

Ceres, Inc.
Form 10-Q
January 10, 2013
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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 November 30, 2012

OR

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

For the Transition Period from _____ to _____

Commission File Number: 001-35421

Ceres, Inc.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

33-0727287
(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 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

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 7, 2013
Common Stock, \$0.01 par value per share	24,801,986

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements.****CERES, INC. AND SUBSIDIARY****Condensed Consolidated Balance Sheets****(In thousands, except share amounts)****(Unaudited)**

	November 30, 2012	August 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,378	\$ 21,069
Marketable securities	37,636	33,565
Prepaid expenses	758	1,050
Accounts receivable	1,488	765
Inventories	1,054	841
Other current assets	144	278
Total current assets	55,458	57,568
Property and equipment, net	5,559	5,756
Marketable securities	1,156	5,720
Other assets	105	203
Total assets	\$ 62,278	\$ 69,247
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,314	\$ 5,476
Other current liabilities	345	732
Current portion of long-term debt	65	134
Total current liabilities	5,724	6,342
Other non-current liabilities	69	88
Long-term debt, net of current portion	96	256
Total liabilities	5,889	6,686
Commitments and contingencies		
Stockholders' equity:		
Common stock and additional paid in capital, \$0.01 par value; 490,000,000 shares authorized; 24,801,986 shares issued and outstanding at November 30, 2012; 24,549,029 shares issued and outstanding at August 31, 2012.	305,740	304,917
Accumulated other comprehensive loss	(384)	(283)
Accumulated deficit	(248,967)	(242,073)
Total stockholders' equity	56,389	62,561
Total liabilities and stockholders' equity	\$ 62,278	\$ 69,247

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See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**CERES, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Operations****(In thousands, except share and per share amounts)****(Unaudited)**

	Three months ended November 30,	
	2012	2011
Revenues:		
Product sales	\$ 14	\$ 276
Collaborative research and government grants	1,952	1,472
Total revenues	1,966	1,748
Cost and operating expenses:		
Cost of product sales	700	763
Research and development	4,343	5,275
Selling, general and administrative	3,844	2,804
Total cost and operating expenses	8,887	8,842
Loss from operations	(6,921)	(7,094)
Interest expense	(1)	(111)
Interest income	29	4
Other income (expense)		(338)
Loss before income taxes	(6,893)	(7,539)
Income tax benefit (expense)	(1)	(1)
Net loss	\$ (6,894)	\$ (7,540)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.28)	\$ (3.73)
Weighted average outstanding common shares used for net loss per share attributable to common stockholders:		
Basic and diluted	24,693,303	2,018,939

See accompanying notes to the unaudited condensed consolidated financial statements.

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CERES, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Loss

(In thousands, except share amounts)

(Unaudited)

	Three months ended November 30,	
	2012	2011
Net loss	\$ (6,894)	\$ (7,540)
Other comprehensive income (loss)		
Foreign currency translation adjustments	(104)	100
Net unrealized gains on marketable securities	3	
Total comprehensive loss	\$ (6,995)	\$ (7,440)

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**CERES, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Three months ended November 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (6,894)	\$ (7,540)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of common and preferred stock warrants and convertible notes		338
Net loss on disposal of assets	121	3
Depreciation	519	471
Accretion (amortization) of premium/discount on marketable securities	185	
Non-cash interest income	(225)	
Stock compensation	767	553
Changes in operating assets and liabilities:		
Prepaid expenses	292	(22)
Accounts receivable	(723)	164
Inventory	(213)	
Deferred offering costs		(915)
Other assets	231	(261)
Accounts payables and accrued expenses	(162)	792
Other current liabilities	(407)	98
Net cash used in operating activities	(6,509)	(6,319)
Cash flows from investing activities:		
Purchases of property and equipment	(399)	(147)
Purchases of marketable securities	(1,988)	
Maturities of marketable securities	2,524	
Net cash provided by (used in) investing activities	137	(147)
Cash flows from financing activities:		
Repayment of debt	(271)	(560)
Proceeds from issuance of debt and preferred stock warrants		2,500
Proceeds from issuance of common stock	56	47
Net cash provided by (used in) financing activities	(215)	1,987
Effect of foreign currency translation on cash	(104)	100
Net decrease in cash and cash equivalents	(6,691)	(4,379)
Cash and cash equivalents at beginning of period	21,069	21,911
Cash and cash equivalents at end of period	\$ 14,378	\$ 17,532

See accompanying notes to the unaudited condensed consolidated financial statements.

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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.

On January 24, 2012, the Company filed an amended and restated certificate of incorporation which effected a 1 for 3 reverse stock split of the Company's issued and outstanding shares of common stock. The par value of the common stock was not adjusted as a result of the reverse stock split. All issued and outstanding shares of common stock and stock options and per share amounts contained in the Company's condensed consolidated financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

On February 27, 2012, the Company closed its initial public offering (IPO) of 5,750,000 shares of common stock (including 750,000 shares purchased by the underwriters upon the exercise of their option to purchase up to an additional 750,000 shares) at an offering price of \$13.00 per share, resulting in net proceeds to the Company of approximately \$65,158, after deducting underwriting discounts and commissions and offering expenses. Upon closing of the IPO, all of the Company's outstanding shares of convertible preferred stock were automatically converted into 15,353,221 shares of common stock, all of the Company's outstanding convertible subordinated notes (Convertible Notes) were automatically converted into 1,098,575 shares of common stock and all of the Company's outstanding convertible preferred stock warrants were automatically converted into warrants to purchase a total of 20,511 shares of common stock.

The Company has incurred substantial net losses from operations since its inception and its accumulated deficit as of November 30, 2012 was \$248,967. 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. The Company plans to finance its operations for the foreseeable future with cash and investments currently on hand, with cash inflows from collaboration and grant funding and 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 20, 2012 filed with the Securities and Exchange Commission (SEC).

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, convertible preferred stock, stock options, warrant liabilities and convertible notes. Actual results could differ from those estimates.

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CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Unaudited Interim Financial Information

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.

Cash Equivalents

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

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 shareholders' equity (deficit) 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, 2012.

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.

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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.

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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, 2012 and August 31, 2012 by level within the fair value hierarchy: