

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

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, 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

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

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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

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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.

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.

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.

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

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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):

Customers	Three Months Ended November 30,	
	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 recognized related to the agreement since the work under the agreement has not yet been performed, or the work has not been fully completed as prescribed in the statement of work at the balance sheet date, which is classified as other current liabilities on the accompanying condensed consolidated balance sheet.

Development and License Agreement

The development and license agreement between the Company and Campbell Soup Company, dated December 20, 2007, as amended, was terminated and cancelled on November 19, 2012 following Campbell's sale of its vegetable seed assets to a third party in September 2012. In connection with the termination, Campbell paid the Company the amount of \$550 in full and complete satisfaction of all remaining financial obligations under the development and license agreement.

Research and Development

Research and development expenses principally consist of personnel costs related to the Company's research and development staff as well as depreciation of research and development assets. Research and development expenses also include costs incurred for laboratory supplies, reimbursable costs associated with government grants and collaborative agreements, third-party contract payments, consultants, facility and related overhead costs.

Stock-Based Compensation

The Company accounts for stock-based compensation arrangements with employees using a fair value method which requires the recognition of compensation expense for costs related to all stock-based payments including stock options. The fair value method requires the Company to estimate the fair value of stock-based payment awards on the date of grant using an option pricing model. The Company uses an option pricing model to estimate the fair value of options granted that are expensed on a straight-line basis over the vesting period. The Company accounts for stock options issued to non-employees based on the estimated fair value of the awards using the option pricing model. The measurement of stock-based compensation to non-employees is subject to periodic adjustments as the underlying equity instruments vest, and the resulting change in value, if any, is recognized in the Company's condensed consolidated statements of operations during the period the related services are rendered.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Unrecognized tax benefits are recognized when a prescribed minimum probability threshold of a tax position is met. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution to any related appeals or litigation, based solely on the technical merits of the position. The Company is currently unaware of any issues under review that could result in significant payments, accruals, or material deviations from its recognized tax positions.

The major jurisdictions in which the Company files income tax returns include the federal and state jurisdictions within the United States and Brazil, where it has a subsidiary. The tax years after 2008 remain open to examination by federal and state taxing jurisdictions and the tax years after 2010 remain open to examination by foreign jurisdictions. However, the Company has net operating loss carryforwards (NOLs) beginning in 1998 which would cause the statute of limitations to remain open for the year in which the NOL was incurred.

Foreign Currency Translation

The Brazilian real is the functional currency of the Company's subsidiary in Brazil. Accordingly, assets and liabilities of those operations are translated into United States dollars using the current exchange rate in effect at the balance sheet date and equity accounts are translated into United States dollars using historical rates. Revenues and expenses are translated at the weighted 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.

Accumulated Other Comprehensive Income

The Company's unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments represents the components of comprehensive income (loss) and have been disclosed in the condensed consolidated balance sheets.

The following summarizes the changes in the balances of each component of accumulated comprehensive income (loss) during the three months ended November 30, 2013:

	Foreign Currency Translation	Unrealized Gains (Losses) on Securities	Accumulated Other Comprehensive Loss
Balance at August 31, 2013	\$ (684)	\$ (12)	\$ (696)
Comprehensive loss	104	5	109
Balance at November 30, 2013	\$ (580)	\$ (7)	\$ (587)

Basic and Diluted Net Loss Per Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding, to the extent they are dilutive. Potential common shares consist of shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Dilutive net loss per share is the same as basic net loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

The following table sets forth the computation of basic and diluted net loss per common share:

	Three months ended November 30,	
	2013	2012
Net loss	\$(8,205)	\$(6,894)
Basic and diluted net loss per common share	\$(0.33)	\$(0.28)
Basic and diluted weighted average outstanding common shares used for net loss:	25,106,690	24,693,303

The following potentially dilutive, common share equivalents were excluded from the calculation of diluted net loss per common share because their effect was antidilutive for each of the periods presented:

	November 30,	
	2013	2012
Options to purchase common stock	3,378,818	2,756,223
Warrants to purchase common stock	2,082,045	2,082,045
Total	5,460,863	4,838,268

CERES, INC. AND SUBSIDIARY**Notes to Condensed Consolidated Financial Statements (Unaudited)****(In thousands, except share and per share data)****(3) Marketable Securities**

Marketable securities classified as available for sale consisted of the following:

	November 30, 2013			
Available for sale securities	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Certificates of Deposit	\$4,804	\$ —	\$ (4)) \$ 4,800
Commercial Paper	1,000	—	—) 1,000
Corporate Bonds	11,331	—	(4)) 11,327
Total	\$17,135	\$ —	\$ (8)) \$ 17,127

	November 30, 2013	
Marketable securities	Amortized Cost	Fair Value
Due in 1 year or less	\$ 17,135	\$ 17,127
	\$ 17,135	\$ 17,127

	August 31, 2013			
Available for sale securities	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Certificates of Deposit	\$4,561	\$ —	\$ (6)) \$ 4,555
Commercial Paper	1,000	—	(1)) 999
Corporate Bonds	16,081	2	(7)) 16,076
Total	\$21,642	\$ 2	\$ (14)) \$ 21,630

	August 31, 2013	
Marketable securities	Amortized Cost	Fair Value

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Due in 1 year or less	\$21,642	\$ 21,630
	\$21,642	\$ 21,630

(4) 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. Inventories at August 31, 2013 consisted of the following:

Work in process	\$20
Seed inventory	—
Total inventories	\$20

CERES, INC. AND SUBSIDIARY**Notes to Condensed Consolidated Financial Statements (Unaudited)****(In thousands, except share and per share data)****(5) Property and Equipment**

Property and equipment are summarized as follows:

	November 30, 2013	August 31, 2013
Land	\$ 43	\$ 43
Automobiles and trucks	873	796
Buildings	3,180	3,180
Office, laboratory, farm and warehouse equipment and furniture	12,954	14,792
Leasehold improvements	5,728	5,716
	22,778	24,527
Less accumulated depreciation	(18,146)	(19,894)
Property and equipment, net	\$ 4,632	\$ 4,633

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	November 30, 2013	August 31, 2013
Accounts payable	\$ 1,236	\$ 1,289
Accrued payroll and related expenses	2,137	1,020
Research and development contracts	1,035	1,098
Accrued grower commitments	99	38
Other	238	380
	\$ 4,745	\$ 3,825

(7) Long-Term Debt

Long-term debt is summarized as follows:

	November 30, 2013	August 31, 2013
Capital leases	\$ 195	\$ 236
Less current portion	(135)	(154)
Long term debt (capital leases)	\$ 60	\$ 82

The aggregated maturities of debt as of November 30, 2013 are as follows:

Remaining nine months of fiscal year 2014	\$ 113
2015	73
2016	9
	\$ 195

(8) Stock-Based Compensation

Stock Option and Stock Issuance Plans

The Company has established three equity plans: the Ceres, Inc. 2000 Stock Option/Stock Issuance Plan (2000 Plan), the Ceres, Inc. 2010 Stock Option/Stock Issuance Plan (2010 Plan) and the Amended and Restated Ceres, Inc. 2011 Equity Incentive Plan (2011 Plan, and collectively with the 2000 Plan and the 2010 Plan, Equity Plans). The Equity Plans provide for grants of Incentive Stock Options (ISOs) to employees and Nonqualified Stock Options (NSOs), stock and restricted stock to employees, directors, and consultants. In addition, the 2011 Plan provides for the grant of other equity based awards such as restricted stock units, stock appreciation rights and deferred stock to employees, directors and consultants. The option term, as determined by the Company's Board of Directors, may not exceed ten years. Vesting, also determined by the Company's Board of Directors, generally occurs ratably over four to five years. ISOs and NSOs may be granted at a price per share not less than the fair market value at the date of grant.

CERES, INC. AND SUBSIDIARY**Notes to Condensed Consolidated Financial Statements (Unaudited)****(In thousands, except share and per share data)**

During September 2012, the Company modified options to purchase 403,333 shares of common stock that were scheduled to expire on December 18, 2012 by extending the terms such that the options now expire on December 18, 2015. A modification charge of \$157 was recorded in September 2012.

The total number of shares reserved for issuance under the Equity Plans is 6,754,999. At the Company's 2013 Annual Meeting of Stockholders, the stockholders approved the amendment and restatement of the Ceres, Inc. 2011 Equity Incentive Plan, which increased the maximum aggregate number of shares that may be issued under the plan by 1.5 million shares and prohibits the repricing of stock options without stockholder approval. As of November 30, 2013, the Company had 1,023,937 shares available under the 2011 Plan for future grant. The Company does not intend to make further grants under the 2000 Plan or the 2010 Plan.

Stock Option Valuation and Compensation

The Company uses a Black Scholes option pricing model to determine the fair value of stock options. The weighted average grant date fair value of stock option awards was \$0.94 and \$4.24 per option share for the three months ended November 30, 2013 and 2012, respectively.

The weighted average grant date fair value of the Company's common stock was \$1.31 and \$5.83 per share for the three months ended November 30, 2013 and 2012, respectively. The fair value of employee stock options was estimated using the following assumptions:

	Three months ended November 30,	
	2013	2012
Expected term (in years)	5.75 – 6.08	6.08
Expected volatility	86.3% – 87.60%	87.2%-88.0%
Risk free interest rate	1.62% - 1.96 %	0.82%-0.93 %
Expected dividend yield	0	% 0 %

Expected Term — Because of limited employee share option exercises, the Company uses a simplified method in which the expected term of an award is presumed to be mid-point between the vesting date and the expiration date of the award.

Expected Volatility — The Company estimates the volatility of its common stock by using the historical volatility of a group of comparable companies over the option's expected term. The decision to use historical volatility of comparable companies was based upon the fact there is limited history of trading activity of the Company's common stock.

Risk-Free Interest Rate — The Company bases the risk-free interest rate used in the option valuation model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Expected Dividend Yield — The Company does not anticipate paying any cash dividends in the foreseeable future.

Stock-based compensation expense included in operating expenses and total intrinsic value of stock options exercised are as follows:

	Three months ended November 30,	
	2013	2012
Stock-based compensation costs for stock options	\$ 913	\$ 945
Fair value changes of collaboration warrants	9	(178)
	\$ 922	\$ 767
Intrinsic value of stock options exercised	\$ —	\$ 79

There were no stock options exercised during the three months ended November 30, 2013.

CERES, INC. AND SUBSIDIARY**Notes to Condensed Consolidated Financial Statements (Unaudited)****(In thousands, except share and per share data)*****Stock Option Activity***

The following table summarizes the stock option transactions under the Equity Plans during the three months ended November 30, 2013:

	Shares	Weighted Average Exercise Price
Options outstanding at August 31, 2013	2,791,556	\$ 7.49
Options granted	675,540	1.31
Options forfeited	(88,278)	10.25
Options outstanding at November 30, 2013	3,378,818	\$ 6.18

The following table summarizes information about stock options outstanding and exercisable at November 30, 2013:

Range of Exercise Price	Number Outstanding	Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Vested and Exercisable	Average Remaining Contractual Life	Weighted- Average Exercise Price
\$1.95	414,665	2.02	\$ 1.95	414,665	2.02	\$ 1.95
\$3.90 - \$4.05	301,491	2.25	3.91	301,491	2.25	3.91
\$6.75	801,434	5.04	6.75	769,613	4.98	6.75
\$7.32	185,731	7.04	7.32	134,387	7.04	7.32
\$16.77	158,412	7.53	16.77	79,799	7.52	16.77
\$17.16	67,138	7.63	17.16	32,326	7.63	17.16
\$12.71	30,078	8.13	12.71	11,228	8.08	12.71
\$12.10	46,664	8.24	12.10	46,664	8.24	12.10
\$13.00	419,153	8.24	13.00	—	—	—
\$8.97	250	8.55	8.97	90	8.55	8.97
\$6.66	11,666	8.73	6.66	—	—	—
\$3.60 - \$7.70	24,100	8.79	5.60	7,300	8.76	5.87
\$3.94	24,000	9.00	3.94	531	8.94	3.94

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\$3.32	58,330	9.17	3.32	—	—	—
\$3.49	1,500	9.19	3.49	—	—	—
\$1.40 - \$3.30	158,666	9.56	3.16	—	—	—
\$1.24 - \$1.52	675,540	9.85	1.31	—	—	—
	3,378,818			1,798,094		

No tax benefits have been recorded on compensation costs recognized for options exercised. As of November 30, 2013, there was \$5,020 of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted average of 2.76 years. The Company's policy is to issue new shares for options exercised.

CERES, INC. AND SUBSIDIARY**Notes to Condensed Consolidated Financial Statements (Unaudited)****(In thousands, except share and per share data)*****Restricted Stock Activity***

The following summarizes the restricted stock transactions under the Equity Plans during the three months ended November 30, 2013:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding and unvested at August 31, 2013	290,700	\$ 5.55
Restricted stock granted	328,260	1.31
Restricted stock vested	(76,396)	5.64
Restricted stock forfeited	(23,167)	4.82
Restricted stock outstanding and unvested at November 30, 2013	519,397	\$ 3.11

As of November 30, 2013, there was \$1,015 of total unrecognized compensation cost related to restricted stock awards. That cost is expected to be recognized over a weighted average of 1.82 years.

Stock Activity

During the fiscal year 2013, the Company granted 60,000 shares of common stock under the 2011 Plan with a fair market value of \$3.33 per share. The Company recorded \$200 of expense in the year ended August 31, 2013 related to this stock grant. There were no such stock grants during the three months ended November 30, 2013.

(9) Stockholders' Equity***Common Stock***

Pursuant to the Company's amended and restated certificate of incorporation, the Company is authorized to issue 490,000,000 shares of common stock. Holders of the Company's common stock are entitled to dividends as and when declared by the Board of Directors, subject to rights and holders of all classes of stock outstanding having priority rights to dividends. There have been no dividends declared to date. Each share of common stock is entitled to one vote.

Preferred Stock

Pursuant to the Company's amended and restated certificate of incorporation, the Company is authorized to issue 10,000,000 shares of preferred stock. The Board of Directors has the authority, without action by the Company's stockholders, to designate and issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof.

Warrants issued in connection with Noble Agreement

In May 2006, the Company entered into a collaboration agreement with The Samuel Roberts Noble Foundation, Inc. (Noble) (Noble Agreement) to establish a research program (see Note (12)). In connection with this collaboration, the Company granted Noble a warrant to purchase 133,333 shares of the Company's common stock for an exercise price of \$30.00 per share. The original terms were as follows: the warrant vests in equal installments of 33,333 shares on May 19, 2009, May 19, 2011, May 19, 2013, and May 19, 2015, respectively, and shall remain exercisable for a period of two years from the respective vesting dates. These warrants are accounted for at fair value and remeasured until vested. The fair value, including the resulting change in value as a result of remeasurement is being recognized as research and development expense. The inception to date expense recognized with respect to this warrant totals \$626 as of November 30, 2013. At November 30, 2013, 99,999 warrants had vested under this arrangement. The fair value of the warrants not yet vested at November 30, 2013 was \$0.5 using a risk-free rate of 0.56% based on the respective exercise periods of each installment, expected volatility of 63.5%, expected term of 3.47 years based on the respective exercise periods of each installment, which is also the remaining contractual term, and 0% dividend yield.

In June 2011, the Company and Noble agreed to modify the warrants issued to Noble as follows: the warrant vests in equal installments of 33,333 shares on May 19, 2013 and May 19, 2015, respectively and shall remain exercisable until the earliest of a period of five years from the respective vesting dates and May 18, 2017.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Warrants issued in connection with TAMU Agreement

In August 2007, the Company entered into a sponsored research and intellectual property rights agreement with The Texas A&M University System (TAMU) to establish a research program (see Note (12)). In connection with this collaboration, the Company granted TAMU a warrant to purchase 66,666 shares of the Company's common stock for an exercise price of \$30.00 per share. The warrant vests based on certain research and commercialization milestones being met and shall remain exercisable until August 28, 2017. This warrant is accounted for at fair value and remeasured until the vesting targets are met. The fair value, including the resulting change in value as a result of remeasurement is being recognized as research and development expense. The inception to date expense recognized with respect to this warrant totals \$1.4 as of November 30, 2013. The fair value of the warrants at November 30, 2013 was \$1.7, using a risk-free rate of 0.96%, expected volatility of 64.3%, expected term of 3.74 years and 0% dividend yield. No warrants have vested under this arrangement as of November 30, 2013.

In December 2011, pursuant to an Amended and Restated Intellectual Property Rights Agreement (IP Rights Agreement) (see Note (12)), the Company issued warrants to TAMU to purchase 66,666 shares of common stock at an exercise price of \$14.30 per share. The warrants expire on September 24, 2026 and, subject to certain conditions, vest in equal installments on the fifth, tenth and fifteenth anniversary of the IP Rights Agreement. The inception to date expense recognized with respect to this warrant totals \$19.4 as of November 30, 2013. The fair value of the warrants at November 30, 2013 was \$77.2, using a risk-free rate of 2.63%, expected volatility of 85.1%, expected term of 12.81 years and 0% dividend yield. No warrants have vested under this arrangement as of November 30, 2013.

(10) Income Taxes

No provision for U.S. income taxes has been made, net of the valuation allowance, because the Company has incurred losses since its inception. The Company has deferred tax assets consisting primarily of net operating loss carryforwards that have been fully offset by a valuation allowance.

(11) Commitments and Contingencies

The Company leases certain of its facilities and equipment under various noncancelable operating leases expiring through 2023. The leases on the facilities contains provisions for future rent increases. The Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is included in other current liabilities and other non-current liabilities in the accompanying condensed consolidated balance sheets as of November 30, 2013 and August 31, 2013.

In connection with one of its facilities leases, the Company received a reimbursement for leasehold improvements of \$270. This reimbursement is a lease incentive which has been recognized as a liability in deferred rent and is being amortized to rent expense on a straight-line basis over the lease term. Total rental expense recognized was \$66 and \$144 for the three months ended November 30, 2013 and 2012, respectively.

Future minimum payments under noncancelable operating leases as of November 30, 2013 are as follows:

	Operating Leases
Remaining nine months of fiscal year 2014	\$ 470
2015	547
2016	550
2017	559
2018	575
Thereafter	588
Total minimum lease payments	\$ 3,289

(12) Research Collaboration Agreements

The Company has a number of research agreements with academic collaborators, including among others, TAMU, Noble, and the Institute of Crop Sciences of the Chinese Academy of Agricultural Sciences. In connection with these agreements, the Company receives certain exclusive options or licensing rights to technology and intellectual property developed under these agreements. The Company expenses amounts under these agreements to research and development expense in the period in which the services are rendered. The Company also licenses technology from third parties. Initial payments under these license agreements are capitalized and expensed on a straight-line basis over the license term.

CERES, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except share and per share data)

Noble Agreement

In May 2006, the Company entered into a collaboration agreement with Noble to establish a research program. Under the Noble Agreement, the Company agreed to fund certain research activities undertaken by Noble in an amount up to \$3,800 through July 31, 2012 and granted Noble a warrant to purchase 133,333 shares of the Company's common stock for an exercise price of \$30.00 per share (see Note (9)). Additional projects may be added under the agreement, if agreed to by both parties.

Under the collaboration agreement, in August 2012 the Company agreed to fund certain research activities undertaken by Noble