GERON CORP
Form 10-Q
August 11, 2014
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON D.C. 20549**

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# FORM 10-Q

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**(Mark One)**

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period from to .**

**Commission File Number: 0-20859**

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# GERON CORPORATION

(Exact name of registrant as specified in its charter)

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

**(650) 473-7700**

(Registrant s telephone number, including area code)

**N/A**

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

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

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

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

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

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

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

| **Class:** | **Outstanding at August 4, 2014:** |
|---|---|
| Common Stock, $0.001 par value | 156,883,508 shares |

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**GERON CORPORATION**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2014**

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## PART I. FINANCIAL INFORMATION

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

### GERON CORPORATION

### CONDENSED BALANCE SHEETS

### (IN THOUSANDS)

| | JUNE 30, 2014 (UNAUDITED) | DECEMBER 31, 2013 (NOTE 1) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,520 | $ 12,990 |
| Restricted cash | 795 | 795 |
| Current portion of marketable securities | 130,816 | 52,234 |
| Interest and other receivables | 1,256 | 564 |
| Prepaid assets | 205 | 474 |
| Total current assets | 142,592 | 67,057 |
| Noncurrent portion of marketable securities | 6,496 | |
| Property and equipment, net | 60 | 92 |
| Deposits and other assets | 191 | 195 |
| | $ 149,339 | $ 67,344 |
| | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,223 | $ 1,397 |
| Accrued compensation and benefits | 2,186 | 3,946 |
| Accrued restructuring charges | | 94 |
| Accrued liabilities | 1,057 | 1,783 |
| Fair value of derivatives | 290 | 367 |
| Total current liabilities | 4,756 | 7,587 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Common stock | 157 | 131 |
| Additional paid-in capital | 1,054,383 | 952,403 |
| Accumulated deficit | (909,937) | (892,763) |
| Accumulated other comprehensive loss | (20) | (14) |
| Total stockholders equity | 144,583 | 59,757 |
| | $ 149,339 | $ 67,344 |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF OPERATIONS**

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

**(UNAUDITED)**

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| License fees and royalties | $ 341 | $ 112 | $ 815 | $ 877 |
| | | | | |
| Operating expenses: | | | | |
| Research and development | 5,151 | 4,807 | 10,362 | 12,728 |
| Restructuring charges | | 838 | | 916 |
| General and administrative | 3,853 | 3,432 | 7,847 | 8,183 |
| Total operating expenses | 9,004 | 9,077 | 18,209 | 21,827 |
| Loss from operations | (8,663) | (8,965) | (17,394) | (20,950) |
| Unrealized (loss) gain on derivatives | (147) | (24) | 77 | 1 |
| Interest and other income | 99 | 56 | 182 | 137 |
| Interest and other expense | (23) | (14) | (39) | (32) |
| Net loss | $ (8,734) | $ (8,947) | $ (17,174) | $ (20,844) |
| | | | | |
| Basic and diluted net loss per share | $ (0.06) | $ (0.07) | $ (0.11) | $ (0.16) |
| | | | | |
| Shares used in computing basic and diluted net loss per share | 156,706,196 | 128,162,993 | 150,086,007 | 128,072,962 |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF COMPREHENSIVE LOSS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $ (8,734) | $ (8,947) | $ (17,174) | $ (20,844) |
| Net unrealized gain (loss) on marketable securities | 70 | (31) | (6) | (53) |
| Comprehensive loss | $ (8,664) | $ (8,978) | $ (17,180) | $ (20,897) |

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED STATEMENTS OF CASH FLOWS**

**CHANGE IN CASH AND CASH EQUIVALENTS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | **2014** | **2013** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (17,174) | $ (20,844) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 29 | 264 |
| Accretion and amortization on investments, net | 1,456 | 647 |
| Loss (gain) on retirement/sales of property and equipment, net | 3 | (116) |
| Loss on write-downs of property and equipment | | 200 |
| Stock-based compensation for services by non-employees | 149 | 53 |
| Stock-based compensation for employees and directors | 3,743 | 2,234 |
| Amortization related to 401(k) contributions | 76 | 465 |
| Unrealized gain on derivatives | (77) | (1) |
| Changes in assets and liabilities: | | |
| Other current and noncurrent assets | (419) | 1,248 |
| Other current liabilities | (2,441) | (8,304) |
| Net cash used in operating activities | (14,655) | (24,154) |
| | | |
| **Cash flows from investing activities:** | | |
| Restricted cash transfer | | (1) |
| Purchases of property and equipment | | (56) |
| Proceeds from sales of property and equipment | | 116 |
| Purchases of marketable securities | (128,203) | (40,110) |
| Proceeds from maturities of marketable securities | 41,663 | 50,916 |
| Net cash (used in) provided by investing activities | (86,540) | 10,865 |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock, net of issuance costs | 97,725 | 60 |
| Net cash provided by financing activities | 97,725 | 60 |
| Net decrease in cash and cash equivalents | (3,470) | (13,229) |
| Cash and cash equivalents at the beginning of the period | 12,990 | 22,063 |
| Cash and cash equivalents at the end of the period | $ 9,520 | $ 8,834 |

See accompanying notes.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The terms Geron , the Company , we and us as used in this report refer to Geron Corporation. The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management of Geron, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ending June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other period. These financial statements and notes should be read in conjunction with the financial statements for each of the three years ended December 31, 2013, included in the Company s Annual Report on Form 10-K. The accompanying condensed balance sheet as of December 31, 2013 has been derived from audited financial statements at that date.

### Net Loss Per Share

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

Because we are in a net loss position, diluted loss per share excludes the effects of potential dilutive securities. Had we been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 786,999 and 8,310 shares for the three months ended June 30, 2014 and 2013, respectively, and 3,723,521 and 6,533 shares for the six months ended June 30, 2014 and 2013, respectively, related to outstanding stock options, restricted stock awards and warrants (as determined using the treasury stock method at the estimated average market value).

### Use of Estimates

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

**Fair Value of Financial Instruments**

***Cash Equivalents and Marketable Securities***

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. We are subject to credit risk related to our cash equivalents and marketable securities. We place our cash and cash equivalents in money market funds, commercial paper and cash operating accounts. Our marketable securities include U.S. government-sponsored enterprise securities, commercial paper and corporate notes with original maturities ranging from six to 17 months.

We classify our marketable securities as available-for-sale. We record available-for-sale securities at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders equity. Realized gains and losses are included in interest and other income and are derived using the specific identification method for determining the cost of securities sold and have been insignificant to date. Dividend and interest income are recognized when earned and included in interest and other income in our condensed statements of operations. We recognize a charge when the declines in the fair values below the amortized cost basis of our available-for-sale

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

securities are judged to be other-than-temporary. We consider various factors in determining whether to recognize an other-than-temporary charge, including whether we intend to sell the security or whether it is more likely than not that we would be required to sell the security before recovery of the amortized cost basis. Declines in market value associated with credit losses judged as other-than-temporary result in a charge to interest and other income. Other-than-temporary charges not related to credit losses are included in accumulated other comprehensive income (loss) in stockholders equity. We have not recorded any other-than-temporary impairment charges on our available-for-sale securities for the three and six months ended June 30, 2014 and 2013. See Note 2 on Fair Value Measurements.

***Non-Marketable Equity Investments***

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

***Fair Value of Derivatives***

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

**Nonmonetary Transactions**

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

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

**Revenue Recognition**

We have entered into several license agreements with various oncology, diagnostics, research tools and biologics production companies. With certain of these agreements, we receive non-refundable license payments in cash or equity securities, option payments in cash or equity securities, cost reimbursements, milestone payments, royalties on future sales of products, or any combination of these items. Upfront non-refundable signing, license or non-exclusive option fees are recognized as revenue when rights to use the intellectual property related to the license have been delivered and over the term of the agreement if we have continuing performance obligations. We recognize revenue under collaborative agreements as the related research and development costs for services are rendered. Milestone payments, which are subject to substantive contingencies, are recognized as revenue upon completion of specified milestones, representing the culmination of the earnings process, according to contract terms. Royalties are generally recognized upon receipt of the related royalty payment. Deferred revenue represents the unearned portion of research and license payments received. When payments are received in equity securities, we do not recognize any revenue unless such securities are determined to be realizable in cash.

**Restricted Cash**

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

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Certificate of deposit for unused equipment line of credit | $ 530 | $ 530 |
| Certificate of deposit for credit card purchases | 265 | 265 |
| | $ 795 | $ 795 |

**Research and Development Expenses**

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

***Clinical Trial Costs***

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

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

**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**

We recognize stock-based compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period. The following table summarizes the stock-based compensation expense included in operating expenses on our condensed statements of operations related to stock options, restricted stock awards and employee stock purchases for the three and six months ended June 30, 2014 and 2013 which was allocated as follows:

| (In thousands) | Three Months Ended June 30, 2014 | 2013 | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|---|---|
| Research and development | $ 690 | $ 231 | $ 1,279 | $ 911 |
| Restructuring charges | | 28 | | 28 |
| General and administrative | 1,412 | 627 | 2,464 | 1,295 |
| Stock-based compensation expense included in operating expenses | $ 2,102 | $ 886 | $ 3,743 | $ 2,234 |

As stock-based compensation expense recognized in the condensed statements of operations for the three and six months ended June 30, 2014 and 2013 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures, but at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. Forfeitures have been estimated at the time of grant based on historical data and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In connection with the April 2013 restructuring, the post-termination exercise period for certain stock options previously granted to terminated employees was extended through the end of December 2013 resulting in the recognition of $28,000 of non-cash stock-based compensation expense for each of the three and six months ended June 30, 2013 for the stock option modification. See Note 4 on Restructuring for a further discussion of the April 2013 restructuring.

***Stock Options***

We grant options with service-based vesting under our equity plans to employees, non-employee directors and consultants. The vesting period for employee options is generally four years. The fair value of options granted during the six months ended June 30, 2014 and 2013 has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

| | Six Months Ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Dividend yield | 0% | 0% |
| Expected volatility range | 0.898 to 0.922 | 0.742 to 0.745 |
| Risk-free interest rate range | 1.64% to 1.92% | 0.80% to 1.26% |
| Expected term | 5.5 yrs | 6 yrs |

***Employee Stock Purchase Plan***

The fair value of employees purchase rights during the six months ended June 30, 2014 and 2013 has been estimated using the Black Scholes option-pricing model with the following assumptions:

| | Six Months Ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Dividend yield | 0% | 0% |
| Expected volatility range | 0.835 to 1.062 | 0.674 to 1.391 |
| Risk-free interest rate range | 0.09% to 0.15% | 0.12% to 0.21% |
| Expected term range | 6 12 mos | 6 12 mos |

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

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

***Restricted Stock Awards***

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

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

The fair value for performance-based restricted stock awards is determined using the fair value of our common stock on the date of grant. Stock-based compensation expense for awards with vesting based on performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the date the applicable condition is expected to be met and is reduced for estimated forfeitures, as applicable. If the performance condition is not considered probable of being achieved, no stock-based compensation expense is recognized until such time as the performance condition is considered probable of being met, if at all. If that assessment of the probability of the performance condition being met changes, the impact of the change in estimate would be recognized in the period of the change. If the requisite service period has been met prior to the change in estimate, the effect of the change in estimate would be immediately recognized. We have not recognized any stock-based compensation expense for performance-based restricted stock awards in our condensed statements of operations for the three and six months ended June 30, 2014 and 2013 since the achievement of the specified performance criteria was not considered probable and did not occur during these periods. We have no performance-based restricted stock awards outstanding as of June 30, 2014. All of these awards were cancelled unvested as the performance conditions were not achieved within the respective performance periods.

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

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

**Recent Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, or ASU 2014-08. ASU 2014-08 raised the threshold for a disposal of assets to qualify as a discontinued operation and requires new disclosures for both discontinued operations and disposals of individually significant components of a business that do not qualify as discontinued operations. Under the new guidance, only disposals of assets representing a strategic shift in operations that has a major effect on the entity s operations and financial results should be presented as discontinued operations. If the disposal does qualify as a discontinued operation, the entity will be required to provide expanded disclosures, as well as disclosure of the pretax income attributable to the disposal of a significant part of an entity that does not qualify as a discontinued operation. ASU 2014-08 will be effective for us beginning January 1, 2015 and subsequent interim periods. We do not expect the adoption of ASU 2014-08 to have a material effect on our financial statements.

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers, or ASU 2014-09. ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s). The five-step model includes (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 will be effective for us beginning January 1, 2018 and subsequent interim periods. We have the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this accounting standard recognized at the date of initial application. Early adoption is not permitted. We are currently evaluating the transition method and the impact that the adoption of ASU 2014-09 will have on our financial statements.

**2. FAIR VALUE MEASUREMENTS**

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

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

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

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**GERON CORPORATION**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**(UNAUDITED)**

**Cash Equivalents and Marketable Securities**

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

Cash equivalents, restricted cash and marketable securities by security type at June 30, 2014 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| Included in cash and cash equivalents: | | | | |
| Money market funds | $ 5,807 | $ | $ | $ 5,807 |
| Commercial paper | 1,500 | | | 1,500 |
| | $ 7,307 | $ | $ | $ 7,307 |
| Restricted cash: | | | | |
| Certificates of deposit | $ 795 | $ | $ | $ 795 |
| Marketable securities: | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ 4,192 | $ | $ | $ 4,192 |
| Government-sponsored enterprise securities (due in 1 to 2 years) | 401 | | | 401 |
| Commercial paper (due in less than 1 year) | 12,486 | 12 | | 12,498 |
| Corporate notes (due in less than 1 year) | 114,157 | 5 | (36) | 114,126 |
| Corporate notes (due in 1 to 2 years) | 6,096 | | (1) | 6,095 |
| | $ 137,332 | $ 17 | $ (37) | $ 137,312 |

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Included in cash and cash equivalents: | | | | | | | | |
| Money market funds | $ | 8,079 | $ | | $ | | $ | 8,079 |
| Corporate notes | | 2,206 | | | | | | 2,206 |
| | $ | 10,285 | $ | | $ | | $ | 10,285 |
| Restricted cash: | | | | | | | | |
| Certificates of deposit | $ | 795 | $ | | $ | | $ | 795 |
| Marketable securities: | | | | | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ | 7,369 | $ | 1 | $ | (1) | $ | 7,369 |
| Commercial paper (due in less than 1 year) | | 5,496 | | 3 | | | | 5,499 |
| Corporate notes (due in less than 1 year) | | 39,383 | | 1 | | (18) | | 39,366 |
| | $ | 52,248 | $ | 5 | $ | (19) | $ | 52,234 |

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**(UNAUDITED)**

Marketable securities with unrealized losses at June 30, 2014 and December 31, 2013 were as follows:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | | | |
| **As of June 30, 2014:** | | | | | | |
| Corporate notes (due in less than 1 year) | $ 86,550 | $ (36) | $ | $ | $ 86,550 | $ (36) |
| Corporate notes (due in 1 to 2 years) | 6,095 | (1) | | | 6,095 | (1) |
| | $ 92,645 | $ (37) | $ | $ | $ 92,645 | $ (37) |
| | | | | | | |
| **As of December 31, 2013:** | | | | | | |
| Government-sponsored enterprise securities (due in less than 1 year) | $ 3,947 | $ (1) | $ | $ | $ 3,947 | $ (1) |
| Corporate notes (due in less than 1 year) | 37,060 | (18) | | | 37,060 | (18) |
| | $ 41,007 | $ (19) | $ | $ | $ 41,007 | $ (19) |

The gross unrealized losses related to corporate notes and government-sponsored enterprise securities as of June 30, 2014 and December 31, 2013 were due to changes in interest rates. We determined that the gross unrealized losses on our marketable securities as of June 30, 2014 and December 31, 2013 were temporary in nature. We review our investments quarterly to identify and evaluate whether any investments have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which the fair value has been less than the amortized cost basis and whether we intend to sell the security or whether it is more likely than not that we would be required to sell the security before recovery of the amortized cost basis. We currently do not intend to sell these securities before recovery of their amortized cost basis.

**Derivatives**

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

Options held by non-employees whose performance obligations are complete are classified as derivative liabilities on our condensed balance sheets. Upon the exercise of these options, the instruments are marked to fair value and reclassified from derivative liabilities to stockholders equity. We have not reclassified any derivative liabilities to stockholders equity for any non-employee option exercises during the six months ended June 30, 2014.

As of June 30, 2014 and December 31, 2013, the following non-employee options to purchase common stock were considered derivatives and classified as current liabilities:

| | | | | At June 30, 2014 | | At December 31, 2013 | |
|---|---|---|---|---|---|---|---|
| **Issuance Date** | **Exercise Price** | **Exercisable Date** | **Expiration Date** | **Number of Shares** | **Fair Value (In thousands)** | **Number of Shares** | **Fair Value (In thousands)** |
| March 2005 | $ 6.39 | January 2007 | March 2015 | 284,600 | $ 290 | 284,600 | $ 367 |

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 1.520 | 0.844 |
| Risk-free interest rate | 0.11% | 0.13% |
| Expected term | 0.75 yr | 1 yr |

Dividend yield is based on historical cash dividend payments. The expected volatility is based on historical volatilities of our stock since trading volume of Geron options is limited. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term of the derivatives in effect on the reporting date. The expected term of derivatives is equal to the remaining contractual term of the instruments.

**Fair Value on a Recurring Basis**

The following table presents information about our financial instruments that are measured at fair value on a recurring basis as of June 30, 2014 and indicates the fair value category assigned.

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Assets / Liabilities Level 1** | **Significant Other Observable Inputs Level 2** | **Significant Unobservable Inputs Level 3** | **Total** |
| **Assets** | | | | |
| Money market funds (1) | $ 5,807 | $ | $ | $ 5,807 |
| Government-sponsored enterprise securities (2)(3) | | 4,593 | | 4,593 |
| Commercial paper (1)(2) | | 13,998 | | 13,998 |
| Corporate notes (2)(3) | | 120,221 | | 120,221 |
| Total | $ 5,807 | $ 138,812 | $ | $ 144,619 |
| | | | | |
| **Liabilities** | | | | |
| Derivatives (4) | $ | $ | $ 290 | $ 290 |

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

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| (In thousands) | Quoted Prices in Active Markets for Identical Assets / Liabilities Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
| **Assets** | | | | |
| Money market funds (1) | $ 8,079 | $ | $ | $ 8,079 |
| Government-sponsored enterprise securities (2) | | 7,369 | | 7,369 |
| Commercial paper (2) | | 5,499 | | 5,499 |
| Corporate notes (1)(2) | | 41,572 | | 41,572 |
| Total | $ 8,079 | $ 54,440 | $ | $ 62,519 |
| | | | | |
| **Liabilities** | | | | |
| Derivatives (4) | $ | $ | $ 367 | $ 367 |

(1) Included in cash and cash equivalents on our condensed balance sheets.

(2) Included in current portion of marketable securities on our condensed balance sheets.

(3) Included in noncurrent portion of marketable securities on our condensed balance sheets.

(4) Included in fair value of derivatives on our condensed balance sheets.

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**Changes in Level 3 Recurring Fair Value Measurements**

The table below includes a rollforward of the balance sheet amounts for the three and six months ended June 30, 2014, including the change in fair value, for financial instruments in the Level 3 category. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable components, observable components (that is, components that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the methodology.

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | Fair Value at March 31, 2014 | Total Unrealized Loss Included in Earnings (1) | Purchases and Issuances | Sales and Settlements | Transfers In and/or Out of Level 3 | Fair Value at June 30, 2014 | Change in Unrealized Loss Related to Financial Instruments Held at June 30, 2014 (1) |
| Derivative liabilities | $ 143 | $ 147 | $ | $ | $ | $ 290 | $ 147 |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Six Months Ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | Fair Value at December 31, 2013 | Total Unrealized Gain Included in Earnings (1) | Purchases and Issuances | Sales and Settlements | Transfers In and/or Out of Level 3 | Fair Value at June 30, 2014 | Change in Unrealized Gain Related to Financial Instruments Held at June 30, 2014 (1) |
| Derivative liabilities | $ 367 | $ (77) | $ | $ | $ | $ 290 | $ (77) |

(1) Reported as unrealized (loss) gain on derivatives on our condensed statements of operations.

**3. DIVESTITURE OF STEM CELL ASSETS**

On October 1, 2013, we closed the transaction to divest our human embryonic stem cell assets and our autologous cellular immunotherapy program pursuant to the terms of the previously disclosed asset contribution agreement, or the Contribution Agreement, that we entered into in January 2013 with BioTime, Inc., or BioTime, and BioTime s wholly owned subsidiary, Asterias Biotherapeutics, Inc., or Asterias (formerly known as BioTime Acquisition Corporation).

In accordance with the terms of the Contribution Agreement, on October 1, 2013 we received 6,537,779 shares of Asterias Series A common stock representing 21.4% of Asterias outstanding common stock as a class as of that date. Under the terms of the Contribution Agreement and subject to applicable law, we are contractually obligated to distribute all of the shares of Asterias Series A common stock to our stockholders on a pro rata basis, other than with respect to fractional shares and shares that would otherwise be distributed to Geron stockholders residing in certain excluded jurisdictions, which shares, as required by the Contribution Agreement, will be sold with the net cash proceeds therefrom distributed ratably to the stockholders who would otherwise be entitled to receive such shares. We refer to the distribution by us of the Asterias Series A common stock, or cash in lieu thereof, as the Series A Distribution.

On May 9, 2014, our board of directors fixed the close of business of May 28, 2014 as the record date for the determination of stockholders entitled to receive shares of Asterias Series A common stock, or cash in lieu thereof, in the Series A Distribution. Based on the number of shares of our common stock outstanding as of the May 28, 2014 record date, or 156,924,100 shares, eligible stockholders will receive approximately 0.0417 of a share of Asterias Series A common stock for each share of our common stock in the Series A Distribution, or cash in lieu thereof, as described above. See Note 9 on Subsequent Events with respect to the status of the Series A Distribution.

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**(UNAUDITED)**

We applied the equity method of accounting to our investment in Asterias Series A common stock. Under the equity method of accounting, we increase (decrease) the carrying value of the investment by our proportionate share of the investee s earnings (losses). If our proportionate share of losses exceeds the carrying value of the investment, losses are then applied against any advances, including any commitment to provide financial support, until those amounts are reduced to zero. Asterias incurred net losses from October 1, 2013 through June 30, 2014. Since our investment in Asterias had an initial carrying amount of zero upon the closing of the transactions contemplated by the Contribution Agreement on October 1, 2013 and we do not have any commitments to provide financial support or obligations to perform services or other activities for Asterias, we suspended the equity method of accounting on October 1, 2013.

Since the Series A Distribution represents a pro-rata distribution of shares of an equity method investment that is a business, it will be accounted for at its carrying amount. Because the carrying amount of the Asterias Series A common stock was zero as of June 30, 2014 (see discussion above), the liability relating to our contractual obligation to distribute the Asterias Series A common stock was zero as of June 30, 2014.

**4. RESTRUCTURING**

On April 25, 2013, we announced the decision to discontinue our discovery research programs and companion diagnostics program based on telomere length and close our research laboratory facility located at 200 Constitution Drive, Menlo Park, California. With this decision, a total of 20 positions were eliminated. In connection with this restructuring, we incurred aggregate restructuring charges of $1,370,000 for the year ended December 31, 2013, of which $824,000 was recorded in the second quarter of 2013. As of June 30, 2013, the restructuring charges recognized under the April 2013 restructuring included $624,000 related to one-time termination benefits, including $28,000 of non-cash stock-based compensation expense relating to the extension of the post-termination exercise period through the end of December 2013 for certain stock options previously granted to terminated employees, and $200,000 related to non-cash charges for write-downs of excess equipment and leasehold improvements. The remaining restructuring charges related to costs associated with the exit of our research laboratory facility and were recorded in the second half of 2013. All actions associated with this restructuring were completed in 2013, and we do not anticipate incurring any further charges in connection with this restructuring.

The components of the accrued restructuring charges relating to the April 2013 restructuring are summarized in the following table. As of June 30, 2014, we have no remaining obligations under the April 2013 restructuring.

| (In thousands) | Employee Severance and Other Benefits | Facility Related Charges | Total |
|---|---|---|---|
| Beginning accrual balance as of December 31, 2013 | $ 21 | $ 73 | $ 94 |
| Cash payments | (19) | (73) | (92) |

| | | | |
|---|---|---|---|
| Adjustments or non-cash credits | | (2) | (2) |
| Ending accrual balance as of June 30, 2014 | $ | $ | $ |

**5. COMMITMENTS AND CONTINGENCIES**

**Purported Securities and Derivative Lawsuits**

On March 14, 2014, a purported securities class action lawsuit was commenced in the United States District Court for the Northern District of California, or the California District Court, naming as defendants us and certain of our officers. The lawsuit alleges violations of the Securities Exchange Act of 1934 in connection with allegedly false and misleading statements made by us related to our Phase 2 trial of imetelstat in patients with essential thrombocythemia, or ET, or polycythemia vera, or PV. The plaintiff alleges, among other things, that we failed to disclose facts related to the occurrence of persistent low-grade liver function test, or LFT, abnormalities observed in our Phase 2 trial of imetelstat in ET/PV patients and the potential risk of chronic liver injury following long-term exposure to imetelstat. The plaintiff seeks damages and an award of reasonable costs and expenses, including attorneys fees. On March 28, 2014, a second purported securities class action lawsuit was commenced in the

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**(UNAUDITED)**

California District Court, and on June 6, 2014, a third purported securities lawsuit, not styled as a class action, was commenced in the United States District Court for the Southern District of Mississippi naming as defendants us and certain of our officers. These lawsuits, which are based on the same factual background as the purported securities class action lawsuit that commenced on March 14, 2014, also allege violations of the Securities Exchange Act of 1934 and seek damages and an award of reasonable costs and expenses, including attorneys fees. On June 30, 2014, the California District Court consolidated both of the purported class actions filed in the California District Court and appointed a lead plaintiff and lead counsel to represent the purported class. On July 21, 2014, the California District Court ordered the lead plaintiff to file its consolidated amended complaint by September 19, 2014, and our response to the consolidated amended complaint is due by November 19, 2014.

On April 21, 2014, a stockholder purporting to act on our behalf filed a derivative lawsuit in the Superior Court of California for the County of San Mateo against certain of our officers and directors. The lawsuit alleges breaches of fiduciary duties by the defendants and other violations of law. In general, the lawsuit alleges that the defendants caused or allowed the dissemination of allegedly false and misleading statements related to our Phase 2 trial of imetelstat in patients with ET or PV. The plaintiff is seeking unspecified monetary damages and other relief, including reforms and improvements to our corporate governance and internal procedures.

For a further discussion of these ongoing lawsuits, refer to the section entitled Legal Proceedings in Part II, Item 1 of this Form 10-Q. These lawsuits and any other related lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits is necessarily uncertain. We could be forced to expend significant resources in the defense against these and any other related lawsuits and we may not prevail. We currently are not able to estimate the possible cost to us from these lawsuits, as they are currently at an early stage, and we cannot be certain how long it may take to resolve these lawsuits or the possible amount of any damages that we may be required to pay. Such amounts could be material to our financial statements even if we prevail in the defense against these lawsuits. We have not established any reserves for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages.

**6. STOCKHOLDERS EQUITY**

On February 4, 2014, we completed an underwritten public offering of 25,875,000 shares of our common stock at a public offering price of $4.00 per share, resulting in net cash proceeds of approximately $96,805,000 after deducting the underwriting discount and offering expenses payable by us.

**7. SEGMENT INFORMATION**

Our executive management team represents our chief decision maker. We view our operations as one segment, the discovery and development of therapeutic products for oncology. As a result, the financial information disclosed herein materially represents all of the financial information related to our principal operating segment.

**8. CONDENSED STATEMENTS OF CASH FLOWS DATA**

Supplemental schedule of non-cash operating and investing activities:

| | Six Months Ended June 30, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Supplemental Operating Activities: | | |
| Issuance of common stock for 401(k) matching contributions | $ 313 | $ 839 |
| Supplemental Investing Activities: | | |
| Net unrealized loss on marketable securities | (6) | (53) |

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**GERON CORPORATION**

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**(UNAUDITED)**

## 9. SUBSEQUENT EVENTS

### Series A Distribution

The Nasdaq Stock Market fixed July 22, 2014 as the ex-dividend date for the Series A Distribution. Commencing on this date, our shares of common stock traded without the right to receive shares of Asterias Series A common stock, or cash in lieu thereof, in the Series A Distribution. We do not expect the completion of the Series A Distribution to have any impact on our financial statements.

### Transfer Agreement

On July 31, 2014, we and Mayo Clinic entered into an agreement, or the Transfer Agreement, whereby the Investigational New Drug application, or IND, for imetelstat under which the investigator-sponsored clinical trial of imetelstat in myelofibrosis, or the Myelofibrosis IST, has been conducted will be transferred to Geron. In addition, the parties have agreed that Geron will assume responsibility for the conduct of the Myelofibrosis IST as the trial sponsor. In connection with entering into the Transfer Agreement, Mayo Clinic transferred to us data available as of that date from the clinical trial database for the Myelofibrosis IST. Subject to completion of certain obligations and deliverables defined in the Transfer Agreement, we and Mayo Clinic project that the IND and responsibility for the Myelofibrosis IST as the trial sponsor will be transferred to Geron by September 30, 2014. We plan to continue to conduct the Myelofibrosis IST at Mayo Clinic until the trial is closed, and we do not intend to enroll additional patients in the Myelofibrosis IST.

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

**FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. In some cases, forward-looking statements can be identified by the use of terminology such as may, expect, plan, intend, will, should, project, predict, anticipate, estimate, potential or continue, or the negative thereof or other comparable terminology. These statements are within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements appear throughout the Form 10-Q and are statements regarding our intent, belief, or current expectations, primarily with respect to our business 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 II, Item 1A, entitled Risk Factors, and in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Form 10-Q.

**OVERVIEW**

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 Form 10-Q and with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014.

We are a clinical stage biopharmaceutical company developing a telomerase inhibitor, imetelstat, in hematologic myeloid malignancies. The discovery and early development of imetelstat, our sole product candidate, was based on our core expertise in telomerase and telomere biology. Telomerase is an enzyme that enables cancer cells, including malignant progenitor cells, to maintain telomere length, which provides them with the capacity for limitless, uncontrolled proliferation.

Imetelstat is a potent and specific inhibitor of telomerase. Using our proprietary nucleic acid chemistry, we designed imetelstat to be an oligonucleotide that targets and binds with high affinity to the active site of telomerase, thereby directly inhibiting telomerase activity and impeding malignant cell proliferation. We developed imetelstat from inception, and we own exclusive worldwide commercial rights for imetelstat with U.S. patent coverage extending through 2025.

We intend, subject to release of the full clinical hold on our Investigational New Drug application, or IND, for imetelstat, as discussed below, to develop imetelstat to treat one or more hematologic myeloid malignancies such as myelofibrosis, or MF, which includes patients with primary MF, or PMF, post essential thrombocythemia MF, or post ET MF, or post polycythemia vera MF, or post PV MF, all of which are referred to collectively in this document as MF; myelodysplastic syndromes, or MDS; or acute myelogenous leukemia, or AML.

We have incurred operating losses every year since our operations began in 1990. 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. As of June 30, 2014, we had an accumulated deficit of $909.9 million. Since inception, we have primarily financed our operations through the sale of equity securities, interest income on our marketable securities and payments we received under our collaborative and licensing arrangements.

Substantially all of our revenues to date have been research support payments under collaborative agreements, and milestones, royalties and other revenues from our licensing arrangements. Revenues generated from these arrangements will not be sufficient alone to continue or expand our research or development activities and otherwise sustain our operations. We also currently have no source of product revenue. Imetelstat, which is our sole product candidate, will require significant additional clinical testing prior to possible regulatory approval in the United States and other countries, and we do not expect imetelstat to be commercially available for many years, if at all.

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As of June 30, 2014, we had cash, restricted cash, cash equivalents and marketable securities of $147.6 million compared to $66.0 million at December 31, 2013. We estimate that our existing capital resources, amounts available to us under our equipment financing facility and future interest income will be sufficient to fund our current level of operations through at least the next 12 months. However, our future capital requirements will be substantial, and we may use our available capital resources sooner than we anticipate.

***Developing Imetelstat to Treat Hematologic Myeloid Malignancies***

Investigator-Sponsored Clinical Trial in Myelofibrosis (Myelofibrosis IST)

In November 2012, Dr. Ayalew Tefferi at Mayo Clinic, Rochester, Minnesota, initiated an investigator-sponsored trial, or the Myelofibrosis IST, to assess the effect of imetelstat in patients with MF. Preliminary efficacy and safety data from this trial were presented by the investigator at the American Society of Hematology, or ASH, Annual Meeting in December 2013. In the Myelofibrosis IST, the investigator is also evaluating imetelstat in patients with refractory anemia with ringed sideroblasts, or RARS, a subpopulation of MDS, and patients with MF that has transformed into AML, known as blast-phase MF. Data we receive from the Myelofibrosis IST regarding patients with RARS-MDS or blast-phase MF may inform, in part, our decision to initiate, subject to release of the full clinical hold on our IND for imetelstat discussed below, one or more potential studies of imetelstat in MDS or AML.

In January 2014, Mayo Clinic closed the Myelofibrosis IST to new patient enrollment. Mayo Clinic s notification informing us of its decision to cease new patient enrollment did not indicate any concerns regarding efficacy or safety. In March 2014, we were informed by Mayo Clinic that the investigator s IND for the Myelofibrosis IST was placed on partial clinical hold by the U.S. Food and Drug Administration, or FDA, due to a safety signal of hepatotoxicity that was identified in our Phase 2 clinical trials of imetelstat and that it was unknown if this hepatotoxicity was reversible. In order to resolve the partial clinical hold, the investigator was required to provide follow-up information regarding reversibility of hepatotoxicity for all patients who received imetelstat in the Myelofibrosis IST. The investigator submitted a complete response to the FDA to seek release of the partial clinical hold, and the partial hold was lifted by the FDA on June 11, 2014. As of July 15, 2014, 33 patients out of the 80 patients enrolled in the Myelofibrosis IST continue to receive imetelstat treatment, which includes 23 out of 62 patients with MF, nine out of nine patients with RARS-MDS and one out of nine patients with blast-phase MF. The Myelofibrosis IST remains closed to new patient enrollment.

On July 31, 2014, or the Effective Date, we and Mayo Clinic entered into an agreement, or the Transfer Agreement, under which Mayo Clinic and the investigator agreed to transfer to us certain data and information from the Myelofibrosis IST, and agreed that we will assume full responsibility for the investigator s IND, as well as responsibility for the conduct of the Myelofibrosis IST as the trial sponsor. In connection with entering into the Transfer Agreement, Mayo Clinic transferred to us data available as of that date from the clinical trial database for the Myelofibrosis IST. We are currently in the early stages of assessing this data. Subject to completion of certain obligations and deliverables defined in the Transfer Agreement, we and Mayo Clinic have agreed that the investigator s IND, under which the Myelofibrosis IST has been conducted, will be transferred to us by September 30, 2014, or the planned IND Transfer Date. On the planned IND Transfer Date, we will also assume responsibility for the Myelofibrosis IST as the trial sponsor and Dr. Tefferi will continue as the principal investigator for the trial. Under our sponsorship, commencing on the planned IND Transfer Date, we expect to continue to collect data and information from patients who remain on study in the Myelofibrosis IST and have full access to such data and information. We plan to continue to conduct the Myelofibrosis IST at Mayo Clinic until the trial is closed, and we do not intend to enroll additional patients in the Myelofibrosis IST.

We have committed to the FDA that we will not initiate any new clinical trials under the investigator s IND for the Myelofibrosis IST that we expect to be transferred to us on the planned IND Transfer Date, until we have had further communication with the FDA regarding our own IND, which remains on full clinical hold, and regarding our development plans for imetelstat in hematologic myeloid malignancies with high unmet medical need. Given this commitment, until the FDA lifts the full clinical hold on our IND or permits us to study imetelstat for other indications, such as under a partial clinical hold, we are unable to submit any new clinical trial protocols to the FDA, and are unable to initiate any new clinical trials for imetelstat in the United States. As discussed below, we are working diligently to seek the release of the full clinical hold on our IND.

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The investigator has informed us that he has submitted an abstract for the ASH annual meeting in December 2014 in which he has analyzed certain safety and efficacy data from MF patients in the Myelofibrosis IST and updated his analysis from the preliminary data he presented in December 2013. In accordance with ASH policies, abstracts submitted to the ASH annual meeting are embargoed from the time of submission. To be eligible for presentation at the ASH annual meeting, information contained in the abstract, as well as additional data and information to be presented at the annual meeting, may not be made public before the abstract has been published/presented in connection with the ASH annual meeting. We have not reviewed or independently analyzed the data selected by the investigator for inclusion in the abstract. Our analyses may result in conclusions that are materially different from the investigator s analyses and therefore additional or updated data should be considered carefully and with caution. Please refer to the risk factor entitled, Risks Related to Our Business Success in early clinical trials may not be indicative of results in subsequent clinical trials. Likewise, data reported by investigators from time-to-time is subject to review and verification procedures that could result in material differences to final data and may change as more patient data becomes available. in Part II, Item 1A entitled, Risk Factors , in this Form 10-Q.

Impact of Full Clinical Hold on Geron-Sponsored Clinical Trials

In March 2014, we received written notice from the FDA that our IND for imetelstat had been placed on full clinical hold following the FDA s review of safety data in our then ongoing clinical studies. A full clinical hold is an order that the FDA issues to a trial sponsor to suspend all ongoing clinical trials and delay all proposed trials under a given IND. With this clinical hold, any patients in an ongoing Geron-sponsored clinical trial cannot receive any further treatment with imetelstat. Therefore, we stopped imetelstat treatment in our Phase 2 Geron-sponsored clinical trials in ET and multiple myeloma, or MM. For our Phase 2 ET trial, eight patients were affected and for our Phase 2 MM trial, two patients were affected.

In their notice to us, the FDA cited the following safety issues as the basis for the clinical hold: lack of evidence of reversibility of hepatotoxicity, risk for chronic liver injury and lack of adequate follow up in patients who experienced hepatotoxicity. To address the clinical hold, we are required to provide clinical follow up information on patients who experienced liver function test, or LFT, abnormalities until LFT abnormalities have resolved to normal or baseline and to provide information regarding the reversibility of the liver toxicity after chronic imetelstat administration in animals. We are working diligently to seek the release of the full clinical hold and are currently in the process of compiling preclinical and clinical information from our own studies, as well as information available to us from other imetelstat studies, such as the Myelofibrosis IST, regarding LFT abnormalities and the incidence and reversibility of hepatotoxicity. To permit extended follow up of patients who discontinued imetelstat treatment in our Phase 2 ET and MM trials, and to seek to collect their LFT information, we have obtained approval for amended clinical trial protocols from institutional review boards, or IRBs, at each clinical site that participated in our Phase 2 ET and MM trials, and we are seeking consent from patients who discontinued imetelstat treatment in our Phase 2 ET and MM trials to allow us to collect and evaluate their LFT information.

The timing for our submission to the FDA of a complete response to the full clinical hold on our IND for imetelstat depends on our ability to collect clinical follow up information from our Phase 2 ET and MM trials, and to assess such information together with the data and information we have received, and expect to receive in the future, from the Myelofibrosis IST. Until we are able to collect and assess clinical follow up information from our Phase 2 ET and MM trials, as well as data and information from the Myelofibrosis IST, which we may be unable to do in a timely manner, or at all, we will not be able to submit our complete response to the full clinical hold on our IND. If we are able to collect and assess such data and information in order to submit our complete response and the FDA agrees that such information adequately addresses the basis for the clinical hold in order for the FDA to lift the full clinical hold on our IND for imetelstat or to permit us to study imetelstat under a partial clinical hold, we would plan to initiate a Geron-sponsored clinical trial of imetelstat in MF in the United States. This clinical trial could potentially occur as early as the first quarter of 2015, assuming that we are able to submit our complete response in 2014 and the FDA lifts the full clinical hold on our IND for imetelstat or permits us to study imetelstat under a partial clinical hold in 2014. However, if additional clinical information is required by the FDA or if the information

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we may collect from our Phase 2 ET and MM trials is not adequate, then we believe the initiation of a Geron-sponsored clinical trial of imetelstat in patients with MF in the United States could be delayed indefinitely, since we currently do not know whether the FDA will allow our development of imetelstat in MF if reversibility of LFT abnormalities in ET and MM is not fully established, or how much time will be required for LFT abnormalities to resolve to normal or baseline, if at all. Because of the uncertainty surrounding our ability to address satisfactorily the full clinical hold on our IND for imetelstat, if at all, we have explored the feasibility of initiating a Geron-sponsored clinical trial of imetelstat in patients with MF in locations outside of the United States where health authorities and ethics committees may view favorably the benefit-risk profile of imetelstat for MF. However, based on the results of our evaluation, we have decided to first proceed with our efforts to obtain the FDA s permission to lift the full clinical hold on our IND for imetelstat, or to permit us to study imetelstat under a partial clinical hold.

Until the FDA lifts the full clinical hold or permits us to study imetelstat for other indications, such as under a partial clinical hold, we are unable to submit any new clinical trial protocols to the FDA, and are unable to initiate any new clinical trials for imetelstat in the United States, under our existing IND for imetelstat. If the FDA does not lift the full clinical hold, or does not permit us to study imetelstat for other indications, such as under a partial clinical hold, we will likely be unable to pursue the development of imetelstat in the United States. If the FDA lifts the full clinical hold, or partially lifts the full clinical hold, we expect to pursue development of imetelstat in one or more indications, such as MF, MDS or AML, where we believe there is a greater unmet medical need for a new product than is the case for diseases such as ET, for which survival is minimally affected by the disease. We have previously announced that our Phase 2 ET trial was a proof of concept study, and that we did not plan to develop imetelstat for commercial use in ET. We have committed to the FDA that we will not initiate any new clinical trials under the investigator s IND for the Myelofibrosis IST that we expect to be transferred to us on the planned IND Transfer Date, until we have had further communication with the FDA regarding our own IND, which remains on full clinical hold, and regarding our development plans for imetelstat in hematologic myeloid malignancies with high unmet medical need. Given this commitment, until the FDA lifts the full clinical hold on our IND or permits us to study imetelstat for other indications, such as under a partial clinical hold, we are unable to submit any new clinical trial protocols to the FDA, and are unable to initiate any new clinical trials for imetelstat in the United States.

***Stem Cell Divestiture; Asterias Series A Distribution***

On October 1, 2013, we closed the transaction to divest our human embryonic stem cell assets and our autologous cellular immunotherapy program pursuant to the terms of the previously disclosed asset contribution agreement, or the Contribution Agreement, that we entered into in January 2013 with BioTime, Inc., or BioTime, and BioTime s wholly owned subsidiary, Asterias Biotherapeutics, Inc., or Asterias (formerly known as BioTime Acquisition Corporation) and received 6,537,779 shares of Asterias Series A common stock. Under the terms of the Contribution Agreement and subject to applicable law, we are contractually obligated to distribute all of the shares of Asterias Series A common stock to our stockholders on a pro rata basis, or cash in lieu thereof. Our board of directors fixed the close of business of May 28, 2014 as the record date for the determination of stockholders entitled to receive shares of Asterias Series A common stock, or cash in lieu thereof, in the Series A Distribution. The Nasdaq Stock Market fixed July 22, 2014 as the ex-dividend date for the Series A Distribution. Commencing on this date, our shares of common stock traded without the right to receive shares of Asterias Series A common stock, or cash in lieu thereof, in the Series A Distribution. See further discussion in Note 3 on Divestiture of Stem Cell Assets and Note 9 on Subsequent Events in Notes to Condensed Financial Statements of this quarterly report on Form 10-Q.

Following completion of the Series A Distribution by Geron, Asterias is contractually obligated under the Contribution Agreement to distribute on a pro rata basis to the holders of Asterias Series A common stock five-year warrants to purchase 8,000,000 shares of BioTime common stock at an exercise price of $5.00 per share, or the BioTime Warrants. The BioTime Warrants were issued to Asterias by BioTime pursuant to the Contribution Agreement.

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2014 as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013 that materially impact our condensed financial statements.

Our condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues and expenses. Note 1 of Notes to Condensed Financial Statements of this Form 10-Q describes the significant accounting policies used in the preparation of the condensed 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 historically have been minor and have been included in the condensed 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 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.

**RESULTS OF OPERATIONS**

Our results of operations have fluctuated from period to period and may continue to fluctuate in the future, based upon 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, but not limited to, risks inherent in our research and development efforts, our dependence on the success of our sole product candidate, imetelstat, uncertainty of preclinical and clinical trial results or regulatory approvals or clearances, including release of the full clinical hold on our IND for imetelstat, need for future capital, enforcement of our patent and proprietary rights, reliance upon our collaborators, investigators and other third parties, and potential competition. In order for imetelstat to be commercialized based on our research, we and our collaborators must conduct preclinical tests and clinical trials, demonstrate the safety and efficacy of imetelstat, 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 imetelstat for many years, if at all.

**Revenues**

We have entered into license and option agreements with companies involved with oncology, diagnostics, research tools and biologics production. In each of these agreements, we have granted certain rights to our technologies. In connection with the agreements, we are eligible to receive license fees, option fees, milestone payments and royalties on future sales of products, or any combination thereof. We recognized license fee revenues of $185,000 and $535,000 for the three and six months ended June 30, 2014, respectively, compared to $20,000 and

$665,000 for the comparable 2013 periods related to our various agreements. The increase in license fee revenues for the three months ended June 30, 2014 compared to the comparable 2013 period primarily reflects the full recognition of non-refundable license payments in 2014 for research licenses related to our human telomerase reverse transcriptase, or hTERT, technology. The decrease in license fee revenues for the six months ended June 30, 2014 compared to the comparable 2013 period primarily reflects the full recognition of a non-refundable up-front license payment in 2013 for an exclusive commercial license using our telomerase promoter technology for oncology-related in vitro assays. We recognized royalty revenues of $156,000 and $280,000 for the three and six months ended June 30, 2014, respectively, compared to $92,000 and $212,000 for the comparable 2013 periods on product sales of telomerase detection and telomere measurement kits to the research-use-only market and cell-based research products. The increase in royalty revenues for the three and six months ended June 30, 2014 compared to the comparable 2013 periods primarily reflects the receipt of a milestone fee in the second quarter of 2014 in connection with the achievement of a net sales milestone by a licensee of our hTERT technology. Current revenues may not be predictive of future revenues. Future license and royalty revenues are dependent upon additional agreements being signed and current agreements being maintained.

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**Research and Development Expenses**

For our research and development programs, we incur direct external, personnel related and other research and development costs. Direct external expenses primarily consist of costs to outside parties to perform laboratory studies, develop manufacturing processes and manufacture raw materials and clinical trial drug materials, conduct and manage clinical trials, including investigator-sponsored clinical trials, and provide advice and consultation for scientific, clinical and regulatory strategies. Personnel related expenses primarily consist of salaries and wages, stock-based compensation, payroll taxes and benefits for those individuals involved with ongoing research and development efforts. Other research and development expenses primarily consist of laboratory supplies, research-related overhead associated with leasing, operating and maintaining our facilities and equipment depreciation and maintenance. All of these costs apply to our current and historical clinical programs and our historical preclinical programs and discovery research efforts. A product candidate is designated a clinical candidate once an IND has been filed with the FDA, or a similar filing with regulatory agencies outside the United States, for the purpose of commencing clinical trials in humans. Preclinical programs represented product candidates undergoing toxicology, pharmacology, metabolism and efficacy studies and manufacturing process development required before testing in humans could commence.

Research and development expenses were $5.2 million and $10.4 million for the three and six months ended June 30, 2014, respectively, compared to $4.8 million and $12.7 million for the comparable 2013 periods. The increase in research and development expenses for the three months ended June 30, 2014 compared to the comparable 2013 period is primarily the net result of an increase in direct external costs for the manufacturing of imetelstat drug product, partially offset by lower direct external costs due to the wind-down of our GRN1005 trials in patients with brain metastases and imetelstat trials in solid tumors, reduced personnel related costs resulting from previous restructurings and lower costs for scientific supplies and services due to the discontinuation of our discovery research programs in April 2013. The decrease in research and development expenses for the six months ended June 30, 2014 compared to the comparable 2013 period is primarily the net result of lower direct external costs due to the wind-down of our GRN1005 trials in patients with brain metastases and imetelstat trials in solid tumors, reduced personnel related costs resulting from previous restructurings and lower costs for scientific supplies and services due to the discontinuation of our discovery research programs in April 2013, partially offset by an increase in direct external costs for the manufacturing of imetelstat drug product. Overall, we expect research and development expenses in 2014 to remain at current levels, unless we are permitted by the FDA to initiate new clinical trials of imetelstat in hematologic myeloid malignancies in 2014, which may not occur in a timely manner or at all.

Research and development expenses for the three and six months ended June 30, 2014 and 2013 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In thousands)** | **2014** | **2013** | **2014** | **2013** |
| | | (Unaudited) | | |
| Direct external research and development expenses: | | | | |
| Clinical program: Imetelstat | $ 2,266 | $ 1,215 | $ 4,190 | $ 2,732 |
| Clinical program: GRN1005 (1) | | 59 | | 1,051 |
| Clinical program: GRNOPC1 (2) | | 97 | | 155 |
| Preclinical programs (3) | | 23 | | 224 |
| Personnel related expenses | | | | |