GERON CORP
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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

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, 2014	THREE MONTHS ENDED JUNE 30, 2013	SIX MONTHS ENDED JUNE 30, 2014	SIX MONTHS ENDED JUNE 30, 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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(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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(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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(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	Six Months Ended June 30,