegel & Company, L.P. and Halter Financial Group, LP provided financial advice. The warrants have an exercise price of \$6.00 per share and five-year warrants to purchase an aggregate of 1,093,525 shares of common stock with a cash or cashless exercise price of \$6.00 per share.

The sales of our common stock and warrants to purchase common stock in connection with the June offering were exempt from registration under Section 4(2) of the Securities Act.

Athersys issued \$10,000,000 in aggregate principal amount of 5% unsecured convertible promissory notes to Angiotech, Inc. In 2006, Athersys also issued \$2,500,000 in aggregate principal amount of 10% secured convertible promissory notes to certain investors. Investors in the bridge financing consisted primarily of existing Athersys stockholders and Drs. Van Bokkelen and Campbell. Upon the closing of the June offering on June 8, 2007, the convertible promissory notes were converted into common stock. The securities offered in these financings to such persons were sold at their fair market value upon the same terms and conditions that were given to unaffiliated third parties.



***Financial Statement Schedules.***

**Description of Document**

Agreement and Plan of Merger, dated as of May 24, 2007, by and among Athersys, Inc., BTHC VI, Inc. and B-VI Corp. (incorporated herein by reference to Exhibit 10.1 to registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on May 24, 2007)

Amendment to Agreement and Plan of Merger, dated as of June 8, 2007, by and among Athersys, Inc., BTHC VI, Inc. Acquisition Corp. (incorporated herein by reference to Exhibit 2.2 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Articles of Incorporation of BTHC VI, Inc., last amended June 1, 2007 (incorporated herein by reference to Exhibit 3.1 to registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Bylaws of BTHC VI, Inc., dated as of June 8, 2007 (incorporated herein by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Investor Warrant (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Lead Investor Warrant (incorporated herein by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Placement Agent Warrant (incorporated herein by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Pending Warrant (incorporated herein by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Common Stock Certificate

Letter of Jones Day

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)

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 (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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 (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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)

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)

Amended and Restated Registration Rights Agreement, dated as of April 28, 2000, by and among Athersys, Inc. and the other members 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)

## Description of Document

nt No. 1 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of January 29, 2002, by g Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the and Restated Registration Rights Agreement, dated as April 28, 2000, by and among Athersys, Inc. and the ers of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.7 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 2 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of November 19, 2002, ong Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the and Restated Registration Rights Agreement, dated as April 28, 2000, as amended, by and among Athersys, Inc. Stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.8 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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

Inc. Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Inc. Equity Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Security Agreement, and Supplement, dated as of November 2, 2004, by and among Athersys, Inc., Advanced eutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to .12 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on 007)

nt to Loan and Security Agreement, dated as of September 29, 2006, by and among Athersys, Inc., Advanced eutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to .13 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on 007)

and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and thersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.14 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced eutics, Inc. and Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.15 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

petition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. Gil elen (incorporated herein by reference to Exhibit 10.16 to the registrant s Current Report on Form 8-K ion No. 000-52108) filed with the Commission on June 14, 2007)

and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and thersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.17 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced eutics, Inc. and John Harrington (incorporated herein by reference to Exhibit 10.18 to the registrant s Current Report -K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

## Description of Document

Competition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. John Brunden (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)

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)

Attachment No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Laura K. 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)

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)

Attachment 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)

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)

Employment Agreement, dated as of October 3, 2003, by and between Advanced Biotherapeutics, Inc. and Robert Deans (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)

Attachment 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)

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)

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)

Attachment 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)

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)

Inventive 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)

## Description of Document

Amendment No. 1 to Incentive Agreement by and between Advanced Biotherapeutics, Inc. and named executive 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)

Stock Purchase Agreement, dated as of June 8, 2007, by and among Athersys, BTHC VI, Inc. and Investors (as defined and 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)

License Agreement, dated as of May 17, 2002, by and between Regents of the University of Minnesota and MCL, assumed by ReGenesys, LLC through operation of merger on November 4, 2003 (incorporated herein by reference to Exhibit 10.34 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Alliance Agreement, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc., dated as of May 5, 2006 (incorporated herein by reference to Exhibit 10.35 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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)

Employment Agreement, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Dr. Kurt Brunden, dated as of May 1, 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)

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 June 14, 2007)

Promissory Note, dated May 20, 2002, made by Gil Van Bokkelen to the order of Advanced Biotherapeutics, Inc. in the amount of \$100,000

License Agreement, dated as of May 24, 2007, by and between Halter Financial Group, L.P. and Athersys, Inc.

Statement Regarding Computation of Per Share Earnings

Opinion of S. W. Hatfield, CPA, dated June 11, 2007 (incorporated herein by reference to Exhibit 16.1 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Information on Subsidiaries (incorporated herein by reference to Exhibit 21.1 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Report of Jones Day (included in Exhibit 5.1)

Attorney

Attorney for Lorin J. Randall

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

## Schedules

Schedules are omitted because they are inapplicable or the requested information is shown in the consolidated financial statements or the related notes thereto.



gs.

strant hereby undertakes:

period in which offers or sales are being made, a post-effective amendment to this registration statement:

ectus required by Section 10(a)(3) of the Securities Act of 1933;

pectus any facts or events arising after the effective date of the registration statement (or the most recent  
t thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in  
. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value  
ld not exceed that which was registered) and any deviation from the low or high end of the estimated maximum  
flected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the  
rice represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation  
e in the effective registration statement; and

rial information with respect to the plan of distribution not previously disclosed in the registration statement or any  
nformation in the registration statement.

of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed  
statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to  
ffering thereof.

stration by means of a post-effective amendment any of the securities being registered which remain unsold at the  
ng.

ation for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling  
pursuant to the provisions described under Item 14 above, or otherwise, the registrant has been advised that in the  
and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is,  
In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of  
d by a director, officer or controlling person of the registrant in the successful defense of any action, suit or  
y such director, officer or controlling person in connection with the securities being registered, the registrant will,  
ts counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the  
emnification by it is against public policy as expressed in the Act and will be governed by the final adjudication

**SIGNATURES**

ents of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its  
d, thereunto duly authorized, in the city of Cleveland, State of Ohio, on September 11, 2007.

By: /s/ Gil Van Bokkelen

Title: Chief Executive Officer

ents of the Securities Act of 1933, this registration statement has been signed by the following persons in the  
es indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	September 11, 2007
	Vice President Finance (Principal Financial Officer and Principal Accounting Officer)	September 11, 2007
	Executive Vice President, Chief Scientific Officer and Director	September 11, 2007
	Director	September 11, 2007
	Director	September 11, 2007
	Director	September 11, 2007
	Director	September 11, 2007
	Director	September 11, 2007

Director

September 11, 2007

signing his name hereto, does sign and execute this registration statement pursuant to the powers of attorney  
e-named officers and directors of the registrant, which have been previously filed (or, in the case of Mr. Randall,  
e Securities and Exchange Commission on behalf of such officers and directors.

By:  
Gil Van Bokkelen  
Attorney-in-fact

/s/ Gil Van Bokkelen

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## EXHIBIT INDEX

### Description of Document

t and Plan of Merger, dated as of May 24, 2007, by and among Athersys, Inc., BTHC VI, Inc. and B-VI  
 n Corp. (incorporated herein by reference to Exhibit 10.1 to registrant's Current Report on Form 8-K (Commission  
 2108) filed with the Commission on May 24, 2007)  
 ndment to Agreement and Plan of Merger, dated as of June 8, 2007, by and among Athersys, Inc., BTHC VI, Inc.  
 Acquisition Corp. (incorporated herein by reference to Exhibit 2.2 to the registrant's Current Report on Form 8-K  
 ion No. 000-52108) filed with the Commission on June 14, 2007)  
 of Incorporation of BTHC VI, Inc., last amended June 1, 2007 (incorporated herein by reference to Exhibit 3.1 to  
 ant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
 BTHC VI, Inc., dated as of June 8, 2007 (incorporated herein by reference to Exhibit 3.2 to the registrant's Current  
 Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
 vestor Warrant (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K  
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 (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
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 (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
 ender Warrant (incorporated herein by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K  
 ion No. 000-52108) filed with the Commission on June 14, 2007)  
 ommon Stock Certificate  
 f Jones Day  
 Collaboration and License Agreement, dated as of December 8, 2000, by and between Athersys, Inc. and  
 yers Squibb Company (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on  
 (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
 Collaboration and License Agreement, dated as of July 1, 2002, by and between Athersys, Inc. and Bristol-Myers  
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 (Commission No. 000-52108) filed with the Commission on June 14, 2007)  
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 2108) filed with the Commission on June 14, 2007)  
 e Agreement, effective as of May 5, 2006, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc.  
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 2108) filed with the Commission on June 14, 2007)  
 and Restated Registration Rights Agreement, dated as of April 28, 2000, by and among Athersys, Inc. and the  
 ers of Athersys, Inc. parties thereto (incorporated herein by reference to Exhibit 10.6 to the registrant's Current  
 Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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## Description of Document

nt No. 1 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of January 29, 2002, by g Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the and Restated Registration Rights Agreement, dated as April 28, 2000, by and among Athersys, Inc. and the ers of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.7 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 2 to Athersys, Inc. Amended and Restated Registration Rights Agreement, dated as of November 19, 2002, ong Athersys, Inc., the New Stockholders, the Investors, Biotech and the Stockholders (each as defined in the and Restated Registration Rights Agreement, dated as April 28, 2000, as amended, by and among Athersys, Inc. Stockholders of Athersys, Inc. parties thereto) (incorporated herein by reference to Exhibit 10.8 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

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

Inc. Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Inc. Equity Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Security Agreement, and Supplement, dated as of November 2, 2004, by and among Athersys, Inc., Advanced eutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to 1.12 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on 007)

nt to Loan and Security Agreement, dated as of September 29, 2006, by and among Athersys, Inc., Advanced eutics, Inc., Venture Lending & Leasing IV, Inc., and Costella Kirsch IV, L.P. (incorporated herein by reference to 1.13 to the registrant s Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on 007)

and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and thersys, Inc. and Dr. Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.14 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced eutics, Inc. and Gil Van Bokkelen (incorporated herein by reference to Exhibit 10.15 to the registrant s Current Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

petition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. Gil elen (incorporated herein by reference to Exhibit 10.16 to the registrant s Current Report on Form 8-K ion No. 000-52108) filed with the Commission on June 14, 2007)

and Restated Employment Agreement, dated as of December 1, 1998 but effective as of April 1, 1998, by and thersys, Inc. and Dr. John J. Harrington (incorporated herein by reference to Exhibit 10.17 to the registrant s report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

nt No. 1 to Amended and Restated Employment Agreement, dated as of May 31, 2007, by and between Advanced eutics, Inc. and John Harrington (incorporated herein by reference to Exhibit 10.18 to the registrant s Current Report -K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

petition and Confidentiality Agreement, dated as of December 1, 1998, by and between Athersys, Inc. and Dr. John on (incorporated herein by reference to Exhibit 10.19 to the registrant s Current Report on Form 8-K (Commission 2108) filed with the Commission on June 14, 2007)

## Description of Document

ent Agreement, dated as of May 22, 1998, by and between Athersys, Inc. and Laura K. Campbell (incorporated 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)

ent No. 1 to Employment Agreement, dated as of May 31, 2007, by and between Advanced Biotherapeutics, Inc. and Laura K. 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)

ent 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)

ent 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)

petition 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)

ent Agreement, dated as of October 3, 2003, by and between Advanced Biotherapeutics, Inc. and Robert Deans (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)

ent 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)

petition 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)

ent 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)

ent 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)

petition 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)

entive 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)

endment 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)

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## Description of Document

s Purchase Agreement, dated as of June 8, 2007, by and among Athersys, BTHC VI, Inc. and Investors (as defined 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)

e License Agreement, dated as of May 17, 2002, by and between Regents of the University of Minnesota and MCL owned by ReGenesys, LLC through operation of merger on November 4, 2003 (incorporated herein by reference to Exhibit 10.34 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

Alliance Agreement, by and between Athersys, Inc. and Angiotech Pharmaceuticals, Inc., dated as of May 5, 2006 (incorporated herein by reference to Exhibit 10.35 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

ent 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)

g Agreement, by and among Athersys, Inc., Advanced Biotherapeutics, Inc. and Dr. Kurt Brunden, dated as of May 1, 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)

emnification 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 June 14, 2007)

ry Note, dated May 20, 2002, made by Gil Van Bokkelen to the order of Advanced Biotherapeutics, Inc. in the amount of \$100,000

Agreement, dated as of May 24, 2007, by and between Halter Financial Group, L.P. and Athersys, Inc.

t Regarding Computation of Per Share Earnings

m S. W. Hatfield, CPA, dated June 11, 2007 (incorporated herein by reference to Exhibit 16.1 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

bsidiaries (incorporated herein by reference to Exhibit 21.1 to the registrant's Current Report on Form 8-K (Commission No. 000-52108) filed with the Commission on June 14, 2007)

of Ernst & Young LLP, Independent Registered Public Accounting Firm

of Jones Day (included in Exhibit 5.1)

Attorney

Attorney for Lorin J. Randall

ment requested as to certain portions, which portions have been filed separately with the Securities and Exchange