

GERON CORP  
Form 10-Q  
August 03, 2012  
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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)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from            to            .

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## GERON CORPORATION

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**75-2287752**

(I.R.S. Employer  
Identification No.)

**149 COMMONWEALTH DRIVE, SUITE 2070, MENLO PARK, CA**

(Address of principal executive offices)

**94025**

(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  No

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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

**Class:**  
Common Stock, \$0.001 par value

**Outstanding at July 30, 2012:**  
131,258,185 shares

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**GERON CORPORATION  
QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2012**

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	<b>JUNE 30, 2012 (UNAUDITED)</b>	<b>DECEMBER 31, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,123	\$ 16,105
Restricted cash	794	793
Current portion of marketable securities	104,050	105,208
Interest and other receivables	932	1,398
Prepaid assets	946	2,121
Total current assets	120,845	125,625
Noncurrent portion of marketable securities	3,283	32,133
Property and equipment, net	1,240	1,241
Deposits and other assets	825	1,048
	\$ 126,193	\$ 160,047
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,429	\$ 2,980
Accrued compensation and benefits	3,421	3,029
Accrued restructuring charges	734	3,730
Accrued liabilities	4,378	3,641
Fair value of derivatives	30	64
Total current liabilities	11,992	13,444
Commitments and contingencies		
Stockholders' equity:		
Common stock	131	131
Additional paid-in capital	936,719	932,066
Accumulated deficit	(822,568)	(785,503)
Accumulated other comprehensive loss	(81)	(91)
Total stockholders' equity	114,201	146,603
	\$ 126,193	\$ 160,047

See accompanying notes.



Table of Contents**GERON CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)****(UNAUDITED)**

	<b>THREE MONTHS ENDED JUNE 30,</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues from collaborative agreements	\$ 150	\$ 312	\$ 1,384	\$ 300
License fees and royalties	130	462	1,384	1,667
Total revenues	130	462	1,384	1,967
<b>Operating expenses:</b>				
Research and development	12,777	16,544	27,884	33,299
General and administrative	5,832	5,334	10,897	14,440
Total operating expenses	18,609	21,878	38,781	47,739
Loss from operations	(18,479)	(21,416)	(37,397)	(45,772)
Unrealized gain on derivatives, net	8	240	34	279
Interest and other income	165	287	341	583
Losses recognized under equity method investment		(168)		(503)
Interest and other expense	(20)	(31)	(43)	(64)
Net loss	\$ (18,326)	\$ (21,088)	\$ (37,065)	\$ (45,477)
Basic and diluted net loss per share	\$ (0.14)	\$ (0.17)	\$ (0.29)	\$ (0.37)
Shares used in computing basic and diluted net loss per share	126,891,909	124,579,190	126,632,377	123,838,959

See accompanying notes.

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**GERON CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(IN THOUSANDS)**

**(UNAUDITED)**

	<b>THREE MONTHS ENDED JUNE 30,</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net loss	\$ (18,326)	\$ (21,088)	\$ (37,065)	\$ (45,477)
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	(35)	97	(6)	42
Foreign currency translation adjustments			16	12
Other comprehensive income (loss)	(35)	97	10	54
Comprehensive loss	\$ (18,361)	\$ (20,991)	\$ (37,055)	\$ (45,423)

See accompanying notes.



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## GERON CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## CHANGE IN CASH AND CASH EQUIVALENTS

(IN THOUSANDS)

(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net loss	\$ (37,065)	\$ (45,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	465	834
Accretion and amortization on investments, net	1,264	2,431
Gain on sale of property and equipment	(14)	
Issuance of common stock for acquired in-process research and development		594
Issuance of common stock in exchange for services by non-employees	110	396
Stock-based compensation for employees and directors	2,753	10,166
Amortization related to 401(k) contributions	281	452
Loss on equity method investment		503
Unrealized gain on derivatives	(34)	(279)
Changes in assets and liabilities:		
Other current and noncurrent assets	1,864	3,245
Other current and noncurrent liabilities	12	371
Translation adjustment	16	12
Net cash used in operating activities	(30,348)	(26,752)
<b>Cash flows from investing activities:</b>		
Restricted cash transfer	(1)	(1)
Proceeds from sale of property and equipment	20	
Purchases of property and equipment	(470)	(260)
Purchases of marketable securities	(35,386)	(70,765)
Proceeds from maturities of marketable securities	64,124	83,537
Net cash provided by investing activities	28,287	12,511
<b>Cash flows from financing activities:</b>		
Proceeds from issuances of common stock, net of issuance costs	79	288
Net cash provided by financing activities	79	288
Net decrease in cash and cash equivalents	(1,982)	(13,953)
Cash and cash equivalents at the beginning of the period	16,105	45,972
Cash and cash equivalents at the end of the period	\$ 14,123	\$ 32,019

See accompanying notes.



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**GERON CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**(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 consolidated 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 ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011, included in the Company's Annual Report on Form 10-K. The accompanying condensed consolidated balance sheet as of December 31, 2011 has been derived from audited financial statements at that date.

**Principles of Consolidation**

The condensed 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 prepared the financial statements of Geron Bio-Med using the local currency as the functional currency. We translated the assets and liabilities of Geron Bio-Med at rates of exchange at the balance sheet date and translated 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 was U.S. dollars. In July 2010, the board of directors and shareholders of TAT approved actions to commence a voluntary winding up of the company. The full wind up of TAT was completed in March 2011. In March 2012, the board of directors and shareholders of Geron Bio-Med approved actions to commence a voluntary winding up of the company. The full wind up of Geron Bio-Med was completed in August 2012.

We evaluate whether significant transactions require consideration of the variable interest consolidation model. For those entities in which we have a variable interest, we consider whether we are the primary beneficiary. Variable interest entities (VIEs) for which we are the primary beneficiary are required to be consolidated. We currently are not the primary beneficiary of any VIE. See Note 3 on Equity Method Investment.

**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 are determined using the treasury stock method at an average market price during the period.

Because we are in a net loss position, diluted earnings (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 23,391 and 995,044 shares for the 2012 and 2011 periods, respectively, related to outstanding options, restricted stock 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.

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**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**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 and cash operating accounts. Our investments include U.S. government-sponsored enterprise securities, commercial paper and corporate notes with original maturities ranging from five to 24 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 consolidated statements of operations. We recognize a charge when the declines in the fair values below the amortized cost basis of our available-for-sale securities are judged to be other-than-temporary. We consider various factors in determining whether to recognize an other-than-temporary charge, including whether we intend to sell the security or whether it is more likely than not that we would be required to sell the security. 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. No other-than-temporary impairment charges were recorded for our available-for-sale securities for the three and six months ended June 30, 2012 and 2011. See Note 2 on Fair Value Measurements.

*Non-Marketable 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.

We apply the equity method of accounting for 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 investment by a 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.

We monitor our investments in licensees for impairment on a quarterly basis and make appropriate reductions in carrying values when such impairments 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 company's ability to obtain additional private financing to fulfill its stated business plan; the need for changes to the investee company's existing business model due to changing business environments and its ability to successfully implement necessary changes; and the general progress toward product development, including clinical trial results. See Note 2 on Fair Value Measurements.

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**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

***Fair Value of Derivatives***

For non-employee options classified as assets or liabilities, 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 non-employee options is recorded in the condensed consolidated statement 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.

**Revenue Recognition**

We have entered into several license 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, 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. Milestone payments, which are subject to 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. When payments are received in equity securities, we do not recognize any revenue unless such securities are determined to be realizable in cash. We recognize revenue under collaborative agreements as the related research and development services are rendered.

**Restricted Cash**

The components of restricted cash were as follows:

(In thousands)	June 30, 2012	December 31, 2011
Certificate of deposit for unused equipment line of credit	\$ 530	\$ 530
Certificate of deposit for credit card purchases	264	263
	\$ 794	\$ 793

**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, raw materials to manufacture clinical trial drugs, manufacturing costs for research and clinical trial materials, sponsored research at other labs, consulting, costs to maintain technology licenses and research-related overhead. Research and development costs are expensed as incurred, including payments made under our license agreements.

***Clinical Trial Costs***

A significant component of our research and development expenses is clinical trial costs. Substantial portions of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations, or CROs, and other vendors. We accrue expenses for preclinical studies performed by our vendors based on certain estimates over the term of the service period and adjust our estimates as required. We accrue expenses for clinical trial activities performed by CROs based upon the estimated



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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 will be enrolled in the study. 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 will allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain.

**Depreciation and Amortization**

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

**Stock-Based Compensation**

We recognize stock-based compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period. The following table summarizes the stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases for the three and six months ended June 30, 2012 and 2011 which was allocated as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Research and development	\$ 626	\$ 1,604	\$ 1,267	\$ 3,264
General and administrative	736	2,243	1,486	6,902
Stock-based compensation expense included in operating expenses	\$ 1,362	\$ 3,847	\$ 2,753	\$ 10,166

In February 2011, certain outstanding restricted stock awards and stock options held by Thomas B. Okarma, Ph.D., M.D., our former President and Chief Executive Officer, were modified in connection with his separation of employment from the Company, resulting in additional non-cash stock-based compensation expense of \$3,472,000, which has been included in general and administrative expenses for the six months ended June 30, 2011.

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As stock-based compensation expense recognized in the condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures, but at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. Forfeitures have been estimated at the time of grant based on historical data and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

### *Stock Options*

The fair value of options granted during the six months ended June 30, 2012 and 2011 has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

	Six Months Ended June 30,	
	2012	2011
Dividend yield	None	None
Expected volatility range	0.631 to 0.636	0.629 to 0.630
Risk-free interest rate range	0.91% to 1.25%	1.55% to 2.37%
Expected term	6 yrs	5 yrs

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The fair value of employees' purchase rights during the six months ended June 30, 2012 and 2011 has been estimated using the Black Scholes option-pricing model with the following assumptions:

	Six Months Ended June 30,	
	2012	2011
Dividend yield	None	None
Expected volatility range	0.458 to 0.774	0.529 to 0.584
Risk-free interest rate range	0.06% to 0.20%	0.19% to 0.32%
Expected term range	6 - 12 mos	6 - 12 mos

Dividend yield is based on historical cash dividend payments and Geron has paid no dividends to date. The expected volatility range 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 range 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. We grant service-based options under our equity plans to employees, non-employee directors and consultants, for which the vesting period is generally four years.

***Restricted Stock Awards***

We grant restricted stock awards to employees and non-employee directors with three types of vesting schedules: (i) service-based, (ii) performance-based or (iii) market-based. Service-based awards generally vest annually over four years. Performance-based awards vest only upon achievement of discrete strategic corporate goals within a specified performance period, generally three years. Market-based awards vest only upon achievement of certain market price thresholds of our common stock 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 on a straight-line basis and is reduced for estimated forfeitures, as applicable.

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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 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 ever. If performance-based restricted stock awards are modified such that no continuing service is required for the award to vest and achievement of the performance condition is not considered probable on the date of modification, then no stock-based compensation cost is recognized until it becomes probable that the performance condition will be met. 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 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 consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 as the achievement of the specified performance criteria was not considered probable during that time.

The fair value for market-based restricted stock awards is determined using a lattice valuation model with a Monte Carlo simulation. The model takes into consideration the historical volatility of our stock and the risk-free interest rate at the date of grant. In addition, the model is used to estimate the derived service period for the awards. The derived service period is the estimated period of time that would be required to satisfy the market condition, assuming the market condition will be satisfied. Stock-based compensation

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expense is recognized over the derived service period for the awards using the straight-line method and is reduced for estimated forfeitures, as applicable, but is accelerated if the market condition is achieved earlier than estimated. The market conditions for the market-based restricted stock awards have not been achieved as of June 30, 2012.

***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 consolidated statements of operations.

**Accumulated Other Comprehensive Loss**

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders' equity which are excluded from net loss.

The components of accumulated other comprehensive loss were as follows:

<b>(In thousands)</b>	<b>June 30, 2012</b>		<b>December 31, 2011</b>	
Unrealized gain on available-for-sale securities, net	\$	72	\$	78
Foreign currency translation adjustments		(153)		(169)
Accumulated other comprehensive loss	\$	(81)	\$	(91)

**2. FAIR VALUE MEASUREMENTS**

We categorize assets and liabilities recorded at fair value on our condensed consolidated 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 the 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 instruments measured at fair value on our condensed consolidated balance sheets, including the category for such instruments.

#### **Cash Equivalents and Marketable Securities Available-for-Sale**

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.

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**GERON CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

Cash equivalents, restricted cash and marketable securities by security type at June 30, 2012 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
Included in cash and cash equivalents:				
Money market funds	\$ 10,210	\$	\$	\$ 10,210
Restricted cash:				
Certificates of deposit	\$ 794	\$	\$	\$ 794
Marketable securities:				
Government-sponsored enterprise securities (due in less than 1 year)	\$ 12,006	\$ 20	\$	\$ 12,026
Commercial paper (due in less than 1 year)	26,360	32		26,392
Corporate notes (due in less than 1 year)	65,616	36	(20)	65,632
Corporate notes (due in 1 to 2 years)	3,279	4		3,283
	\$ 107,261	\$ 92	\$ (20)	\$ 107,333

Cash equivalents, restricted cash and marketable securities by security type at December 31, 2011 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
Included in cash and cash equivalents:				
Money market funds	\$ 12,885	\$	\$	\$ 12,885
Restricted cash:				