

GERON CORP  
Form 10-Q  
April 30, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549**

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007**

**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: 0-20859

**GERON CORPORATION**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**DELAWARE**

**75-2287752**

(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION  
NO.)

INCORPORATION OR  
ORGANIZATION)

**230 CONSTITUTION DRIVE, MENLO PARK, CA 94025**

(ADDRESS, INCLUDING ZIP CODE, OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: **(650) 473-7700**

FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED  
SINCE LAST REPORT: **N/A**

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.

**YesR**

**No £**

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

Large Accelerated Filer

Accelerated Filer  R

Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

Yes

No  R

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

Class:  
Common Stock, \$0.001 par value

Outstanding at April 24, 2007:  
72,872,137 shares

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**GERON CORPORATION**

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****GERON CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(IN THOUSANDS)

	<b>MARCH 31, 2007 (UNAUDITED)</b>	<b>DECEMBER 31, 2006 (SEE NOTE 1)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 145,722	\$ 135,882
Restricted cash	530	530
Marketable securities	75,504	77,448
Interest and other receivables (including amounts from related parties: 2007-\$505, 2006-\$293)	856	1,268
Current portion of prepaid assets	2,343	2,025
Total current assets	224,955	217,153
Noncurrent portion of prepaid assets	226	396
Equity investments in licensees	148	175
Property and equipment, net	3,064	2,482
Deposits and other assets	594	594
	\$ 228,987	\$ 220,800
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,342	\$ 1,959
Accrued compensation	893	2,938
Accrued liabilities	2,365	2,216
Current portion of deferred revenue	605	1,159
Fair value of derivatives	3,711	38,504
Total current liabilities	10,916	46,776
Noncurrent portion of deferred revenue	98	105
Commitments and contingencies		
Stockholders' equity:		
Common stock	73	70
Additional paid-in capital	619,703	573,156
Accumulated deficit	(401,588)	(399,094)
Accumulated other comprehensive loss	(215)	(213)
Total stockholders' equity	217,973	173,919
	\$ 228,987	\$ 220,800

See accompanying notes.

## GERON CORPORATION

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**  
**(UNAUDITED)**

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2007</b>	<b>2006</b>
		<b>As Restated (1)</b>
Revenues from collaborative agreements (including amounts from related parties: 2007-\$212, 2006-\$55)	\$ 293	\$ 55
License fees and royalties	623	528
Total revenues	916	583
<b>Operating expenses:</b>		
Research and development (including amounts from related parties: 2007-\$212, 2006-\$55)	13,189	9,363
General and administrative	4,129	2,082
Total operating expenses	17,318	11,445
Loss from operations	(16,402)	(10,862)
Unrealized gain on derivatives	14,805	4,082
Interest and other income	2,792	1,892
Interest and other expense	(28)	(40)
Net income (loss)	1,167	(4,928)
Deemed dividend on derivatives	(3,661)	—
Net loss applicable to common stockholders	\$ (2,494)	\$ (4,928)
Basic and diluted net loss per share applicable to common stockholders	\$ (0.03)	\$ (0.08)
Shares used in computing basic and diluted net loss per share applicable to common stockholders	71,797,056	65,088,861

(1) See Note 1 to condensed consolidated financial statements.

**See accompanying notes.**

## GERON CORPORATION

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**CHANGE IN CASH AND CASH EQUIVALENTS**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2007</b>	<b>2006</b>
		<b>As Restated (1)</b>
Cash flows from operating activities:		
Net income (loss)	\$ 1,167	\$ (4,928)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	277	268
Accretion and amortization on investments	(717)	239
Stock-based compensation in exchange for services by non-employees	2,735	726
Stock-based compensation for awards to employees and directors	2,922	962
Amortization related to 401(k) contributions	41	33
Loss on equity investments in licensees	28	119
Amortization of intangible assets, principally research related	—	189
Unrealized gain on derivatives	(14,805)	(4,082)
Changes in assets and liabilities:		
Other current and noncurrent assets	455	150
Other current and noncurrent liabilities	648	(510)
Accrued research funding obligation	—	(15)
Translation adjustment	—	2
Net cash used in operating activities	(7,249)	(6,847)
Cash flows from investing activities:		
Capital expenditures	(859)	(127)
Purchases of marketable securities	(39,147)	(23,102)
Proceeds from maturities of marketable securities	41,805	13,442
Net cash provided by (used in) investing activities	1,799	(9,787)
Cash flows from financing activities:		
Payments of obligations under equipment loans	—	(27)
Proceeds from issuances of common stock, net of issuance costs	290	433
Proceeds from exercise of warrants	15,000	—
Net cash provided by financing activities	15,290	406
Net increase (decrease) in cash and cash equivalents	9,840	(16,228)
Cash and cash equivalents at the beginning of the period	135,882	96,633
Cash and cash equivalents at the end of the period	\$ 145,722	\$ 80,405

(1) See Note 1 to condensed consolidated financial statements.

**See accompanying notes.**



**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(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 condensed consolidated unaudited balance sheet as of March 31, 2007 and condensed consolidated statements of operations for the three months ended March 31, 2007 and 2006 (restated) 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 ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 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, 2006 (restated), included in the Company’s Annual Report on Form 10-K. The accompanying condensed consolidated balance sheet as of December 31, 2006 has been derived from audited financial statements at that date.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Geron and our one wholly-owned subsidiary, Geron Bio-Med Ltd., a United Kingdom company. We have eliminated intercompany accounts and transactions. We prepare the financial statements of Geron Bio-Med using the local currency as the functional currency. We translate the assets and liabilities of this subsidiary at rates of exchange at the balance sheet date. We translate income and expense items at average monthly rates of exchange. The resultant translation adjustments are included in accumulated other comprehensive income (loss), a separate component of stockholders’ equity.

FASB Interpretation No. 46-R (FIN 46R), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” as amended, provides guidance on the identification, classification and accounting of variable interest entities (VIEs). We have variable interests in VIEs through marketable and non-marketable equity investments in various companies with whom we have executed licensing agreements. In accordance with FIN 46R, we have concluded that we are not the primary beneficiary in any of these VIEs and therefore have not consolidated such entities in our consolidated financial statements.

**Restatement of Prior Period Information**

Financial results for the three months ended March 31, 2006 have been restated to account for warrants to purchase shares of our common stock issued in connection with equity financings pursuant to effective shelf registration statements as liabilities in accordance with the provisions of Emerging Issues Task Force Issue 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (Issue 00-19). Refer to our Annual Report on Form 10-K for the year ended December 31, 2006 for a detailed discussion of the restatement, including Note 2 to our consolidated financial statements.

**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 dilutive securities, such as stock options and equivalents, outstanding during the period. Potential dilutive shares of common stock resulting from the assumed exercise of outstanding stock options and equivalents and the assumed exercise of warrants are determined under the treasury stock method.

Because we were in a net loss position, diluted earnings per share excludes the effects of common stock equivalents consisting of options and warrants, which are all antidilutive. 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 3,376,507 shares and 2,070,837 shares for 2007 and 2006, respectively, related to outstanding options and warrants (as determined using the treasury stock method at an average market price during the period).

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

**Use of Estimates**

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

**Cash Equivalents and Marketable Securities**

We consider all highly liquid investments purchased 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 available-for-sale securities. We place our cash and cash equivalents in money market funds and commercial paper. Our investments include commercial paper, corporate notes in United States corporations and asset-backed securities with original maturities ranging from four to seven months.

We classify our marketable debt 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. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. 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. We recognize an impairment charge when the declines in the fair values of our available-for-sale securities below the amortized cost basis are judged to be other-than-temporary. We consider various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the security issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Declines in market value judged other-than-temporary result in a charge to interest and other income. No impairment charges were recorded for our available-for-sale securities for the three months ended March 31, 2007 and 2006. Dividend and interest income are recognized when earned.

**Revenue Recognition**

We recognize revenue related to license and research agreements with collaborators, royalties, milestone payments and government grants. The principles and guidance outlined in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," provide a framework to (i) determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, (ii) determine how the arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement and (iii) apply relevant revenue recognition criteria separately for each of the separate units. For each separate unit of accounting we have objective and reliable evidence of fair value using available internal evidence for the undelivered item(s) and our arrangements generally do not contain a general right of return relative to the delivered item.

We have several license and marketing agreements with various oncology, diagnostics, research tools, agriculture and biologics production companies. With certain of these agreements, we receive nonrefundable license payments in cash or equity securities, option payments in cash or equity securities, royalties on future sales of products, milestone payments, or any combination of these items. Nonrefundable signing or license fees that are not dependent on future performance under these agreements or the intellectual property related to the license has been delivered are recognized as revenue when earned and over the term of the arrangement if we have continuing performance

obligations. Option payments are recognized as revenue over the term of the option agreement. Milestone payments are recognized 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.

We recognize revenue under collaborative agreements, including related party agreements, as the related research and development costs for services are rendered. Deferred revenue represents the portion of research and license payments received which had not been earned.

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

**Restricted Cash**

As of March 31, 2007 and December 31, 2006, we held \$530,000 in a Certificate of Deposit as collateral on an unused line of credit.

**Marketable and Non-Marketable Equity Investments in Licensees and Joint Ventures**

Investments in non-marketable nonpublic companies are carried at cost, as adjusted for other-than-temporary impairments. Investments in marketable equity securities are carried at the market value as of the balance sheet date. For marketable equity securities, unrealized gains and losses are reported in accumulated other comprehensive income (loss) in stockholders' equity. Realized gains or losses are included in interest and other income and are derived using the specific identification method.

We monitor our equity investments in licensees and joint ventures for impairment on a quarterly basis and make appropriate reductions in carrying values when such impairments are determined to be other-than-temporary. Impairment charges are included in interest and other income. Factors used in determining an impairment include, but are not limited to, the current business environment including competition and uncertainty of financial condition; going concern considerations such as the rate at which the investee company utilizes cash, and the investee company's ability to obtain additional private financing to fulfill its stated business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and the general progress toward product development, including clinical trial results. If an investment is determined to be impaired, then we determine whether such impairment is other-than-temporary. We recognized impairment charges of \$28,000 and \$119,000 for the three months ended March 31, 2007 and 2006, respectively, related to other-than-temporary declines in fair values of our non-marketable equity investments. As of March 31, 2007 and December 31, 2006, the carrying values of our equity investments in non-marketable nonpublic companies, including our joint ventures, were \$141,000 and \$169,000, respectively.

**Research and Development Expenses**

All research and development costs are expensed as incurred. The value of acquired in-process research and development is charged to research and development expense on the date of acquisition. Research and development expenses include, but are not limited to, acquired in-process technology deemed to have no alternative future use, payroll and personnel expense, lab supplies, preclinical studies, raw materials to manufacture clinical trial drugs, manufacturing costs for research and clinical trial materials, sponsored research at other labs, consulting and research-related overhead. Accrued liabilities for raw materials to manufacture clinical trial drugs, manufacturing costs, clinical trial expense and sponsored research reimbursement fees are included in accrued liabilities and research and development expenses.

**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.

**Stock-Based Compensation**

Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS 123R) requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including stock options, restricted stock awards and employee stock purchases related to our Employee Stock Purchase Plan (ESPP purchases) based upon the grant-date fair value of those awards.

On January 1, 2006 we implemented the provisions of SFAS 123R using the modified prospective transition method. In accordance with this method, for awards expected to vest, we recognize compensation expense on a straight-line basis for stock-based awards granted after January 1, 2006, plus unvested awards granted prior to January 1, 2006 based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and following the straight-line attribution method elected originally upon the adoption of SFAS 123.

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

The following table summarizes the stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases under SFAS 123R for the three months ended March 31, 2007 and 2006 which was allocated as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	(In Thousands)	
Research and development	\$ 1,252	\$ 672
General and administrative	1,670	290
Stock-based compensation expense included in operating expenses	\$ 2,922	\$ 962

The fair value of options granted during the three months ended March 31, 2007 and 2006 has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Dividend yield	None	None
Expected volatility range	0.774	0.824
Risk-free interest rate range	4.43% to 4.80%	4.28% to 4.60%
Expected term	5 yrs	5 yrs

The fair value of employees' purchase rights has been estimated using the Black Scholes option-pricing model with the following assumptions:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Dividend yield	None	None
Expected volatility range	0.419 to 0.460	0.381 to 0.471
Risk-free interest rate	5.00% to 5.26%	4.81% to 4.82%
Expected term	6 - 12 mos	6 - 12 mos

The expected volatility range is based on historical volatilities of our stock, because traded options on Geron stock do not correspond to option terms or the underlying stock trading volume. The risk-free rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term in effect on the date of grant. The expected term of options is derived from actual historical exercise 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. We grant options under our equity plans to employees, non-employee directors, and consultants, which generally vest over four years.

As stock-based compensation expense recognized in the consolidated statements of operations for the quarters ended March 31, 2007 and 2006 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. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual

forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

We continue to apply the provisions of EITF Issue No. 96-18, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” (Issue 96-18) for our non-employee stock-based awards. Under Issue 96-18, the measurement date at which the fair value of the stock-based award is measured is equal to the earlier of 1) the date at which a commitment for performance by the counterparty to earn the equity instrument is reached or 2) 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 the awards in our consolidated statements of operations.

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

**Fair Value of Derivatives**

We apply the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133), Statement of Financial Accounting Standards No 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," (SFAS 150) and Emerging Issues Task Force Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," (Issue 00-19) in accounting for derivative financial instruments.

For warrants and non-employee options classified as assets or liabilities under Issue 00-19, the fair value of these instruments is recorded on the consolidated balance sheet at inception and marked to market at each financial reporting date. The change in fair value of the warrants and non-employee options is recorded in the consolidated statements of operations as an unrealized gain (loss) on fair value of derivatives. Fair value of warrants and non-employee options subject to Issue 00-19 is estimated using the Black Scholes option-pricing model. The warrants and 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 the fair value of these instruments is reclassified from assets or liabilities to stockholders' equity. For warrants and non-employee options classified as permanent equity under Issue 00-19, the fair value of the warrants and non-employee options is recorded in stockholders' equity and no further adjustments are made.

**Comprehensive Income (Loss)**

Comprehensive income (loss) is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders' equity which are excluded from net income (loss). The activity in comprehensive income (loss) during the three months ended March 31, 2007 and 2006 are as follows:

	<b>March 31, 2007</b>	<b>March 31, 2006 As Restated</b>
	<b>(In thousands)</b>	
Net income (loss)	\$ 1,167	\$ (4,928)
Change in unrealized gains (losses) on securities available-for-sale and marketable equity securities	(2)	24
Change in foreign currency translation adjustments	—	2
Comprehensive income (loss)	\$ 1,165	\$ (4,902)

The components of accumulated other comprehensive loss are as follows:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	<b>(In thousands)</b>	
Unrealized holding loss on available-for-sale securities and marketable equity investments	\$ (42)	\$ (40)
Foreign currency translation adjustments	(173)	(173)
	\$ (215)	\$ (213)

**2. FAIR VALUE OF DERIVATIVES**



In March 2007, we modified certain warrant agreements to amend the provisions which required liability treatment for these instruments under Issue 00-19. On the effective date of these modifications for which we received no additional consideration, the aggregate fair value of \$22,646,000 for these warrants, as calculated using the Black Scholes option-pricing model, was reclassified from current liabilities to additional paid-in capital. An unrealized gain of \$9,815,000, resulting from the change in fair value for these warrants from December 31, 2006 to the effective date of the modifications, was recorded in the consolidated statements of operations. As of March 31, 2007, the fair value of warrants that were not modified and continued to be treated as liabilities under Issue 00-19 was \$1,778,000. An unrealized gain of \$1,923,000 was recorded in the consolidated statements of operations for the change in fair value from December 31, 2006 to March 31, 2007 for these instruments.

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

In February 2007, we received proceeds of \$15,000,000 from the exercise of warrants subject to liability treatment under Issue 00-19 to purchase 1,875,000 shares of common stock. An unrealized gain of \$2,342,000 resulting from the change in fair value for these warrants from December 31, 2006 to the date of exercise was recorded in the consolidated statements of operations. The exercised warrants were issued to institutional investors in connection with the financing announced in December 2006 and had an expiration date of February 28, 2007. In conjunction with this warrant exercise, we issued warrants to purchase 1,125,000 shares of common stock, at a premium, exercisable from June 2007. The new warrants are substantially the same as the A Warrants issued in the December 2006 financing. The aggregate fair value of \$3,661,000 for these new instruments, as calculated using the Black Scholes option-pricing model, was recognized as a deemed dividend in the consolidated statements of operations.

In January 2007, performance obligations related to services under certain agreements with non-employees were completed. Options to purchase 340,000 shares of common stock held by these individuals remained outstanding as of March 31, 2007 and required liability treatment under the provisions of Issue 00-19. The initial aggregate fair value was \$2,658,000 for these instruments, as calculated using the Black Scholes option-pricing model, and was recorded as a current liability. Of that amount, \$1,247,000 was reclassified from additional paid-in capital and the remaining \$1,411,000 was recognized as consulting expense. As of March 31, 2007, the fair value of these options was \$1,933,000 and an unrealized gain of \$725,000 was recorded in the consolidated statements of operations for the change in fair value of these instruments from the initial measurement date to March 31, 2007. If unexercised, the options expire in March 2015.

### **3. STOCKHOLDERS' EQUITY**

#### **Issuances of Common Stock**

In January 2007, we awarded 105,155 shares of common stock to employees in lieu of cash for 2006 year-end performance bonuses. The shares were granted under the 2002 Equity Incentive Plan. Compensation expense of \$921,000 related to this award was included in accrued compensation as of December 31, 2006.

In January 2007, we issued 111,857 shares of common stock to MPI Research, Inc. (MPI) in a private placement as advance consideration related to a services agreement pursuant to which MPI provides certain preclinical services in support of our programs. The total fair value of the common stock was \$1,000,000 which has been recorded as a prepaid asset and is being amortized to research and development expense on a pro-rata basis as services are performed, which is expected to be approximately two months. As of March 31, 2007, \$191,000 remained as a prepaid asset.

### **4. INCOME TAXES**

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109). There was no impact on our financial statements upon adoption. Because of our historical significant net operating losses, we have not been subject to income tax since inception. There were no unrecognized tax benefits during all the periods presented.

We maintain deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred

tax assets include net operating loss carryforwards, research credits and capitalized research and development. The net deferred tax asset has been fully offset by a valuation allowance because of our history of losses. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which we are subject.

**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
**(UNAUDITED)**

**5. SEGMENT INFORMATION**

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. Our executive management team represents our chief decision maker, as defined under SFAS 131. To date, we have viewed our operations as principally one segment, the discovery and development of therapeutic and diagnostic products for oncology and human embryonic stem cell therapies. As a result, the financial information disclosed herein materially represents all of the financial information related to our principal operating segment.

**6. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS DATA**

<b>(In Thousands)</b>	<b>Three Months Ended</b>	
	<b>2007</b>	<b>2006</b>
	<b>March 31,</b>	
	<b>(Unaudited)</b>	
Supplemental Operating Activities:		
Net unrealized gain (loss) on equity investments in licensees	\$ 1	\$ 8
Cash in transit from options	\$ —	\$ (18)
Reclassification between derivative liabilities and equity	\$ 21,399	\$ —
Shares issued for 401(k) matching contribution and performance bonus	\$ 1,722	\$ 2,173
Shares or warrants issued for services	\$ 191	\$ 474
Supplemental Investing Activities:		
Net unrealized gain (loss) on marketable securities	\$ (3)	\$ 16

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OVERVIEW**

This Form 10-Q contains forward-looking statements that involve risks and uncertainties. We use words such as “anticipate”, “believe”, “plan”, “expect”, “future”, “intend” and similar expressions to identify forward-looking statements. These statements appear throughout the Form 10-Q and are statements regarding our intent, belief, or current expectations, primarily with respect to our operations and related industry developments. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in Part I, Item 1A, entitled “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and elsewhere in this Form 10-Q.

The following discussion should be read in conjunction with the unaudited condensed financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Geron is a Menlo Park, California-based biopharmaceutical company that is developing first-in-class therapeutic products for the treatment of cancer and chronic degenerative diseases, including spinal cord injury, heart failure, diabetes and HIV/AIDS. The products are based on our core expertise in telomerase and human embryonic stem cells.

Our results of operations have fluctuated from period to period and may continue to fluctuate in the future, as well as the progress of our research and development efforts and variations in the level of expenses related to developmental efforts during any given period. Results of operations for any period may be unrelated to results of operations for any other period. In addition, historical results should not be viewed as indicative of future operating results. We are subject to risks common to companies in our industry and at our stage of development, including risks inherent in our research and development efforts, reliance upon our collaborative partners, enforcement of our patent and proprietary rights, need for future capital, potential competition and uncertainty of regulatory approvals or clearances. In order for a product to be commercialized based on our research, we and our collaborators must conduct preclinical tests and clinical trials, demonstrate the efficacy and safety of our product candidates, obtain regulatory approvals or clearances and enter into manufacturing, distribution and marketing arrangements, as well as obtain market acceptance. We do not expect to receive revenues or royalties based on therapeutic products for a period of years, if at all.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 of Notes to Condensed Consolidated Financial Statements describes the significant accounting policies used in the preparation of the condensed consolidated financial statements.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the condensed consolidated financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our condensed consolidated financial statements are fairly stated in accordance with accounting

principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations.

We believe that there have been no significant changes in our critical accounting policies and estimates during the three months ended March 31, 2007 as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

## RESULTS OF OPERATIONS

### Revenues

We recognized revenues from collaborative agreements of \$293,000 for the three months ended March 31, 2007, compared to revenues of \$55,000 for the comparable period in 2006. Revenues in 2007 represent amounts earned under a contract to provide scientific research services to a related party, our joint venture in Hong Kong, TA Therapeutics (TAT) and revenue recognized under our collaboration with Corning Life Sciences. Revenues in 2006 reflect only related party amounts earned from TAT.

We have entered into license and option agreements with companies involved in oncology, diagnostics, research tools, agriculture and biologics production. In each of these agreements, we have granted certain rights to our technologies. In connection with the agreements, we are entitled to receive license fees, option fees, milestone payments and royalties on future sales, or any combination thereof. We recognized license and option fee revenues of \$494,000 for the three months ended March 31, 2007, compared to \$471,000 for the comparable 2006 period related to our various agreements. The increase in license fee revenue primarily reflects increased revenue recognized from the license agreement with Merck. We expect to recognize revenue of \$598,000 for the remainder of 2007, \$27,000 in 2008, \$27,000 in 2009, \$26,000 in 2010 and \$25,000 thereafter related to our existing deferred revenue. Current revenues may not be predictive of future revenues.

We received royalties of \$129,000 for the three months ended March 31, 2007, compared to \$58,000 for the comparable 2006 period on product sales of telomerase detection and telomere measurement kits to the research-use-only market, cell-based research products and agricultural products. License and royalty revenues are dependent upon additional agreements being signed and future product sales.

### Research and Development Expenses

Research and development expenses were \$13.2 million for the three months ended March 31, 2007, compared to \$9.4 million for the comparable 2006 period. The increase for 2007 compared to 2006 is primarily the result of increased personnel-related expense of \$1.6 million, including an increase of \$580,000 in stock-based compensation expense associated with stock options, increased consulting fees of \$1.7 million related to the telomerase cancer vaccine, GRNVAC1, increased clinical trial costs of \$306,000 associated with our telomerase inhibitor drug, GRN163L and higher preclinical and toxicology study expenses of \$285,000 for GRNOPC1, our hESC-derived oligodendrocyte progenitor cells for the treatment of acute spinal cord injury. Overall, we expect research and development expenses to increase in the next year as we incur expenses related to clinical trials for GRN163L and GRNVAC1 and continued development of our human embryonic stem cell (hESC) programs.

Our research and development activities have arisen from our two major technology platforms, telomerase and hESCs. The oncology programs focus on treating or diagnosing cancer by targeting or detecting the presence of telomerase, either inhibiting activity of the telomerase enzyme, diagnosing cancer by detecting the presence of telomerase, or using telomerase as a target for therapeutic vaccines. Our core knowledge base in telomerase and telomere biology supports all these approaches, and our scientists may contribute to any or all of these programs in a given period. Currently four sites have been designated as patient enrollment centers for our Phase I/II clinical trial of GRN163L in patients with chronic lymphocytic leukemia. In April 2006, we initiated clinical testing of GRN163L in patients with solid tumor malignancies at one site. Preliminary data from these studies showed safety and tolerability of the drug in low-dose cohorts as well as the expected pharmacokinetic properties after multiple intravenous infusions of the drug.

Taking the results from the Duke University clinical studies in prostate cancer, hematologic malignancies and renal cell carcinoma, we optimized the vaccine manufacturing process and transferred it to a contract manufacturer. We filed an IND to initiate a Phase I/II clinical trial of our telomerase vaccine using the prime/boost scheme in patients

with acute myelogenous leukemia. We are in the process of initiating multiple sites to begin enrolling patients into this study.



Our hESC therapy programs focus on treating injuries and degenerative diseases with cell therapies based on cells derived from hESCs. A core of knowledge of hESC biology, as well as a significant continuing effort in deriving, growing, maintaining, and differentiating hESCs, underlies all aspects of this group of programs. Many of our researchers are allocated to more than one hESC project, and the percentage allocations of time change as the resource needs of individual programs vary. In our hESC therapy programs, we have concentrated our resources on several specific cell types. We have developed proprietary methods to grow, maintain and scale the culture of undifferentiated hESCs that use feeder cell-free and serum-free media with chemically defined components. Moreover, we have developed scalable processes to differentiate these cells into therapeutically relevant cells, including cryopreserved formulations in order to deliver these therapeutic cells “on demand”. We are now testing six different hESC-derived therapeutic cell types in animal models. From these studies, we are advancing development of two hESC-based therapeutics to clinical testing.

Research and development expenses allocated to programs are as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	
Oncology	\$ 7,396	\$ 5,276
hESC Therapies	5,793	4,087
<b>Total</b>	<b>\$ 13,189</b>	<b>\$ 9,363</b>

At this time, we cannot provide reliable estimates of how much time or investment will be necessary to commercialize products from the programs currently in progress. Drug development in the U.S. is a process that includes multiple steps defined by the FDA under applicable statutes, regulations and guidance documents. After the preclinical research process of identifying, selecting and testing in animals a potential pharmaceutical compound, the clinical development process begins with the filing of an IND. Clinical development typically involves three phases of study: Phase I, II and III. The most significant costs associated with clinical development are incurred in Phase III trials, which tend to be the longest and largest studies conducted during the drug development process. After the completion of a successful preclinical and clinical development program, a New Drug Application (NDA) or Biologics License Application (BLA) must be filed with the FDA, which includes, among other things, very large amounts of preclinical and clinical data and results and manufacturing-related information necessary to support requested approval of the product. The NDA/BLA must be reviewed and approved by the FDA.

According to industry statistics, it generally takes 10 to 15 years to research, develop and bring to market a new prescription medicine in the United States. In light of the steps and complexities involved, the successful development of our potential products is highly uncertain. Actual timelines and costs to develop and commercialize a product are subject to enormous variability and are very difficult to predict. In addition, various statutes and regulations also govern or influence the manufacturing, safety reporting, labeling, storage, record keeping and marketing of each product. The lengthy process of seeking these regulatory reviews and approvals, and the subsequent compliance with applicable statutes and regulations, require the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could materially adversely affect our business. In responding to an NDA/BLA submission, the FDA may grant marketing approval, may request additional information, may deny the application if it determines that the application does not provide an adequate basis for approval, and may also refuse to review an application that has been submitted if it determines that the application does not provide an adequate basis for filing and review. We cannot provide assurance that any approval required by the FDA will be obtained on a timely basis, if at all.

For a more complete discussion of the risks and uncertainties associated with completing development of potential products, see the sub-section titled “Because we or our collaborators must obtain regulatory approval to market our products in the United States and other countries, we cannot predict whether or when we will be permitted to commercialize our products” and “Entry into clinical trials with one or more product candidates may not result in any commercially viable products” in Part II, Item 1A entitled “Risk Factors” and elsewhere in this quarterly report.

### **General and Administrative Expenses**

General and administrative expenses were \$4.1 million for the three months ended March 31, 2007, compared to \$2.1 million for the comparable 2006 period. The increase in 2007 compared to 2006 was primarily due to increased recognition of compensation expense related to restricted stock awards to employees and directors during the first quarter of 2007. We currently anticipate general and administrative expenses to remain consistent with current levels.

### **Unrealized Gain (Loss) on Derivatives**

Unrealized gain (loss) on derivatives reflects a non-cash adjustment for changes in fair value of warrants and options held by non-employees to purchase common stock that are classified as current liabilities. Under Issue 00-19, derivatives classified as assets or liabilities are marked to market at each financial reporting date with any resulting unrealized gain (loss) recorded in the consolidated statements of operations. The derivatives 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 the fair value of these instruments is marked to market and reclassified from assets or liabilities to stockholders' equity. We incurred an unrealized gain on derivatives of \$14.8 million for the three months ended March 31, 2007 and \$4.1 million for the comparable restated 2006 period. The increase in unrealized gain on derivatives in 2007 as compared to 2006 primarily reflects changes in fair value of warrants issued in connection with the December 2006 financing. See Note 2, "Fair Value of Derivatives," in Notes to Consolidated Financial Statements of this Form 10-Q for further discussion of unrealized gain on derivatives.

### **Interest and Other Income**

Interest income was \$2.8 million for the three months ended March 31, 2007, compared to \$1.9 million for the comparable 2006 period. The increase in interest income for 2007 compared to 2006 was due to higher cash and investment balances as a result of \$40.0 million in proceeds received from the December 2006 financing and \$15.0 million in proceeds received in connection with the exercise of warrants in February 2007. Interest earned in future periods will depend on the size of our securities portfolio and prevailing interest rates.

### **Interest and Other Expense**

Interest and other expense was \$28,000 for the three months ended March 31, 2007, compared to \$40,000 for the comparable 2006 period. The decrease in interest and other expense for 2007 compared to 2006 was primarily due to the conclusion of equipment financing payments in June 2006.

### **Net Income (Loss)**

Net income was \$1.2 million for the three months ended March 31, 2007, compared to \$4.9 million net loss for the comparable restated 2006 period. Net income for the three months ended March 31, 2007 resulted from unrealized gain on derivatives of \$14.8 million offset by increased operating expenses for the clinical development of GRN163L and GRNVAC1.

### **Deemed Dividend on Derivatives**

In conjunction with the warrant exercise in February 2007, we issued warrants to purchase 1,125,000 shares of common stock, at a premium, exercisable from June 2007. The new warrants are substantially the same as the A Warrants issued in the December 2006 financing. The aggregate fair value of \$3.7 million for these new instruments, as calculated using the Black Scholes option-pricing model, was recognized as a deemed dividend in the consolidated statements of operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash, restricted cash, cash equivalents and marketable securities at March 31, 2007 totaled \$221.8 million compared to \$213.9 million at December 31, 2006. We have an investment policy to invest these funds in liquid, investment grade securities, such as interest-bearing money market funds, corporate notes, commercial paper, asset-backed securities and municipal securities. The increase in cash, restricted cash, cash equivalents and marketable securities in 2007 resulted from the receipt of \$15.0 million in proceeds from the exercise of warrants issued to institutional

investors in connection with a financing in December 2006 offset by use of cash for operations.

*Cash Flows from Operating Activities.* Net cash used in operations was \$7.2 million for the three months ended March 31, 2007, compared to \$6.8 million for the comparable 2006 period. The increase in net cash used for operations in 2007 was primarily the result of increased operating expenses.

*Cash Flows from Investing Activities.* Net cash provided by investing activities was \$1.8 million for the three months ended March 31, 2007, compared to net cash used in investing activities of \$9.8 million for the comparable 2006 period. The increase in cash provided by investing activities reflected increased proceeds from the maturities of marketable securities.

Since inception through March 31, 2007, we have invested approximately \$17.1 million in property and equipment, of which approximately \$8.3 million was financed through an equipment financing arrangement. As of March 31, 2007, no payments were due under our equipment financing facilities. As of March 31, 2007, we had approximately \$500,000 available for borrowing under our equipment financing facilities. We intend to renew the commitment for new equipment financing facilities in 2007 to further fund equipment purchases. If we are unable to renew the commitment, we will use our cash resources for capital expenditures.

*Cash Flows from Financing Activities.* Net cash provided by financing activities for the three months ended March 31, 2007 was \$15.3 million, compared to \$406,000 for the comparable 2006 period. In 2007, we received \$15.0 million in proceeds from the exercise of warrants issued to institutional investors in connection with a financing in December 2006.

As of March 31, 2007, our contractual obligations for the next five years and thereafter are as follows:

Contractual Obligations (1)	Total	Principal Payments Due by Period				After 5 Years
		Less Than 1 Year	1-3 Years	4-5 Years		
Operating leases (2)	\$ 35	\$ 10	\$ 25	\$ —	\$ —	
Research funding (3)	5,697	3,305	1,148	504	740	
Total contractual cash obligations	\$ 5,732	\$ 3,315	\$ 1,173	\$ 504	\$ 740	

- (1) This table does not include any milestone payments under research collaborations or license agreements as the timing and likelihood of such payments are not known. In addition, this table does not include payments under our severance plan if there was a change in control of the Company or severance payments to key employees under involuntary termination.
- (2) In March 2004, we issued 363,039 shares of our common stock to the lessor of our premises at 200 and 230 Constitution Drive in payment of our monthly rental obligation from February 1, 2004 through July 31, 2008. The fair value of the common stock has been recorded as a prepaid asset and is being amortized to rent expense on a straight-line basis over the lease period.
- (3) Research funding is comprised of sponsored research commitments at various laboratories around the world, including our Hong Kong joint venture.

We estimate that our existing capital resources, interest income and equipment financing facilities will be sufficient to fund our current level of operations through at least December 2008. Changes in our research and development plans or other changes affecting our operating expenses or cash balances may result in the expenditure of available resources before such time, and in any event, we will need to raise substantial additional capital to fund our operations in the future. We intend to seek additional funding through strategic collaborations, public or private equity financings, equipment loans or other financing sources that may be available.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about our market risk disclosures contains forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

*Credit Risk.* We place our cash, restricted cash, cash equivalents, and marketable securities with five financial institutions in the United States. Generally, these deposits may be redeemed upon demand and therefore, bear minimal risk. Deposits with banks may exceed the amount of insurance provided on such deposits. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of marketable securities. Marketable securities consist of high-grade corporate notes, commercial paper and asset-backed securities. Our investment policy, approved by our Board of Directors, limits the amount we may invest in any one type of investment issuer, thereby reducing credit risk concentrations.

*Interest Rate Sensitivity.* The fair value of our cash equivalents and marketable securities at March 31, 2007 was \$220.9 million. These investments include \$145.4 million of cash and cash equivalents which are due in less than 90 days, \$19.5 million of asset-backed securities which have varying maturity dates, and \$56.0 million of short-term investments which are due in less than one year. Our investment policy is to manage our marketable securities portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. We diversify the marketable securities portfolio by investing in multiple types of investment grade securities. We primarily invest our marketable securities portfolio in short-term securities with at least an investment grade rating to minimize interest rate and credit risk as well as to provide for an immediate source of funds. Although changes in interest rates may affect the fair value of the marketable securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold. Due to the nature of our investments, which are primarily corporate notes, commercial paper, asset-backed securities and money market funds, we have concluded that there is no material market risk exposure.

*Foreign Currency Exchange Risk.* Because we translate foreign currencies into United States dollars for reporting purposes, currency fluctuations can have an impact, though generally immaterial, on our results. We believe that our exposure to currency exchange fluctuation risk is insignificant primarily because our international subsidiary satisfies its financial obligations almost exclusively in its local currency. As of March 31, 2007, there was an immaterial currency exchange impact from our intercompany transactions. As of March 31, 2007, we did not engage in foreign currency hedging activities.

#### **ITEM 4. CONTROLS AND PROCEDURES**

(a) *Evaluation of Disclosure Controls and Procedures.* The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. As discussed in our Annual Report on Form 10-K for the year ended December 31, 2006, we identified a material weakness pertaining to controls related to the process of accounting for complex, non-routine transactions, specifically related to derivatives associated with equity financing transactions. Our management, with oversight by our Audit Committee, has executed the following remediation plan during the quarter ended March 31, 2007 to address the material weakness:

- creation and implementation of a policy regarding (i) the identification of and communications relating to complex, non-routine transactions, as well as (ii) consultation with persons with particular expertise in the accounting for complex, non-routine transactions in connection with the determination of the appropriate accounting treatment and financial reporting for such transactions;
- distribution of the policy to employees most likely to be negotiating such transactions;
- training for those employees involved with such transactions; and
- quarterly review of transactions against the policy to ensure compliance.

Based on the evaluation by our management, in which our chief executive officer and our chief financial officer participated, of the effectiveness of our disclosure controls and procedures, including the remediation efforts described above, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Changes in Internal Controls Over Financial Reporting.* Other than the remediation efforts described above, there was no change in our internal control over financial reporting for the three months ended March 31, 2007 that has

materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None

### ITEM 1A. RISK FACTORS

Our business is subject to various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Form 10-Q. Any of these risks could materially adversely affect our business, operating results and financial condition.

#### *Our business is at an early stage of development.*

Our business is at an early stage of development, in that we do not yet have product candidates in late-stage clinical trials or on the market. One of our product candidates, a telomerase therapeutic cancer vaccine, has been studied in clinical trials conducted by an academic institution. We have begun clinical testing of our lead anti-cancer drug, GRN163L, in patients with chronic lymphocytic leukemia and solid tumor malignancies. We have no other product candidates in clinical testing. Our ability to develop product candidates that progress to and through clinical trials is subject to our ability to, among other things:

- succeed in our research and development efforts;
- select therapeutic compounds or cell therapies for development;
  - obtain required regulatory approvals;
  - manufacture product candidates; and
- collaborate successfully with clinical trial sites, academic institutions, physician investigators, clinical research organizations and other third parties.

Potential lead drug compounds or other product candidates and technologies will require significant preclinical and clinical testing prior to regulatory approval in the United States and other countries. Our product candidates may prove to have undesirable and unintended side effects or other characteristics adversely affecting their safety, efficacy or cost-effectiveness that could prevent or limit their commercial use. In addition, our product candidates may not prove to be more effective for treating disease or injury than current therapies. Accordingly, we may have to delay or abandon efforts to research, develop or obtain regulatory approvals to market our product candidates. In addition, we will need to determine whether any of our potential products can be manufactured in commercial quantities at an acceptable cost. Our research and development efforts may not result in a product that can be approved by regulators or marketed successfully. Because of the significant scientific, regulatory and commercial milestones that must be reached for any of our development programs to be successful, any program may be abandoned, even after we have expended significant resources on the program, such as our investments in telomerase technology and human embryonic stem cells, which could cause a sharp drop in our stock price.

The science and technology of telomere biology and telomerase, human embryonic stem cells and nuclear transfer are relatively new. There is no precedent for the successful commercialization of therapeutic product candidates based on our technologies. These development programs are therefore particularly risky. In addition, we, our licensees or our collaborators must undertake significant research and development activities to develop product candidates based on our technologies, which will require additional funding and may take years to accomplish, if ever.

***We have a history of losses and anticipate future losses, and continued losses could impair our ability to sustain operations.***

We have incurred operating losses every year since our operations began in 1990. As of March 31, 2007, our accumulated deficit was approximately \$401.6 million. Losses have resulted principally from costs incurred in connection with our research and development activities and from general and administrative costs associated with our operations. We expect to incur additional operating losses and, as our development efforts and clinical testing activities continue, our operating losses may increase in size.

Substantially all of our revenues to date have been research support payments under collaboration agreements and revenues from our licensing arrangements. We may be unsuccessful in entering into any new corporate collaboration or license agreement that results in revenues. We do not expect that the revenues generated from these arrangements will be sufficient alone to continue or expand our research or development activities and otherwise sustain our operations.

While we receive royalty revenue from licenses of diagnostic product candidates, telomerase-immortalized cell lines and other licensing activities, we do not currently expect to receive sufficient royalty revenues from these licenses to sustain our operations. Our ability to continue or expand our research and development activities and otherwise sustain our operations is dependent on our ability, alone or with others, to, among other things, manufacture and market therapeutic products.

We also expect to experience negative cash flow for the foreseeable future as we fund our operating losses and capital expenditures. This will result in decreases in our working capital, total assets and stockholders' equity, which may not be offset by future financings. We will need to generate significant revenues to achieve profitability. We may not be able to generate these revenues, and we may never achieve profitability. Our failure to achieve profitability could negatively impact the market price of our common stock. Even if we do become profitable, we cannot assure you that we would be able to sustain or increase profitability on a quarterly or annual basis.

***We will need additional capital to conduct our operations and develop our products, and our ability to obtain the necessary funding is uncertain.***

We will require substantial capital resources in order to conduct our operations and develop our product candidates, and we cannot assure you that our existing capital resources, interest income and equipment financing arrangements will be sufficient to fund our current and planned operations. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for our capital needs in 2007 and beyond;
- the magnitude and scope of our research and development programs;
- the progress we make in our research and development programs and in preclinical development and clinical trials;
- our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
  - the number and type of product candidates that we pursue;
  - the time and costs involved in obtaining regulatory approvals; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims.

We do not have any committed sources of capital. Additional financing through strategic collaborations, public or private equity financings, capital lease transactions or other financing sources may not be available on acceptable terms, or at all. The receptivity of the public and private equity markets to proposed financings is substantially affected by the general economic, market and political climate and by other factors which are unpredictable and over which we have no control. Additional equity financings, if we obtain them, could result in significant dilution to stockholders. Further, in the event that additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or proposed products that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available,

we may be required to delay, reduce the scope of or eliminate one or more of our programs, any of which could have a material adverse effect on our business.

*We do not have experience as a company conducting large-scale clinical trials, or in other areas required for the successful commercialization and marketing of our product candidates.*

We will need to receive regulatory approvals for any product candidates before they may be marketed and distributed. Such approval will require, among other things, completing carefully controlled and well-designed clinical trials demonstrating the safety and efficacy of each product candidate. This process is lengthy, expensive and uncertain. We have no experience as a company in conducting large-scale, late stage clinical trials, and our experience with early-stage clinical trials with small numbers of patients is limited. Such trials would require either additional financial and management resources, or reliance on third-party clinical investigators, clinical research organizations (CROs) or consultants. Relying on third-party clinical investigators or CROs may force us to encounter delays that are outside of our control.

We also do not currently have marketing and distribution capabilities for our product candidates. Developing an internal sales and distribution capability would be an expensive and time-consuming process. We may enter into agreements with third parties that would be responsible for marketing and distribution. However, these third parties may not be capable of successfully selling any of our product candidates.

***Because we or our collaborators must obtain regulatory approvals to market our products in the United States and other countries, we cannot predict whether or when we will be permitted to commercialize our products.***

Federal, state and local governments in the United States and governments in other countries have significant regulations in place that govern many of our activities and may prevent us from creating commercially viable products from our discoveries.

The regulatory process, particularly for biopharmaceutical product candidates like ours, is uncertain, can take many years and requires the expenditure of substantial resources. Any product candidate that we or our collaborators develop must receive all relevant regulatory agency approvals before it may be marketed in the United States or other countries. Biological drugs and non-biological drugs are rigorously regulated. In particular, human pharmaceutical therapeutic product candidates are subject to rigorous preclinical and clinical testing and other requirements by the Food and Drug Administration (FDA) in the United States and similar health authorities in other countries in order to demonstrate safety and efficacy. Because certain of our product candidates involve the application of new technologies or are based upon a new therapeutic approach, they may be subject to substantial additional review by various government regulatory authorities, and, as a result, the process of obtaining regulatory approvals for them may proceed more slowly than for product candidates based upon more conventional technologies. We may never obtain regulatory approval to market our product candidates.

Data obtained from preclinical and clinical activities is susceptible to varying interpretations that could delay, limit or prevent regulatory agency approvals. In addition, delays or rejections may be encountered as a result of changes in regulatory agency policy during the period of product development and/or the period of review of any application for regulatory agency approval for a product candidate.

Delays in obtaining regulatory agency approvals could:

- significantly harm the marketing of any products that we or our collaborators develop;
- impose costly procedures upon our activities or the activities of our collaborators;
- diminish any competitive advantages that we or our collaborators may attain; or
- adversely affect our ability to receive royalties and generate revenues and profits.

Even if we commit the necessary time and resources, the required regulatory agency approvals may not be obtained for any product candidates developed by us or in collaboration with us. If we obtain regulatory agency approval for a

new product, this approval may entail limitations on the indicated uses for which it can be marketed that could limit the potential commercial use of the product.

Approved products and their manufacturers are subject to continual review, and discovery of previously unknown problems with a product or its manufacturer may result in restrictions on the product or manufacturer, including withdrawal of the product from the market. The sale by us or our collaborators of any commercially viable product will be subject to government regulation from several standpoints, including the processes of:

- manufacturing;
- advertising and promoting;
- selling and marketing;
- labeling; and
- distribution.

If, and to the extent that, we are unable to comply with these regulations, our ability to earn revenues will be materially and negatively impacted.

Failure to comply with regulatory requirements can result in severe civil and criminal penalties, including but not limited to:

- recall or seizure of products;
- injunction against manufacture, distribution, sales and marketing; and
- criminal prosecution.

The imposition of any of these penalties could significantly impair our business, financial condition and results of operations.

***Entry into clinical trials with one or more product candidates may not result in any commercially viable products.***

We may never generate revenues from product sales because of a variety of risks inherent in our business, including the following risks:

- clinical trials may not demonstrate the safety and efficacy of our product candidates;
- completion of clinical trials may be delayed, or costs of clinical trials may exceed anticipated amounts;
- we may not be able to obtain regulatory approval of our product candidates, or may experience delays in obtaining such approvals;
- we may not be able to manufacture our product candidates economically on a commercial scale;
  - we and any licensees of ours may not be able to successfully market our products;
- physicians may not prescribe our products, or patients or third party payors may not accept such products;
- others may have proprietary rights which prevent us from marketing our products; and
  - competitors may sell similar, superior or lower-cost products.

With respect to our telomerase cancer vaccine product candidate, clinical testing has been limited to early-stage testing for a small number of patients. The results of this testing may not be indicative of successful outcomes in later stage trials. We have begun clinical testing of our telomerase inhibitor compound, GRN163L. This is the first clinical trial for this product. We have not commenced clinical testing for any other product candidate.

***Restrictions on the use of human embryonic stem cells, political commentary and the ethical and social implications of research involving human embryonic stem cells could prevent us from developing or gaining acceptance for commercially viable products based upon such stem cells and adversely affect the market price of our common stock.***

Some of our most important programs involve the use of stem cells that are derived from human embryos. The use of human embryonic stem cells gives rise to ethical and social issues regarding the appropriate use of these cells. Our

research related to human embryonic stem cells may become the subject of adverse commentary or publicity, which could significantly harm the market price for our common stock.

Some political and religious groups have voiced opposition to our technology and practices. We use stem cells derived from human embryos that have been created for *in vitro* fertilization procedures but are no longer desired or suitable for that use and are donated with appropriate informed consent for research use. Many research institutions, including some of our scientific collaborators, have adopted policies regarding the ethical use of human embryonic tissue. These policies may have the effect of limiting the scope of research conducted using human embryonic stem cells, thereby impairing our ability to conduct research in this field.



In addition, the United States government and its agencies have until recently refused to fund research which involves the use of human embryonic tissue. President Bush announced on August 9, 2001 that he would permit federal funding of research on human embryonic stem cells using the limited number of embryonic stem cell lines that had already been created, but relatively few federal grants have been made so far. The President's Council on Bioethics will monitor stem cell research, and the guidelines and regulations it recommends may include restrictions on the scope of research using human embryonic or fetal tissue. Certain states are considering, or have in place, legislation relating to stem cell research, including California whose voters approved Proposition 71 to provide state funds for stem cell research in November 2004. It is not yet clear what, if any, affect such state actions may have on our ability to commercialize stem cell products. In the United Kingdom and other countries, the use of embryonic or fetal tissue in research (including the derivation of human embryonic stem cells) is regulated by the government, whether or not the research involves government funding.

Government-imposed restrictions with respect to use of embryos or human embryonic stem cells in research and development could have a material adverse effect on us, including:

- harming our ability to establish critical partnerships and collaborations;
- delaying or preventing progress in our research and development; and
- causing a decrease in the price of our stock.

***Impairment of our intellectual property rights may adversely affect the value of our technologies and product candidates and limit our ability to pursue their development.***

Protection of our proprietary technology is critically important to our business. Our success will depend in part on our ability to obtain and enforce our patents and maintain trade secrets, both in the United States and in other countries. In the event that we are unsuccessful in obtaining and enforcing patents, our business would be negatively impacted. Further, our patents may be challenged, invalidated or circumvented, and our patent rights may not provide proprietary protection or competitive advantages to us.

The patent positions of pharmaceutical and biopharmaceutical companies, including ours, are highly uncertain and involve complex legal and technical questions. In particular, legal principles for biotechnology patents in the United States and in other countries are evolving, and the extent to which we will be able to obtain patent coverage to protect our technology, or enforce issued patents, is uncertain.

For example, the European Patent Convention prohibits the granting of European patents for inventions that concern "uses of human embryos for industrial or commercial purposes." The European Patent Office is presently interpreting this prohibition broadly, and is applying it to reject patent claims that pertain to human embryonic stem cells. However, this broad interpretation is being challenged through the European Patent Office appeals system. As a result, we do not yet know whether or to what extent we will be able to obtain European patent protection for our human embryonic stem cell technologies in Europe.

Publication of discoveries in scientific or patent literature tends to lag behind actual discoveries by at least several months and sometimes several years. Therefore, the persons or entities that we or our licensors name as inventors in our patents and patent applications may not have been the first to invent the inventions disclosed in the patent applications or patents, or the first to file patent applications for these inventions. As a result, we may not be able to obtain patents for discoveries that we otherwise would consider patentable and that we consider to be extremely significant to our future success.

Where several parties seek U.S. patent protection for the same technology, the U.S. Patent and Trademark Office (the Patent Office) may declare an interference proceeding in order to ascertain the party to which the patent should be issued. Patent interferences are typically complex, highly contested legal proceedings, subject to appeal. They are usually expensive and prolonged, and can cause significant delay in the issuance of patents. Moreover, parties that receive an adverse decision in an interference can lose important patent rights. Our pending patent applications, or our issued patents, may be drawn into interference proceedings which may delay or prevent the issuance of patents, or result in the loss of issued patent rights. If more groups become engaged in scientific research related to telomerase biology and/or embryonic stem cells, the number of patent filings by such groups and therefore the risk of our patents or applications being drawn into interferences may increase.

The interference process can also be used to challenge a patent that has been issued to another party. For example, in 2004 we were party to two interferences declared by the Patent Office at our request. These interferences involved two of our pending applications relating to nuclear transfer technology and two issued patents, held by the University of Massachusetts (U. Mass) and licensed to Advanced Cell Technology, Inc. (ACT) of Worcester, Massachusetts. We requested these interferences in order to clarify our patent rights to this technology and to facilitate licensing to companies wishing to utilize this technology in animal cloning. The Board of Patent Appeals and Interferences issued final judgments in each of these cases, finding in both instances that all of the claims in the U. Mass patents in question were unpatentable, and upholding the patentability of Geron's pending claims. These judgments were appealed by U. Mass and ACT, but the appeals have now been dismissed as part of a settlement agreement, resulting in invalidation of the U. Mass patents.

Outside of the United States, certain jurisdictions, such as Europe, New Zealand and Australia, permit oppositions to be filed against the granting of patents. Because our intent is to commercialize products internationally, securing both proprietary protection and freedom to operate outside of the United States is important to our business. We are involved in both opposing the grant of patents to others through such opposition proceedings and in defending our patent applications against oppositions filed by others. For example, we are involved in two patent oppositions before the European Patent Office (EPO) with a Danish company, Pharmexa. Pharmexa (which acquired the Norwegian company GemVax in 2005) is developing a cancer vaccine that employs a short telomerase peptide to induce an immune response against telomerase and has announced plans to begin Phase III clinical trials. Pharmexa obtained a European patent with claims to the use of telomerase peptides for the treatment of cancer, and Geron opposed that patent in 2004. In 2005, the Opposition Division (OD) of the EPO revoked the claims originally granted to Pharmexa, but permitted Pharmexa to add new, narrower claims. Pharmexa has appealed that decision to the Technical Board of Appeal (TBA), seeking restoration of the original claims, while Geron has cross-appealed, seeking revocation of all the claims.

In parallel, Pharmexa opposed a European patent held by Geron, the claims of which cover many facets of human telomerase, including the use of telomerase peptides in cancer vaccines. In June 2006, the OD of the EPO revoked three of the granted claims in Geron's patent, specifically the three claims covering telomerase peptide cancer vaccines. We have appealed that decision to the TBA. We are also seeking to obtain patent coverage in Europe for telomerase peptides through a European divisional patent application.

The appeals in each of these European opposition cases will take a minimum of 12 months and most likely considerably longer. Because these oppositions are on-going proceedings, the outcomes cannot be determined at this time. These oppositions reflect the complexity of the patent landscape in which we operate, and illustrate the risks and uncertainties. We are also involved in other patent oppositions in Europe, Australia and New Zealand.

Patent opposition proceedings are not currently available in the U.S. patent system, but legislation is pending to introduce them. However, issued U.S. patents can be reexamined by the Patent Office at the request of a third party. Patents owned or licensed by Geron may therefore be subject to reexamination. As in any legal proceeding, the outcome of patent reexaminations is uncertain, and a decision adverse to our interests could result in the loss of valuable patent rights. In July 2006, requests were filed on behalf of the Foundation for Taxpayer and Consumer Rights for reexamination of three issued U.S. patents owned by the Wisconsin Alumni Research Foundation (WARF) and relating to human embryonic stem cells. These three patents (U.S. Patent Nos. 5,843,780, 6,200,806 and 7,029,913) are licensed to Geron pursuant to a January 2002 license agreement with WARF. The license agreement conveys exclusive rights to Geron under the WARF patents for the development and commercialization of therapeutics based on neural cells, cardiomyocytes and pancreatic islet cells, derived from human embryonic stem cells, as well as nonexclusive rights for other product opportunities. In October 2006, the Patent Office initiated the reexamination proceedings and in March 2007 it issued initial non-final actions rejecting all claims of each of the three patents in reexamination. We are cooperating with WARF in the reexamination proceedings, and expect that WARF will respond to these and any subsequent Patent Office actions and, if necessary, appeal any adverse decision.

Reduction or loss of claim scope in these WARF embryonic stem cell patents would negatively impact Geron's proprietary position in this technology. Because these reexaminations are ongoing, the outcome of these matters cannot be determined at this time.

Successful challenges to our patents through interferences, oppositions or reexamination proceedings could result in a loss of patent rights in the relevant jurisdiction(s). If we are unsuccessful in actions we bring against the patents of other parties, we may be subject to litigation, or otherwise prevented from commercializing potential products in the relevant jurisdiction, or may be required to obtain licenses to those patents or develop or obtain alternative technologies, any of which could harm our business. As more groups become engaged in scientific research and product development in the areas of telomerase biology and/or embryonic stem cells, the risk of our patents being challenged through patent interferences, oppositions, reexaminations or other means will likely increase.

Furthermore, if such challenges to our patent rights are not resolved promptly in our favor, our existing business relationships may be jeopardized and we could be delayed or prevented from entering into new collaborations or from commercializing certain products, which could materially harm our business.

Patent litigation may also be necessary to enforce patents issued or licensed to us or to determine the scope and validity of our proprietary rights or the proprietary rights of others. We may not be successful in any patent litigation. Patent litigation can be extremely expensive and time-consuming, even if the outcome is favorable to us. An adverse outcome in a patent litigation, patent opposition, patent interference, or any other proceeding in a court or patent office could subject our business to significant liabilities to other parties, require disputed rights to be licensed from other parties or require us to cease using the disputed technology, any of which could severely harm our business.

***If we fail to meet our obligations under license agreements, we may lose our rights to key technologies on which our business depends.***

Our business depends on several critical technologies that are based in part on patents licensed from third parties. Those third-party license agreements impose obligations on us, such as payment obligations and obligations to diligently pursue development of commercial products under the licensed patents. If a licensor believes that we have failed to meet our obligations under a license agreement, the licensor could seek to limit or terminate our license rights, which could lead to costly and time-consuming litigation and, potentially, a loss of the licensed rights. During the period of any such litigation our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our license rights were restricted or ultimately lost, our ability to continue our business based on the affected technology platform would be severely adversely affected.

***We may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.***

Our business may bring us into conflict with our licensees, licensors, or others with whom we have contractual or other business relationships, or with our competitors or others whose interests differ from ours. If we are unable to resolve those conflicts on terms that are satisfactory to all parties, we may become involved in litigation brought by or against us. That litigation is likely to be expensive and may require a significant amount of management's time and attention, at the expense of other aspects of our business. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require us to pay damages, enjoin us from certain activities, or otherwise affect our legal or contractual rights, which could have a significant adverse effect on our business.

***We may be subject to infringement claims that are costly to defend, and which may limit our ability to use disputed technologies and prevent us from pursuing research and development or commercialization of potential products.***

Our commercial success depends significantly on our ability to operate without infringing patents and the proprietary rights of others. Our technologies may infringe the patents or proprietary rights of others. In addition, we may become aware of discoveries and technology controlled by third parties that are advantageous to our programs. In the event our technologies infringe the rights of others or we require the use of discoveries and technology controlled by third parties, we may be prevented from pursuing research, development or commercialization of potential products or may be required to obtain licenses to those patents or other proprietary rights or develop or obtain alternative technologies.

We have obtained licenses from several universities and companies for technologies that we anticipate incorporating into our potential products, and we initiate negotiation for licenses to other technologies as the need or opportunity arises. We may not be able to obtain a license to patented technology on commercially favorable terms, or at all. If we do not obtain a necessary license, we may need to redesign our technologies or obtain rights to alternate technologies, the research and adoption of which could cause delays in product development. In cases where we are unable to license necessary technologies, we could be prevented from developing certain potential products. Our failure to obtain alternative technologies or a license to any technology that we may require to research, develop or commercialize our product candidates would significantly and negatively affect our business.

***Much of the information and know-how that is critical to our business is not patentable and we may not be able to prevent others from obtaining this information and establishing competitive enterprises.***

We sometimes rely on trade secrets to protect our proprietary technology, especially in circumstances in which we believe patent protection is not appropriate or available. We attempt to protect our proprietary technology in part by confidentiality agreements with our employees, consultants, collaborators and contractors. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors, any of which would harm our business significantly.

***We depend on our collaborators and joint venture partners to help us develop and test our product candidates, and our ability to develop and commercialize potential products may be impaired or delayed if collaborations are unsuccessful.***

Our strategy for the development, clinical testing and commercialization of our product candidates requires that we enter into collaborations with corporate or joint venture partners, licensors, licensees and others. We are dependent upon the subsequent success of these other parties in performing their respective responsibilities and the continued cooperation of our partners. By way of examples: Merck is principally responsible for developing cancer vaccines targeted to telomerase other than the dendritic cell-based vaccines that we are developing; Cell Genesys is principally responsible for developing oncolytic virus therapeutics utilizing the telomerase promoter; and Roche is responsible for developing cancer diagnostics using our telomerase technology. Our collaborators may not cooperate with us or perform their obligations under our agreements with them. We cannot control the amount and timing of our collaborators' resources that will be devoted to activities related to our collaborative agreements with them. Our collaborators may choose to pursue existing or alternative technologies in preference to those being developed in collaboration with us.

Under agreements with collaborators and joint venture partners, we may rely significantly on these parties to, among other activities:

- conduct research and development activities in conjunction with us;
- design and conduct advanced clinical trials in the event that we reach clinical trials;
  - fund research and development activities with us;
  - manage and license certain patent rights;
- pay us fees upon the achievement of milestones; and
- market with us any commercial products that result from our collaborations or joint ventures.

The development and commercialization of potential products will be delayed if collaborators or joint venture partners fail to conduct these activities in a timely manner or at all. In addition, our collaborators could terminate their agreements with us and we may not receive any development or milestone payments. If we do not achieve milestones set forth in the agreements, or if our collaborators breach or terminate their collaborative agreements with us, our business may be materially harmed.

***Our reliance on the activities of our non-employee consultants, research institutions, and scientific contractors, whose activities are not wholly within our control, may lead to delays in development of our product candidates.***

We rely extensively upon and have relationships with scientific consultants at academic and other institutions, some of whom conduct research at our request, and other consultants with expertise in clinical development strategy or other matters. These consultants are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We have limited control over the activities of these consultants and, except as otherwise required by our collaboration and consulting agreements, can expect only limited amounts of their time to be dedicated to our activities.

We also rely on consultants and advisors who assist us in formulating our research and development and clinical strategy. We face intense competition for qualified individuals from numerous pharmaceutical, biopharmaceutical and biotechnology companies, as well as academic and other research institutions. We may not be able to attract and retain these individuals on acceptable terms. Failure to do so could materially harm our business.



In addition, we have formed research collaborations with many academic and other research institutions throughout the world. These research facilities may have commitments to other commercial and non-commercial entities. We have limited control over the operations of these laboratories and can expect only limited amounts of their time to be dedicated to our research goals.

We also rely on other companies for certain process development, manufacturing or other technical scientific work, especially with respect to our GRN163L, GRNVAC1 and GRNOPC1 programs. We have contracts with these companies that specify the work to be done and results to be achieved, but we do not have direct control over their personnel or operations.

If any of these third parties are unable or refuse to contribute to projects on which we need their help, our ability to generate advances in our technologies and develop or manufacture our product candidates could be significantly harmed.

***The loss of key personnel could slow our ability to conduct research and develop product candidates.***

Our future success depends to a significant extent on the skills, experience and efforts of our executive officers and key members of our scientific staff. Competition for personnel is intense and we may be unable to retain our current personnel or attract or assimilate other highly qualified management and scientific personnel in the future. The loss of any or all of these individuals could harm our business and might significantly delay or prevent the achievement of research, development or business objectives.

***Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.***

Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires that we establish and maintain an adequate internal control structure and procedures for financial reporting and include a report of management on our internal control over financial reporting. Our annual report on Form 10-K must contain an assessment by management of the effectiveness of our internal control over financial reporting and must include disclosure of any material weaknesses in internal control over financial reporting that we have identified. In addition, our independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of our internal control over financial reporting.

We identified a material weakness in our internal control over financial reporting as of December 31, 2006 which pertains to controls relating to the process of accounting for complex non-routine transactions. As of the date of this quarterly report on Form 10-Q, we have implemented a plan to remediate the identified material weakness. The requirements of Section 404 of the Sarbanes-Oxley Act are ongoing and also apply to future years. We expect that our internal control over financial reporting will continue to evolve as our business develops. Although we are committed to continue to improve our internal control processes and we will continue to diligently and vigorously review our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met. Therefore, we cannot be certain that in the future material weaknesses or significant deficiencies will not exist or otherwise be discovered. If material weaknesses or other significant deficiencies occur, these weaknesses or deficiencies could result in misstatements of our results of operations, restatements of our consolidated financial statements, a decline in our stock price, or other material effects on our business, reputation, results of operations, financial condition or liquidity.

***Potential restrictions or a ban on nuclear transfer could prevent us from benefiting financially from our research in this area.***

Our nuclear transfer technology could theoretically be used to produce human embryos for the derivation of embryonic stem cells (sometimes referred to as therapeutic cloning) or cloned humans (sometimes referred to as reproductive cloning). The U.S. Congress has recently considered legislation that would ban human therapeutic cloning as well as reproductive cloning. Such a bill was passed by the House of Representatives, although not by the Senate.

The July 2002 report of the President's Council on Bioethics recommended a four-year moratorium on therapeutic cloning. If human therapeutic cloning is restricted or banned, we will not be able to benefit from the scientific knowledge that would be generated by research in that area. Further, if regulatory bodies were to restrict or ban the sale of food products from cloned animals, our financial participation in the businesses of our nuclear transfer licensees or the value of our ownership in our joint venture, Start Licensing, could be significantly harmed.

***Our products are likely to be expensive to manufacture, and they may not be profitable if we are unable to significantly reduce the costs to manufacture them.***

Our telomerase inhibitor compound, GRN163L, and our hESC-based products are likely to be more expensive to manufacture than most other drugs currently on the market today. Oligonucleotides are relatively large molecules with complex chemistry, and the cost of manufacturing an oligonucleotide like GRN163L is greater than the cost of making most small-molecule drugs. Our present manufacturing processes are conducted at a small scale and are at an early stage of development. We hope to substantially reduce manufacturing costs through process improvements, as well as through scale increases. If we are not able to do so, however, and, depending on the pricing of the potential product, the profit margin on the telomerase inhibitor may be significantly less than that of most drugs on the market today. Similarly, we currently make differentiated cells from hESCs on a laboratory scale, at a high cost per unit measure. The cell-based therapies we are developing based on hESCs will probably require large quantities of cells. We continue to develop processes to scale up production of the cells in a cost-effective way. We may not be able to charge a high enough price for any cell therapy product we develop, even if it is safe and effective, to make a profit. If we are unable to realize significant profits from our potential product candidates, our business would be materially harmed.

***Some of our competitors may develop technologies that are superior to or more cost-effective than ours, which may impact the commercial viability of our technologies and which may significantly damage our ability to sustain operations.***

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in efforts related to the biological mechanisms that are the focus of our programs in oncology and human embryonic stem cell therapies, including the study of telomeres, telomerase, human embryonic stem cells, and nuclear transfer. In addition, other products and therapies that could compete directly with the product candidates that we are seeking to develop and market currently exist or are being developed by pharmaceutical and biopharmaceutical companies and by academic and other research organizations.

Many companies are developing alternative therapies to treat cancer and, in this regard, are competitors of ours. According to public data from the FDA and NIH, there are more than 200 approved anti-cancer products on the market in the United States, and several thousand in clinical development. Many of the pharmaceutical companies developing and marketing these competing products (including GlaxoSmithKline, Bristol-Myers Squibb Company and Novartis AG, among others) have significantly greater financial resources and expertise than we do in:

- research and development;
- manufacturing;
- preclinical and clinical testing;
- obtaining regulatory approvals; and
- marketing and distribution.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

In addition to the above factors, we expect to face competition in the following areas:

- product efficacy and safety;

- the timing and scope of regulatory consents;
  - availability of resources;
  - reimbursement coverage;
  - price; and
- patent position, including potentially dominant patent positions of others.

As a result of the foregoing, our competitors may develop more effective or more affordable products, or achieve earlier patent protection or product commercialization than we do. Most significantly, competitive products may render any product candidates that we develop obsolete, which would negatively impact our business and ability to sustain operations.

***We may not be able to obtain or maintain sufficient insurance on commercially reasonable terms or with adequate coverage against potential liabilities in order to protect ourselves against product liability claims.***

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing and marketing of human therapeutic and diagnostic products. We may become subject to product liability claims if the use of our potential products is alleged to have injured subjects or patients. This risk exists for product candidates tested in human clinical trials as well as potential products that are sold commercially. We currently have limited clinical trial liability insurance and we may not be able to maintain this type of insurance for any of our clinical trials. In addition, product liability insurance is becoming increasingly expensive. As a result, we may not be able to obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities that could have a material adverse effect on our business.

***To be successful, our product candidates must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.***

Our product candidates and those developed by our collaborative or joint venture partners, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The product candidates that we are attempting to develop represent substantial departures from established treatment methods and will compete with a number of conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of our developed potential products will depend on a number of factors, including:

- our establishment and demonstration to the medical community of the clinical efficacy and safety of our product candidates;
  - our ability to create products that are superior to alternatives currently on the market;
- our ability to establish in the medical community the potential advantage of our treatments over alternative treatment methods; and
  - reimbursement policies of government and third-party payors.

If the health care community does not accept our potential products for any of the foregoing reasons, or for any other reason, our business would be materially harmed.

***If we fail to obtain acceptable prices or adequate reimbursement for our product candidates, the use of our potential products could be severely limited.***

Our ability to successfully commercialize our product candidates will depend significantly on our ability to obtain acceptable prices and the availability of reimbursement to the patient from third-party payors. Significant uncertainty exists as to the reimbursement status of newly-approved health care products, including pharmaceuticals. If our potential products are not considered cost-effective or if we fail to generate adequate third-party reimbursement for the users of our potential products and treatments, then we may be unable to maintain price levels sufficient to realize an appropriate return on our investment in product development.

In both U.S. and other markets, sales of our potential products, if any, will depend in part on the availability of reimbursement from third-party payors, examples of which include:

- government health administration authorities;
- private health insurers;
- health maintenance organizations; and
- pharmacy benefit management companies.

Both federal and state governments in the United States and governments in other countries continue to propose and pass legislation designed to contain or reduce the cost of health care. Legislation and regulations affecting the pricing of pharmaceuticals and other medical products may be adopted before any of our potential products are approved for marketing. Cost control initiatives could decrease the price that we receive for any product candidate we may develop in the future. In addition, third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services and any of our potential products may ultimately not be considered cost-effective by these third parties. Any of these initiatives or developments could materially harm our business.

***Our activities involve hazardous materials, and improper handling of these materials by our employees or agents could expose us to significant legal and financial penalties.***

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. As a consequence, we are subject to numerous environmental and safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of biohazardous materials. We may be required to incur significant costs to comply with current or future environmental laws and regulations and may be adversely affected by the cost of compliance with these laws and regulations.

Although we believe that our safety procedures for using, handling, storing and disposing of hazardous materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, state or federal authorities could curtail our use of these materials and we could be liable for any civil damages that result, the cost of which could be substantial. Further, any failure by us to control the use, disposal, removal or storage, or to adequately restrict the discharge, or assist in the cleanup, of hazardous chemicals or hazardous, infectious or toxic substances could subject us to significant liabilities, including joint and several liability under certain statutes. Any such liability could exceed our resources and could have a material adverse effect on our business, financial condition and results of operations. Additionally, an accident could damage our research and manufacturing facilities and operations.

Additional federal, state and local laws and regulations affecting us may be adopted in the future. We may incur substantial costs to comply with these laws and regulations and substantial fines or penalties if we violate any of these laws or regulations.

***Our stock price has historically been very volatile.***

Stock prices and trading volumes for many biopharmaceutical companies fluctuate widely for a number of reasons, including factors which may be unrelated to their businesses or results of operations such as media coverage, legislative and regulatory measures and the activities of various interest groups or organizations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially and adversely affect the market price of our common stock and the return on your investment.

Historically, our stock price has been extremely volatile. Between January 1998 and March 2007, our stock has traded as high as \$75.88 per share and as low as \$1.41 per share. Between January 1, 2003 and March 31, 2007, the price has ranged between a high of \$16.80 per share and a low of \$1.41 per share. The significant market price fluctuations of

our common stock are due to a variety of factors, including:

- the demand in the market for our common stock;
- the experimental nature of our product candidates;
  - fluctuations in our operating results;
- market conditions relating to the biopharmaceutical and pharmaceutical industries;



- announcements of technological innovations, new commercial products, or clinical progress or lack thereof by us, our collaborative partners or our competitors;
- announcements concerning regulatory developments, developments with respect to proprietary rights and our collaborations;
  - comments by securities analysts;
  - general market conditions;
  - political developments related to human embryonic stem cell research;
    - public concern with respect to our product candidates; or
- the issuance of common stock to partners, vendors or to investors to raise additional capital.

In addition, the stock market is subject to other factors outside our control that can cause extreme price and volume fluctuations. Securities class action litigation has often been brought against companies, including many biotechnology companies, which experience volatility in the market price of their securities. Litigation brought against us could result in substantial costs and a diversion of management's attention and resources, which could adversely affect our business.

***The sale of a substantial number of shares may adversely affect the market price for our common stock.***

Sale of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could significantly and negatively affect the market price for our common stock. As of March 31, 2007, we had 200,000,000 shares of common stock authorized for issuance and 72,866,080 shares of common stock outstanding. In addition, as of March 31, 2007, we have reserved for future issuance approximately 27,164,325 shares of common stock for our stock plans, potential milestone payments and outstanding warrants.

In addition, we have issued common stock to certain parties, such as vendors and service providers, as payment for products and services. Under these arrangements, we typically agree to register the shares for resale soon after their issuance. We may continue to pay for certain goods and services in this manner, which would dilute your interest in us. Also, sales of the shares issued in this manner could negatively affect the market price of our stock.

***Our undesignated preferred stock may inhibit potential acquisition bids; this may adversely affect the market price for our common stock and the voting rights of holders of our common stock.***

Our certificate of incorporation provides our Board of Directors with the authority to issue up to 3,000,000 shares of undesignated preferred stock and to determine the rights, preferences, privileges and restrictions of these shares without further vote or action by our stockholders. As of the date of this filing, 50,000 shares of preferred stock have been designated Series A Junior Participating Preferred Stock and the Board of Directors still has authority to designate and issue up to 2,950,000 shares of preferred stock. The issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock may be adversely affected.

In addition, if we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

***Provisions in our share purchase rights plan, charter and bylaws, and provisions of Delaware law, may inhibit potential acquisition bids for us, which may prevent holders of our common stock from benefiting from what they believe may be the positive aspects of acquisitions and takeovers.***

Our Board of Directors has adopted a share purchase rights plan, commonly referred to as a “poison pill.” This plan entitles existing stockholders to rights, including the right to purchase shares of common stock, in the event of an acquisition of 15% or more of our outstanding common stock.

Our share purchase rights plan could prevent stockholders from profiting from an increase in the market value of their shares as a result of a change of control of us by delaying or preventing a change of control. In addition, our Board of Directors has the authority, without further action by our stockholders, to issue additional shares of common stock, and to fix the rights and preferences of one or more series of preferred stock.

In addition to our share purchase rights plan and the undesignated preferred stock, provisions of our charter documents and bylaws may make it substantially more difficult for a third party to acquire control of us and may prevent changes in our management, including provisions that:

- prevent stockholders from taking actions by written consent;
- divide the Board of Directors into separate classes with terms of office that are structured to prevent all of the directors from being elected in any one year; and
- set forth procedures for nominating directors and submitting proposals for consideration at stockholders' meetings.

Provisions of Delaware law may also inhibit potential acquisition bids for us or prevent us from engaging in business combinations. In addition, we have severance agreements with several employees and a change of control severance plan which could require an acquiror to pay a higher price. Either collectively or individually, these provisions may prevent holders of our common stock from benefiting from what they may believe are the positive aspects of acquisitions and takeovers, including the potential realization of a higher rate of return on their investment from these types of transactions.

*We do not intend to pay cash dividends on our common stock in the foreseeable future.*

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, results of operations, capital requirements and other factors and will be at the discretion of the Board of Directors. Furthermore, we may incur additional indebtedness that may severely restrict or prohibit the payment of dividends.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### *Recent Sale of Unregistered Securities*

In January 2007, we issued 111,857 shares of Geron common stock to MPI Research, Inc. (MPI) in a private placement as advance consideration related to a services agreement pursuant to which MPI provides certain preclinical services in support of our programs. The total fair value of the common stock was \$1,000,000 which has been recorded as a prepaid asset and is being amortized to research and development expense on a pro-rata basis as services are performed. As of March 31, 2007, \$191,000 remained as a prepaid asset.

We issued the above-described shares of common stock in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. MPI represented to us that they are accredited investors as defined in Rule 501(a) of the Securities Act of 1933, as amended, and that the securities issued pursuant thereto were being acquired for investment purposes.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

## **ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

**Exhibit  
Number**

**Description**

- |      |  |
|------|--|
| 4.1  | Form of A Warrant, Amended and Restated, dated March 13, 2007, issued by the Registrant to certain Purchasers  |
| 4.2  | Form of A Warrant, Amended and Restated, dated March 13, 2007, issued by the Registrant to certain Purchasers  |
| 4.3  | Form of C Warrant, Amended and Restated, dated March 13, 2007, issued by the Registrant to certain Purchasers  |
| 4.4  | Form of D Warrant, dated March 1, 2007, issued by the Registrant to certain Purchasers   |
| 10.1 | Amended and Restated 2002 Equity Incentive Plan  |
| 10.2 | Amended and Restated 2006 Directors' Stock Option Plan   |
| 31.1 | Certification of Chief Executive Officer pursuant to Form of Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 30, 2007. |
| 31.2 | Certification of Chief Financial Officer pursuant to Form of Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 30, 2007. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 30, 2007. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 30, 2007. |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GERON CORPORATION

By: /s/ DAVID L. GREENWOOD

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David L. Greenwood  
Executive Vice President and Chief  
Financial Officer (Duly Authorized  
Signatory)

Date: April 30, 2007

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