GERON CORP
Form 10-Q
October 31, 2008

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 193**

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 INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

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. Yes x No o

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

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

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

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

Class:	Outstanding at October 27, 2008:
Common Stock, $0.001 par value	79,168,115 shares

GERON CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GERON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	SEPTEMBER 30, 2008	DECEMBER 31, 2007

	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,807	$ 146,025
Restricted cash	832	2,440
Marketable securities	52,537	59,979
Interest and other receivables	186	788
Current portion of prepaid assets	3,718	4,140
Total current assets	179,080	213,372
Noncurrent portion of prepaid assets	2,567	699
Property and equipment, net	4,240	4,075
Deposits and other assets	1,969	750
	$ 187,856	$ 218,896
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 2,108	$ 2,857
Accrued compensation	2,399	2,203
Accrued liabilities (including amounts for related parties: 2008-$267, 2007-$1,029)	2,360	4,514
Current portion of deferred revenue	80	241
Fair value of derivatives	863	1,602
Current portion of advance payment from related party for research and development, net	738	1,300
Total current liabilities	8,548	12,717
Noncurrent portion of deferred revenue	58	78
Noncurrent portion of advance payment from related party for research and development, net	—	427
Commitments and contingencies		
Stockholders’ equity:		
Common stock	79	76
Additional paid-in capital	668,500	650,437
Accumulated deficit	(489,261)	(444,872)
Accumulated other comprehensive (loss) income	(68)	33
Total stockholders’ equity	179,250	205,674
	$ 187,856	$ 218,896

See accompanying notes.

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GERON CORPORATION

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2008	2007	2008
Revenues from collaborative agreements (including			

amounts from related parties: three months - 2008-$20; 2007-none; nine months - 2008-$79; 2007-$448)	$ 74	$ —	$ 240	$
License fees and royalties (including amounts from related parties: three months - 2008-none; 2007-none; nine months - 2008-$1,500; 2007-none)	293	1,130	2,019	
Total revenues	367	1,130	2,259	
Operating expenses:				
Research and development (including amounts for related parties: three months - 2008-$184; 2007-$70; nine months - 2008-$502; 2007-$569)	14,208	12,326	39,435	
General and administrative	4,093	4,139	12,165	
Total operating expenses	18,301	16,465	51,600	
Loss from operations	(17,934)	(15,335)	(49,341)	
Unrealized (loss) gain on derivatives	(162)	(247)	739	
Interest and other income	1,197	2,772	4,513	
Loss recognized under equity method investment	(229)	—	(229)	
Interest and other expense	(23)	(24)	(71)	
Net loss	(17,151)	(12,834)	(44,389)	
Deemed dividend on derivatives	—	—	—	
Net loss applicable to common stockholders	$ (17,151)	$ (12,834)	$ (44,389)	$
Basic and diluted net loss per share applicable to common stockholders	$ (0.22)	$ (0.17)	$ (0.57)	$
Shares used in computing basic and diluted net loss per share applicable to common stockholders	78,752,645	75,324,687	77,841,505	

See accompanying notes.

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GERON CORPORATION

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2008	**2007**
Cash flows from operating activities		
Net loss	$ (44,389)	$ (25,652)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,609	1,141
Accretion and amortization on investments, net	(1,065)	(2,628)
Gain on sale of fixed assets	(9)	—
Stock-based compensation in exchange for services by non-employees	1,166	4,833
Stock-based compensation for awards to employees and directors	8,701	8,425
Amortization related to 401(k) contributions	347	174
Loss recognized under equity method investments	273	63

Unrealized gain on derivatives	(739)	(14,522)
Changes in assets and liabilities:		
Other current and noncurrent assets	6,358	1,555
Other current and noncurrent liabilities	(1,894)	1,261
Advance payment from related party for research and development	(989)	2,136
Translation adjustment	(5)	10
Net cash used in operating activities	(30,636)	(23,204)
Cash flows from investing activities		
Restricted cash transfer	1,608	
Loan to related party	(1,500)	
Proceeds from sale of fixed assets	15	
Capital expenditures	(1,780)	(2,099)
Purchases of marketable securities	(57,833)	(115,162)
Proceeds from maturities of marketable securities	66,250	140,537
Net cash provided by investing activities	6,760	23,276
Cash flows from financing activities		
Repurchase of common stock	(455)	
Proceeds from issuances of common stock, net of issuance costs	113	1,650
Proceeds from exercise of warrants		15,163
Net cash (used in) provided by financing activities	(342)	16,813
Net (decrease) increase in cash and cash equivalents	(24,218)	16,885
Cash and cash equivalents at the beginning of the period	146,025	135,882
Cash and cash equivalents at the end of the period	$ 121,807	$ 152,767

See accompanying notes.

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Geron Corporation
Notes to Condensed Consolidated Financial Statements
September 30, 2008
(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 September 30, 2008 and condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007 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 and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 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, 2007, included in the Company s Annual Report on Form 10-K. The accompanying condensed consolidated balance sheet as of December 31, 2007 has been derived from audited financial statements at that date.

Principles of Consolidation

The consolidated financial statements include the accounts of Geron, our wholly-owned subsidiary, Geron Bio-Med Ltd. (Geron Bio-Med), a United Kingdom company, and our majority-owned subsidiary, TA Therapeutics, Ltd. (TAT), a Hong Kong 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 Geron Bio-Med at rates of exchange at the balance sheet date and 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. The functional currency for TAT is U.S. dollars.

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 condensed 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 outstanding during the period. Potential dilutive securities primarily consist of outstanding employee stock options, restricted stock and warrants to purchase common stock and have been determined using the treasury stock method at an average market price during the period.

Because we were in a net loss position, diluted earnings per share excludes the effects of potential dilutive securities, 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 additional shares of 311,707 and 2,098,888 for 2008 and 2007, respectively, related to outstanding options, restricted stock and warrants (as determined using the treasury stock method at an average market price during the period).

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.

Revenue Recognition

We recognize revenue related to license and research agreements with collaborators, royalties, and milestone payments. 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, under Staff Accounting Bulletin No. 104, Revenue Recognition, (SAB 104) separately for each of the separate units. 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. Upfront nonrefundable signing or license fees that are not dependent on future performance under these agreements or where the intellectual property related to the license has been delivered are recognized as revenue when earned or over the estimated period of the continuing performance obligations. Option payments are generally recognized as revenue over the option period. Milestone payments, earned based on substantive contingencies, 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. Deferred revenue represents the portion of research and license payments received which has not been earned.

We recognize revenue under collaborative agreements as the related research and development costs for services are rendered. We recognize related party revenue under collaborative agreements as the related research and development costs for services are rendered and when the source of funds have not been derived from our contributions to the related party.

Restricted Cash

The components of restricted cash are as follows:

	September 30, 2008	December 31, 2007
	(In thousands)	
Certificate of deposit for unused equipment line of credit	$ 530	$ 530
Certificate of deposit for credit card purchases	256	250
Funds held in trust for creditors of TA Therapeutics, Ltd.	46	1,660
	$ 832	$ 2,440

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB FSP 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. See Note 2 for information and related disclosures regarding our fair value measurements.

Cash Equivalents and Marketable Debt Securities

We consider all highly liquid investments with a maturity of three months or less on the date of purchase 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. Our investments include U.S. government agency notes, corporate notes and commercial paper with original maturities ranging from six to nine 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. 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. Realized gains and losses have been insignificant to date. Dividend and interest income are recognized when earned and included in interest and other income on our condensed consolidated statements of operations. We recognize a 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 other-than-temporary charge, including the length of time and extent to which the fair value has been less than our amortized 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.

Marketable and Non-Marketable Equity Investments in Licensees

Investments in non-marketable nonpublic companies, in which we own less than 20% of the outstanding voting stock and do not otherwise have the ability to exert significant influence over the investees, are carried at cost, as adjusted for other-than-temporary impairments. Investments in marketable equity securities are carried at fair 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 apply the equity method of accounting for equity investments in licensees in which we own more than 20% of the outstanding voting stock or otherwise have the ability to exert significant influence over the investees. Under this method, we increase (decrease) the carrying value of our equity investment by a proportionate share of the investees earnings (losses). If losses exceed the carrying value of the investment, losses are then applied against any advances to the investee, including any commitment to provide financial support, until those amounts are reduced to zero. The equity method is then suspended until the investee has earnings. Any proportionate share of investee earnings is first applied to the share of accumulated losses not recognized during the period the equity method was suspended.

We monitor our equity investments in licensees for impairment on a quarterly basis and make appropriate reductions in carrying values when such reductions are determined to be other-than-temporary. Other-than-temporary charges are included in interest and other income. Factors used in determining whether an other-than-temporary charge should be recognized 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 companys ability to obtain additional private financing to fulfill its stated business plan; the need for changes to the investee companys 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.

Geron Corporation
Notes to Condensed Consolidated Financial Statements
September 30, 2008
(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 Companys 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 condensed consolidated balance sheet at inception of such classification and adjusted to fair value at each financial reporting date. The change in fair value of the warrants and non-employee options is recorded in the condensed consolidated statements of operations as 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 these instruments are marked to fair value and 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.

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, costs to maintain technology licenses and research-related overhead. Accrued liabilities for raw materials to manufacture clinical trial drugs, manufacturing costs, clinical trial expense, costs to maintain technology licenses 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.

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 and nine months ended September 30, 2008 and 2007 which was allocated as follows:

	Three Months Ended		Nine Months Ended
	September 30,		September 30,
	2008	2007	2008