

ATHERSYS, INC / NEW
Form 424B3
May 15, 2012

Filed Pursuant to Rule 424(b)(3) and Rule 424(c)
Registration No. 333-178418

Prospectus Supplement No. 1

8,000,000 Shares

Athersys, Inc.

Common Stock

This prospectus supplement no. 1 amends our prospectus dated April 16, 2012. The shares of common stock that are the subject of the prospectus have been registered to permit their sale to the public by the selling stockholder named in the prospectus. We will not receive proceeds from the sale of the shares by the selling stockholder. However, we may receive proceeds from the sale of our common stock to the selling stockholder pursuant to a common stock purchase agreement entered into with the selling stockholder on November 11, 2011.

This prospectus supplement no. 1 is being filed to include the information set forth in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, which was filed with the Securities and Exchange Commission on May 14, 2012 and which is set forth below. This prospectus supplement no. 1 should be read in conjunction with the prospectus dated April 16, 2012.

Our common stock is listed on The NASDAQ Capital Market under the symbol **ATHX**. On May 14, 2012, the last reported sale price per share of our common stock was \$1.49 per share.

Investing in our common stock involves risk. Please read carefully the section entitled **Risk Factors on page 7 of the prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus Supplement No. 1 is May 15, 2012.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to .

Commission file number: 001-33876

Athersys, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	<u>20-4864095</u> (I.R.S. Employer Identification No.)
3201 Carnegie Avenue, Cleveland, Ohio (Address of principal executive offices)	44115-2634 (Zip Code)
Registrant's telephone number, including area code: (216) 431-9900	
Former name, former address and former fiscal year, if changed since last report: Not Applicable	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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

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

ATHERSYS, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****Athersys, Inc.****Condensed Consolidated Balance Sheets**

(In thousands, except share and per share data)

(Unaudited)

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

See accompanying notes to unaudited condensed consolidated financial statements.

Athersys, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share data)

(Unaudited)

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

See accompanying notes to unaudited condensed consolidated financial statements.

Athersys, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

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

See accompanying notes to unaudited condensed consolidated financial statements.

Athersys, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Three-Month Periods Ended March 31, 2012 and 2011

1. Background and Basis of Presentation

We are an international biotechnology company that is principally focused on the field of regenerative medicine and operate in one business segment. Our operations consist primarily of research and product development activities.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

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

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

2. Recently Issued Accounting Standards

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

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

3. Net Loss per Share

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

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

4. Fair Value of Financial Instruments

All of our available-for-sale securities are in United States government obligations, including government-backed agencies.

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

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

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

Level 3 Unobservable inputs for the asset or liability.

The following table provides a summary of the fair values of our assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 (in thousands):

Description	Balance as of March 31, 2012	Fair Value Measurements at March 31, 2012 Using Quoted Prices in Active		
		Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 999	\$ 999	\$	\$
Warrant liabilities	\$ 4,538	\$	\$	\$ 4,538

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

	Warrants Issued February 2011	Warrants Issued March 2012
Exercise price	\$ 3.55	\$ 2.07
Market value of stock at end of period	\$ 1.55	\$ 1.55
Expected volatility	80.7%	76.2%
Risk-free interest rate	0.50%	1.04%
Expected life (in years)	3.83	