

CERUS CORP  
Form 10-Q  
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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 000-21937

CERUS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	68-0262011
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
2550 Stanwell Dr.	
Concord, California	94520
(Address of principal executive offices)	(Zip Code)

(925) 288-6000

(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 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 NO

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 27, 2018, there were 130,544,498 shares of the registrant's common stock outstanding.

CERUS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

THREE MONTHS ENDED MARCH 31, 2018

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## PART I: FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CERUS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,877	\$ 13,683
Short-term investments	90,988	47,013
Accounts receivable	10,489	12,415
Inventories	13,165	14,457
Other current assets	4,257	2,330
Total current assets	133,776	89,898
Non-current assets:		
Property and equipment, net	1,969	2,119
Goodwill	1,316	1,316
Intangible assets, net	486	536
Restricted cash	2,812	247
Other assets	4,062	4,128
Total assets	\$ 144,421	\$ 98,244
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,231	\$ 10,974
Accrued liabilities	10,357	11,712
Debt – current	1,429	—
Deferred product revenue – current	639	445
Total current liabilities	23,656	23,131
Non-current liabilities:		
Debt - non-current	28,387	29,798
Manufacturing and development obligations – non-current	5,996	5,766
Other non-current liabilities	784	609
Total liabilities	58,823	59,304
Commitments and contingencies		
Stockholders' equity:		
Common stock	131	115
Additional paid-in capital	821,081	760,225
Accumulated other comprehensive loss	(426 )	(97 )
Accumulated deficit	(735,188 )	(721,303 )
Total stockholders' equity	85,598	38,940
Total liabilities and stockholders' equity	\$ 144,421	\$ 98,244

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## CERUS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

## UNAUDITED

(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Product revenue	\$ 13,564	\$ 7,006
Cost of product revenue	7,330	3,694
Gross profit on product revenue	6,234	3,312
Government contract revenue	3,455	1,428
Operating expenses:		
Research and development	9,437	9,150
Selling, general and administrative	13,607	13,683
Total operating expenses	23,044	22,833
Loss from operations	(13,355 )	(18,093 )
Non-operating expense, net:		
Foreign exchange gain (loss)	108	(45 )
Interest expense	(915 )	(531 )
Other income, net	331	106
Total non-operating expense, net	(476 )	(470 )
Loss before income taxes	(13,831 )	(18,563 )
Provision for income taxes	54	35
Net loss	\$(13,885 )	\$(18,598 )
Net loss per share:		
Basic	\$(0.11 )	\$(0.18 )
Diluted	\$(0.11 )	\$(0.18 )
Weighted average shares outstanding used for calculating net loss per share:		
Basic	124,814	103,564
Diluted	124,814	103,564

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CERUS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

UNAUDITED

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$(13,885 )	\$(18,598 )
Other comprehensive losses		
Unrealized losses on available-for-sale investments, net of taxes of zero for the three months ended March 31, 2018 and 2017	(329 )	(246 )
Comprehensive loss	\$(14,214 )	\$(18,844 )

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## CERUS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## UNAUDITED

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Operating activities		
Net loss	\$(13,885)	\$(18,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	413	469
Stock-based compensation	2,315	2,147
Non-cash interest expense	269	195
Deferred income taxes	1	7
Gain on sale of investment in marketable equity securities	—	(18 )
Changes in operating assets and liabilities:		
Accounts receivable	1,926	1,285
Inventories	1,224	(388 )
Other assets	(1,475 )	(310 )
Accounts payable	(122 )	198
Accrued liabilities and other non-current liabilities	(1,341 )	(1,724 )
Manufacturing and development obligations	164	76
Deferred product revenue	186	313
Net cash used in operating activities	(10,325)	(16,348)
Investing activities		
Capital expenditures	(52 )	(185 )
Purchases of investments	(56,941)	(10,158)
Proceeds from maturities and sale of investments	12,250	16,018
Net cash (used in) provided by investing activities	(44,743)	5,675
Financing activities		
Net proceeds from equity incentives	1,295	422
Net proceeds from (payments for) public offering	57,564	(30 )
Repayment of debt	(32 )	(1,271 )
Net cash provided by (used in) financing activities	58,827	(879 )
Net increase (decrease) in cash, cash equivalents and restricted cash	3,759	(11,552)
Cash, cash equivalents and restricted cash, beginning of period	13,930	22,744
Cash, cash equivalents and restricted cash, end of period	\$17,689	\$11,192

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.





CERUS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include those of Cerus Corporation and its subsidiary, Cerus Europe B.V. (together with Cerus Corporation, hereinafter “Cerus” or the “Company”) after elimination of all intercompany accounts and transactions. These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring entries, considered necessary for a fair presentation have been made. Operating results for the three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or for any future periods.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2017, which were included in the Company’s 2017 Annual Report on Form 10-K, filed with the SEC on March 8, 2018. The accompanying condensed consolidated balance sheet as of December 31, 2017 has been derived from the Company’s audited consolidated financial statements as of that date.

Use of Estimates

The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to the nature and timing of satisfaction of performance obligations, the timing when the customer obtains control of products or services, the standalone selling price (“SSP”) of performance obligations, variable consideration, accounts receivable, inventory reserves, fair values of investments, stock-based compensation, intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, and accrued liabilities, among others. The Company bases its estimates on historical experience, future projections, and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

Revenue

The Company adopted Accounting Standards Codification (“ASC”) Topic 606, “Revenue from Contracts with Customers”, on January 1, 2018, using the modified retrospective method. Revenue is recognized in accordance with that core principle by applying the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company's main source of revenue is product revenue from sales of the INTERCEPT Blood System for platelets and plasma ("platelet and plasma systems" or "disposable kits"), UVA illumination devices ("illuminators"), spare parts and storage solutions, and maintenance services of illuminators. The Company sells its platelet and plasma systems directly to blood banks, hospitals, universities, government agencies, as well as to distributors in certain regions. For all sales of the Company's INTERCEPT Blood System products, the Company uses a binding purchase order or signed sales contract as evidence of a contract and satisfaction of its policy. Generally, the Company's contracts with its customers do not provide for open return rights, except within a reasonable time after receipt of goods in the case of defective or non-conforming product. The contracts with customers can include various combinations of products, and to a lesser extent, services. The Company must determine whether products or services are capable of being distinct and accounted for as separate performance obligations, or are accounted for as a combined performance obligation. The Company must allocate the transaction price to each performance obligation on a relative SSP basis, and recognize the revenue when the performance obligation is satisfied. The Company determines the SSP by using the historical selling price of the products and services. If the amount of consideration in a contract is variable, the Company estimates the amount of variable consideration that should be included in the transaction price using the most likely amount method, to the extent it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Product revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for those products or services. Product revenue from the sale of illuminators, disposable kits, spare parts and storage solutions are recognized upon the transfer of control of the products to the customer. Product revenue from maintenance services are recognized ratably on a straight-line basis over the term of maintenance as customers simultaneously consume and receive benefits. Freight costs

charged to customers are recorded as a component of revenue. Taxes that the Company invoices to its customers and remits to governments are recorded on a net basis, which excludes such tax from product revenue.

The Company receives reimbursement under its U.S. government contract with the Biomedical Advanced Research and Development Authority (“BARDA”) that supports research and development of defined projects. See “Note 10. Development and License Agreements—Agreement with BARDA” below. The contract generally provides for reimbursement of approved costs incurred under the terms of the contract. Revenue related to the cost reimbursement provisions under the Company’s U.S. government contract are recognized as the qualified direct and indirect costs on the projects are incurred. The Company invoices under its U.S. government contract using the provisional rates in the government contract and thus is subject to future audits at the discretion of government. These audits could result in an adjustment to government contract revenue previously reported, which adjustments potentially could be significant. The Company believes that revenue for periods not yet audited has been recorded in amounts that are expected to be realized upon final audit and settlement. Costs incurred related to services performed under the contract are included as a component of research and development or selling, general and administrative expenses in the Company’s consolidated statements of operations. The Company’s use of estimates in recording accrued liabilities for government contract activities (see “Use of Estimates” above) affects the revenue recorded from development funding and under the government contract.

#### Disaggregation of Product Revenue

Product revenue by geographical locations of customers during the three months ended March 31, 2018 and 2017, were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Product revenue:		
North America	\$ 2,387	\$ 1,065
Europe, Middle East and Africa	11,006	5,911
Other	171	30
Total product revenue	\$ 13,564	\$ 7,006

#### Contract Balances

The Company invoices its customers based upon the payment terms in the contracts, which is generally from 30 to 60 days. Accounts receivable are recorded when the Company’s right to the consideration are estimated to be unconditional. The Company had no contract assets at March 31, 2018 and December 31, 2017.

Contract liabilities mainly consist of unearned product revenue related to uninstalled illuminators, unshipped products, and maintenance services. Maintenance services are generally billed upfront at the beginning of each annual service period and recognized ratably over the service period. The changes in the contract liabilities during the three months ended March 31, 2018 and 2017, were as follows (in thousands):

Contract Liabilities	Beginning Balance	Additions	Deductions	Ending Balance
Three months ended March 31, 2018				
Deferred product revenue - current	\$ 445	\$ 662	\$ (468)	)\$ 639
Deferred product revenue - non current	15	—	(8)	) 7

Three months ended March 31, 2017

Deferred product revenue - current	\$ 149	\$ 634	\$ (313	)\$ 470
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Deferred product revenue - non current	46	—	(8	) 38
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### Research and Development Expenses

Research and development (“R&D”) expenses are charged to expense when incurred, including cost incurred pursuant to the terms of the Company’s U.S. government contract. Research and development expenses include salaries and related expenses for scientific and regulatory personnel, payments to consultants, supplies and chemicals used in in-house laboratories, costs of R&D facilities, depreciation of equipment and external contract research expenses, including clinical trials, preclinical safety studies, other laboratory studies, process development and product manufacturing for research use.

The Company's use of estimates in recording accrued liabilities for R&D activities (see "Use of Estimates" above) affects the amounts of R&D expenses recorded from development funding and under its U.S. government contract. Actual results may differ from those estimates under different assumptions or conditions.

#### Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less from the date of purchase to be classified as cash equivalents. These investments primarily consist of money market instruments, and are classified as available-for-sale.

#### Investments

Investments with original maturities of greater than three months primarily include corporate debt and U.S. government agency securities are designated as available-for-sale and classified as short-term investments or investment in marketable equity securities. Available-for-sale securities are carried at estimated fair value. The Company views its available-for-sale portfolio as available for use in its current operations. Unrealized gains and losses derived by changes in the estimated fair value of available-for-sale securities were recorded in "Unrealized losses on available-for-sale investments, net of taxes" on the Company's unaudited condensed consolidated statements of comprehensive loss. Realized gains (losses) from the sale of available-for-sale investments were recorded in "Other income, net" on the Company's unaudited condensed consolidated statements of operations. The costs of securities sold are based on the specific identification method, if applicable. The Company reported the amortization of any premium and accretion of any discount resulting from the purchase of debt securities as a component of interest income.

The Company also reviews its available-for-sale securities on a regular basis to evaluate whether any security has experienced an other-than-temporary decline in fair value. Other-than-temporary declines in market value, if any, are recorded in "Other income, net" on the Company's unaudited condensed consolidated statements of operations.

#### Restricted Cash

As of March 31, 2018, the Company's "Restricted cash" primarily consisted of a \$2.5 million of letter of credit relating to the lease of the Company's new office building. As of December 31, 2017, the Company had certain non-U.S. dollar denominated deposits recorded as "Restrict cash" related to compliance with certain foreign contractual requirements.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, available-for-sale securities and accounts receivable.

Pursuant to the Company's investment policy, substantially all of the Company's cash, cash equivalents and available-for-sale securities are maintained at major financial institutions of high credit standing. The Company monitors the financial credit worthiness of the issuers of its investments and limits the concentration in individual securities and types of investments that exist within its investment portfolio. Generally, all of the Company's investments carry high credit quality ratings, which is in accordance with its investment policy. At March 31, 2018, the Company does not believe there is significant financial risk from non-performance by the issuers of the Company's cash equivalents and short-term investments.

Concentrations of credit risk with respect to trade receivables exist. On a regular basis, including at the time of sale, the Company performs credit evaluations of its significant customers that it expects to sell to on credit terms. Generally, the Company does not require collateral from its customers to secure accounts receivable. To the extent that the Company determines specific invoices or customer accounts may be uncollectible, the Company establishes an allowance for doubtful accounts against the accounts receivable on its unaudited condensed consolidated balance

sheets and records a charge on its unaudited condensed consolidated statements of operations as a component of selling, general and administrative expenses.

The Company had three customers that accounted for more than 10% of the Company's outstanding trade receivables at both March 31, 2018 and December 31, 2017. These customers cumulatively represented approximately 57% and 53% of the Company's outstanding trade receivables at March 31, 2018 and December 31, 2017, respectively. To date, the Company has not experienced collection difficulties from these customers.

#### Inventories

At March 31, 2018 and December 31, 2017, inventory consisted of work-in-process and finished goods only. Finished goods include INTERCEPT disposable kits, illuminators, and certain replacement parts for the illuminators. Platelet and plasma systems' disposable kits generally have 18 to 24 months shelf lives from the date of manufacture. Illuminators and replacement parts do not have regulated expiration dates. Work-in-process includes certain components that are manufactured over a protracted length of time before being

sold to, and ultimately incorporated and assembled by Fresenius Kabi Deutschland GmbH or Fresenius, Inc. (with their affiliates, “Fresenius”) into the finished INTERCEPT disposable kits. The Company maintains an inventory balance based on its current sales projections, and at each reporting period, the Company evaluates whether its work-in-process inventory would be sold to Fresenius for production of finished units in order to sell to existing and prospective customers within the next twelve-month period. It is not customary for the Company’s production cycle for inventory to exceed twelve months. Instead, the Company uses its best judgment to factor in lead times for the production of its work-in-process and finished units to meet the Company’s forecasted demands. If actual results differ from those estimates, work-in-process inventory could potentially accumulate for periods exceeding one year. At March 31, 2018 and December 31, 2017, the Company classified its work-in-process inventory as a current asset on its consolidated balance sheets based on its evaluation that the work-in-process inventory would be sold to Fresenius for finished disposable kit production within each respective subsequent twelve-month period.

Inventory is recorded at the lower of cost, determined on a first-in, first-out basis, or net realizable value. The Company uses significant judgment to analyze and determine if the composition of its inventory is obsolete, slow-moving or unsalable and frequently reviews such determinations. The Company writes down specifically identified unusable, obsolete, slow-moving, or known unsalable inventory that has no alternative use in the period that it is first recognized by using a number of factors including product expiration dates, open and unfulfilled orders, and sales forecasts. Any write-down of its inventory to net realizable value establishes a new cost basis and will be maintained even if certain circumstances suggest that the inventory is recoverable in subsequent periods. Costs associated with the write-down of inventory are recorded in “Cost of product revenue” on the Company’s consolidated statements of operations. At March 31, 2018 and December 31, 2017, the Company had \$0.3 million and \$0.1 million, respectively, recorded for potential obsolete, expiring or unsalable product.

#### Property and Equipment, net

Property and equipment is comprised of furniture, equipment, leasehold improvements, construction-in-progress, information technology hardware and software and is recorded at cost. At the time the property and equipment is ready for its intended use, it is depreciated on a straight-line basis over the estimated useful lives of the assets (generally three to five years). Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the improvements.

#### Goodwill and Intangible Assets, net

Intangible assets, net, which include a license for the right to commercialize the INTERCEPT Blood System in Asia, are subject to ratable amortization over the original estimated useful life of ten years. Accumulated amortization of intangible assets as of March 31, 2018 and December 31, 2017, was \$1.53 million and \$1.48 million, respectively. The change in intangible assets, net during three months ended March 31, 2018, was a result of amortization expense. Goodwill is not amortized but instead is subject to an impairment test performed on an annual basis, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Such impairment analysis is performed on August 31 of each fiscal year, or more frequently if indicators of impairment exist. The test for goodwill impairment may be assessed using qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the Company must then proceed with performing the quantitative goodwill impairment test. The Company may choose not to perform the qualitative assessment to test goodwill for impairment and proceed directly to the quantitative impairment test; however, the Company may revert to the qualitative assessment to test goodwill for impairment in any subsequent period. The quantitative goodwill impairment test compares the fair value of each reporting unit with its respective carrying amount, including goodwill. The Company has determined that it operates in one reporting unit and estimates the fair value of its one reporting unit using the enterprise approach under which it considers the quoted market capitalization of the Company as reported on the Nasdaq Global Market. The Company considers quoted market prices that are available in active markets to be the best evidence of fair value. The Company also considers other factors, which include future forecasted results, the



economic environment and overall market conditions. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess, limited to the carrying amount of goodwill in the Company's one reporting unit.

The Company performs an impairment test on its intangible assets if certain events or changes in circumstances occur which indicate that the carrying amounts of its intangible assets may not be recoverable. If the intangible assets are not recoverable, an impairment loss would be recognized by the Company based on the excess amount of the carrying value of the intangible assets over its fair value. During the three months ended March 31, 2018 and 2017, there were no impairment charges recognized related to the acquired intangible assets.

### Long-lived Assets

The Company evaluates its long-lived assets for impairment by continually monitoring events and changes in circumstances that could indicate carrying amounts of its long-lived assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses recoverability by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the expected undiscounted future cash flows are less than the carrying amount of these assets, the Company then measures the amount of the impairment loss based on the excess of the carrying amount over the fair value of the assets.

### Foreign Currency Remeasurement

The functional currency of the Company's foreign subsidiary is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are remeasured in U.S. dollars using the exchange rates at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are remeasured in U.S. dollars using historical exchange rates. Product revenues and expenses are remeasured using average exchange rates prevailing during the period. Remeasurements are recorded in the Company's consolidated statements of operations.

### Stock-Based Compensation

Stock-based compensation expense is measured at the grant-date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period, and is adjusted for estimated forfeitures. To the extent that stock options contain performance criteria for vesting, stock-based compensation is recognized once the performance criteria are probable of being achieved.

For stock-based awards issued to non-employees, the measurement date at which the fair value of the stock-based award is measured to be the earlier of (i) the date at which a commitment for performance by the grantee to earn the equity instrument is reached or (ii) the date at which the grantee's performance is complete. The Company recognizes stock-based compensation expense for the fair value of the vested portion of the non-employee stock-based awards in its consolidated statements of operations.

See Note 8 for further information regarding the Company's stock-based compensation expense.

### Income Taxes

The provision for income taxes is accounted for using an asset and liability approach, under which deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company does not recognize tax positions that do not have a greater than 50% likelihood of being recognized upon review by a taxing authority having full knowledge of all relevant information. Use of a valuation allowance is not an appropriate substitute for derecognition of a tax position. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its income tax expense. To date, the Company has not recognized any interest and penalties in its unaudited condensed consolidated statements of operations, nor has it accrued for or made payments for interest and penalties. Although the Company believes it more likely than not that a taxing authority would agree with its current tax positions, there can be no assurance that the tax positions the Company has taken will be substantiated by a taxing authority if reviewed. The Company's U.S. federal tax returns for years 1998 through 2016 and California tax returns for years through 2016 remain subject to examination by the taxing jurisdictions due to unutilized net operating losses and research credits. The Company continues to carry a full valuation allowance on substantially all of its net deferred tax assets.

### Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share gives effect to all potentially dilutive common shares outstanding for the period. The potentially dilutive securities include stock options, employee stock purchase plan rights and restricted stock units, which are calculated using the treasury stock method.

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For the three months ended March 31, 2018 and 2017, all potentially dilutive securities outstanding have been excluded from the computation of dilutive weighted average shares outstanding because such securities have an antidilutive impact due to losses reported.

The table below presents shares underlying stock options, restricted stock units, and employee stock purchase plan rights that were excluded from the calculation of the weighted average number of shares outstanding used for the calculation of diluted net loss per share. These are excluded from the calculation due to their anti-dilutive effect for the three months ended March 31, 2018 and 2017 (shares in thousands):

	Three Months Ended March 31,	
	2018	2017
Weighted average number of anti-dilutive potential shares:		
Stock options	17,879	16,669
Restricted stock units	1,579	966
Employee stock purchase plan rights	92	—
Total	19,550	17,635

### Guarantee and Indemnification Arrangements

The Company recognizes the fair value for guarantee and indemnification arrangements issued or modified by the Company. In addition, the Company monitors the conditions that are subject to the guarantees and indemnifications in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred, then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the agreements that the Company is a party to contain provisions that indemnify the counter party from damages and costs resulting from claims that the Company's technology infringes the intellectual property rights of a third party or claims that the sale or use of the Company's products have caused personal injury or other damage or loss. The Company has not received any such requests for indemnification under these provisions and has not been required to make material payments pursuant to these provisions.

The Company generally provides for a one-year warranty on certain of its INTERCEPT blood-safety products covering defects in materials and workmanship. The Company accrues costs associated with warranty obligations when claims become known and are estimable. The Company has not experienced significant or systemic warranty claims nor is it aware of any existing current warranty claims. Accordingly, the Company had not accrued for any future warranty costs for its products at March 31, 2018 and December 31, 2017.

### Fair Value of Financial Instruments

The Company applies the provisions of fair value relating to its financial assets and liabilities. The carrying amounts of accounts receivables, accounts payable, and other accrued liabilities approximate their fair value due to the relative short-term maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the Company believes the fair value of its debt approximates their carrying amounts. The Company measures and records certain financial assets and liabilities at fair value on a recurring basis, including its available-for-sale securities. The Company classifies instruments within Level 1 if quoted prices are available in active markets for identical assets, which include the Company's cash accounts and money market funds. The Company classifies instruments in Level 2 if the instruments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These instruments include the Company's corporate debt and U.S. government agency securities holdings. The

available-for-sale securities are held by a custodian who obtains investment prices from a third party pricing provider that uses standard inputs (observable in the market) to models which vary by asset class. The Company classifies instruments in Level 3 if one or more significant inputs or significant value drivers are unobservable. The Company assesses any transfers among fair value measurement levels at the end of each reporting period.

See Note 2 for further information regarding the Company's valuation of financial instruments.

#### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company adopted the new accounting standard

on January 1, 2018, using the modified retrospective method, and the adoption had no impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10), which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, this ASU eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The Company adopted this ASU on January 1, 2018, and the adoption had no impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The standard is effective for annual periods beginning after December 15, 2018, and interim periods thereafter, with early application permitted. The Company plans to adopt this ASU on January 1, 2019, and is currently assessing the future impact of this ASU on its consolidated financial statements. The Company anticipates that the Company's operating lease commitments will be subject to the new standard. The Company will recognize right-of-use assets and lease liabilities on the Company's consolidated balance sheets upon the adoption of this ASU, which will increase the Company's total assets and total liabilities.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected credit losses for financial assets held. The standard is effective for annual periods beginning after December 15, 2019, and interim periods thereafter, with early application permitted. The Company plans to adopt this ASU on January 1, 2020, using the modified retrospective transition method. The Company is currently assessing the future impact of this ASU on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted this ASU on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

## Note 2. Available-for-sale Securities and Fair Value on Financial Instruments

### Available-for-sale Securities

The following is a summary of available-for-sale securities at March 31, 2018 (in thousands):

March 31, 2018			
Amortized Cost	Gross		Fair Value

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		Unrealized Gain	Unrealized Loss	
Money market funds	\$2,487	\$ —	\$ —	\$2,487
United States government agency securities	16,953	—	(39)	16,914
Corporate debt securities	74,461	—	(387)	74,074
Total available-for-sale securities	\$93,901	\$ —	\$ (426)	\$93,475

The following is a summary of available-for-sale securities at December 31, 2017 (in thousands):

	December 31, 2017				
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	
Money market funds	\$3,758	\$ —	\$ —	\$3,758	
United States government agency securities	11,252	—	(24)	11,228	
Corporate debt securities	35,858	—	(73)	35,785	
Total available-for-sale securities	\$50,868	\$ —	\$ (97)	\$50,771	

Available-for-sale securities at March 31, 2018 and December 31, 2017, consisted of the following by contractual maturity (in thousands):

	March 31, 2018		December 31, 2017	
	Fair		Fair	
	Amortized Cost	Value	Amortized Cost	Value
One year or less	\$31,278	\$31,175	\$ 38,836	\$