Ceres, Inc.
Form 10-Q
April 14, 2016

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 February 29, 2016

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	**(I.R.S. Employer**

Incorporation or Organization) **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)

Not Applicable

(Former name or former address, if changed since last report)

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

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

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 April 11, 2016**
Common Stock, $0.01 par value per share	18,810,700

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

CERES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share amounts and par value)

	February 29, 2016 (Unaudited)	August 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,778	$ 8,095
Prepaid expenses	423	477
Accounts receivable	813	577
Assets held for sale	25	474
Other current assets	214	143
Total current assets	7,253	9,766
Property and equipment, net	1,214	1,258
Other assets	175	98
Total assets	$ 8,642	$ 11,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,994	$ 4,402
Billings in excess of costs on uncompleted contracts	608	802
Deferred rent	18	18
Total current liabilities	2,620	5,222
Deferred rent	47	56
Common stock warrant liabilities	3,443	1,631
Total liabilities	6,110	6,909
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; 4,480 shares issued and outstanding at February 29, 2016; no shares issued and outstanding at August 31, 2015	-	-
Common stock, $0.01 par value; 240,000,000 shares authorized; 16,685,700 shares issued and outstanding at February 29, 2016; 8,830,700 shares issued and outstanding at August 31, 2015	167	88

Additional paid-in capital	338,010	335,424
Accumulated other comprehensive income	887	762
Accumulated deficit	(336,532)	(332,061)
Total stockholders’ equity	2,532	4,213
Total liabilities and stockholders’ equity	$ 8,642	$ 11,122

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenues:				
Product sales	$ 23	99	23	99
Services	328	$ 244	$ 1,270	$ 644
Total revenues	351	343	1,293	743
Cost and operating expenses:				
Cost of revenues	787	2,134	1,733	2,576
Research and development	1,457	2,449	3,175	4,953
Selling, general and administrative	1,413	3,869	3,501	7,310
Total cost and operating expenses	3,657	8,452	8,409	14,839
Loss from operations	(3,306)	(8,109)	(7,116)	(14,096)
Interest expense	(2)	(9)	(3)	(12)
Interest income	1	11	1	29
Costs associated with public offering	(966)	-	(966)	-
Other income	3,221	-	3,614	-
Loss before income taxes	(1,052)	(8,107)	(4,470)	(14,079)
Income tax expense	-	-	(1)	(1)
Net loss	$ (1,052)	$ (8,107)	$ (4,471)	$ (14,080)
Basic and diluted net loss per share	$ (0.09)	$ (1.34)	$ (0.39)	$ (2.33)
Weighted average outstanding common shares:				
Basic and diluted	11,708,613	6,032,616	11,405,452	6,032,358

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Net loss	$ (1,052)	$ (8,107)	$ (4,471)	$ (14,080)
Other comprehensive income (loss)				
Foreign currency translation adjustments	95	(241)	125	(271)
Net unrealized gains on marketable securities	-	5	-	9
Total comprehensive loss	$ (957)	$ (8,343)	$ (4,346)	$ (14,342)

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended February 29, 2016	February 28, 2015
Cash flows from operating activities:		
Net loss	$(4,471)	$ (14,080)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net gain on disposal of assets	(34)	(21)
Insurance proceeds	(153)	-
Depreciation and amortization	212	352
Net loss on sale of assets held for sale	45	-
Amortization of premiums on marketable securities	-	109
Non-cash interest income	-	(130)
Stock compensation	689	1,205
Change in fair value of common stock warrants	(3,461)	-
Changes in operating assets and liabilities:		
Prepaid expenses	56	281
Accounts receivable	(236)	28
Inventories	-	(67)
Other assets	(154)	(94)
Accounts payables and accrued expenses	(2,283)	(924)
Other liabilities	(202)	457
Other	-	156
Net cash used in operating activities	(9,992)	(12,728)
Cash flows from investing activities:		
Purchases of property and equipment	(85)	(339)
Proceeds from sale of property and equipment	-	23
Proceeds from sale of assets held for sale	477	-
Purchases of marketable securities	-	(720)
Maturities of marketable securities	-	15,320
Net cash provided by investing activities	392	14,284
Cash flows from financing activities:		
Repayment of debt	-	(28)
Costs associated with public offering	966	-

Proceeds from issuance of common stock, preferred stock and common stock warrants	6,281	-
Net cash povided by (used in) financing activities	7,247	(28)
Effect of foreign currency translation on cash	36	(169)
Net (decrease) increase in cash and cash equivalents	(2,317)	1,359
Cash and cash equivalents at beginning of period	8,095	3,423
Cash and cash equivalents at end of period	$5,778	$ 4,782

See accompanying notes to the unaudited condensed consolidated financial statements.

CERES, INC. AND SUBSIDIARIES

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 that develops and markets seeds and traits to produce crops for feed, forages, sugar and other markets. The Company uses a combination of advanced plant breeding, biotechnology and bioinformatics to develop seed products and biotechnology traits to address many of the current limitations and future challenges facing agriculture. These technology platforms, which can increase crop productivity, improve quality, reduce crop inputs and improve cultivation on marginal land, have broad application across multiple end markets, including food, feed, fiber and fuel.

In January 2010, the Company formed a subsidiary, Ceres Sementes do Brasil Ltda. The Company's ownership in this subsidiary is 99.9% and Ceres Agrotechnologies Intl LLC (referred to hereinafter) owns the remaining interest. In May 2014, the Company formed a wholly owned subsidiary, Ceres Agrotechnologies Intl LLC. In May 2014, the Company also formed a subsidiary, CS Semillas de Mexico, S.de R.L. de C.V. The Company's ownership in this subsidiary is 99.9% and Ceres Agrotechnologies Intl LLC owns the remaining interest.

On April 8, 2015, the Company filed an amendment to its amended and restated certificate of incorporation which effected a 1 for 8 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, warrants, and stock options and per share amounts contained in the Company's condensed consolidated 2015 financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

On December 17, 2015, the Company completed a public offering consisting of (1) the issuance of an aggregate of 2,905,000 shares of Common Stock and warrants to acquire 2,905,000 shares of common stock, including the partial exercise of the underwriters' overallotment option of 2,305,000 shares of common stock and warrants to acquire 2,305,000 shares of common stock, par value $0.01 per share, of the Company, at an offering price of $0.40 per share, and (2) the issuance of (i) 6,460 shares of preferred stock at an offering price of $1,000 per preferred share convertible into 16,150,000 shares of common stock and (ii) the issuance of warrants to purchase 16,150,000 shares of common stock. Gross proceeds from the offering were $7,622. Net proceeds received by the Company was $6,281 after deducting underwriting discounts, commissions and estimated offering expenses totaling $1,341. Of the $1,341 in total costs associated with offering $966 was recorded to costs associated with the public offering in the condensed consolidated statement of operations since those costs were allocated to the warrant liabilities and $377 was recorded to additional paid-in capital in the condensed consolidated balance sheets.

On January 12, 2016 the Company’s Board of Directors adopted a resolution approving a proposal to be presented to the shareholders at the next annual meeting to effect a reverse split of all of the Company’s outstanding shares of common stock by a ratio in the range of 1-for-10 and 1-for-20 with the exact ratio to be determined by the Board. The proposal provides that the Company’s Board of Directors shall have sole discretion pursuant to Section 242(c) of the Delaware General Corporation Law to elect, as it determines to be in the Company’s best interest, whether or not to effect the reverse stock split before April 5, 2017 or to abandon it. If after approval of the proposal by the shareholders, the Company’s Board determines that effecting the reverse stock split is in the Company’s best interest, the reverse stock split will become effective upon filing of an amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware.

Liquidity and Going Concern

The Company has incurred substantial net losses from operations since its inception and its accumulated deficit as of February 29, 2016 was $336,532. 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.

As of February 29, 2016 the Company had cash and cash equivalents of $5,778. The Company plans to finance its operations through July 2016 with cash on hand, and with cash inflows from collaboration and grant funding and from product sales. The Company intends to seek additional funds through public or private debt or equity financings, collaborations, licensing arrangements, government programs and the sale of intellectual property, technology or other assets. The Company cannot provide any assurances that additional sources of funding will be available on terms acceptable to the Company or at all, or that it will be successful in entering into collaborations or license agreements, receiving funds under government grants or selling intellectual property, technology or other assets. If the Company is unable to raise additional funds, the Company will not have adequate liquidity to fund its operations and will be forced to significantly curtail or cease its operations. These circumstances raise substantial doubt about our ability to continue as a going concern.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in U.S. dollars and 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 for the fiscal year ended August 31, 2015 filed with the Securities and Exchange Commission (SEC) on November 23, 2015.

The accompanying interim condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. 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 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing 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, valuation of equity instruments, and allowances of deferred tax assets, accounts receivable and inventory.

Actual results could differ from those estimates.

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.

Financial Liabilities

Certain common stock warrants have been classified as liabilities due to some features which could enable the holder to receive cash. The Company utilizes the Monte Carlo option pricing valuation model to determine the fair value of its outstanding common stock warrant liabilities. The inputs to the model include fair value of the stock related to the warrant, exercise price of the warrant, expected term, expected volatility, risk-free interest rate and dividend yield. As several significant inputs are not observable, the overall fair value measurement of the common stock warrants are classified as Level 3.

The following tables present the Company's financial liabilities that were measured at fair value on a recurring basis as of February 29, 2016 and August 31, 2015 by level within the fair value hierarchy:

	February 29, 2016			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Common stock warrant liabilities	$—	$ —	$3,443	$3,443
Total	$—	$ —	$3,443	$3,443

	August 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Common stock warrant liabilities	$—	$ —	$1,631	$1,631
Total	$—	$ —	$1,631	$1,631

The change in fair value of the Company's common stock warrant liabilities for the six months ended February 29, 2016 were as follows:

	Common Stock Warrant Liabilities
Balance at August 31, 2015	$ 1,631
Issuance of common stock warrant liabilities	5,273
Fair value adjustment (included in other income)	(3,461)
Balance at February 29, 2016	$ 3,443

The fair value of the common stock warrant liabilities at February 29, 2016 and August 31, 2015 were estimated using the following weighted-average assumptions:

	Six Months Ended February 29, 2016	Year Ended August 31, 2015
Expected term (in years)	4.42 - 5.00	4.91 - 5.49
Expected volatility	70.70% - 74.50%	69.80%
Risk free interest rate	1.22% - 1.73%	1.54%
Expected dividend yield	0%	0%

Accounts Receivable

Accounts receivable represents amounts owed to the Company from product sales and services. The Company had no amounts reserved for doubtful accounts at February 29, 2016 and August 31, 2015 as the Company expects full collection of the accounts receivable balances.

Inventories

When inventory costs exceed expected market value due to obsolescence or lack of demand, inventory write-downs are recorded for the difference between the cost and the market value in the period based on the Company's evaluation of such inventory with any excess cost recognized during the period within cost of product sales.

All inventory at February 29, 2016 and August 31, 2015, respectively, was written off.

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

Assets Held for Sale

The Company reclassifies long-lived assets to Assets Held for Sale when all required criteria for such reclassification are met. The assets are recorded at the lower of the carrying value or fair value less costs to sell. Assets held for sale must meet the following conditions: (1) management, having authority to approve the action, commits to a plan to sell the asset, (2) the asset is available for immediate sale in its present condition, (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In connection with the announcement we made on June 19, 2015, to restructure our Brazilian seed operations, a determination was made that the fixed assets in Brazil met the criteria to be classified as held for sale and the carrying amount of those assets was in excess of their fair value. Fair value of the assets held for sale was determined using an appraisal for certain assets and resale information available for certain assets. During the six months ended February 29, 2016 we received net proceeds of $477 related to assets held for sale and recorded a loss of $45 to research and development expense.

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 no impairment.

Restructuring

At August 31, 2015, there was approximately $700 of accrued liability related to workforce reductions in connection with fiscal 2015 restructurings. As of February 29, 2016, these accrued liabilities were substantially paid.

Foreign Currency Translation

The Company’s reporting currency is the U.S. dollar. The Brazilian Real is the functional currency of the Company’s subsidiary in Brazil. In addition, the Mexican Peso is the functional currency of the Company’s operations in Mexico. Accordingly, assets and liabilities of operations in Brazil and Mexico are translated into United States dollars using the current exchange rate in effect at the balance sheet date and equity accounts are translated into U.S. dollars using historical exchange rates. Revenues, expenses and cash flows are translated at the average rate of exchange during the reporting period. Gains and losses from foreign currency translation adjustments are represented as a component of accumulated other comprehensive loss within the Company’s condensed consolidated balance sheets.