Ceres, Inc.
Form 10-Q
January 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2013

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: 001-35421

Ceres, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**33-0727287**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

1535 Rancho Conejo Boulevard

Thousand Oaks, CA 91320

(Address of principal executive offices)

Telephone: (805) 376-6500

(Registrant's telephone number, including area code)

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

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

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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, Ceres, Inc. qualifies as an “emerging growth company,” as defined under the JOBS Act.

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 January 6, 2014**
Common Stock, $0.01 par value per share	25,204,602

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

CERES, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets

(In thousands, except share amounts and par value)

(Unaudited)

	November 30, 2013	August 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,314	$ 8,881
Marketable securities	17,127	21,630
Prepaid expenses	779	791
Accounts receivable	901	957
Inventories	-	20
Other current assets	147	157
Total current assets	26,268	32,436
Property and equipment, net	4,632	4,633
Other assets	44	109
Total assets	$ 30,944	$ 37,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,745	$ 3,825
Other current liabilities	80	18
Current portion of long-term debt	135	154
Total current liabilities	4,960	3,997
Other non-current liabilities	88	93
Long-term debt, net of current portion	60	82
Total liabilities	5,108	4,172
Commitments and contingencies		
Stockholders’ equity:		
Common stock and additional paid in capital, $0.01 par value; 490,000,000 shares authorized; 25,224,269 shares issued and outstanding at November 30, 2013; 24,897,199 shares issued and outstanding at August 31, 2013	309,212	308,286

Accumulated other comprehensive loss	(587)	(696)
Accumulated deficit	(282,789)	(274,584)
Total stockholders’ equity	25,836	33,006
Total liabilities and stockholders’ equity	$ 30,944	$ 37,178

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations

(In thousands, except share and per share amounts)

(Unaudited)

	Three months ended November 30, 2013			2012		
Revenues:						
Product sales	$	20		$	14	
Collaborative research and government grants		743			1,952	
Total revenues		763			1,966	
Cost and operating expenses:						
Cost of product sales		1,309			700	
Research and development		4,414			4,343	
Selling, general and administrative		3,260			3,844	
Total cost and operating expenses		8,983			8,887	
Loss from operations		(8,220	)		(6,921	)
Interest expense		-			(1	)
Interest income		16			29	
Loss before income taxes		(8,204	)		(6,893	)
Income tax expense		(1	)		(1	)
Net loss	$	(8,205	)	$	(6,894	)
Basic and diluted net loss per share attributable to common stockholders	$	(0.33	)	$	(0.28	)
Weighted average outstanding common shares used for net loss per share :						
Basic and diluted		25,106,690			24,693,303	

See accompanying notes to the unaudited condensed consolidated financial statements.

3

CERES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three months ended November 30,	
	2013	2012
Net loss	$ (8,205)	$ (6,894)
Other comprehensive income (loss)		
Foreign currency translation adjustments	104	(104)
Net unrealized gains on marketable securities	5	3
Total comprehensive loss	$ (8,096)	$ (6,995)

See accompanying notes to the unaudited condensed consolidated financial statements.

4

CERES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three months ended November 30, 2013	2012
Cash flows from operating activities:		
Net loss	$ (8,205)	$ (6,894)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net (gain) loss on disposal of assets	(54)	121
Depreciation	414	519
Amortization of premiums on marketable securities	84	185
Non-cash interest income	(99)	(225)
Stock compensation	922	767
Changes in operating assets and liabilities:		
Prepaid expenses	66	292
Accounts receivable	57	(723)
Inventories	21	(213)
Other assets	20	231
Accounts payables and accrued expenses	904	(162)
Other liabilities	57	(407)
Other	137	-
Net cash used in operating activities	(5,676)	(6,509)
Cash flows from investing activities:		
Purchases of property and equipment	(406)	(399)
Proceeds from sale of property and equipment	54	-
Purchases of marketable securities	(5,698)	(1,988)
Maturities of marketable securities	10,090	2,524
Net cash provided by investing activities	4,040	137
Cash flows from financing activities:		
Repayment of debt	(46)	(271)
Proceeds from issuance of common stock	-	56
Net cash used in financing activities	(46)	(215)
Effect of foreign currency translation on cash	115	(104)
Net decrease in cash and cash equivalents	(1,567)	(6,691)
Cash and cash equivalents at beginning of period	8,881	21,069
Cash and cash equivalents at end of period	$ 7,314	$ 14,378

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

(1) The Company

Ceres, Inc. (Company) is an agricultural biotechnology company selling seeds to produce dedicated energy crops—renewable bioenergy feedstocks that can enable the large-scale replacement of petroleum and other fossil fuels. The Company uses a combination of advanced plant breeding and biotechnology to develop seed products.

In January 2010, the Company incorporated a subsidiary, Ceres Sementes do Brasil Ltda. The Company's ownership in this subsidiary is 99.9% and the Company's Chief Executive Officer owns the remaining interest.

The Company has incurred substantial net losses from operations since its inception and its accumulated deficit as of November 30, 2013 was $282,789. Management has taken certain actions to extend the Company's available working capital. The Company expects to incur additional losses related to the continued development and expansion of its business, including research and development, seed production and operations, and sales and marketing. On October 11, 2013, the Company commenced the implementation of a plan (Plan) intended to further align expenditures with the Company's near-term commercial opportunity in Brazil, shift Northern Hemisphere sorghum breeding activities to a more appropriate location, de-emphasize research and development for U.S. cellulosic feedstocks, reduce costs and conserve cash. The actions being taken under the Plan, which include, among others, a workforce reduction that will impact 17 positions in the U.S, are expected to be substantially completed by May 31, 2014. During the three months ended November 30, 2013, the Company recorded approximately $900 of severance expense related to these workforce reductions, of which $500, $300 and $100 was recorded to research and development expense, cost of sales and general and administrative expense, respectively. During the three months ended November 30, 2013, the Company made cash payments of approximately $200 related to these expenses. The remaining cash payments of approximately $700 are expected to be made prior to August 31, 2014. Once fully implemented, the Plan is expected to deliver cash savings of up to approximately $5.0 million in fiscal year 2014 and up to approximately $8.0 to $10.0 million annually thereafter. The Company estimates that it will incur total charges of approximately $1.6 million during the first nine months of fiscal year 2014 with respect to the workforce reduction in the U.S., including $0.4 million in continuation of salary and benefits of certain employees until their work is completed and their positions are eliminated and $1.2 million of one-time severance and other costs, all of which will be cash expenditures. The Company plans to finance its operations for the next 12 months with cash and investments currently on hand, with cash inflows from collaboration and grant funding and from product sales.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) and with the instructions for Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Form 10-K dated November 26, 2013 filed with the Securities and Exchange Commission (SEC).

The accompanying interim condensed consolidated financial statements and related disclosures are unaudited, have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. The condensed consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period.

Principles of Consolidation

The condensed consolidated financial statements include the financial statements of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the unaudited condensed consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of property and equipment, inventory, deferred tax assets, common stock, stock options and warrant liabilities. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Marketable Securities

Marketable securities are classified as available for sale and are recorded at fair value, with the unrealized gains and losses, if any, net of taxes, reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred.

In determining whether an other-than-temporary impairment exists for debt securities, management considers: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management has determined that there has been no other-than-temporary impairments of its marketable securities.

The cost of marketable securities sold is based upon the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of interest income or expense. There were no sales of marketable securities during the three months ended November 30, 2013.

The Company classifies marketable securities as current or non-current based upon whether such assets are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

Financial Instruments

The carrying value of financial instruments such as cash and cash equivalents, receivables, accounts payable, and accrued expenses approximate their fair value due to the short-term nature of these instruments. At each period end, the fair value of the long-term debt approximated carrying value based on interest rates currently available to the Company.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels that are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

7

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

The following tables present the Company's financial assets that were measured at fair value on a recurring basis as of November 30, 2013 and August 31, 2013 by level within the fair value hierarchy:

	November 30, 2013			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Money Market Funds	$2,781	$—	$ —	$2,781
Certificates of Deposit—available for sale	—	5,040	—	5,040
Commercial Paper—available for sale	—	1,000	—	1,000
Corporate Bonds—available for sale	—	12,339	—	12,339
Total	$2,781	$18,379	$ —	$21,160

All of the money market funds, $240 of the certificates of deposit and $1,012 of the corporate bonds are included in cash and cash equivalents on the condensed consolidated balance sheets.

	August 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Money Market Funds	$2,310	$—	$ —	$2,310
Certificates of Deposit—available for sale	—	4,555	—	4,555
Commercial Paper—available for sale	—	2,198	—	2,198
Corporate Bonds—available for sale	—	16,076	—	16,076
Total	$2,310	$22,829	$ —	$25,139

All of the money market funds and $1,199 of the commercial paper are included in cash and cash equivalents on the consolidated balance sheets.

Accounts Receivable

Accounts receivable represents amounts owed to the Company from product sales and collaborative research and government grants. The Company had no amounts reserved for doubtful accounts at November 30, 2013 and August 31, 2013 as the Company expected full collection of the accounts receivable balances.

Customers representing greater than 10% of accounts receivable were as follows (in percentages):

Customers	As of November 30, 2013	As of August 31, 2013
Customer A	39.5	37.3
Customer B	35.8	23.1
Customer E	11.5	*
Customer F	**	21.8

*	Less than 10%
**	No accounts receivable balance

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Customers representing greater than 10% of revenues were as follows (in percentages):

	Three Months Ended November 30,	
Customers	2013	2012
Customer A	44.4	14.8
Customer B	33.6	16.1
Customer D	**	38.6
Customer E	13.9	*
Customer F	**	19.8

*	Less than 10%
**	No revenues

Seed Inventories

At November 30, 2013, all seed inventory was written-off based on the lower of cost or market, based on the Company's evaluation of such inventory. At August 31, 2013, inventory consisted of work–in–process costs related to sweet sorghum seeds. Seed inventory costs are computed on a first–in, first–out basis and valued at the lower of cost or market with any excess cost recognized during the period within cost of product sales.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the shorter of the estimated useful lives or the remaining life of the lease. Depreciation periods for the Company's property and equipment are as follows:

Automobiles and trucks	3-5 years

Office, laboratory, farm and warehouse equipment and furniture	3-5 years
Leasehold improvements	3-10 years
Buildings	14-39 years

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To the extent that an impairment indicator has occurred, recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the reporting periods presented herein there was an indicator that impairment has occurred. However, there was no impairment as the carrying amount of the property and equipment did not exceed the fair value of such assets.

Revenue Recognition

Revenues are recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) transfer of product or technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. To date, the Company's primary source of revenues has been derived from collaborative research agreements and government grants and to a lesser extent, product sales.

Product Sales

Product sales are derived from sales of seeds, trait fees, crop management services and biomass sales. Product sales are recognized, net of discounts and allowances, once passage of title and risk of loss have occurred and contractually specified acceptance criteria have been met, provided all other revenue recognition criteria have also been met. To date, product sales have not been significant.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Collaborative Research and Government Grants

From time to time, the Company enters into research and development collaboration agreements with third parties, including several biofuel producers and government agencies, such as the United States Department of Energy (DOE) and the United States Department of Agriculture (USDA). The research and development collaboration agreements typically provide the Company with multiple revenue streams, which may include up-front, non-refundable fees for licensing certain of the Company's technologies, government grants and fees for research and development activities and contingent milestone payments based upon achievement of contractual criteria.

- *Technology License Fees* — For collaboration agreements in which the Company has continuing involvement, license fees are recognized on a straight-line basis over the term of the arrangement. Licensing fees are non-refundable and not subject to future performance.

- *Government Grants* — The Company receives payments from government entities in the form of government grants. Government grants generally provide the Company with partial cost reimbursement for certain types of expenditures in return for research and development activities over a contractually defined period. Revenues from government grants are recognized in the period during which the related costs are incurred, provided that the conditions under which the government grants were provided have been met and the Company has only perfunctory obligations outstanding.

- *Research and Development Fees* — Generally, fees for research and development activities are recognized as the services are performed over the performance period, as specified in the respective agreements. Certain of the Company's collaboration agreements require the Company to deliver research data by specific dates and that the collective program plan will result in reaching specific crop characteristics by certain dates. For such arrangements, the Company recognizes revenues based on the approximate percentage of completion of services under the agreement, but the revenue recognized cannot exceed payments received by the Company to date under the agreement. The research and development period is estimated at the inception of each agreement and is periodically evaluated.

- *Milestone Fees* — Fees that are contingent based on achievement of substantive performance milestones at inception of the agreement are recognized based on the achievement of the milestone, as defined in the respective agreements.

Deferred Revenue

The Company recognizes deferred revenue to the extent that cash received under the collaboration agreement is in excess of the revenues recog