GERON CORP
Form 10-Q
May 01, 2014
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2014**

**OR**

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

**For the transition period from to .**

**Commission File Number: 0-20859**

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# GERON CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE**<br>(State or other jurisdiction of<br>incorporation or organization) | **75-2287752**<br>(I.R.S. Employer<br>Identification No.) |
| **149 COMMONWEALTH DRIVE, SUITE 2070, MENLO PARK, CA**<br>(Address of principal executive offices) | **94025**<br>(Zip Code) |

**(650) 473-7700**

(Registrant s telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

| **Class:** | **Outstanding at April 25, 2014:** |
|---|---|
| Common Stock, $0.001 par value | 156,938,288 shares |

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**GERON CORPORATION**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2014**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**GERON CORPORATION**

**CONDENSED BALANCE SHEETS**

**(IN THOUSANDS)**

| | MARCH 31, 2014 (UNAUDITED) | DECEMBER 31, 2013 (NOTE 1) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,324 | $ 12,990 |
| Restricted cash | 795 | 795 |
| Current portion of marketable securities | 133,869 | 52,234 |
| Interest and other receivables | 1,439 | 564 |
| Prepaid assets | 249 | 474 |
| Total current assets | 147,676 | 67,057 |
| Noncurrent portion of marketable securities | 7,464 | |
| Property and equipment, net | 77 | 92 |
| Deposits and other assets | 191 | 195 |
| | $ 155,408 | $ 67,344 |
| | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,520 | $ 1,397 |
| Accrued compensation and benefits | 1,556 | 3,946 |
| Accrued restructuring charges | 11 | 94 |
| Accrued liabilities | 1,286 | 1,783 |
| Fair value of derivatives | 143 | 367 |
| Total current liabilities | 4,516 | 7,587 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Common stock | 157 | 131 |
| Additional paid-in capital | 1,052,028 | 952,403 |
| Accumulated deficit | (901,203) | (892,763) |
| Accumulated other comprehensive loss | (90) | (14) |
| Total stockholders equity | 150,892 | 59,757 |
| | $ 155,408 | $ 67,344 |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF OPERATIONS**

**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**(UNAUDITED)**

| | THREE MONTHS ENDED MARCH 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Revenues: | | | | |
| License fees and royalties | $ | 474 | $ | 765 |
| | | | | |
| Operating expenses: | | | | |
| Research and development | | 5,211 | | 7,999 |
| General and administrative | | 3,994 | | 4,751 |
| Total operating expenses | | 9,205 | | 12,750 |
| Loss from operations | | (8,731) | | (11,985) |
| Unrealized gain on derivatives | | 224 | | 25 |
| Interest and other income | | 83 | | 81 |
| Interest and other expense | | (16) | | (18) |
| Net loss | $ | (8,440) | $ | (11,897) |
| | | | | |
| Basic and diluted net loss per share | $ | (0.06) | $ | (0.09) |
| | | | | |
| Shares used in computing basic and diluted net loss per share | | 143,465,818 | | 127,982,931 |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF COMPREHENSIVE LOSS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | THREE MONTHS ENDED MARCH 31, | | | |
|---|---|---|---|---|
| | | 2014 | | 2013 |
| Net loss | $ | (8,440) | $ | (11,897) |
| Net unrealized loss on marketable securities | | (76) | | (22) |
| Comprehensive loss | $ | (8,516) | $ | (11,919) |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF CASH FLOWS**

**CHANGE IN CASH AND CASH EQUIVALENTS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | THREE MONTHS ENDED MARCH 31, 2014 | THREE MONTHS ENDED MARCH 31, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (8,440) | $ (11,897) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 15 | 142 |
| Accretion and amortization on investments, net | 606 | 328 |
| Gain on sales of property and equipment, net | | (104) |
| Stock-based compensation for services by non-employees | 65 | 24 |
| Stock-based compensation for employees and directors | 1,641 | 1,348 |
| Amortization related to 401(k) contributions | 12 | 103 |
| Unrealized gain on derivatives | (224) | (25) |
| Changes in assets and liabilities: | | |
| Other current and noncurrent assets | (646) | 345 |
| Other current liabilities | (2,534) | (6,491) |
| Net cash used in operating activities | (9,505) | (16,227) |
| | | |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | | (34) |
| Proceeds from sales of property and equipment | | 104 |
| Purchases of marketable securities | (107,144) | (18,007) |
| Proceeds from maturities of marketable securities | 17,363 | 27,595 |
| Net cash (used in) provided by investing activities | (89,781) | 9,658 |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock, net of issuance costs | 97,620 | 11 |
| Net cash provided by financing activities | 97,620 | 11 |
| Net decrease in cash and cash equivalents | (1,666) | (6,558) |
| Cash and cash equivalents at the beginning of the period | 12,990 | 22,063 |
| Cash and cash equivalents at the end of the period | $ 11,324 | $ 15,505 |

See accompanying notes.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The terms Geron , the Company , we and us as used in this report refer to Geron Corporation. The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management of Geron, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ending March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other period. These financial statements and notes should be read in conjunction with the financial statements for each of the three years ended December 31, 2013, included in the Company s Annual Report on Form 10-K. The accompanying condensed balance sheet as of December 31, 2013 has been derived from audited financial statements at that date.

### Net Loss Per Share

Basic earnings (loss) per share is calculated based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is calculated based on the weighted average number of shares of common stock and potential dilutive securities outstanding during the period. Potential dilutive securities primarily consist of outstanding stock options, restricted stock awards and warrants to purchase common stock and are determined using the treasury stock method at an average market price during the period.

Because we are in a net loss position, diluted loss per share excludes the effects of potential dilutive securities. Had we been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 5,596,655 and 13,949 shares for the three months ended March 31, 2014 and 2013, respectively, related to outstanding stock options, restricted stock awards and warrants (as determined using the treasury stock method at the estimated average market value).

### Use of Estimates

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

**Fair Value of Financial Instruments**

***Cash Equivalents and Marketable Securities***

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. We are subject to credit risk related to our cash equivalents and marketable securities. We place our cash and cash equivalents in money market funds, corporate notes and cash operating accounts. Our marketable securities include U.S. government-sponsored enterprise securities, commercial paper and corporate notes with original maturities ranging from four to 16 months.

We classify our marketable securities as available-for-sale. We record available-for-sale securities at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders equity. Realized gains and losses are included in interest and other income and are derived using the specific identification method for determining the cost of securities sold and have been insignificant to date. Dividend and interest income are recognized when earned and included in interest and other income in our condensed statements of operations. We recognize a charge when the declines in the fair values below the amortized cost basis of our available-for-sale securities are judged to be other-than-temporary. We consider various factors in determining whether to recognize an other-than-temporary charge, including whether we intend to sell the security or whether it is more likely than not

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

that we would be required to sell the security before recovery of the amortized cost basis. Declines in market value associated with credit losses judged as other-than-temporary result in a charge to interest and other income. Other-than-temporary charges not related to credit losses are included in accumulated other comprehensive income (loss) in stockholders equity. We have not recorded any other-than-temporary impairment charges for our available-for-sale securities for the three months ended March 31, 2014 and 2013. See Note 2 on Fair Value Measurements.

***Non-Marketable Equity Investments***

Non-marketable equity investments in companies in which we own less than 20% of the outstanding voting stock and do not otherwise have the ability to exert significant influence over the investees are carried at cost, as adjusted for other-than-temporary impairments. We apply the equity method of accounting for non-marketable equity investments in companies in which we own more than 20% of the outstanding voting stock or otherwise have the ability to exert significant influence over the investees. Under this method, we increase (decrease) the carrying value of our investment by our proportionate share of the investee s earnings (losses). If losses exceed the carrying value of the investment, losses are then applied against any advances to the investee, including any commitment to provide financial support, until those amounts are reduced to zero. Commitments to provide financial support include formal guarantees, implicit arrangements, reputational expectations, intercompany relationships or a consistent past history of providing financial support. The equity method is then suspended until the investee has earnings. Any proportionate share of investee earnings is first applied to the share of accumulated losses not recognized during the period the equity method was suspended. We recognize previously suspended losses to the extent additional investment is determined to represent the funding of prior losses. See Note 3 on Divestiture of Stem Cell Assets.

***Fair Value of Derivatives***

For non-employee options classified as assets or liabilities, the fair value of these instruments is recorded on the condensed balance sheet at inception and adjusted to fair value at each financial reporting date. The change in fair value of the non-employee options is recorded in the condensed statements of operations as unrealized gain (loss) on derivatives. Fair value of non-employee options is estimated using the Black Scholes option-pricing model. The non-employee options continue to be reported as an asset or liability until such time as the instruments are exercised or expire or are otherwise modified to remove the provisions which require this treatment, at which time these instruments are marked to fair value and reclassified from assets or liabilities to stockholders equity. For non-employee options classified as permanent equity, the fair value of the non-employee options is recorded in stockholders equity as of their respective vesting dates and no further adjustments are made. See Note 2 on Fair Value Measurements.

**Nonmonetary Transactions**

We account for nonmonetary transactions based on the fair values of the assets (or services) involved. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it with a gain or loss recognized on the exchange. We use the fair value of the asset received to measure the cost if it is more clearly evident than the fair value of the asset surrendered. If the fair value of neither the assets received nor the assets relinquished is determinable within reasonable limits, we use the recorded amount (or carrying value) of the nonmonetary assets relinquished to account for the exchange. Similarly, we use carrying value for an exchange of controlled assets that do not meet the definition of a business for a non-controlling non-marketable equity interest in a company with no gain or loss recognized for the exchange. See Note 3 on Divestiture of Stem Cell Assets.

**Revenue Recognition**

We have entered into several license agreements with various oncology, diagnostics, research tools and biologics production companies. With certain of these agreements, we receive non-refundable license payments in cash or equity securities, option payments in cash or equity securities, cost reimbursements, milestone payments, royalties on future sales of products, or any combination of these items. Upfront non-refundable signing, license or non-exclusive option fees are recognized as revenue when rights to use the intellectual property related to the license have been delivered and over the term of the agreement if we have continuing performance obligations. We

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

recognize revenue under collaborative agreements as the related research and development costs for services are rendered. Milestone payments, which are subject to substantive contingencies, are recognized as revenue upon completion of specified milestones, representing the culmination of the earnings process, according to contract terms. Royalties are generally recognized upon receipt of the related royalty payment. Deferred revenue represents the portion of research and license payments received which has not been earned. When payments are received in equity securities, we do not recognize any revenue unless such securities are determined to be realizable in cash.

**Restricted Cash**

Restricted cash consists of funds maintained in separate certificate of deposit accounts for specified purposes. The components of restricted cash were as follows:

| **(In thousands)** | **March 31, 2014** | **December 31, 2013** |
|---|---|---|
| Certificate of deposit for unused equipment line of credit | $ 530 | $ 530 |
| Certificate of deposit for credit card purchases | 265 | 265 |
| | $ 795 | $ 795 |

**Research and Development Expenses**

Research and development expenses consist of expenses incurred in identifying, developing and testing product candidates resulting from our independent efforts as well as efforts associated with collaborations. These expenses include, but are not limited to, acquired in-process research and development deemed to have no alternative future use, payroll and personnel expense, lab supplies, preclinical studies, clinical trials, including support for investigator-sponsored clinical trials, raw materials to manufacture clinical trial drugs, manufacturing costs for research and clinical trial materials, sponsored research at other labs, consulting, costs to maintain technology licenses and research-related overhead. Research and development costs are expensed as incurred, including payments made under our license agreements.

***Clinical Trial Costs***

A significant component of our research and development expenses is clinical trial costs. Substantial portions of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations, or CROs, and other vendors. We accrue expenses for preclinical studies performed by our vendors based on certain estimates over the term of the service period and adjust our estimates as required. We accrue expenses for clinical trial activities performed by CROs based upon the estimated amount of work completed on each study. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, the number of active clinical sites and the duration for which the patients have been enrolled in the study. Pass through costs from CROs include, but are not limited to, regulatory expenses, investigator fees, lab fees, travel costs and other miscellaneous costs, including shipping and printing fees. We accrue pass through costs based on estimates of the amount of work completed for the clinical trial. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, review of contractual terms and correspondence with CROs. We base our estimates on the best information available at the time. However, additional information may become available to us which would allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain.

**Depreciation and Amortization**

We record property and equipment at cost and calculate depreciation using the straight-line method over the estimated useful lives of the assets, generally four years. Leasehold improvements are amortized over the shorter of the estimated useful life or remaining term of the lease.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

### Stock-Based Compensation

We recognize stock-based compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period. The following table summarizes the stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases for the three months ended March 31, 2014 and 2013 which was allocated as follows:

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Research and development | $ 589 | $ 680 |
| General and administrative | 1,052 | 668 |
| Stock-based compensation expense included in operating expenses | $ 1,641 | $ 1,348 |

As stock-based compensation expense recognized in the condensed statements of operations for the three months ended March 31, 2014 and 2013 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures, but at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. Forfeitures have been estimated at the time of grant based on historical data and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

***Stock Options***

We grant options with service-based vesting under our equity plans to employees, non-employee directors and consultants. The vesting period for employee options is generally four years. The fair value of options granted during the three months ended March 31, 2014 and 2013 has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 0.922 | 0.745 |
| Risk-free interest rate range | 1.64% to 1.92% | 0.99% to 1.15% |
| Expected term | 5.5 yrs | 6 yrs |

***Employee Stock Purchase Plan***

The fair value of employees purchase rights during the three months ended March 31, 2014 and 2013 has been estimated using the Black Scholes option-pricing model with the following assumptions:

| | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility range | 0.835 to 1.062 | 0.674 to 1.391 |
| Risk-free interest rate range | 0.09% to 0.15% | 0.12% to 0.21% |
| Expected term range | 6 12 mos | 6 12 mos |

Dividend yield is based on historical cash dividend payments. The expected volatility is based on historical volatilities of our stock since traded options on Geron stock do not correspond to option terms and the trading volume of options is limited. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term in effect on the date of grant for an award. The expected term of options is derived from actual historical exercise and post-vesting cancellation data and represents the period of time that options granted are expected to be outstanding. The expected term of employees purchase rights is equal to the purchase period.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

***Restricted Stock Awards***

We have granted restricted stock awards to employees and non-employee directors with service-based and performance-based vesting schedules. Service-based restricted stock awards generally vest annually over four years. Performance-based restricted stock awards vest upon achievement of discrete strategic corporate goals within a specified performance period, generally three years.

The fair value for service-based restricted stock awards is determined using the fair value of our common stock on the date of grant. The fair value is amortized as stock-based compensation expense over the requisite service period of the award, which is generally the vesting period, on a straight-line basis and is reduced for estimated forfeitures, as applicable.

The fair value for performance-based restricted stock awards is determined using the fair value of our common stock on the date of grant. Stock-based compensation expense for awards with vesting based on performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the date the applicable condition is expected to be met and is reduced for estimated forfeitures, as applicable. If the performance condition is not considered probable of being achieved, no stock-based compensation expense is recognized until such time as the performance condition is considered probable of being met, if at all. If that assessment of the probability of the performance condition being met changes, the impact of the change in estimate would be recognized in the period of the change. If the requisite service period has been met prior to the change in estimate, the effect of the change in estimate would be immediately recognized. We have not recognized any stock-based compensation expense for performance-based restricted stock awards in our condensed statements of operations for the three months ended March 31, 2014 and 2013 as the achievement of the specified performance criteria was not considered probable during that time.

***Non-Employee Stock-Based Awards***

For our non-employee stock-based awards, the measurement date on which the fair value of the stock-based award is calculated is equal to the earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instrument is reached or (ii) the date at which the counterparty s performance is complete. We recognize stock-based compensation expense for the fair value of the vested portion of non-employee awards in our condensed statements of operations.

**2. FAIR VALUE MEASUREMENTS**

We categorize financial instruments recorded at fair value on our condensed balance sheets based upon the level of judgment associated with inputs used to measure their fair value. The categories are as follows:

| | |
|---|---|
| Level 1 | Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. |
| Level 2 | Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life. |
| Level 3 | Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. |

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Below is a description of the valuation methodologies used for financial instruments measured at fair value on our condensed balance sheets, including the category for such financial instruments.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

**Cash Equivalents and Marketable Securities**

Certificates of deposit and money market funds are categorized as Level 1 within the fair value hierarchy as their fair values are based on quoted prices available in active markets. U.S. Treasury securities, U.S. government-sponsored enterprise securities, municipal securities, corporate notes and commercial paper are categorized as Level 2 within the fair value hierarchy as their fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Cash equivalents, restricted cash and marketable securities by security type at March 31, 2014 were as follows:

| | Amortized Cost | | Gross Unrealized Gains | | Gross Unrealized Losses | | Estimated Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | | | (In thousands) | | | | | |
| Included in cash and cash equivalents: | | | | | | | | |
| Money market funds | $ | 4,247 | $ | | $ | | $ | 4,247 |
| Corporate notes | | 4,587 | | | | | | 4,587 |
| | $ | 8,834 | $ | | $ | | $ | 8,834 |
| Restricted cash: | | | | | | | | |
| Certificates of deposit | $ | 795 | $ | | $ | | $ | 795 |
| Marketable securities: | | | | | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ | 6,328 | $ | | $ | | $ | 6,328 |
| Commercial paper (due in less than 1 year) | | 9,488 | | 10 | | | | 9,498 |
| Corporate notes (due in less than 1 year) | | 118,130 | | 2 | | (89) | | 118,043 |
| Corporate notes (due in 1 to 2 years) | | 7,477 | | | | (13) | | 7,464 |
| | $ | 141,423 | $ | 12 | $ | (102) | $ | 141,333 |

Cash equivalents, restricted cash and marketable securities by security type at December 31, 2013 were as follows:

| | Amortized Cost | | Gross Unrealized Gains | | Gross Unrealized Losses | | Estimated Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | | | (In thousands) | | | | | |
| Included in cash and cash equivalents: | | | | | | | | |
| Money market funds | $ | 8,079 | $ | | $ | | $ | 8,079 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Corporate notes | | 2,206 | | | | | | 2,206 |
| | $ | 10,285 | $ | | $ | | $ | 10,285 |
| Restricted cash: | | | | | | | | |
| Certificates of deposit | $ | 795 | $ | | $ | | $ | 795 |
| Marketable securities: | | | | | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ | 7,369 | $ | 1 | $ | (1) | $ | 7,369 |
| Commercial paper (due in less than 1 year) | | 5,496 | | 3 | | | | 5,499 |
| Corporate notes (due in less than 1 year) | | 39,383 | | 1 | | (18) | | 39,366 |
| | $ | 52,248 | $ | 5 | $ | (19) | $ | 52,234 |

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

Marketable securities with unrealized losses at March 31, 2014 and December 31, 2013 were as follows:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | | | (In thousands) | | | |
| **As of March 31, 2014:** | | | | | | |
| Corporate notes (due in less than 1 year) | $ 112,706 | $ (89) | $ | $ | $ 112,706 | $ (89) |
| Corporate notes (due in 1 to 2 years) | 7,464 | (13) | | | 7,464 | (13) |
| | $ 120,170 | $ (102) | $ | $ | $ 120,170 | $ (102) |
| **As of December 31, 2013:** | | | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ 3,947 | $ (1) | $ | $ | $ 3,947 | $ (1) |
| Corporate notes (due in less than 1 year) | 37,060 | (18) | | | 37,060 | (18) |
| | $ 41,007 | $ (19) | $ | $ | $ 41,007 | $ (19) |

The gross unrealized losses related to corporate notes and government-sponsored enterprise securities as of March 31, 2014 and December 31, 2013 were due to changes in interest rates. We determined that the gross unrealized losses on our marketable securities as of March 31, 2014 and December 31, 2013 were temporary in nature. We review our investments quarterly to identify and evaluate whether any investments have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which the fair value has been less than the amortized cost basis and whether we intend to sell the security or whether it is more likely than not that we would be required to sell the security before recovery of the amortized cost basis. We currently do not intend to sell these securities before recovery of their amortized cost basis.

**Derivatives**

Non-employee options are normally traded less actively, have trade activity that is one way, and/or traded in less-developed markets and are therefore valued based upon models with significant unobservable market parameters, resulting in Level 3 categorization.

Options held by non-employees whose performance obligations are complete are classified as derivative liabilities on our condensed balance sheets. Upon the exercise of these options, the instruments are marked to fair value and reclassified from derivative liabilities to stockholders equity. We have not reclassified any derivative liabilities to stockholders equity for any non-employee option exercises during the three months ended March 31, 2014.

As of March 31, 2014 and December 31, 2013, the following non-employee options to purchase common stock were considered derivatives and classified as current liabilities:

| | | | | At March 31, 2014 | | At December 31, 2013 | |
|---|---|---|---|---|---|---|---|
| **Issuance Date** | **Exercise Price** | **Exercisable Date** | **Expiration Date** | **Number of Shares** | **Fair Value (In thousands)** | **Number of Shares** | **Fair Value (In thousands)** |
| March 2005 | $ 6.39 | January 2007 | March 2015 | 284,600 | $ 143 | 284,600 | $ 367 |

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**(UNAUDITED)**

The fair value of derivatives has been calculated at each reporting date using the Black Scholes option-pricing model with the following assumptions:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 1.361 | 0.844 |
| Risk-free interest rate | 0.13% | 0.13% |
| Expected term | 1 yr | 1 yr |

Dividend yield is based on historical cash dividend payments. The expected volatility is based on historical volatilities of our stock since traded options on Geron stock do not correspond to derivatives terms and trading volume of Geron options is limited. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term of the derivatives in effect on the reporting date. The expected term of derivatives is equal to the remaining contractual term of the instruments.

**Fair Value on a Recurring Basis**

The following table presents information about our financial instruments that are measured at fair value on a recurring basis as of March 31, 2014 and indicates the fair value category assigned.

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Assets / Liabilities Level 1** | **Significant Other Observable Inputs Level 2** | **Significant Unobservable Inputs Level 3** | **Total** |
| **Assets** | | | | |
| Money market funds (1) | $ 4,247 | $ | $ | $ 4,247 |
| Government-sponsored enterprise securities (2) | | 6,328 | | 6,328 |
| Commercial paper (2) | | 9,498 | | 9,498 |
| Corporate notes (1)(2)(3) | | 130,094 | | 130,094 |
| Total | $ 4,247 | $ 145,920 | $ | $ 150,167 |
| | | | | |
| **Liabilities** | | | | |
| Derivatives (4) | $ | $ | $ 143 | $ 143 |

The following table presents information about our financial instruments that are measured at fair value on a recurring basis as of December 31, 2013 and indicates the fair value category assigned.

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Assets / Liabilities Level 1** | **Significant Other Observable Inputs Level 2** | **Significant Unobservable Inputs Level 3** | **Total** |
| **Assets** | | | | |
| Money market funds (1) | $ 8,079 | $ | $ | $ 8,079 |
| Government-sponsored enterprise securities (2) | | 7,369 | | 7,369 |
| Commercial paper (2) | | 5,499 | | 5,499 |
| Corporate notes (1)(2) | | 41,572 | | 41,572 |
| Total | $ 8,079 | $ 54,440 | $ | $ 62,519 |