

GERON CORP  
Form 10-Q  
October 31, 2008

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

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

**OR**

**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**

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

**75-2287752**

(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  Smaller reporting company

(Do not check if a 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

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

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

**GERON CORPORATION**

**INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1: Condensed Consolidated Financial Statements	1
Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007	1
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007	2
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007	3
Notes to Condensed Consolidated Financial Statements	4
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3: Quantitative and Qualitative Disclosures About Market Risk	23
Item 4: Controls and Procedures	23
<b>PART II. OTHER INFORMATION</b>	
Item 1: Legal Proceedings	24
Item 1A: Risk Factors	24
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3: Defaults Upon Senior Securities	40
Item 4: Submission of Matters to a Vote of Security Holders	40
Item 5: Other Information	40
Item 6: Exhibits	41
SIGNATURE	41

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**GERON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)**

<b>SEPTEMBER 30, 2008</b>	<b>DECEMBER 31, 2007</b>
-----------------------------------	------------------------------

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

See accompanying notes.

1

**GERON CORPORATION**

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

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

amounts from related parties: three months - 2008-\$20; 2007-none; nine months - 2008-\$79; 2007-\$448)	\$ 74	\$ 0	\$ 240	\$
License fees and royalties (including amounts from related parties: three months - 2008-none; 2007-none; nine months - 2008-\$1,500; 2007-none)	293	1,130	2,019	
<b>Total revenues</b>	<b>367</b>	<b>1,130</b>	<b>2,259</b>	
<b>Operating expenses:</b>				
Research and development (including amounts for related parties: three months - 2008-\$184; 2007-\$70; nine months - 2008-\$502; 2007-\$569)	14,208	12,326	39,435	
General and administrative	4,093	4,139	12,165	
<b>Total operating expenses</b>	<b>18,301</b>	<b>16,465</b>	<b>51,600</b>	
<b>Loss from operations</b>	<b>(17,934)</b>	<b>(15,335)</b>	<b>(49,341)</b>	
Unrealized (loss) gain on derivatives	(162)	(247)	739	
Interest and other income	1,197	2,772	4,513	
Loss recognized under equity method investment	(229)	0	(229)	
Interest and other expense	(23)	(24)	(71)	
<b>Net loss</b>	<b>(17,151)</b>	<b>(12,834)</b>	<b>(44,389)</b>	
Deemed dividend on derivatives	0	0	0	
<b>Net loss applicable to common stockholders</b>	<b>\$ (17,151)</b>	<b>\$ (12,834)</b>	<b>\$ (44,389)</b>	<b>\$</b>
<b>Basic and diluted net loss per share applicable to common stockholders</b>	<b>\$ (0.22)</b>	<b>\$ (0.17)</b>	<b>\$ (0.57)</b>	<b>\$</b>
<b>Shares used in computing basic and diluted net loss per share applicable to common stockholders</b>	<b>78,752,645</b>	<b>75,324,687</b>	<b>77,841,505</b>	

See accompanying notes.

2

## GERON CORPORATION

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

	<b>NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (44,389)	\$ (25,652)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,609	1,141
Accretion and amortization on investments, net	(1,065)	(2,628)
Gain on sale of fixed assets	(9)	0
Stock-based compensation in exchange for services by non-employees	1,166	4,833
Stock-based compensation for awards to employees and directors	8,701	8,425
Amortization related to 401(k) contributions	347	174
Loss recognized under equity method investments	273	63

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

See accompanying notes.

3

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The terms "Geron", the "Company", "we" and "us" as used in this report refer to Geron Corporation. The accompanying condensed consolidated unaudited balance sheet as of September 30, 2008 and condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management of Geron, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or any other period. These financial statements and notes should be read in conjunction with the financial statements for each of the three years ended December 31, 2007, included in the Company's Annual Report on Form 10-K. The accompanying condensed consolidated balance sheet as of December 31, 2007 has been derived from audited financial statements at that date.

### Principles of Consolidation

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

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

### **Net Loss Per Share**

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

Because we were in a net loss position, diluted earnings per share excludes the effects of potential dilutive securities, which are all antidilutive. Had we been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as additional shares of 311,707 and 2,098,888 for 2008 and 2007, respectively, related to outstanding options, restricted stock and warrants (as determined using the treasury stock method at an average market price during the period).

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

### **Use of Estimates**

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

### **Revenue Recognition**

We recognize revenue related to license and research agreements with collaborators, royalties, and milestone payments. The principles and guidance outlined in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," provide a framework to (i) determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, (ii) determine how the arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement and (iii) apply relevant revenue recognition criteria, under Staff Accounting Bulletin No. 104, "Revenue Recognition," (SAB 104) separately for each of the separate units. Our arrangements generally do not contain a general right of return relative to the delivered item.

We have several license and marketing agreements with various oncology, diagnostics, research tools, agriculture and biologics production companies. With certain of these agreements, we receive nonrefundable

license payments in cash or equity securities, option payments in cash or equity securities, royalties on future sales of products, milestone payments, or any combination of these items. Upfront nonrefundable signing or license fees that are not dependent on future performance under these agreements or where the intellectual property related to the license has been delivered are recognized as revenue when earned or over the estimated period of the continuing performance obligations. Option payments are generally recognized as revenue over the option period. Milestone payments, earned based on substantive contingencies, are recognized upon completion of specified milestones, representing the culmination of the earnings process, according to contract terms. Royalties are generally recognized upon receipt of the related royalty payment. Deferred revenue represents the portion of research and license payments received which has not been earned.

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

### Restricted Cash

The components of restricted cash are as follows:

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

### Fair Value of Financial Instruments

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

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

#### Cash Equivalents and Marketable Debt Securities

We consider all highly liquid investments with a maturity of three months or less on the date of purchase to be cash equivalents. We are subject to credit risk related to our cash equivalents and available-for-sale securities. We place our cash and cash equivalents in money market funds. Our investments include U.S. government

agency notes, corporate notes and commercial paper with original maturities ranging from six to nine months.

We classify our marketable debt securities as available-for-sale. We record available-for-sale securities at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses are included in interest and other income and are derived using the specific identification method for determining the cost of securities sold. Realized gains and losses have been insignificant to date. Dividend and interest income are recognized when earned and included in interest and other income on our condensed consolidated statements of operations. We recognize a charge when the declines in the fair values of our available-for-sale securities below the amortized cost basis are judged to be other-than-temporary. We consider various factors in determining whether to recognize an other-than-temporary charge, including the length of time and extent to which the fair value has been less than our amortized cost basis, the financial condition and near-term prospects of the security issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Declines in market value judged other-than-temporary result in a charge to interest and other income.

#### Marketable and Non-Marketable Equity Investments in Licensees

Investments in non-marketable nonpublic companies, in which we own less than 20% of the outstanding voting stock and do not otherwise have the ability to exert significant influence over the investees, are carried at cost, as adjusted for other-than-temporary impairments. Investments in marketable equity securities are carried at fair value as of the balance sheet date. For marketable equity securities, unrealized gains and losses are reported in accumulated other comprehensive income (loss) in stockholders' equity. Realized gains or losses are included in interest and other income and are derived using the specific identification method.

We apply the equity method of accounting for equity investments in licensees in which we own more than 20% of the outstanding voting stock or otherwise have the ability to exert significant influence over the investees. Under this method, we increase (decrease) the carrying value of our equity investment by a proportionate share of the 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. The equity method is then suspended until the investee has earnings. Any proportionate share of investee earnings is first applied to the share of accumulated losses not recognized during the period the equity method was suspended.

We monitor our equity investments in licensees for impairment on a quarterly basis and make appropriate reductions in carrying values when such reductions are determined to be other-than-temporary. Other-than-temporary charges are included in interest and other income. Factors used in determining whether an other-than-temporary charge should be recognized include, but are not limited to, the current business environment including competition and uncertainty of financial condition; going concern considerations such as the rate at which the investee company utilizes cash, and the investee 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.

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

#### Fair Value of Derivatives

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



For warrants and non-employee options classified as assets or liabilities under Issue 00-19, the fair value of these instruments is recorded on the condensed consolidated balance sheet at inception of such classification and adjusted to fair value at each financial reporting date. The change in fair value of the warrants and non-employee options is recorded in the condensed consolidated statements of operations as unrealized gain (loss) on fair value of derivatives. Fair value of warrants and non-employee options subject to Issue 00-19 is estimated using the Black Scholes option-pricing model. The warrants and non-employee options continue to be reported as an asset or liability until such time as the instruments are exercised or expire or are otherwise modified to remove the provisions which require this treatment, at which time these instruments are marked to fair value and reclassified from assets or liabilities to stockholders' equity. For warrants and non-employee options classified as permanent equity under Issue 00-19, the fair value of the warrants and non-employee options is recorded in stockholders' equity and no further adjustments are made.

### Research and Development Expenses

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

### Depreciation and Amortization

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

### Stock-Based Compensation

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

7

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

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

The following table summarizes the stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases under SFAS 123R for the three and nine months ended September 30, 2008 and 2007 which was allocated as follows:

<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
<b>September 30,</b>		<b>September 30,</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>

	(In thousands)			
Research and development	\$ 1,546	\$ 1,751	\$ 4,211	\$ 4,305
General and administrative	1,546	1,183	4,490	4,120
Stock-based compensation expense included in operating expenses	\$ 3,092	\$ 2,934	\$ 8,701	\$ 8,425

### Stock Options

The fair value of options granted during the nine months ended September 30, 2008 and 2007 has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2008	2007
Dividend yield	None	None
Expected volatility range	0.527 to 0.596	0.745 to 0.774
Risk-free interest rate range	2.36% to 3.57%	4.20% to 5.05%
Expected term	5 yrs	5 yrs

### Employee Stock Purchase Plan

The fair value of employees' purchase rights during the nine months ended September 30, 2008 and 2007 has been estimated using the Black Scholes option-pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2008	2007
Dividend yield	None	None
Expected volatility range	0.458 to 0.593	0.419 to 0.471
Risk-free interest rate range	2.13% to 4.97%	4.97% to 5.26%
Expected term	6 - 12 mos	6 - 12 mos

The expected volatility range is based on historical volatilities of our stock, because traded options on Geron stock do not correspond to option terms or the underlying stock trading volume. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term in effect on the date of grant. The expected term of options is derived from actual historical exercise data and represents the period of time that options granted are expected to be outstanding. The expected term of employees' purchase rights is equal to the purchase period. Dividend yield is based on historical cash dividend payments, which have been none to date. We grant options under our equity plans to employees, non-employee directors and consultants, which generally vest over four years.

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

As stock-based compensation expense recognized in the condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures but, at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were

estimated based on historical experience.

### Restricted Stock Awards

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

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

### **Comprehensive Loss**

Comprehensive loss is comprised of net loss and other comprehensive loss. Other comprehensive loss includes certain changes in stockholders' equity which are excluded from net loss. The activity in comprehensive loss during the three and nine months ended September 30, 2008 and 2007 are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>			
Net loss	\$ (17,151)	\$ (12,834)	\$ (44,389)	\$ (25,652)
Change in unrealized gain (loss) on securities available-for-sale and marketable equity securities	44	109	(96)	166
Change in foreign currency translation adjustments	(3)	10	(5)	10
Comprehensive loss	\$ (17,110)	\$ (12,715)	\$ (44,490)	\$ (25,476)

The components of accumulated other comprehensive (loss) income are as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(In thousands)</b>	
Net unrealized holding gains on available-for-sale securities and marketable equity investments	\$ 99	\$ 195
Foreign currency translation adjustments	(167)	(162)
	\$ (68)	\$ 33

### **Recent Accounting Pronouncements**

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section, 411 "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." SFAS 162 is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). We have not completed our evaluation of the effects, if any, that SFAS 162 may have on our consolidated financial position, results of operations and cash flows.

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

In June 2008, the FASB issued Staff Position (FSP) Emerging Issue Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions of FSP EITF 03-6-1. We are currently evaluating the impact of FSP EITF 03-6-1 on our consolidated results of operations.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock* (Issue 07-5). This Issue provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. Issue 07-5 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133. Issue 07-5 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether the instrument is within the scope of EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (Issue 00-19), which provides accounting guidance for instruments that are indexed to, and potentially settled in, the issuer's own stock. Issue 07-5 is effective for fiscal years beginning after December 15, 2008. Early application is not permitted by entities that have previously adopted an alternative accounting policy. We are currently evaluating the requirements of Issue 07-5 and have not yet determined its effect, if any, on our consolidated financial statements.

## **2. FAIR VALUE MEASUREMENTS**

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), defines *fair value* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Beginning January 1, 2008, assets and liabilities recorded at fair value in the condensed consolidated balance sheet are categorized based upon the level of judgment associated with inputs used to measure their value. SFAS 157 defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

## Edgar Filing: GERON CORP - Form 10-Q

Level 1 □ Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

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. Following is a description of the valuation methodologies used for instruments measured at fair value on our condensed consolidated balance sheet, including the general classification of such instruments pursuant to the valuation hierarchy.

### Marketable Debt Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified as Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government and agency securities and money market funds. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such Level 2 instruments include corporate notes, asset-backed securities and commercial paper.

### Equity Investments in Licensees

Where quoted prices are available in an active market, securities are classified as Level 1 of the valuation hierarchy. Level 1 securities include publicly traded equities. Equity investments accounted for under the equity method of accounting or equity securities in non-marketable companies are not measured at fair value which excludes them from SFAS 157.

### Derivatives

Warrants to purchase common stock and non-employee options are normally traded less actively, have trade activity that is one way, and/or traded in less-developed markets and are therefore valued based upon models with significant unobservable market parameters, resulting in Level 3 classification of the valuation hierarchy.

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

	September 30, 2008	December 31, 2007
Dividend yield	None	None
Expected volatility range	0.571 to 0.733	0.435 to 0.763
Risk-free interest rate range	2.00% to 3.38%	3.06% to 3.73%
Expected term	2 yrs to 7 yrs	2 yrs to 7 yrs

Expected volatilities are based on historical volatilities of our stock since traded options on Geron stock do not correspond to derivatives' terms and trading volume of Geron options is limited. The expected term of derivatives is equal to the remaining contractual term of the instrument. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term in effect on the reporting date. Dividend yield is based on historical cash dividend payments, which have been none to date.

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

**Fair Value on a Recurring Basis**

Assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon the lowest level of significant input to the fair value measurements as of September 30, 2008.

<i>(In thousands)</i>	<b>Fair Value Measurements at Reporting Date Using Significant</b>				<b>Total</b>
	<b>Quoted Prices in Active Markets for Identical Assets</b>	<b>Other</b>		<b>Significant</b>	
	<b>Level 1</b>	<b>Observable</b>	<b>Unobservable</b>		
	<b>Level 1</b>	<b>Inputs</b>	<b>Inputs</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
<b>Assets</b>					
Money market funds (1)	\$ 120,849	\$ 0	\$ 0		\$ 120,849
Government agency securities (2)	17,138	0	0		17,138
Commercial paper (2)	0	21,934	0		21,934
Corporate notes (2)	0	13,465	0		13,465
Equity investments in licensees (3)	5	0	0		5
<b>Total</b>	<b>\$ 137,992</b>	<b>\$ 35,399</b>	<b>\$ 0</b>		<b>\$ 173,391</b>
<b>Liabilities</b>					
Derivatives (4)	\$ 0	\$ 0	\$ 863		\$ 863

- (1) Included in cash and cash equivalents on our condensed consolidated balance sheet.
- (2) Included in marketable securities on our condensed consolidated balance sheet.
- (3) Included in deposits and other assets on our condensed consolidated balance sheet.
- (4) Included in fair value of derivatives on our condensed consolidated balance sheet.

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

The table below includes a rollforward of the balance sheet amounts for the three and nine months ended September 30, 2008 (including the change in fair value), for financial instruments classified as Level 3. 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 September 30, 2008**

**Change in**

	Fair Value at June 30, 2008	Total Unrealized Loss Included in Earnings, net	Purchases, Sales, Transfers, Issuances, and/or Settlements, net	In Issuances, and/or Out of Level 3	Fair Value at September 30, 2008	Unrealized Gains Related to Financial Instruments Held at September 30, 2008
(In thousands)	2008	(1)	net	3	2008	(1)
Derivative liabilities	\$ 701	\$ (162)	\$ □	\$ □	\$ 863	\$ (162)

12

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

Nine Months Ended September 30, 2008

	Fair Value at December 31, 2007	Total Unrealized Gains Included in Earnings, net	Purchases, Sales, Transfers, Issuances, and/or Settlements, net	In Issuances, and/or Out of Level 3	Fair Value at September 30, 2008	Change in Unrealized Gains Related to Financial Instruments Held at September 30, 2008
(In thousands)	2007	(1)	net	3	2008	(1)
Derivative liabilities	\$ 1,602	\$ 739	\$ □	\$ □	\$ 863	\$ 739

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

### 3. JOINT VENTURE AND RELATED PARTY TRANSACTIONS

#### Start Licensing and ViaGen, Inc.

In April 2005, Geron and Exeter Life Sciences, Inc. (Exeter) established Start Licensing, Inc. (Start), a joint venture to manage and license a broad portfolio of intellectual property rights related to animal reproductive technologies. We and Exeter owned 49.9% and 50.1% of Start, respectively. In connection with the establishment of Start, we granted a worldwide, exclusive, non-transferable license to our patent rights to nuclear transfer technology for use in animal cloning, with the right to sublicense such patent rights. These patent rights include patents originally licensed from the Roslin Institute in Edinburgh, Scotland in conjunction with Geron's 1999 acquisition of Roslin BioMed, as well as patents covering technology arising from subsequent animal cloning work that we funded at the Roslin Institute. Since there was no net book value associated with the patent rights at the execution of the joint venture, no initial value was recognized for our investment in Start. We did not apply the equity method of accounting since our proportionate share of net losses in Start exceeded our original carrying value of the equity investment.

On August 8, 2008, Geron and Exeter entered into Contribution Agreements whereby we and Exeter exchanged our equity interests in Start for equity interests in ViaGen, Inc. (ViaGen). As a result of the exchange,

Start became a wholly-owned subsidiary of ViaGen. Ownership of ViaGen immediately following the transaction and at September 30, 2008 was as follows: Exeter □ 69%; Geron □ 27%; and Smithfield Foods □ 4%. Since no value had been recorded for our equity investment in Start, the same zero carrying value has been applied to our equity investment in ViaGen. Geron's share of equity method losses from Start that were not recognized during the period the equity method was suspended has been carried over to the equity investment in ViaGen.

On September 4, 2008, Geron provided a \$1,500,000 loan to ViaGen. The loan bears an interest rate of 6% per annum and is convertible into ViaGen equity at Geron's option at the then current market value. If not converted, the principal amount of the loan plus any accrued interest is due in cash on December 31, 2009. The loan provided is reflected within deposits and other assets on our condensed consolidated balance sheet as of September 30, 2008.

In accordance with the equity method of accounting, we increase (decrease) the carrying value of our equity investment in ViaGen by our proportionate share of ViaGen's earnings (losses). If equity method losses exceed the carrying value of the investment, losses are then applied against any advances to ViaGen, including any commitments to provide financial support until those amounts are reduced to zero. The equity method of accounting shall then be suspended until income is subsequently reported. When income is reported, Geron's proportionate share of income shall first be applied to recognize the equity method losses accumulated during the time the equity method was suspended and then to restore the adjusted basis of the loan.

13

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

As of September 30, 2008, we adjusted the basis of our loan to ViaGen to recognize \$229,000 for our proportionate share of ViaGen's operating losses during the 2008 third quarter. Our share of losses is recorded in the condensed consolidated statements of operations under loss recognized under equity method investment.

**TA Therapeutics, Ltd.**

In March 2005, we and the Biotechnology Research Corporation (BRC), a subsidiary of Hong Kong University of Science and Technology, established a joint venture company in Hong Kong called TA Therapeutics, Ltd. (TAT). TAT conducts research and was established to commercially develop products that utilize telomerase activator drugs to restore the regenerative and functional capacity of cells in various organ systems that have been impacted by senescence, injury or chronic disease. On June 15, 2007, we and BRC entered into an agreement to restructure the TAT joint venture. Under the amended agreements, we direct the pre-clinical and drug development activities, own a 75% voting interest and exercise control over the company. Upon any winding up of TAT, all intellectual property of TAT is assigned to us and BRC is entitled to royalties on sales of future products developed from TAT's efforts up to a fixed amount based on BRC's cash contributions. Upon a winding up of TAT, if the assets available for distribution, other than the intellectual property, are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that the losses shall be borne by the shareholders in proportion to the cash contributed by both parties.

As a result of our obtaining control over TAT, we have included the results of TAT in our condensed consolidated financial statements beginning June 16, 2007. Based on consideration of the relevant rights described above, we have determined that BRC's 25% equity interest in TAT is not substantive. The amended arrangement represents, in substance, a research and development arrangement between us and BRC. Therefore, this arrangement is being accounted for as a research and development arrangement. Contributions from BRC represent its share of funding for future research and development activities that will be performed principally by BRC and partly by us. Accordingly, BRC's net contributions have been recorded as an advance payment for research and development on our condensed consolidated balance sheet. The advance payment from BRC has been recognized as either reduction of research and development expenses or revenues from collaborative agreements depending upon who performs the related research and development activity. The advance payment from BRC has been recorded as a reduction of research and development expenses in our condensed consolidated statements of operations in the period when BRC performs the underlying research activity on behalf of TAT. The advance payment from BRC has been recognized as revenues from collaborative



agreements in our condensed consolidated statements of operations in the period when we perform research activity on behalf of TAT and the source of funds has not been derived from our cash contributions to TAT. Amounts recognized in our condensed consolidated statements of operations will be based on proportional performance over the period of planned research activity, which is expected to be 12 months. For the three and nine months ended September 30, 2008, we incurred related party research and development costs of \$184,000 and \$502,000, respectively, compared to \$70,000 and \$569,000, for the comparable 2007 periods. For the three and nine months ended September 30, 2008, we earned related party revenue of \$20,000 and \$79,000, respectively, compared to none and \$448,000, for the comparable 2007 periods. As of September 30, 2008 and December 31, 2007, the net balance of the advance payment from BRC was \$738,000 and \$1,727,000, respectively.

#### 4. STOCKHOLDERS' EQUITY

On August 14, 2008, we issued 226,062 shares of our common stock to MPI Research, Inc. (MPI) in a private placement as advance consideration under Amendment No. 3 to a Master Agreement pursuant to which MPI has provided and will continue to provide certain preclinical services in support of our programs. The total fair value of the common stock was \$1,038,000, which has been recorded as a prepaid asset and is being amortized to research and development expense on a pro-rata basis as services are performed. As of September 30, 2008, \$361,000 remained as a prepaid asset which is expected to be expensed over the next three months.

14

---

**Geron Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2008**  
**(Unaudited)**

#### 5. SEGMENT INFORMATION

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

#### 6. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS DATA

Supplemental schedule of non-cash operating, investing and financing activities:

(In Thousands)	Nine Months Ended September 30,	
	2008	2007
	(Unaudited)	
<b>Supplemental Operating Activities:</b>		
Net unrealized loss on equity investments in licensees	\$ (6)	\$ (8)
Cash in transit from options	□	6
Reclassification between derivative liabilities and equity	□	22,860
Shares issued for 401(k) matching contribution and performance bonus	640	1,722
Shares or warrants issued in exchange for services	7,554	3,274
<b>Supplemental Investing Activities:</b>		

Net unrealized (loss) gain on marketable securities	(90)	174
<b>Supplemental Financing Activities:</b>		
Deemed dividend	□	3,661

## 7. SUBSEQUENT EVENT

On October 8, 2008, as a seventh installment payment due to Lonza Walkersville, Inc. (Lonza) under the first project order to a services agreement pursuant to which Lonza is manufacturing certain products for us intended for therapeutic use in humans, we issued to Lonza 255,754 shares of our common stock, pursuant to a Common Stock Purchase Agreement dated as of October 3, 2008. The total fair value of the common stock was \$1,000,000, which has been recorded as a prepaid asset and is being amortized to research and development expense on a pro-rata basis as services are performed over the next six months.

15

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

### OVERVIEW

This Form 10-Q contains forward-looking statements that involve risks and uncertainties. We use words such as "anticipate", "believe", "plan", "expect", "future", "intend" and similar expressions to identify forward-looking statements. These statements appear throughout the Form 10-Q and are statements regarding our intent, belief, or current expectations, primarily with respect to our operations and related industry developments. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in Part I, Item 1A, entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and elsewhere in this Form 10-Q.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

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

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make

estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 of Notes to Condensed Consolidated Financial Statements describes the significant accounting policies used in the preparation of the condensed consolidated financial statements.

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

16

---

Other than the adoption of SFAS 157 as discussed below, we believe that there have been no significant changes in our critical accounting policies and estimates during the nine months ended September 30, 2008 as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

### **Fair Value of Financial Instruments**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007.

Beginning January 1, 2008, assets and liabilities recorded at fair value in our condensed consolidated balance sheet are categorized based upon the level of judgment associated with inputs used to measure their fair value. SFAS 157 defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1 □ Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

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.

We classify inputs to derive fair values for marketable debt securities available-for-sale and marketable equity investments in licensees as Level 1 and 2. Instruments classified as Level 1 include highly liquid government and agency securities, money market funds and publicly traded equity securities in active markets. Instruments classified as Level 2 include corporate notes, asset-backed securities and commercial paper.

We classify inputs to calculate fair value of derivatives as Level 3 which includes warrants and non-employee options classified as liabilities under Issue 00-19. The fair value for these instruments is calculated using the Black Scholes option-pricing model. The model's inputs reflect assumptions that market participants would use in pricing the instrument in a current period transaction. Inputs to the model include stock volatility, dividend yields, expected term of the derivatives and risk-free interest rates. Expected volatilities are based on historical volatilities of our stock since traded options on Geron stock do not correspond to derivatives' terms and trading volume of options is limited. The expected term of the derivatives is equal to the remaining contractual term of the instrument. The risk-free interest rate is based on the U.S. Zero Coupon Treasury Strip Yields for the expected term in effect on the reporting date. Changes to the model's inputs are not changes to valuation

methodologies, but instead reflect direct or indirect impacts from changes in market conditions. Accordingly, results from the valuation model in one period may not be indicative of future period measurements.

For a further discussion regarding fair value measurements, see Note 2, "Fair Value Measurements," of Notes to Condensed Consolidated Financial Statements.

---

## RESULTS OF OPERATIONS

### Revenues

We recognized revenues from collaborative agreements of \$74,000 and \$240,000 for the three and nine months ended September 30, 2008, respectively, compared to none and \$597,000 for the comparable 2007 periods. Revenues for 2008 and 2007 primarily reflect related party reimbursements we received from our joint venture in Hong Kong, TA Therapeutics, Ltd. (TAT), for scientific research services and revenue recognized under our collaboration with Corning Life Sciences. Since June 16, 2007, we have been consolidating TAT's results of operations and have eliminated any related party revenue when the source of funds has been derived from our contributions to the related party.

We have entered into license and option agreements with companies involved in oncology, diagnostics, research tools, agriculture and biologics production. In each of these agreements, we have granted certain rights to our technologies. In connection with the agreements, we are entitled to receive license fees, option fees, milestone payments and royalties on future sales, or any combination thereof. We recognized license fee revenues of \$267,000 and \$1.9 million for the three and nine months ended September 30, 2008, respectively, compared to \$1.1 million and \$2.2 million for the comparable 2007 periods related to our various agreements. In 2008, license fee revenues primarily reflected recognition of a \$1.5 million milestone payment in connection with our joint venture agreement with Exeter Life Sciences, Inc. as a result of the final Risk Assessment released by the U.S. Food and Drug Administration addressing food products made from cloned animals or their progeny. In 2007, license fee revenues primarily reflected recognition of revenues from the Merck license agreement. We expect to recognize revenues of \$59,000 for the remainder of 2008, \$27,000 in 2009, \$27,000 in 2010, \$25,000 in 2011 and none thereafter related to our existing deferred revenue. Current revenues may not be predictive of future revenues.

We received royalties of \$26,000 and \$78,000 for the three and nine months ended September 30, 2008, respectively, compared to \$15,000 and \$165,000 for the comparable 2007 periods on product sales of telomerase detection and telomere measurement kits to the research-use-only market, cell-based research products and agricultural products. License and royalty revenues are dependent upon additional agreements being signed and future product sales.

### Research and Development Expenses

Research and development expenses were \$14.2 million and \$39.4 million for the three and nine months ended September 30, 2008, respectively, compared to \$12.3 million and \$39.6 million for the comparable 2007 periods. The increase in research and development expenses for the 2008 third quarter compared to the 2007 third quarter was primarily the result of timing of purchases of \$2.1 million of GRN163L drug product for clinical trials. The decrease for the 2008 nine month period compared to the 2007 nine month period was primarily the net result of reduced consulting expenses of \$2.6 million offset by increased personnel-related expense of \$2.5 million due to increased regulatory and product development headcount. Overall, we expect research and development expenses to increase in the next year as we incur expenses related to clinical trials for GRN163L and GRNVAC1 and continued development of our human embryonic stem cell (hESC) programs.

Our research and development activities have arisen from our two major technology platforms, telomerase and hESCs. The oncology programs focus on treating or diagnosing cancer by targeting or detecting the presence of telomerase, either inhibiting activity of the telomerase enzyme, diagnosing cancer by detecting the presence of telomerase, or using telomerase as a target for therapeutic vaccines. Our core knowledge base in telomerase and telomere biology supports all these approaches, and our scientists may contribute to any or all of these programs in a given period. We have initiated the following clinical trials for our telomerase inhibitor drug, GRN163L: 1)

Phase I/II trial in patients with chronic lymphoproliferative disease; 2) Phase I trial in patients with solid tumor malignancies; 3) Phase I trial in patients with advanced non-small cell lung cancer when administered intravenously in combination with a standard paclitaxel/carboplatin regimen; 4) Phase I trial in patients with multiple myeloma; and 5) Phase I/II trial in patients with breast cancer when administered intravenously in combination with a paclitaxel/bevacizumab regimen. Preliminary data from these studies showed safety and tolerability of the drug in low-dose cohorts as well as the expected pharmacokinetic properties after multiple intravenous infusions of the drug. Taking the results from the Duke University clinical studies in prostate cancer, hematologic malignancies and renal cell carcinoma, we optimized the vaccine manufacturing process and transferred it to a contract manufacturer. We are conducting a Phase II clinical trial of our telomerase cancer vaccine (GRNVAC1) using the prime/boost scheme in patients with acute myelogenous leukemia.

18

Our hESC therapy programs focus on treating injuries and degenerative diseases with cell therapies based on cells derived from hESCs. A core knowledge of hESC biology, as well as a significant continuing effort in deriving, growing, maintaining, and differentiating hESCs, underlies all aspects of this group of programs. Many of our researchers are allocated to more than one hESC project, and the percentage allocations of time change as the resource needs of individual programs vary. In our hESC therapy programs, we have concentrated our resources on several specific cell types. We have developed proprietary methods to grow, maintain and scale the culture of undifferentiated hESCs that use feeder cell-free and serum-free media with chemically defined components. Moreover, we have developed scalable processes to differentiate these cells into therapeutically relevant cells, including cryopreserved formulations in order to deliver these therapeutic cells [on demand]. We are now testing six different hESC-derived therapeutic cell types in animal models. From these studies, we are advancing development of two hESC-based therapeutics to clinical testing. We received notice from the Food and Drug Administration (FDA) that our Investigational New Drug (IND) application to initiate clinical testing of our hESC-derived oligodendrocyte progenitor cells (GRNOPC1) for the treatment of acute spinal cord injury has been placed on clinical hold.

Research and development expenses allocated by program are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	<b>(Unaudited)</b>			
Oncology	\$ 8,781	\$ 5,913	\$ 22,277	\$ 21,782
hESC Therapies	5,427	6,413	17,158	17,831
Total	\$ 14,208	\$ 12,326	\$ 39,435	\$ 39,613

At this time, we cannot provide reliable estimates of how much time or investment will be necessary to commercialize products from the programs currently in progress. Drug development in the U.S. is a process that includes multiple steps defined by the FDA under applicable statutes, regulations and guidance documents. After the preclinical research process of identifying, selecting and testing in animals a potential pharmaceutical compound, the clinical development process begins with the filing of an IND. An IND becomes effective within 30 days of filing with the FDA unless the FDA imposes a clinical hold on the IND. In addition, the FDA may, at any time, impose a clinical hold on ongoing clinical trials. If the FDA imposes a clinical hold, clinical trials cannot commence or recommence, as the case may be, without prior FDA authorization, and then only under terms authorized by the FDA. Clinical development typically involves three phases of study: Phase I, II and III. The most significant costs associated with clinical development are incurred in Phase III trials, which tend to be the longest and largest studies conducted during the drug development process. After the completion of a successful preclinical and clinical development program, a New Drug Application (NDA) or Biologics License Application (BLA) must be filed with the FDA, which includes, among other things, very large amounts of preclinical and clinical data and results and manufacturing-related information necessary to support requested approval of the product. The NDA/BLA must be reviewed and approved by the FDA.

According to industry statistics, it generally takes 10 to 15 years to research, develop and bring to market a new prescription medicine in the United States. In light of the steps and complexities involved, the successful development of our potential products is highly uncertain. Actual timelines and costs to develop and

commercialize a product are subject to enormous variability and are very difficult to predict. In addition, various statutes and regulations also govern or influence the manufacturing, safety reporting, labeling, storage, record keeping and marketing of each product.

The lengthy process of seeking these regulatory reviews and approvals, and the subsequent compliance with applicable statutes and regulations, require the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could materially adversely affect our business. In responding to an NDA/BLA submission, the FDA may grant marketing approval, may request additional information, may deny the application if it determines that the application does not provide an adequate basis for approval, and may also refuse to review an application that has been submitted if it determines that the application does not provide an adequate basis for filing and review. We cannot provide assurance that any approval required by the FDA will be obtained on a timely basis, if at all.

For a more complete discussion of the risks and uncertainties associated with completing development of potential products, see the sub-section titled "Delays in the commencement of clinical testing of our current and potential product candidates could result in increased costs to us and delay our ability to generate revenues" and "Obtaining regulatory approvals to market our product candidates in the United States and other countries is a costly and lengthy process and we cannot predict whether or when we will be permitted to commercialize our product candidates" in Part II, Item 1A entitled "Risk Factors" and elsewhere in this quarterly report.

### **General and Administrative Expenses**

General and administrative expenses were \$4.1 million and \$12.2 million for the three and nine months ended September 30, 2008, respectively, compared to \$4.1 million and \$11.8 million for the comparable 2007 periods. General and administrative costs have remained consistent period to period as a net result of reduced consulting and accounting expenses offset by increased patent legal costs. We currently anticipate general and administrative expenses to remain consistent with current levels.

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

Unrealized gain (loss) on derivatives reflects a non-cash adjustment for changes in fair value of warrants and options held by non-employees to purchase common stock that are classified as current liabilities based upon the terms of the instrument. Under Issue 00-19, derivatives classified as assets or liabilities are marked to market at each financial reporting date with any resulting unrealized gain (loss) recorded in the condensed consolidated statements of operations. The derivatives continue to be reported as an asset or liability until such time as the instruments are exercised or expire or are otherwise modified to remove the provisions which require this treatment, at which time the fair value of these instruments is updated and reclassified from assets or liabilities to stockholders' equity. We incurred an unrealized loss of \$162,000 and an unrealized gain of \$739,000 on derivatives for the three and nine months ended September 30, 2008, respectively, compared to an unrealized loss of \$247,000 and an unrealized gain of \$14.5 million for the comparable 2007 periods. The total unrealized gain on derivatives for 2008 reflects the decreasing value of derivative liabilities currently on the condensed consolidated balance sheet. The total unrealized gain on derivatives for 2007 primarily reflects the result of amendments executed in March 2007 to certain warrant agreements to address the presumption under Issue 00-19 of net-cash settlement in the event that registered shares are not available to settle the warrants and the change in fair value for warrants held at December 2006.

### **Interest and Other Income**

Interest income was \$1.2 million and \$4.5 million for the three and nine months ended September 30, 2008, respectively, compared to \$2.8 million and \$8.4 million for the comparable 2007 periods. The decrease in interest income for 2008 compared to 2007 was primarily due to decreased interest rates and lower cash and investment balances. Interest earned in future periods will depend on the size of our securities portfolio and prevailing interest rates.

### **Loss Recognized Under Equity Method Investment**

In August 2008, we exchanged our equity interest in the Start Licensing, Inc. joint venture for equity interest in ViaGen, Inc. In September 2008, we provided a loan of \$1.5 million to ViaGen in connection with ViaGen acquiring a 44% interest in an unrelated company that develops and markets large animal model systems for research and development applications. The proceeds of the loan did not fund prior ViaGen losses and represents additional financial support to ViaGen. In accordance with the equity method of accounting, we recognized \$229,000 during the 2008 third quarter for our proportionate share of ViaGen's losses as an adjustment to the basis of the loan. Previously, we had suspended the equity method of accounting for Start and ViaGen since our proportionate share of net losses exceeded the value of our equity investment.

### **Interest and Other Expense**

Interest and other expense was \$23,000 and \$71,000 for the three and nine months ended September 30, 2008, respectively, compared to \$24,000 and \$78,000 for the comparable 2007 periods. The decrease in interest and other expense for 2008 compared to 2007 was primarily due to decreased investment management charges as a result of lower cash and investment balances.

### **Deemed Dividend on Derivatives**

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

### **Net Loss Applicable to Common Stockholders**

Net loss applicable to common stockholders was \$17.2 million and \$44.4 million for the three and nine months ended September 30, 2008, respectively, compared to \$12.8 million and \$29.3 million for the comparable 2007 periods. Excluding the effect of unrealized gain on derivatives, net loss increased in the third quarter of 2008 compared to the third quarter of 2007 as a result of decreased interest income and revenues and increased operating expenses due to timing of drug product purchases and manufacturing-related costs. Excluding the effect of unrealized gain on derivatives and deemed dividend on derivatives, net loss increased in 2008 compared to 2007 primarily as a result of decreased interest income.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash, restricted cash, cash equivalents and marketable securities at September 30, 2008 totaled \$175.2 million compared to \$208.4 million at December 31, 2007. We have an investment policy to invest these funds in liquid, investment grade securities, such as interest-bearing money market funds, U.S. government and agency securities, corporate notes, commercial paper, asset-backed securities and municipal securities. Our investment portfolio does not contain securities with exposure to sub-prime mortgages, collateralized debt obligations or auction rate securities and we have not to date recognized an other than temporary impairment on our marketable securities. To date, we have not experienced lack of access to our invested cash and cash equivalents; however, we cannot provide assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. The decrease in cash, restricted cash, cash equivalents and marketable securities in 2008 was due to use of cash for operations.

*Cash Flows from Operating Activities.* Net cash used in operations was \$30.6 million for the nine months ended September 30, 2008 compared to \$23.2 million for the comparable 2007 period. The increase in net cash used for operations in 2008 was primarily the result of payments to Biotechnology Research Corporation, our joint venture partner in TA Therapeutics, Ltd., for scientific research services, cash payments to vendors for equipment purchases and general operations and use of the advance payment for related party research and development.

*Cash Flows from Investing Activities.* Net cash provided by investing activities was \$6.8 million for the nine months ended September 30, 2008, compared to net cash provided by investing activities of \$23.3 million for the comparable 2007 period. The decrease in net cash provided by investing activities reflected reduced marketable securities maturities.

Since inception through September 30, 2008, we have invested approximately \$21.2 million in property and equipment, of which approximately \$8.3 million was financed through an equipment financing arrangement. As of September 30, 2008, no payments were due under our equipment financing facility. As of September 30, 2008, we had approximately \$500,000 available for borrowing under our equipment financing facility. We intend to renew the commitment for a new equipment financing facility in 2008 to further fund equipment purchases. If we are unable to renew the commitment, we will use our cash resources for capital expenditures.

*Cash Flows from Financing Activities.* Net cash used in financing activities for the nine months ended September 30, 2008 was \$342,000, compared to net cash provided by financing activities of \$16.8 million for the comparable 2007 period. During the second quarter of 2008, certain restricted stock awards vested for employees, at which time payroll taxes were assessed on the fair value of the vested awards. In accordance with our 2002 Equity Incentive Plan, we repurchased a portion of the vested stock from employees at a fair value of \$455,000 and provided the cash to the respective tax authorities on behalf of the employees in order to satisfy their minimum tax withholding requirements. In 2007, we received \$15.0 million in proceeds from the exercise of warrants issued to institutional investors in connection with a financing in December 2006.

### Contractual Obligations

As of September 30, 2008, our contractual obligations for the next five years and thereafter are as follows:

Contractual Obligations (1)	Total	Principal Payments Due by Period			
		Remainder in 2008	2009- 2010	2011- 2012	After 2012
(Amounts in thousands)					
Equipment leases	\$ 28	\$ 4	\$ 24	\$ 0	\$ 0
Operating leases (2)	0	0	0	0	0
Research funding (3)	3,073	931	768	594	780
Total contractual cash obligations	\$ 3,101	\$ 935	\$ 792	\$ 594	\$ 780

- (1) This table does not include any milestone payments under research collaborations or license agreements as the timing and likelihood of such payments are not known. In addition, this table does not include payments under our severance plan if there was a change in control of the Company or severance payments to key employees under involuntary termination.
- (2) In March 2004, we issued 363,039 shares of our common stock to the lessor of our premises at 200 and 230 Constitution Drive in payment of our monthly rental obligation from February 1, 2004 through July 31, 2008. In March 2008, we issued 742,158 shares of our common stock to the lessor of our premises at 200 and 230 Constitution Drive in payment of our monthly rental obligation from August 1, 2008 through July 31, 2012. In May 2007, we issued 210,569 shares of our common stock to the lessor of our premises at 149 Commonwealth Drive in payment of our monthly rental obligation from May 1, 2007 through April 30, 2010. The fair value of the common stock issuances has been recorded as a prepaid asset and is being amortized to rent expense on a straight-line basis over the lease periods.
- (3) Research funding is comprised of sponsored research and license commitments at various laboratories around the world, including commitments of our majority-owned subsidiary, TAT.



We estimate that our existing capital resources, interest income and equipment financing facilities will be sufficient to fund our current level of operations through at least December 2009. Changes in our research and development plans or other changes affecting our operating expenses or cash balances may result in the expenditure of available resources before such time, and in any event, we will need to raise substantial additional capital to fund our operations in the future. We intend to seek additional funding through strategic collaborations, public or private equity financings, equipment loans or other financing sources that may be available.

### Off-Balance Sheet Arrangements

None

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

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

*Credit Risk.* We place our cash, restricted cash, cash equivalents, and marketable securities with six financial institutions in the United States. Deposits with banks may exceed the amount of insurance provided on such deposits. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have not experienced any loss or lack of access to cash in our operating accounts or to our cash equivalents and marketable securities in our investment portfolios. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of marketable securities. Marketable securities consist of U.S. government agency securities, commercial paper and corporate notes. Our investment policy, approved by our Board of Directors, limits the amount we may invest in any one type of investment issuer, thereby reducing credit risk concentrations.

*Interest Rate Sensitivity.* The fair value of our cash equivalents and marketable securities at September 30, 2008 was \$173.3 million. These investments include \$120.8 million of cash and cash equivalents which are due in less than 90 days and \$52.5 million of short-term investments which are due in less than one year.

*Foreign Currency Exchange Risk.* Because we translate foreign currencies into United States dollars for reporting purposes, currency fluctuations can have an impact, though generally immaterial, on our results. We believe that our exposure to currency exchange fluctuation risk is insignificant primarily because our wholly-owned international subsidiary, Geron Bio-Med Ltd., satisfies its financial obligations almost exclusively in its local currency. As of September 30, 2008, there was an immaterial currency exchange impact from our intercompany transactions. As of September 30, 2008, we did not engage in foreign currency hedging activities.

### ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our chief executive officer and our chief financial officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective for this purpose.

(b) *Changes in Internal Controls Over Financial Reporting.* There was no change in our internal control over financial reporting for the three months ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

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

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None

### **ITEM 1A. RISK FACTORS**

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

#### **RISKS RELATED TO OUR BUSINESS**

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

Our business is at an early stage of development, in that we do not yet have product candidates in late-stage clinical trials or on the market. We have begun clinical testing of our lead anti-cancer drug, GRN163L, in patients with chronic lymphocytic leukemia, solid tumor malignancies, non-small cell lung cancer, breast cancer and multiple myeloma. We have begun clinical testing of our telomerase cancer vaccine, GRNVAC1, in patients with acute myelogenous leukemia. We have no other product candidates in clinical testing. Our ability to develop product candidates that progress to and through clinical trials is subject to our ability to, among other things:

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

Potential lead drug compounds or other product candidates and technologies require significant preclinical and clinical testing prior to regulatory approval in the United States and other countries. Our product candidates may prove to have undesirable and unintended side effects or other characteristics adversely affecting their safety, efficacy or cost-effectiveness that could prevent or limit their commercial use. In addition, our product candidates may not prove to be more effective for treating disease or injury than current therapies. Accordingly, we may have to delay or abandon efforts to research, develop or obtain regulatory approvals to market our product candidates. In addition, we will need to determine whether any of our potential products can be manufactured in commercial quantities at an acceptable cost. Our research and development efforts may not result in a product that can be approved by regulators or marketed successfully. Physicians may not prescribe our products or patients or third party payors may not accept such products. Competitors may have proprietary rights which prevent us from marketing our products or sell similar, superior or lower-cost products. Because of the significant scientific, regulatory and commercial milestones that must be reached for any of our development programs or product candidates to be successful, any program or product candidate may be abandoned, even after we have expended significant resources, such as our investments in telomerase technology, human embryonic stem cells, GRN163L and GRNVAC1, which could adversely affect our business and cause a sharp drop in our stock price.

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

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

Some of our most important programs involve the use of stem cells that are derived from human embryos. The use of human embryonic stem cells gives rise to ethical and social issues regarding the appropriate use of these cells. Our research related to human embryonic stem cells may become the subject of adverse commentary or publicity, which could significantly harm the market price for our common stock.

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

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

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

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

---

## **RISKS RELATED TO OUR FINANCIAL POSITION AND NEED FOR ADDITIONAL FINANCING**

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

We have incurred operating losses every year since our operations began in 1990. As of September 30, 2008, our accumulated deficit was approximately \$489.3 million. Losses have resulted principally from costs incurred in connection with our research and development activities and from general and administrative costs associated with our operations. We expect to incur additional operating losses and, as our development efforts and clinical testing activities continue, our operating losses may increase in size.

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

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

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

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

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

- the accuracy of the assumptions underlying our estimates for our capital needs in 2008 and beyond;
- the magnitude and scope of our research and development programs;
- the progress we make in our research and development programs, preclinical development and clinical trials;
- our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- the number and type of product candidates that we pursue;
- the time and costs involved in obtaining regulatory approvals; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims.

26

---

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

#### **RISKS RELATED TO CLINICAL AND COMMERCIALIZATION ACTIVITIES**

***Delays in the commencement of clinical testing of our current and potential product candidates could result in increased costs to us and delay our ability to generate revenues.***

The commencement of clinical trials can be delayed for a variety of reasons, including delays in:

- demonstrating sufficient safety and efficacy to obtain regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with our collaborators on all aspects of the clinical trial, including the contract research organizations and the trial sites;
- reaching agreement on acceptable terms with prospective contract research organizations and trial sites;
- manufacturing sufficient quantities or producing drug meeting our quality standards of a product candidate;
- obtaining approval of an Investigational New Drug (IND) application or proposed trial design from the Food and Drug Administration (FDA); and
- obtaining institutional review board approval to conduct a clinical trial at a prospective site.

In addition, clinical trials may be delayed due to insufficient patient enrollment, which is a function of many factors, including the size and nature of the patient population, the nature of the protocol, the proximity of patients to clinical sites, the availability of effective treatments for the relevant disease, and the eligibility criteria for the clinical trial.

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

Preliminary results from clinical trials of GRN163L and GRNVAC1 may not be indicative of successful outcomes in later stage trials. Negative or limited results from any current or future clinical trials could delay or prevent further development of our product candidates which would adversely affect our business.

We have no experience as a company in conducting large-scale, late stage clinical trials, and our experience with early-stage clinical trials with small numbers of patients is limited. In part because of this limited experience, we cannot be certain that planned clinical trials will begin or be completed on time, if at all. Large-scale trials would require either additional financial and management resources, or reliance on third-party clinical investigators, clinical research organizations (CROs) or consultants. Relying on third-party clinical investigators or CROs may force us to encounter delays that are outside of our control. Any such delays could have a material adverse effect on our business.

27

---

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

***Obtaining regulatory approvals to market our product candidates in the United States and other countries is a costly and lengthy process and we cannot predict whether or when we will be permitted to commercialize our product candidates.***

Federal, state and local governments in the United States and governments in other countries have significant regulations in place that govern many of our activities and may prevent us from creating commercially viable products from our discoveries. The regulatory process, particularly for biopharmaceutical product candidates like ours, is uncertain, can take many years and requires the expenditure of substantial resources.

Our potential product candidates will require extensive preclinical and clinical testing prior to submission of any regulatory application for commercial sales. In particular, human pharmaceutical therapeutic product candidates are subject to rigorous requirements of the FDA in the United States and similar health authorities in other countries in order to demonstrate safety and efficacy. Data obtained from preclinical and clinical activities is susceptible to varying interpretations that could delay, limit or prevent regulatory agency approvals. In addition, delays or rejections may be encountered as a result of changes in regulatory agency policy during the period of product development and/or the period of review of any application for regulatory agency approval for a product candidate.

Any product candidate that we or our collaborators develop must receive all relevant regulatory agency approvals before it may be marketed in the United States or other countries. Obtaining regulatory approval is a

lengthy, expensive and uncertain process. Because certain of our product candidates involve the application of new technologies or are based upon a new therapeutic approach, they may be subject to substantial additional review by various government regulatory authorities, and, as a result, the process of obtaining regulatory approvals for them may proceed more slowly than for product candidates based upon more conventional technologies.

Delays in obtaining regulatory agency approvals could:

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

Even if we commit the necessary time and resources, the required regulatory agency approvals may not be obtained for any product candidates developed by us or in collaboration with us. If we obtain regulatory agency approval for a new product, this approval may entail limitations on the indicated uses for which it can be marketed that could limit the potential commercial use of the product.

28

---

***Failure to achieve continued compliance with government regulation over approved products could delay or halt commercialization of our products.***

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

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

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

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

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

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

**RISKS RELATED TO PROTECTING OUR INTELLECTUAL PROPERTY**

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

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

The patent positions of pharmaceutical and biopharmaceutical companies, including ours, are highly uncertain and involve complex legal and technical questions. In particular, legal principles for biotechnology patents in the United States and in other countries are evolving, and the extent to which we will be able to obtain patent coverage to protect our technology, or enforce issued patents, is uncertain. In the United States, recent court decisions in patent cases as well as proposed legislative changes to the patent system only exacerbate this uncertainty. Furthermore, significant amendments to the regulations governing the process of obtaining patents were recently proposed by the United States Patent and Trademark Office (the Patent Office). These amendments were widely regarded as detrimental to the interests of biotechnology and pharmaceutical companies. The implementation of the amendments was blocked by a court injunction requested by a pharmaceutical company. At this time, the Patent Office is challenging the court decision through an appeals process, and we do not know whether or when the Patent Office might seek to reintroduce the amendments in a modified form.

---

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

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

***Challenges to our patent rights can result in costly and time-consuming legal proceedings that may prevent or limit development of our product candidates.***

Where several parties seek U.S. patent protection for the same technology, the Patent Office may declare an interference proceeding in order to ascertain the party to which the patent should be issued. Patent interferences are typically complex, highly contested legal proceedings, subject to appeal. They are usually expensive and prolonged, and can cause significant delay in the issuance of patents. Moreover, parties that receive an adverse decision in an interference can lose important patent rights. Our pending patent applications, or our issued patents, may be drawn into interference proceedings which may delay or prevent the issuance of patents, or result in the loss of issued patent rights. As more groups become engaged in scientific research and product development in the areas of telomerase biology and embryonic stem cells, the risk of our patents being challenged through patent interferences, oppositions, reexaminations or other means will likely increase.

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

Outside of the United States, certain jurisdictions, such as Europe, New Zealand and Australia, permit oppositions to be filed against the granting of patents. Because our intent is to commercialize products internationally, securing both proprietary protection and freedom to operate outside of the United States is important to our business. We are involved in both opposing the grant of patents to others through such opposition proceedings and in defending our patent applications against oppositions filed by others. For example, we have recently been involved in two patent oppositions before the European Patent Office (EPO) with a Danish

company, Pharmexa. Pharmexa (which acquired the Norwegian company GemVax in 2005) is developing a cancer vaccine that employs a short telomerase peptide to induce an immune response against telomerase and is conducting a Phase III clinical trial. Pharmexa obtained a European patent with broad claims to the use of telomerase vaccines for the treatment of cancer, and Geron opposed that patent in 2004. In 2005, the Opposition Division (OD) of the EPO revoked the claims originally granted to Pharmexa, but permitted Pharmexa to add new, narrower claims limited to five specific small peptide fragments of telomerase. The decision was appealed to the Technical Board of Appeals (TBA). In August 2007, the TBA ruled, consistent with the decision of the OD, that Pharmexa was not entitled to the originally granted broad claims but was only entitled to the narrow claims limited to the five small peptides.

30

---

In parallel, Pharmexa opposed a European patent held by Geron, the claims of which cover many facets of human telomerase, including the use of telomerase peptides in cancer vaccines. In June 2006, the OD of the EPO revoked three of the granted claims in Geron's patent, specifically the three claims covering telomerase peptide cancer vaccines. We have appealed that decision to the TBA, and that appeal is still pending. Because this appeal is ongoing, the outcome cannot be determined at this time. We are also seeking to obtain patent coverage in Europe for telomerase peptides through a European divisional patent application. If those patent claims are issued, they too may be subject to an opposition proceeding.

European opposition and appeal proceedings can take several years to reach final decision. The oppositions discussed above reflect the complexity of the patent landscape in which we operate, and illustrate the risks and uncertainties. We are also currently involved in other patent opposition proceedings in Europe and Australia.

Patent opposition proceedings are not currently available in the U.S. patent system, but legislation has been proposed to introduce them. However, issued U.S. patents can be reexamined by the Patent Office at the request of a third party. Patents owned or licensed by Geron may therefore be subject to reexamination. As in any legal proceeding, the outcome of patent reexaminations is uncertain, and a decision adverse to our interests could result in the loss of valuable patent rights.

In July 2006, requests were filed on behalf of the Foundation for Taxpayer and Consumer Rights (now renamed as "Consumer Watchdog") for reexamination of three issued U.S. patents owned by the Wisconsin Alumni Research Foundation (WARF) and relating to human embryonic stem cells. These three patents (U.S. Patent Nos. 5,843,780, 6,200,806 and 7,029,913) are licensed to Geron pursuant to a January 2002 license agreement with WARF. The license agreement conveys exclusive rights to Geron under the WARF patents for the development and commercialization of therapeutics based on neural cells, cardiomyocytes and pancreatic islet cells, derived from human embryonic stem cells, as well as nonexclusive rights for other product opportunities. In October 2006, the Patent Office initiated the reexamination proceedings. After initially rejecting the patent claims, the Patent Office recently issued decisions in all three cases upholding the patentability of the claims. The decisions to uphold the 5,843,780 and 6,200,806 patents are final and not subject to further appeal. Consumer Watchdog has filed a notice of appeal against the decision on the 7,029,913 patent. We cooperated with WARF in these reexamination actions and expect that WARF will continue to vigorously defend its patent position in this appeal. While the decisions in these reexamination proceedings to date have all been favorable to our patent position, the outcome of the appeal or of any future reexamination proceedings cannot be determined at this time. Reduction or loss of claim scope in these WARF embryonic stem cell patents would negatively impact Geron's proprietary position in this technology.

Successful challenges to our patents through interferences, oppositions or reexamination proceedings could result in a loss of patent rights in the relevant jurisdiction(s). If we are unsuccessful in actions we bring against the patents of other parties, we may be subject to litigation, or otherwise prevented from commercializing potential products in the relevant jurisdiction, or may be required to obtain licenses to those patents or develop or obtain alternative technologies, any of which could harm our business. Furthermore, if such challenges to our patent rights are not resolved promptly in our favor, our existing business relationships may be jeopardized and we could be delayed or prevented from entering into new collaborations or from commercializing certain products, which could materially harm our business.

31

---



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

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

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

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

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

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

Our commercial success depends significantly on our ability to operate without infringing patents and the proprietary rights of others. Our technologies may infringe the patents or proprietary rights of others. In addition, we may become aware of discoveries and technology controlled by third parties that are advantageous to our programs. In the event our technologies infringe the rights of others or we require the use of discoveries and technology controlled by third parties, we may be prevented from pursuing research, development or commercialization of potential products or may be required to obtain licenses to those patents or other proprietary rights or develop or obtain alternative technologies. We have obtained licenses from several universities and companies for technologies that we anticipate incorporating into our potential products, and we initiate negotiation for licenses to other technologies as the need or opportunity arises. We may not be able to obtain a license to patented technology on commercially favorable terms, or at all. If we do not obtain a necessary license, we may need to redesign our technologies or obtain rights to alternate technologies, the research and adoption of which could cause delays in product development. In cases where we are unable to license necessary technologies, we could be prevented from developing certain potential products. Our failure to obtain alternative technologies or a license to any technology that we may require to research, develop or commercialize our product candidates would significantly and negatively affect our business.

---

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

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

### **RISKS RELATED TO OUR RELATIONSHIPS WITH THIRD PARTIES**

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

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

Under agreements with other parties, we may rely significantly on them to, among other activities:

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

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

We also rely on other companies for certain process development, manufacturing or other technical scientific work, especially with respect to our GRN163L, GRNVAC1 and GRNOPC1 programs. We have contracts with these companies that specify the work to be done and results to be achieved, but we do not have direct control over their personnel or operations. If these companies do not perform the work which they were assigned, our ability to develop or manufacture our product candidates could be significantly harmed.

---

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

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

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

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

### **RISKS RELATED TO COMPETITIVE FACTORS**

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

Our future success depends to a significant extent on the skills, experience and efforts of our executive officers and key members of our scientific staff. We face intense competition for qualified individuals from numerous pharmaceutical, biopharmaceutical and biotechnology companies, as well as academic and other research institutions. We may be unable to retain our current personnel or attract or assimilate other highly qualified management and scientific personnel in the future on acceptable terms. The loss of any or all of these individuals could harm our business and might significantly delay or prevent the achievement of research, development or business objectives.

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

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

34

---

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

in development.

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

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

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

36

---

#### **RISKS RELATED TO ENVIRONMENTAL AND PRODUCT LIABILITY**

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

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

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

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

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

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing and marketing of human therapeutic and diagnostic products. We may become subject to product liability claims if the use of our potential products is alleged to have injured subjects or patients. This risk exists for product candidates tested in human clinical trials as well as potential products that are sold commercially. We currently have limited clinical trial liability insurance and we may not be able to maintain this type of insurance for any of our clinical trials. In addition, product liability insurance is becoming increasingly expensive. Being unable to

obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities could have a material adverse effect on our business.

## **RISKS RELATED TO OUR COMMON STOCK AND FINANCIAL REPORTING**

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

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

Historically, our stock price has been extremely volatile. Between January 1998 and September 2008, our stock has traded as high as \$75.88 per share and as low as \$1.41 per share. Between January 1, 2003 and September 30, 2008, the price has ranged between a high of \$16.80 per share and a low of \$1.41 per share. The significant market price fluctuations of our common stock are due to a variety of factors, including:

37

---

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

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

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

Sale of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could significantly and negatively affect the market price for our common stock. As of September 30, 2008, we had 200,000,000 shares of common stock authorized for issuance and 78,873,601 shares of common stock outstanding. In addition, as of September 30, 2008, we have reserved for future issuance approximately 27,753,065 shares of common stock for our stock plans, potential milestone payments and outstanding warrants.

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

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

Our certificate of incorporation provides our Board of Directors with the authority to issue up to 3,000,000 shares of undesignated preferred stock and to determine the rights, preferences, privileges and restrictions of these shares without further vote or action by our stockholders. As of the date of this 10-Q, 50,000 shares of preferred stock have been designated Series A Junior Participating Preferred Stock and the Board of Directors still has authority to designate and issue up to 2,950,000 shares of preferred stock. The issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock may be adversely affected.

38

---

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

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

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

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

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

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

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

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

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

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

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

39

---

The requirements of Section 404 of the Sarbanes-Oxley Act are ongoing and also apply to future years. We expect that our internal control over financial reporting will continue to evolve as our business develops. Although we are committed to continue to improve our internal control processes and we will continue to diligently and vigorously review our internal control over financial reporting in order to ensure compliance with Section 404 requirements, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met. Therefore, we cannot be certain that in the future material weaknesses or significant deficiencies will not exist or otherwise be discovered. If material weaknesses or other significant deficiencies occur, these weaknesses or deficiencies could result in misstatements of our results of operations, restatements of our consolidated financial statements, a decline in our stock price, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

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

On August 14, 2008, we issued 226,062 shares of our common stock to MPI Research, Inc. (MPI) in a private placement as advance consideration under Amendment No.3 to a Master Agreement pursuant to which MPI has provided and will continue to provide certain preclinical services in support of our programs. The total fair value of the common stock was \$1,038,000, which has been recorded as a prepaid asset and is being amortized to research and development expense on a pro-rata basis as services are performed. As of September 30, 2008, \$361,000 remained as a prepaid asset which is expected to be expensed over the next three months.

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

### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None

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

None

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

None

## **ITEM 5. OTHER INFORMATION**

None

40

---

## **ITEM 6. EXHIBITS**



<b>Exhibit Number</b>	<b>Description</b>
4.1	Convertible Promissory Note, between Geron Corporation and ViaGen, Inc., dated September 3, 2008.
10.1	Loan Agreement, between Geron Corporation and ViaGen, Inc., dated September 3, 2008.
31.1	Certification of Chief Executive Officer pursuant to Form of Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.
31.2	Certification of Chief Financial Officer pursuant to Form of Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.

**SIGNATURE**

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

GERON CORPORATION

By: /s/ DAVID L.  
GREENWOOD

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

Date: October 31, 2008

---

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
4.1	Convertible Promissory Note, between Geron Corporation and ViaGen, Inc., dated September 3, 2008.
10.1	Loan Agreement, between Geron Corporation and ViaGen, Inc., dated September 3, 2008.
31.1	Certification of Chief Executive Officer pursuant to Form of Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.
31.2	

Edgar Filing: GERON CORP - Form 10-Q

Certification of Chief Financial Officer pursuant to Form of Rule 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.

32.1

Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.

32.2

Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated October 31, 2008.