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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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

for the quarterly period ended September 30, 2017

OR

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

COMMISSION FILE NUMBER: 001-3759

**Cerecor Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of incorporation)

**400 E. Pratt Street, Suite 606  
Baltimore, Maryland 21202**

(Address of principal executive offices)

**45-0705648**

(I.R.S. Employer Identification No.)

**(410) 522-8707**

(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. (Check one):

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 November 6, 2017, the registrant had 26,054,857 shares of common stock outstanding.

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**CERECOR INC.**

**FORM 10-Q**

**For the Quarter Ended September 30, 2017**

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## CERECOR INC.

## Balance Sheets

	September 30, 2017	December 31, 2016
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,955,397	\$ 5,127,958
Escrowed cash receivable	3,750,803	—
Grants receivable	30,135	132,472
Prepaid expenses and other current assets	341,025	391,253
Restricted cash, current portion	29,159	11,111
Total current assets	28,106,519	5,662,794
Property and equipment, net	34,183	43,243
Restricted cash, net of current portion	62,847	62,828
Total assets	\$ 28,203,549	\$ 5,768,865
<b>Liabilities and stockholders' (deficit) equity</b>		
Current liabilities:		
Term debt, net of discount	\$ —	\$ 2,353,667
Accounts payable	312,514	1,010,209
Accrued expenses and other current liabilities	1,290,683	947,987
Income taxes payable	3,230,000	—
Total current liabilities	4,833,197	4,311,863
License obligations	1,250,000	1,250,000
Total liabilities	6,083,197	5,561,863
Stockholders' equity:		
Preferred stock—\$0.001 par value; 5,000,000 shares authorized; zero shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	—	—
Common stock—\$0.001 par value; 200,000,000 shares authorized; 26,054,857 and 9,434,141 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	26,055	9,434
Additional paid-in capital	77,167,922	70,232,651
Accumulated deficit	(55,073,625)	(70,035,083)
Total stockholders' equity	22,120,352	207,002
Total liabilities and stockholders' equity	\$ 28,203,549	\$ 5,768,865

See accompanying notes to unaudited financial statements.

**CERECOR INC.****Statements of Operations (Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
License and other revenue	\$ 25,000,000	\$ —	\$ 25,000,000	\$ —
Grant revenue	37,592	321,497	579,597	971,985
Total revenue	25,037,592	321,497	25,579,597	971,985
Operating expenses:				
Research and development	964,574	4,581,605	2,411,293	9,376,633
General and administrative	2,151,859	1,703,188	4,921,269	5,989,053
Income (loss) from operations	21,921,159	(5,963,296)	18,247,035	(14,393,701)
Other income (expense):				
Change in fair value of warrant liability and unit purchase option liability	64	(101,246)	(1,586)	(57,595)
Interest income (expense), net	29,387	(104,183)	(53,991)	(381,603)
Total other income (expense)	29,451	(205,429)	(55,577)	(439,198)
Net income (loss) before taxes	\$ 21,950,610	\$ (6,168,725)	\$ 18,191,458	\$ (14,832,899)
Income tax expense	3,230,000	—	3,230,000	—
Net income (loss) after taxes	\$ 18,720,610	\$ (6,168,725)	\$ 14,961,458	\$ (14,832,899)
Net income (loss) per common share, basic and diluted	\$ 0.52	\$ (0.70)	\$ 0.65	\$ (1.71)
Weighted-average number of common shares - basic	21,382,683	8,756,393	14,952,391	8,685,818
Weighted-average number of common shares - diluted	21,407,702	8,756,393	14,960,032	8,685,818

See accompanying notes to unaudited financial statements.

## CERECOR INC.

## Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Operating activities</b>		
Net income (loss)	\$ 14,961,458	\$ (14,832,899)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	17,050	20,468
Stock-based compensation expense	852,210	1,439,194
Non-cash interest expense	20,365	134,096
Change in fair value of warrant liability and unit purchase option liability	1,586	57,595
Changes in assets and liabilities:		
Grants receivable	102,337	(379,256)
Prepaid expenses and other assets	50,228	191,527
Escrowed funds receivable	(3,750,803)	—
Restricted cash	(18,067)	(79,051)
Accounts payable	(697,695)	109,908
Accrued expenses and other liabilities	341,109	2,478,234
Income taxes payable	3,230,000	—
Net cash provided by (used in) operating activities	15,109,778	(10,860,184)
<b>Investing activities</b>		
Purchase of property and equipment	(7,990)	(25,646)
Net cash used in investing activities	(7,990)	(25,646)
<b>Financing activities</b>		
Proceeds from sale of shares under common stock purchase agreements, net	1,693,498	1,000,000
Proceeds from sale of shares pursuant to private placement, net	4,650,000	—
Proceeds from sales of common stock under employee stock purchase plan, net	35,430	—
Principal payments on term debt	(2,374,031)	(2,459,493)
Payment of financing costs	(279,246)	(1,467)
Net cash provided by (used in) financing activities	3,725,651	(1,460,960)
Increase (decrease) in cash and cash equivalents	18,827,439	(12,346,790)
Cash and cash equivalents at beginning of period	5,127,958	21,161,967
Cash and cash equivalents at end of period	\$ 23,955,397	\$ 8,815,177
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ 72,526	\$ 287,841
<b>Supplemental disclosures of noncash financing activities</b>		
Accrued financing costs	\$ —	\$ 101,728

See accompanying notes to unaudited financial statements.

## CERECOR INC.

### Notes to Unaudited Financial Statements

#### 1. Business

Cerecor Inc. (the “Company” or “Cerecor”) is a biopharmaceutical company that is developing innovative drug candidates for commercialization, license or sale to make a difference in the lives of patients with neurologic and psychiatric disorders. The Company’s operations since inception have been limited to organizing and staffing the Company, acquiring rights to and developing certain product candidates, business planning and raising capital.

#### *Liquidity*

The Company's financial statements have been prepared on an accrual basis. The Company has not generated any product revenues and has not yet achieved profitable operations from commercialization. There is no assurance that profitable operations will ever be achieved, and if achieved, could be sustained on a continuing basis.

Prior to the quarter ended September 30, 2017, the Company had incurred recurring operating losses since inception. For the nine months ended September 30, 2017, the Company generated net income of \$15.0 million and positive cash flows from operations of \$15.1 million. In August 2017, the Company sold all of its rights to a prior product candidate, CERC-501, to Janssen Pharmaceuticals, Inc. (“Janssen”) in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve-month escrow to secure certain indemnification obligations, as well as a potential future \$20.0 million regulatory milestone payment. The terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

As of September 30, 2017, the Company had an accumulated deficit of \$55.1 million and a balance of \$24.0 million in cash and cash equivalents. The Company anticipates operating losses to continue for the foreseeable future due to, among other things, costs related to its preclinical programs, additional clinical development of its product candidates, business development and costs associated with its organizational infrastructure. The Company will require substantial additional financing to fund its operations and to continue to execute its strategy. The Company plans to meet its capital requirements primarily through a combination of equity or debt financings, collaborations, or out-licensing arrangements, strategic alliances, federal and private grants, marketing, distribution or licensing arrangements and in the longer term, revenue from product sales to the extent its product candidates receive marketing approval and are commercialized. There can be no assurance, however, that the Company will be successful in obtaining financing at the level needed to sustain operations and develop its product candidates or on terms acceptable to the Company, or that the Company will obtain approvals necessary to market its products or achieve profitability or sustainable positive cash flow. If the Company fails to raise capital or enter into any such arrangements, it will have to further delay, scale back or discontinue the development of one or more of its product candidates or cease its operations altogether.

In April 2017 the Company received \$5.0 million in gross proceeds pursuant to a securities purchase agreement with Armistice Capital Master Fund Ltd (“Armistice”). The Company has the potential to raise additional cash through an equity distribution agreement with Maxim Group LLC (“Maxim Group”) as described in Note 8.

The Company expects its cash on hand at September 30, 2017 to fund future expenses through at least December 31, 2018.

#### 2. Significant Accounting Policies

##### *Basis of Presentation*

The Company’s unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly the Company’s financial position, results of operations and cash flows. The balance sheet at December 31, 2016 has been derived from audited financial statements at that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the United States Securities and Exchange Commission (“SEC”).

The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited financial statements are read in conjunction with the December 31, 2016 audited financial statements.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, other comprehensive income and related disclosures. On an ongoing basis, management evaluates its estimates, including estimates related to clinical trial accruals, the warrant liability and the unit purchase option liability. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

### ***Net Income (Loss) Per Share, Basic and Diluted***

Earnings per share are computed using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Shares of the unexercised warrants issued in the Armistice Private Placement transaction are considered participating securities because these warrants contain a non-forfeitable right to dividends irrespective of whether the warrants are ultimately exercised. Under the two-class method, earnings per common share for the common stock and participating warrants are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of shares of Common stock and participating warrants outstanding for the period. In applying the two-class method, undistributed earnings are allocated to common stock and participating warrants based on the weighted-average shares outstanding during the period.

Diluted net income (loss) per share includes the potential dilutive effect of common stock equivalents as if such securities were converted or exercised during the period, when the effect is dilutive. Common stock equivalents include: (i) outstanding stock options issued under the Company's Long-Term Incentive Plans which are included under the "treasury stock method" when dilutive, (ii) common stock to be issued upon the assumed conversion of the Company's unit purchase option shares, which are included under the "if-converted method" when dilutive, and (iii) common stock to be issued upon the exercise of outstanding warrants which are included under the "treasury stock method" when dilutive. Because the impact of these items is generally anti-dilutive during periods of net loss, there is no difference between basic and diluted loss per common share for periods with net losses. In addition, net losses are not allocated to the participating securities.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheets for cash and cash equivalents are valued at cost, which approximates their fair value.

### ***Escrowed Cash Receivable***

On August 14, 2017, the Company sold all of its rights to CERC-501 to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen Pharmaceuticals, Inc. The Company evaluates its escrowed cash receivable balance each reporting period and establishes a reserve for amounts deemed uncollectible. No reserve was recorded as of September 30, 2017.

### ***Restricted Cash***

The Company established the Employee Stock Purchase Plan in 2016. Eligible employees can purchase common stock through accumulated payroll deductions at such times as are established by the Plan administrator. At September 30, 2017, \$29,200 of deposits had been made by employees for potential future stock purchases.

In 2016 the Company entered into a bank services pledge agreement with Silicon Valley Bank. In exchange for receiving business credit card services from Silicon Valley Bank, the Company deposited \$50,000 as collateral with Silicon Valley Bank. This amount will remain deposited with Silicon Valley Bank for the duration the business credit card services are used by the Company. In addition, the Company has deposited \$13,000 with the landlord of the Company's office space as a security deposit. These deposits are recorded as restricted cash, net of current portion on the balance sheet at September 30, 2017.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. The Company maintains a portion of its cash and cash equivalent balances in the form of a money market account with a financial institution that management believes to be credit worthy. The Company has no financial instruments with off-balance sheet risk of loss.

### ***Debt and Equity Issuance Costs***

The Company may record debt and equity discounts in connection with raising funds through the issuance of convertible notes or equity instruments. These discounts may arise from (i) the receipt of proceeds less than the face value of the convertible notes or equity instruments, (ii) allocation of proceeds to beneficial conversion features and/or (iii) recording derivative liabilities related to embedded features. For debt instruments, these costs are amortized over the life of the debt to interest expense utilizing the effective interest method. For equity instruments, these costs are netted against the gross proceeds received from the issuance of the equity.

### ***Property and Equipment***

Property and equipment consists of computers, office equipment, and furniture and is recorded at cost. Maintenance and repairs that do not improve or extend the lives of the respective assets are expensed to operations as incurred. Property and equipment are depreciated on a straight-line basis over their estimated useful lives. The Company uses a life of four years for computers and software, and five years for equipment and furniture. Upon retirement or sale, the cost of the disposed asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

### ***License and Other Revenue***

The Company recognizes revenues from collaboration, license or other research or sale arrangements when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue from potential future milestones, if substantive, is recognized when the milestone is achieved and the payment is due and collectible.

### ***Grant Revenue Recognition***

The Company recognizes grant revenue when there is (i) reasonable assurance of compliance with the conditions of the grant and (ii) reasonable assurance that the grant will be received.

### ***Research and Development***

Research and development costs are expensed as incurred. These costs include, but are not limited to, employee-related expenses, including salaries, benefits and stock-based compensation of research and development personnel; expenses incurred under agreements with contract research organizations and investigative sites that conduct clinical trials and preclinical studies; the cost of acquiring, developing and manufacturing clinical trial materials; other supplies; facilities, depreciation and other expenses, which include direct and allocated expenses for rent, utilities and insurance; and costs associated with preclinical activities and regulatory operations.

Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided to the Company by its vendors, such as clinical research organizations, with respect to their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued research and development expense, as the case may be.



### ***Comprehensive Loss***

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss was equal to net loss for all periods presented.

### ***Income Taxes***

The Company accounts for income taxes under the asset and liability method in accordance with ASC 740, *Income Taxes* ("ASC 740"). 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 using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Deferred tax assets primarily include net operating loss and tax credit carry-forwards, accrued expenses not currently deductible and the cumulative temporary differences related to certain research and patent costs. Certain tax attributes, including net operating losses and research and development credit carryforwards, may be subject to an annual limitation under Sections 382 and 383 of the Internal Revenue Code (the "Code"). See Note 10 for further information. The portion of any deferred tax asset for which it is more likely than not that a tax benefit will not be realized must then be offset by recording a valuation allowance. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that the Company believes is more likely than not to be realized upon ultimate settlement of the position.

The Company's policy is to record interest and penalties on uncertain tax positions as income tax expense. As of September 30, 2017, the Company does not believe any material uncertain tax positions are present.

### ***Stock-Based Compensation***

The Company applies the provisions of ASC 718, *Compensation—Stock Compensation* ("ASC 718"), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and non-employees, including employee stock options, in the statements of operations.

For stock options issued to employees and members of the board of directors for their services on the board of directors, the Company estimates the grant date fair value of each option using the Black-Scholes option pricing model. The use of the Black-Scholes option pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock. For awards subject to service-based vesting conditions, including those with a graded vesting schedule, the Company recognizes stock-based compensation expense equal to the grant date fair value of stock options on a straight-line basis over the requisite service period, which is generally the vesting term. Forfeitures are recorded as they are incurred as opposed to being estimated at the time of grant and revised.

For stock options issued to non-employees, the Company initially measures the options at their grant date fair values and revalues as the underlying equity instruments vest and are recognized as expense over the earlier of the period ending with the performance commitment date or the date the services are completed in accordance with the provisions of ASC 718 and ASC 505-50, *Equity-Based Payments to Non-Employees* ("ASC 505-50").

### ***Clinical Trial Expense Accruals***

As part of the process of preparing its financial statements, the Company is required to estimate its expenses resulting from its obligations under contracts with vendors, clinical research organizations and consultants and under clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations, which vary from contract to contract and may result in payment flows that do not match the periods over which materials or services are provided under such contracts. The Company's objective is to reflect the appropriate trial expenses in its financial statements by matching those expenses with the period in which services are performed and efforts are expended. The Company accounts for these expenses according to the progress of the trial as measured by subject progression and the timing of various aspects of the trial. The Company determines accrual estimates by taking into account discussion with applicable personnel and outside service providers as to the progress or state of consummation of trials, or the services completed. During the course of a clinical trial, the Company adjusts its clinical expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date based on the facts and circumstances known to it at that time. The Company's clinical trial accruals are dependent upon the timely and accurate reporting of contract research

organizations and other third-party vendors. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in it reporting amounts that are too high or too low for any particular period.

### **Segment Information**

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the chief executive officer. The Company and the chief executive officer view the Company's operations and manage its business as one operating segment. All long-lived assets of the Company reside in the United States.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-9, *Revenue From Contracts With Customers* ("ASU 2014-9"). Pursuant to this update, an entity should recognize revenue to depict the transfer of promised 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. In August 2015, the FASB issued ASU 2015-14, *Revenue From Contracts With Customers (Topic 606)*, which delays the effective date of ASU 2014-9 by one year. As a result, ASU 2014-9 will be effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted for annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU No. 2016-8, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-8") and ASU No. 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"), and in May 2016 the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"), each of which clarify the guidance in ASU 2014-9 and have the same effective date as the original standard. The Company has substantially completed its assessment of the impact of adoption of ASU 2014-9, ASU 2016-8, ASU 2016-10, or ASU 2016-12 on the financial statements, and the impact is not expected to be significant. The Company plans to adopt the new standard effective January 1, 2018. The Company continues to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may impact the Company's current conclusions.

In February 2016, the FASB issued ASU No. 2016-2, *Leases (Topic 842)*. This guidance revises existing practice related to accounting for leases under ASC 840, *Leases* ("ASC 840") for both lessees and lessors. The new guidance in ASU 2016-2 requires lessees to recognize a right-of-use asset and a lease liability for nearly all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating leases or capital leases. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while capital leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements.

In March 2016, the FASB issued ASU No. 2016-9, *Improvements to Employee Share-Based Payment Accounting*. The guidance is intended to simplify several areas of accounting for share-based compensation, including income tax impacts, classification on the statement of cash flows and forfeitures. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. The new guidance was adopted by the Company effective January 1, 2017 and its adoption did not have any impact on its financial position, results of operations or cash flows. In connection with adoption, the Company has elected to account for forfeitures as they occur as opposed to being estimated at the time of grant and revised.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which reduces existing diversity in the classification of certain cash receipts and cash payments on the statements of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. The guidance is intended to address the diversity

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that currently exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The new standard requires that entities show the changes in the total of cash and cash equivalents, restricted cash and restricted cash equivalents on the statement of cash flows and no longer present transfers between cash and cash equivalents, restricted cash and restricted cash equivalents on the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements.

### 3. Net Income (Loss) Per Share of Common Stock, Basic and Diluted

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>Basic income (loss) per share:</b>				
Net income (loss)	\$ 18,720,610	\$ (6,168,725)	\$ 14,961,458	\$ (14,832,899)
Undistributed earnings (loss) allocable to common shares	\$ 18,720,610	\$ (6,168,725)	\$ 14,961,458	\$ (14,832,899)
<b>Weighted average shares, basic</b>				
Common stock	21,382,683	8,756,393	14,952,391	8,685,818
Participating warrants	14,285,714	—	8,163,265	—
	<u>35,668,397</u>	<u>8,756,393</u>	<u>23,115,656</u>	<u>8,685,818</u>
<b>Basic income (loss) per share:</b>				
Common shares	\$ 0.52	\$ (0.70)	\$ 0.65	\$ (1.71)
Participating warrants	\$ 0.52	\$ —	\$ 0.65	\$ —
<b>Diluted income (loss) per share:</b>				
Net income (loss)	\$ 11,222,732	\$ (6,168,725)	\$ 9,677,838	\$ (14,832,899)
Net income (loss) reallocated	5,256	—	1,746	—
Undistributed earnings (loss) allocable to common shares	\$ 11,227,988	\$ (6,168,725)	\$ 9,679,584	\$ (14,832,899)
<b>Weighted average number of shares - basic</b>				
	21,382,683	8,756,393	14,952,391	8,685,818
<b>Effect of dilutive securities:</b>				
Stock options	25,019	—	7,641	—
Underwriters' unit purchase option	—	—	—	—
Potentially dilutive shares	25,019	—	7,641	—
<b>Weighted average number of shares - diluted</b>	<u>21,407,702</u>	<u>8,756,393</u>	<u>14,960,032</u>	<u>8,685,818</u>
<b>Diluted income (loss) per share</b>	<u>\$ 0.52</u>	<u>\$ (0.70)</u>	<u>\$ 0.65</u>	<u>\$ (1.71)</u>

Shares which have been excluded from diluted per share amounts because their effect would have been antidilutive, include the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock options	2,384,560	1,828,441	2,401,938	1,828,441
Warrants	4,661,145	7,400,934	4,661,145	7,400,934
Unit purchase option shares	40,000	40,000	40,000	40,000

#### 4. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value standard also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2—inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

At September 30, 2017 and December 31, 2016, the Company’s financial instruments included cash and cash equivalents, restricted cash, accounts payable, accrued expenses and other current liabilities, term debt (prior to its payoff in August 2017), the term loan warrant liability and the underwriters’ unit purchase option liability. The carrying amounts reported in the accompanying financial statements for cash and cash equivalents, restricted cash, accounts payable, and accrued expenses and other current liabilities approximate their respective fair values because of the short-term nature of these accounts.

The following table presents, for each of the fair value hierarchy levels required under ASC 820, the Company’s assets and liabilities that are measured at fair value on a recurring basis:

	September 30, 2017 Fair Value Measurements Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets</b>			
Investments in money market funds*	\$ 23,715,016	\$ —	\$ —
<b>Liabilities</b>			
Warrant liability	\$ —	\$ —	\$ 531
Unit purchase option liability	\$ —	\$ —	\$ 6,607

	December 31, 2016		
	Fair Value Measurements Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets</b>			
Investments in money market funds*	\$ 4,758,539	\$ —	\$ —
<b>Liabilities</b>			
Warrant liability	\$ —	\$ —	\$ 5,501
Unit purchase option liability	\$ —	\$ —	\$ 51

\* Investments in money market funds are reflected in cash and cash equivalents on the accompanying Balance Sheets.

### Level 3 Valuation

The warrant liability (which relates to warrants to purchase shares of common stock as part of the term loan agreement) is marked-to-market each reporting period with the change in fair value recorded to other income (expense) in the accompanying statements of operations until the warrants are exercised, expire or other facts and circumstances lead the warrant liability to be reclassified to stockholders' equity. The fair value of the warrant liability is estimated using a Black-Scholes option-pricing model. The significant assumptions used in preparing the option pricing model for valuing the warrant liability as of September 30, 2017, include (i) volatility of 65%, (ii) risk free interest rate of 1.63%, (iii) strike price (\$8.40), (iv) fair value of common stock (\$0.85), and (v) expected life of 3.1 years.

The underwriters' unit purchase option (the "UPO") was issued to the underwriters of the Company's initial public offering ("IPO") and provides the underwriters the option to purchase up to a total of 40,000 units. The units underlying the UPO will be, immediately upon exercise, separated into shares of common stock, underwriters' Class A warrants and underwriters' Class B warrants (such warrants together referred to as the Underwriters' Warrants). The Underwriters' Warrants are warrants to purchase shares of common stock. The Company classifies the UPO as a liability as it is a freestanding marked-to-market derivative instrument that is precluded from being classified in stockholders' equity. The UPO liability is marked-to-market each reporting period with the change in fair value recorded to other income (expense) in the accompanying statements of operations until the UPO is exercised, expire or other facts and circumstances lead the UPO to be reclassified to stockholders' equity. The fair value of the UPO liability is estimated using a Black-Scholes option-pricing model within a Monte Carlo simulation model framework. The significant assumptions used in preparing the simulation model for valuing the UPO as of September 30, 2017, include (i) volatility range of 65% to 75%, (ii) risk free interest rate range of 0.74% to 1.63%, (iii) unit strike price (\$7.48), (iv) underwriters' Class A warrant strike price (\$5.23), (v) underwriters' Class B warrant strike price (\$4.49), (vi) fair value of underlying equity (\$0.85), and (vii) optimal exercise point of immediately prior to the expiration of the underwriters' Class B warrants, which occurred on April 20, 2017.

The table presented below is a summary of changes of the Company's Level 3 warrant liability and unit purchase option liability for the nine months ended September 30, 2017:

	Warrant Liability	Unit purchase option liability	Total
Balance at December 31, 2016	\$ 5,501	\$ 51	\$ 5,552
Change in fair value	(4,970)	6,556	1,586
Balance at September 30, 2017	\$ 531	\$ 6,607	\$ 7,138

No other changes in valuation techniques or inputs occurred during the nine months ended September 30, 2017 and no transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the nine months ended September 30, 2017.

### 5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Compensation and benefits	\$ 524,409	\$ 272,601
Research and development expenses	452,139	315,937
General and administrative	306,997	160,116
Accrued interest	—	193,781
Warrant and UPO liability	7,138	5,552
Total accrued expenses and other current liabilities	<u>\$ 1,290,683</u>	<u>\$ 947,987</u>

## 6. License Agreements

### *Lilly CERC-611 License*

On September 22, 2016, the Company entered into an exclusive license agreement with Eli Lilly and Company (“Lilly”) pursuant to which the Company received exclusive, global rights to develop and commercialize CERC-611, previously referred to as LY3130481, a potent and selective Transmembrane AMPA Receptor Regulatory Proteins (“TARP”)  $\gamma$ -8-dependent  $\alpha$ -amino-3-hydroxy-5-methyl-4-isoxazolepropionic acid (“AMPA”) receptor antagonist. The terms of the license agreement provide for an upfront payment of \$2.0 million, of which \$750,000 was due within 30 days of the effective date of the license agreement, and the remaining balance of \$1.25 million is due after the first subject is dosed with CERC-611 in a multiple ascending dose study and is recorded as license obligations on the balance sheet at September 30, 2017. Additional payments may be due upon achievement of development and commercialization milestones, including the first commercial sale. Upon commercialization, the Company is obligated to pay Lilly milestone payments and a royalty on net sales.

### *Merck CERC-301 License*

In 2013, the Company entered into an exclusive license agreement with Merck & Co., Inc. (“Merck”) pursuant to which Merck granted the Company rights relating to certain small molecule compounds. In consideration of the license, the Company may be required to make initial payments totaling \$1.5 million upon the achievement of certain milestones. Pursuant to the license agreement the Company paid an initial payment of \$750,000, and upon achievement of acceptance by the United States Food and Drug Administration, or FDA, of Merck pre-clinical data and FDA approval of a Phase 3 clinical trial the Company will pay an additional \$750,000. Additional payments may be due upon achievement of development and regulatory milestones, including the first commercial sale. Upon commercialization, the Company is obligated to pay Merck milestone payments and royalties on net sales.

### *Lilly CERC-501 License*

On August 14, 2017, the Company sold all of its rights to CERC-501 to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen (see Note 11). In addition to the initial proceeds, the terms of the agreement provide for a potential future \$20 million regulatory milestone payment. Further, the terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

### *Merck CERC-406 License*

In 2013, the Company entered into a separate exclusive license agreement with Merck pursuant to which Merck granted the Company certain rights in small molecule compounds which are known to inhibit the activity of COMT. In consideration of the license, the Company made a \$200,000 upfront payment to Merck. Additional payments may be due upon the achievement of development and regulatory milestones. Upon commercialization of a COMT product, the Company is required to pay Merck royalties on net sales.

## 7. Term Loan

In August 2014, the Company entered into a \$7.5 million secured term loan from a finance company. The loan was secured by a lien on all of the Company’s assets, excluding intellectual property, which was subject to a negative pledge. The loan contained certain additional nonfinancial covenants. In connection with the loan agreement, the Company’s cash and investment accounts were subject to account control agreements with the finance company that gave the finance company the right to assume control of the accounts in the event of a loan default. Loan defaults were defined in the loan agreement and

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included, among others, the finance company's determination that there was a material adverse change in the Company's operations. Interest on the loan was at a rate of the greater of 7.95%, or 7.95% plus the prime rate as reported in *The Wall Street Journal* minus 3.25%. On August 1, 2017, the term loan matured and the Company made a final payment of \$494,231 which included a termination fee of \$187,500. Debt consisted of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Term loan	\$ —	\$ 2,374,031
Less: debt discount	—	(20,364)
Term Loan, net of debt discount	\$ —	\$ 2,353,667

Interest expense, which includes amortization of a discount and the accrual of a termination fee, was approximately \$1,000 and \$110,000 for the three months ended September 30, 2017 and 2016, respectively, and \$95,000 and \$404,000 for the nine months ended September 30, 2017 and 2016, respectively, in the accompanying statements of operations.

## 8. Capital Structure

On October 20, 2015, the Company filed an amended and restated certificate of incorporation in connection with the closing of its IPO. The amended and restated certificate of incorporation authorizes the Company to issue two classes of stock, common stock and preferred stock, and eliminates all references to the previously existing series of preferred stock. At September 30, 2017, the total number of shares of capital stock the Company was authorized to issue was 205,000,000 of which 200,000,000 was common stock and 5,000,000 was preferred stock. All shares of common and preferred stock have a par value of \$0.001 per share. On April 27, 2017, the Company further amended its amended and restated certificate of incorporation in connection with the closing of the Armistice Private Placement with the filing of a Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock ("Series A Preferred Stock") of Cerecor Inc. (the "Certificate of Designation"). The Certificate of Designation authorized the issuance of 4,179 shares of Series A Preferred Stock to Armistice with a stated value of \$1,000 per share, convertible into 11,940,000 shares of the Company's common stock at a conversion price of \$0.35 per share. On July 6, 2017, Armistice converted all of its outstanding shares of Series A Preferred Stock into common stock. Subsequent to the conversion of Armistice's Series A Preferred Stock into common stock, Armistice has a majority voting control over the Company.

### Common Stock

#### *Initial Public Offering*

On October 20, 2015, the Company closed an IPO of its units. Each unit consisted of one share of common stock, one Class A warrant to purchase one share of common stock at an exercise price of \$4.55 per share and one Class B warrant to purchase one-half share of common stock at an exercise price of \$3.90 per full share (the "units"). The Class A warrants expire on October 20, 2018 and the Class B warrants expired on April 20, 2017 (the "Class B Expiration Date.") The closing of the IPO resulted in the sale of 4,000,000 units at an initial public offering price of \$6.50 per unit for gross proceeds of \$26.0 million. The net proceeds of the IPO, after underwriting discounts, commissions and expenses, and before offering expenses, to the Company were approximately \$23.6 million. On November 13, 2015, the units separated into common stock, Class A warrants and Class B warrants and began trading separately on the NASDAQ Capital Market. On the Class B Expiration Date, the Class B warrants ceased trading on the NASDAQ Capital Market. No Class B warrants were exercised prior to the Class B Expiration Date.

On November 23, 2015, the underwriter of the IPO exercised its over-allotment option for 20,000 shares of common stock, 551,900 Class A warrants to purchase one share of common stock and 551,900 Class B warrants to purchase one-half share of common stock for additional gross proceeds of \$135,319.

The common stock and accompanying Class A warrants and Class B warrants have been classified to stockholders' equity in the Company's balance sheet.

#### *Underwriter's Unit Purchase Option*

The underwriter of the IPO received, for \$100 in the aggregate, the right to purchase up to a total of 40,000 units (or 1% of the units sold in the IPO) exercisable at \$7.48 per unit (or 115% of the public offering price per unit in the IPO). The units underlying the UPO will be, immediately upon exercise, separated into shares of common stock and the Underwriters' Warrants such that, upon exercise, the holder of a UPO will not receive actual units but will instead receive the shares of common stock and Underwriters' Warrants, to the extent that any portion of the Underwriters' Warrants underlying such units have not otherwise expired. The exercise prices of the underwriters' Class A warrants and underwriter's Class B warrants underlying the UPO are \$5.23 and \$4.49, respectively. The UPO may be exercised for cash or on a cashless basis, at the holder's option, and expires on October 14, 2020; however, following the expiration of underwriters' Class B warrants on April 20, 2017, the UPO is exercisable only for shares of common stock and underwriters' Class A warrants at an exercise price of \$7.475 per unit; provided further, that, following the expiration of underwriters' Class A warrants on October 20, 2018, the UPO will be exercisable only for shares of common stock at an exercise price of \$7.47. The Company classified the UPO as a liability as it is a freestanding marked-to-market derivative instrument that is precluded from being classified in stockholders' equity. The fair value of the UPO is re-measured each reporting period and the change in fair value is recognized in the statement of operations (see Note 4).

#### ***The Aspire Capital Transaction***

On September 8, 2016, the Company entered into a common stock purchase agreement (the "Purchase Agreement") with Aspire Capital, pursuant to which Aspire Capital committed to purchase up to an aggregate of \$15.0 million of shares of the Company's common stock over the 30-month term of the Purchase Agreement. Upon execution of the Purchase Agreement, the Company issued and sold to Aspire Capital 250,000 shares of common stock at a price per share of \$4.00, for gross proceeds of \$1.0 million. Additionally, as consideration for Aspire Capital entering into the Purchase Agreement, the Company issued 175,000 shares of common stock as a commitment fee. The net proceeds of the Aspire Capital transaction, after offering expenses, to the Company were approximately \$1,900,000 for the year ended December 31, 2016. As of December 31, 2016, the Company had sold 763,998 shares of common stock to Aspire Capital under the Purchase Agreement. During the nine months ended September 30, 2017, the Company sold an additional 965,165 shares of common stock to Aspire Capital under the terms of the Purchase Agreement for gross proceeds of approximately \$789,000. As of the date of this Quarterly Report on Form 10-Q, the Company does not have any remaining shares available to issue under the purchase agreement. The Company may not issue any additional shares of common stock to Aspire Capital under the Purchase Agreement unless shareholder approval is obtained.

#### ***The Maxim Group Equity Distribution Agreement***

On January 27, 2017, the Company entered into an Equity Distribution Agreement with Maxim Group LLC ("Maxim"), as sales agent, pursuant to which the Company may offer and sell, from time to time, through Maxim, up to \$12,075,338 in shares of its common stock. The Company has no obligation to sell any of the shares, and may at any time suspend offers under the Equity Distribution Agreement.

As of the September 30, 2017, the Company had sold 1,336,433 shares of its common stock through Maxim under the Equity Distribution Agreement for gross proceeds of \$938,000 and the Company has the potential to sell up to approximately \$2.9 million in additional shares of its common stock under the registration statement on Form S-3.

#### ***Armistice Private Placement***

On April 27, 2017, the Company entered into a securities purchase agreement with Armistice, pursuant to which Armistice purchased \$5.0 million of the Company's securities, consisting of 2,345,714 shares of the Company's common stock at a purchase price of \$0.35 per share and 4,179 shares of Series A Preferred Stock at a price of \$1,000 per share. The Company received \$4.65 million in net proceeds from the Armistice Private Placement. The number of shares of common stock that were purchased in the private placement constituted approximately 19.99% of the Company's outstanding shares of common stock immediately prior to the closing of the Armistice Private Placement. Armistice also received warrants to purchase up to 14,285,714 shares of the Company's common stock at an exercise price of \$0.40 per share. Under the terms of the securities purchase agreement, the Series A Preferred Stock were not convertible into common stock, and the warrants were not exercisable until the Company received approval of the private placement by the Company's shareholders as required by the rules and regulations of the NASDAQ Capital Market. The Company received shareholder approval for this transaction on June 30, 2017, at which time the warrants became exercisable and the Series A Preferred Stock became convertible into common stock.



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As multiple instruments were issued in a single transaction, the Company initially allocated the issuance proceeds among the preferred stock, common stock and warrants using the relative allocation method. As the warrants were determined to be indexed to the Company's stock, and would only be settled in common shares, entirely in the control of the Company, the warrant instrument was accounted for as an equity instrument. Fair value of the warrants was initially determined upon issuance using the Black-Scholes Model (level 3 fair value measurement). Armistice converted all of the Series A Preferred Stock into 11,940,000 shares of common stock on July 6, 2017.

### ***Common Stock Warrants***

At September 30, 2017, the following common stock purchase warrants were outstanding:

<b>Number of shares underlying warrants</b>	<b>Exercise price per share</b>	<b>Expiration date</b>
80,966	\$ 28.00	August 2018
4,551,900	\$ 4.55	October 2018
40,000*	\$ 5.23	October 2018
3,571	\$ 28.00	December 2018
22,328*	\$ 8.40	October 2020
2,380	\$ 8.68	May 2022
14,285,714	\$ 0.40	June 2022
<b>18,986,859</b>		

\* Accounted for as a liability instrument (see Note 4)

## **9. Stock-Based Compensation**

### ***2016 Equity Incentive Plan***

On April 5, 2016, the Company's board of directors adopted the 2016 Equity Incentive Plan (the "2016 Plan") as the successor to the 2015 Omnibus Plan (the "2015 Plan"). The 2016 Plan was approved by the Company's stockholders and became effective on May 18, 2016 (the "2016 Plan Effective Date").

As of the 2016 Plan Effective Date, no additional grants will be made under the 2015 Plan or the 2011 Stock Incentive Plan (the "2011 Plan"), which was previously succeeded by the 2015 Plan effective October 13, 2015. Outstanding grants under the 2015 Plan and 2011 Plan will continue in effect according to their terms as in effect under the applicable plan.

Upon the 2016 Plan Effective Date, the 2016 Plan reserved and authorized up to 600,000 additional shares of common stock for issuance, as well as 464,476 unallocated shares remaining available for grant of new awards under the 2015 Plan. During the term of the 2016 Plan, the share reserve will automatically increase on the first trading day in January of each calendar year, beginning in 2017, by an amount equal to 4% of the total number of outstanding shares of common stock of the Company on the last trading day in December of the prior calendar year. On January 1, 2017, the shares reserved for issuance increased by 377,365. As of September 30, 2017, there were 483,214 shares available for future issuance under the 2016 Plan.

The estimated grant date fair market value of the Company's stock-based awards is amortized ratably over the employees' service periods, which is the period in which the awards vest.

A summary of option activity for the nine months ended September 30, 2017 is as follows:

	Options Outstanding			
	Number of shares	Weighted-average exercise price	Fair value of options granted	Weighted average remaining contractual term (in years)
Balance, December 31, 2016	1,849,359	\$ 5.57		
Granted	578,611	\$ 0.74	\$ 301,743	
Forfeited	(18,391)	\$ 5.63		
Balance, September 30, 2017	2,409,579	\$ 4.41		8.12
Exercisable at September 30, 2017	1,467,463	\$ 5.25		7.65

### Employee Stock Purchase Plan

On April 5, 2016, the Company's board of directors approved the 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's stockholders and became effective on May 18, 2016 (the "ESPP Effective Date").

Under the ESPP, eligible employees can purchase common stock through accumulated payroll deductions at such times as are established by the administrator. The ESPP is administered by the compensation committee of the Company's board of directors. Under the ESPP, eligible employees may purchase stock at 95% of the lower of the fair market value of a share of the Company's common stock (i) on the first day of an offering period or (ii) on the purchase date. Eligible employees may contribute up to 15% of their earnings during the offering period. The Company's board of directors may establish a maximum number of shares of the Company's common stock that may be purchased by any participant, or all participants in the aggregate, during each offering or offering period. Under the ESPP, a participant may not purchase more than 10,000 shares during any purchase period or accrue rights to purchase more than \$25,000 of the fair market value of the Company's common stock for each calendar year in which such right is outstanding.

Upon the ESPP Effective Date, the ESPP reserved and authorized up to 500,000 shares of common stock for issuance. On January 1 of each calendar year, the aggregate number of shares that may be issued under the ESPP shall automatically increase by a number equal to the lesser of (i) 1% of the total number of shares of the Company's capital stock outstanding on December 31 of the preceding calendar year, and (ii) 500,000 shares of the Company's common stock, or (iii) a number of shares of the Company's common stock as determined by the Company's board of directors or compensation committee. Employees purchased 20,000 shares during 2016 and 33,406 shares during the nine months ended September 30, 2017. As of September 30, 2017, 540,935 shares remained available for issuance.

In accordance with the guidance in ASC 718-50, *Employee Share Purchase Plans* ("ASC 718-50"), the ability to purchase shares of the Company's common stock at the lower of the offering date price or the purchase date price represents an option and, therefore, the ESPP is a compensatory plan under this guidance. Accordingly, stock-based compensation expense is determined based on the option's grant-date fair value and is recognized over the requisite service period of the option. The Company used the Black-Scholes valuation model and recognized stock-based compensation expense of \$20,886 and \$69,492 for the three and nine months ended September 30, 2017.

Stock-based compensation expense recognized for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Research and development	\$ 41,323	\$ 43,861	\$ 123,883	\$ 95,013
General and administrative	222,924	243,913	728,327	1,344,181
Total stock-based compensation	\$ 264,247	\$ 287,774	\$ 852,210	\$ 1,439,194

### 10. Income Taxes

The provision for income taxes was \$3.2 million for the nine months ended September 30, 2017. The effective tax rate for the nine-month period ended September 30, 2017 was 17.76% as compared to 0% for the corresponding period in the

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prior year. The increase in the rate is attributable to changes in projected income as well as limitations on the utilization of NOL carryforwards as described below for the year primarily due to the sale of CERC-501. In addition, the Company was able to utilize net operating loss ("NOL") carryforwards of \$2.7 million, which were previously subject to a valuation allowance, to offset a portion of projected income for the year considering Internal Revenue Code Section 382 limitations.

As of December 31, 2016 the Company had \$52.2 million of federal and Maryland state NOL carryforwards that will begin to expire in 2031. As of December 31, 2016 the Company also had \$1.8 million and \$57,000 of federal and Maryland state research and development credits, respectively, that will begin to expire in 2018. The NOL and research and development credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. NOL and tax credit carryforwards are also subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, as well as similar state tax provisions. The amount of the annual limitation depends upon the value of the Company immediately before the change, changes to the Company's capital during a specified period prior to the change, and the federal published interest rate. Considering ownership changes that took place previously as well as during 2017 including the Armistice transaction, the Company is completing an analysis under Section 382 of the Code, and has initially determined the utilization of the NOLs and other tax attributes will be limited on a go forward basis. Approximately \$2.7 million of NOL carryforwards will be available in 2017 and the Company will be able to utilize the NOL carryforwards to offset a portion of projected income for the year. Upon completion of the analysis by year end, to the extent there is a limitation, which could be significant, there would be a reduction in the deferred tax assets with an offsetting reduction in the valuation allowance, with no impact on current period income tax expense.

In assessing the realizability of the remaining net deferred tax assets, the Company considers all relevant positive and negative evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of the gross deferred tax assets is dependent on several factors, including the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. Other than the amount of NOL that is available to offset net income generated through September 30, 2017 there was a full valuation allowance against the net deferred tax assets as of September 30, 2017 and December 31, 2016.

## 11. Commitments and Contingencies

### *Office Lease*

The Company's corporate office space, which is leased under an operating lease, is located in Baltimore, Maryland. The lease provided for three months of rent abatement and includes escalating rent payments. Rent expense is recognized on a straight-line basis over the term of the lease. Rent expense for the office lease amounted to approximately \$125,000 for the nine months ended September 30, 2017 and 2016. Pursuant to the terms of such lease, the Company's future lease obligation is as follows:

Year ending December 31,	
2017*	\$ 39,433
2018	158,716
	<u>\$ 198,149</u>

\* Three months remaining in 2017

### *Obligations to Contract Research Organizations and External Service Providers*

The Company has entered into agreements with contract research organizations and other external service providers for services, primarily in connection with the clinical trials and development of the Company's product candidates. The Company was contractually obligated for up to approximately \$1.2 million of future services under these agreements as of September 30, 2017. The Company's actual contractual obligations will vary depending upon several factors, including the progress and results of the underlying services.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This Quarterly Report on Form 10-Q and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "plans," "intends," "estimates," "could," "should," "would," "continue," "seeks," "aims," "projects," "predicts," "pro forma," "anticipates," "potential" or other similar words (including their use in the negative), or by discussions of future matters such as the receipt of the escrowed initial gross proceeds amount or the potential future regulatory milestone payment from Janssen, the development of product candidates or products, potential attributes and benefits of product candidates, the expansion of Cerecor's drug portfolio, Cerecor's ability to identify new indications for its current portfolio and new product candidates that could be in-licensed, technology enhancements, possible changes in legislation, and other statements that are not historical. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II – Item 1A, "Risk Factors," as well as in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 10, 2017 and in our other filings with the SEC. Statements made herein are as of the date of the filing of this Quarterly Report on Form 10-Q with the SEC and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.*

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and related notes for the year ended December 31, 2016 appearing in our Annual Report on Form 10-K filed with the SEC on March 10, 2017.

### Overview

We are a biopharmaceutical company that is developing innovative drug candidates for either commercialization, license or sale to make a difference in the lives of patients with neurologic and psychiatric disorders. Our lead drug candidate is CERC-301, which we currently intend to explore as a novel treatment for orphan neurologic indications. We also have two pre-clinical stage compounds, CERC-611 and CERC-406.

Our portfolio of product candidates is summarized below:

- **CERC-301: Orphan Neurologic Diseases.** CERC-301 belongs to a class of compounds known as antagonists of the N-methyl-D-aspartate, or NMDA, receptor, a receptor subtype of the glutamate neurotransmitter system that is responsible for controlling neurologic adaptation. We believe CERC-301 specifically blocks the NMDA receptor subunit 2B, or NR2B. Given its specific mechanism of action and demonstrated tolerability profile, we believe CERC-301 may be well suited to address unmet medical needs in neurologic indications. We are now embarking on a pre-clinical and clinical program to explore the use of CERC-301 in orphan neurologic conditions.
- **CERC-611: Adjunctive Treatment of Partial-Onset Seizures in Epilepsy.** CERC-611 is a potent and selective transmembrane AMPA receptor regulatory proteins, or TARP, 8-dependent  $\alpha$ -amino-3-hydroxy-5-methyl-4-isoxazolepropionic acid, or AMPA, receptor antagonist, or inhibitor. TARPs are a recently discovered family of proteins that have been found to associate with, and modulate the activity of, AMPA receptors. TARP 8-dependent AMPA receptors are localized primarily in the hippocampus, a region of the brain with importance in complex partial seizures and particularly relevant to seizure origination and/or propagation. We believe CERC-611 may be the first drug candidate to selectively target and functionally block region-specific AMPA receptors after oral dosing, which we believe may improve the efficacy and side effect profile of CERC-611 over current anti-epileptics. We intend to develop CERC-611 as an adjunctive therapy for the treatment of partial-onset seizures, with or without secondarily generalized seizures, in patients with epilepsy.

- **CERC-406: Residual Cognitive Impairment.** CERC-406 is a preclinical candidate from our proprietary platform of compounds that inhibit catechol-O-methyltransferase, or COMT, within the brain, which we refer to as our COMTi platform. We believe CERC-406 may have the potential to be developed for the treatment of residual cognitive impairment symptoms.

We plan both to evaluate our current portfolio for potential new indications and to identify potential new product candidates and / or commercialized assets.

At September 30, 2017, we had \$24.0 million in cash and cash equivalents and \$4.8 million in current liabilities. In August 2017, we sold all of our rights to a prior product candidate, CERC-501, to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen, as well as a potential future \$20.0 million regulatory milestone payment.

We will need additional funding to complete the development of any of our existing product candidates or any new product candidates we decide to pursue. We intend to seek future funding for our development programs and operations from further offerings of equity or debt securities, non-dilutive financing arrangements such as federal grants, collaboration agreements or out-licensing arrangements. However, we may be unable to raise additional funds or enter into such other agreements or transactions on favorable terms, or at all. If we fail to raise capital or enter into such other arrangements or transactions, we may experience a significant delay, scale-back or discontinue the development of one or more of our product candidates or be forced to cease our operations altogether.

We were incorporated in Delaware in 2011 and commenced operations in the second quarter of 2011. Since inception, our operations have included organizing and staffing our company, business planning, raising capital and developing our product candidates. We have no products approved for commercial sale and have not generated any revenue from product sales to date, and we continue to incur significant research, development and other expenses related to our ongoing operations. We have incurred losses in each period since our inception. As of September 30, 2017 we had an accumulated deficit of \$55.1 million. We expect to incur significant expenses and operating losses for the foreseeable future as we continue the development and clinical trials of our product candidates.

We have financed our operations primarily through a public offering, private placements of our common stock and convertible preferred stock, the issuance of debt and the sale of our rights to CERC-501. Our ability to become and remain profitable depends on our ability to generate product revenue. We do not expect to generate any product revenue unless, and until, we obtain marketing approval for, and commercialize, any of our product candidates. There can be no assurance as to whether or when we will achieve profitability.

## **Components of Operating Results**

### ***Revenue***

To date, we have primarily derived revenue from the sale of CERC-501 and research grants from the National Institutes of Health. We have not generated any revenue from commercial product sales to date. We will not generate any commercial revenue, if ever, until one of our product candidates receives marketing approval and we successfully commercialize such product candidates.

In April 2016, we received a research and development grant from the National Institute on Drug Abuse, or NIDA, at the National Institutes of Health to provide additional resources for the period from May 2016 through April 2017 for a Phase 2 clinical trial for CERC-501. Additionally, in July 2016, we received a research and development grant from the National Institute on Alcohol Abuse and Alcoholism, or NIAAA, at the National Institutes of Health to provide additional resources for the period of July 2016 through August 2017 to progress the development of CERC-501 for the treatment of alcohol use disorder. We recognize revenue under grants in earnings on a systemic basis in the period the related expenditures for which the grants are intended to compensate are incurred.

In August 2017, we sold all of our rights to a prior product candidate, CERC-501, to Janssen Pharmaceuticals, Inc., or Janssen, in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve-month escrow to secure certain indemnification obligations, as well as a potential future \$20.0 million regulatory milestone payment. The terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

### ***Research and Development Expenses***

Our research and development expenses consist primarily of costs incurred developing, testing and seeking marketing approval for our product candidates. These costs include both external costs, which are study-specific costs, and internal research and development costs, which are not directly allocated to our product candidates.

External costs include:

- expenses incurred under agreements with third-party contract research organizations and investigative sites that conduct our clinical trials, preclinical studies and regulatory activities;
- payments made to contract manufacturers for drug substance and acquiring, developing and manufacturing clinical trial materials; and
- payments related to acquisitions of our product candidates and preclinical platform, milestone payments, and fees associated with the prosecution and maintenance of patents.

Internal costs include:

- personnel-related expenses, including salaries, benefits and stock-based compensation expense;
- consulting costs related to our internal research and development programs;
- allocated facilities, depreciation and other expenses, which include rent and utilities, as well as other supplies; and
- product liability insurance.

Research and development costs are expensed as incurred. We record costs for some development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or information provided to us by our vendors.

We track external costs by program and subsequently by product candidate once a product candidate has been selected for development. Product candidates in later stage clinical development generally have higher research and development expenses than those in earlier stages of development, primarily due to the increased size and duration of the clinical trials.

As of September 30, 2017, we had four full-time employees who were primarily engaged in research and development.

### ***General and Administrative Expenses***

General and administrative expenses consist primarily of professional fees, patent costs and salaries, benefits and related costs for executive and other personnel, including stock-based compensation and travel expenses. Other general and administrative expenses include facility-related costs, communication expenses and professional fees for legal, including patent-related expenses, consulting, tax and accounting services, insurance, depreciation and general corporate expenses.

### ***Interest Expense, Net***

Net interest expense is primarily related to interest payments pursuant to the terms of our term debt facility entered into in August 2014, as well as the amortization of the debt discounts and premiums and deferred financing fees in connection with such term debt facility. We made the final payment under this facility on August 1, 2017.

### ***Income Tax Expense***

Income tax expense was incurred during the quarter ended September 30, 2017 as a result of our net income for the same period.

### **Critical Accounting Policies and Significant Judgments and Estimates**

This discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions, including those related to clinical and preclinical trial expenses and stock-based compensation. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to the audited financial statements appearing at the end of our Annual Report on Form 10-K, we believe the following accounting policies are critical to the portrayal of our financial condition and results. We have reviewed these critical accounting policies and estimates with the audit committee of our board of directors.

#### ***License and Other Revenue***

We recognize revenues from collaboration, license or other research or sale arrangements when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

#### ***Grant Revenue Recognition***

We recognize grant revenue when there is (i) reasonable assurance of compliance with the conditions of the grant and (ii) reasonable assurance that the grant will be received. We recognize revenue under grants in earnings on a systemic basis in the period the related expenditures for which the grants are intended to compensate are incurred.

### **Results of Operations**

#### ***Comparison of the Three Months Ended September 30, 2017 and 2016***

##### *License and Other Revenue*

On August 14, 2017, we sold CERC-501 to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen. In addition to the initial proceeds, the terms of the agreement provide for a potential future \$20 million regulatory milestone payment. The terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

##### *Grant Revenue*

The following table summarizes our grant revenue for the three months ended September 30, 2017 and 2016:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Grant revenue	\$ 38	\$ 321

Grant revenue under the NIAAA grant was approximately \$38,000 for the three months ended September 30, 2017. We recognized approximately \$321,000 of grant revenue for the three months ended September 30, 2016 for the NIDA grant. Our grant revenues are dependent upon the timing and progress of the underlying studies and development activities. We had a reduced level of research and development activities in the third quarter of 2017 compared to the prior year period, which resulted in a reduction in grant revenue under the current NIAAA grant compared to the ongoing research conducted under the NIDA grant in 2016. The Company sold CERC-501 to Janssen in August 2017 and does not expect any further grant revenues.

[Table of Contents](#)*Research and Development Expenses*

The following table summarizes our research and development expenses for the three months ended September 30, 2017 and 2016:

	Three Months Ended	
	September 30,	
	2017	2016
	(in thousands)	
CERC-301	\$ 362	\$ 1,142
CERC-501	14	896
CERC-611	175	2,019
CERC-406	—	17
Internal expenses not allocated to programs:		
Salaries, benefits and related costs	194	400
Stock-based compensation expense	41	44
Other	179	64
	\$ 965	\$ 4,582

Research and development expenses were \$965,000 for the three months ended September 30, 2017, a decrease of approximately \$3.6 million compared to the three months ended September 30, 2016. Costs for CERC-301 decreased by \$780,000, primarily due to the completion of the Phase 2 clinical trial for the adjunctive treatment of MDD. Costs for CERC-501 decreased by \$882,000 from the prior year period as our Phase 2 clinical trial with CERC-501 was completed in the fourth quarter of 2016. The Company sold CERC-501 to Janssen in August 2017. We purchased CERC-611 for \$2.0 million in September 2016 and are currently in the process of preparing that compound for additional development.

*General and Administrative Expenses*

	Three Months Ended	
	September 30,	
	2017	2016
	(in thousands)	
Salaries, benefits and related costs	\$ 744	\$ 556
Legal, consulting and other professional expenses	1,047	725
Stock-based compensation expense	223	244
Other general and administrative expenses	138	178
	\$ 2,152	\$ 1,703

General and administrative expenses were \$2.2 million for the three months ended September 30, 2017, an increase of \$0.4 million compared to the three months ended September 30, 2016. This increase was primarily due to severance accruals for our former chief executive officer, who resigned in August, 2017 and increased legal fees associated with the sale of all of our rights to CERC-501.

*Change in Fair Value of Warrant Liability and Unit Purchase Option Liability*

We recognized a net gain on the change in fair value of our warrant liability and UPO liability of \$64 during the three months ended September 30, 2017 compared to a net gain of \$101,000 for the three months ended September 30, 2016.

The \$101,000 gain on the change in fair value during the 2016 period was primarily due to the increase in fair value of the warrant liability and UPO liability. These increases were attributable to a decrease in our common stock price compared to the previous quarter-end.

*Interest Expense, Net*

Net interest expense decreased by \$134,000 for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The decrease was primarily due to a decrease in interest associated with a reduction in the principal balance of our secured term loan facility. We made the final payment under this term loan on August 1, 2017.



*Income Tax Expense*

The provision for income taxes was \$3.2 million for the three months ended September 30, 2017 due to the net income generated from the sale of CERC-501. Our annual effective tax rate as of September 30, 2017 was approximately 18 percent. Our effective tax rate differs from the federal statutory rate due to the Company's ability to utilize a portion of its prior net operating losses, which were previously subject to a valuation allowance, to offset current period income. We currently expect to generate an income tax benefit during the 4<sup>th</sup> quarter due to additional expected operating losses during that period.

***Comparison of the Nine Months Ended September 30, 2017 and 2016****License and Other Revenue*

On August 14, 2017, we sold CERC-501 to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen. In addition to the initial proceeds, the terms of the agreement provide for a potential future \$20 million regulatory milestone payment. The terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

*Grant Revenue*

The following table summarizes our grant revenue for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Grant revenue	\$ 580	\$ 972

Grant revenue from the NIAAA grant was \$580,000 for the nine months ended September 30, 2017. Revenue of \$972,000 for the nine months ended September 30, 2016 was derived from the NIDA grant. Our grant revenues are dependent upon the timing and progress of the underlying studies and development activities. We had a reduced level of research and development activities in the current year period compared to the on-going clinical trial work in prior year period, which resulted in a reduction of grant revenue under the current NIAAA grant compared to the NIDA grant in 2016.

*Research and Development Expenses*

The following table summarizes our research and development expenses for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
CERC-301	\$ 484	\$ 2,534
CERC-501	596	3,145
CERC-611	216	2,019
CERC-406	2	121
Internal expenses not allocated to programs:		
Salaries, benefits and related costs	743	1,285
Stock-based compensation expense	124	95
Other	246	178
	<u>\$ 2,411</u>	<u>\$ 9,377</u>

Research and development expenses were \$2.4 million for the nine months ended September 30, 2017, a decrease of approximately \$7.0 million compared to the nine months ended September 30, 2016. Costs for CERC-301 decreased by \$2.0

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million from the prior year period, primarily due to the completion of enrollment during the Phase 2 clinical trial for the adjunctive treatment of MDD in 2016. We did not perform any clinical trials for CERC-301 in 2017, however costs were incurred to analyze potential other indications for CERC-301 in 2017. Costs for CERC-501 decreased by \$2.5 million from the prior year period as our Phase 2 clinical trial with CERC-501 was completed in the fourth quarter of 2016. We sold all of our rights to CERC-501 to Janssen in August 2017. We purchased CERC-611 in September 2016 for \$2.0 million and are currently in the process of preparing that compound for additional development.

*General and Administrative Expenses*

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Salaries, benefits and related costs	\$ 1,665	\$ 1,808
Legal, consulting and other professional expenses	2,150	2,186
Stock-based compensation expense	728	1,344
Other general and administrative expenses	378	651
	<u>\$ 4,921</u>	<u>\$ 5,989</u>

General and administrative expenses were \$4.9 million for the nine months ended September 30, 2017, a decrease of \$1.1 million compared to the nine months ended September 30, 2016. Salaries, benefits and related costs decreased by \$143,000 primarily due to a temporary reduction in headcount and certain employee benefits. Stock-based compensation expense decreased by \$616,000, which was primarily driven by the modification of grants made to our former chief executive officer in the first quarter of 2016. Other general and administrative expenses decreased by \$273,000 due to efforts to reduce certain other operating costs in order to preserve cash.

*Change in Fair Value of Warrant Liability and Unit Purchase Option Liability*

We recognized a net gain on the change in fair value of our warrant liability and UPO liability of \$2,000 during the nine months ended September 30, 2017 compared to a net gain of \$58,000 for the nine months ended September 30, 2016.

The \$58,000 gain on the change in fair value during the 2016 period was primarily due to the decrease in fair value of the warrant liability and UPO liability. These decreases were attributable to a decrease in our common stock price compared to the previous year-end.

*Interest Expense, Net*

Net interest expense decreased by \$328,000 for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease was primarily due to a decrease in interest associated with a reduction in the principal balance of our secured term loan facility. We made the final payment under this term loan on August 1, 2017.

*Income Tax Expense*

The provision for income taxes was \$3.2 million for the nine months ended September 30, 2017 due to the net income generated from the sale of CERC-501. Our annual effective tax rate as of September 30, 2017 was approximately 18 percent. Our effective tax rate differs from the federal statutory rate due to the Company's ability to utilize a portion of its prior net operating losses, which were previously subject to a valuation allowance, to offset current period income. We currently expect to generate an income tax benefit during the 4<sup>th</sup> quarter due to additional expected operating losses during that period.

**Liquidity and Capital Resources**

We have devoted most of our cash resources to research and development and general and administrative activities. Since our inception, we have incurred net losses and negative cash flows from our operations. We expect to incur significant expenses and operating losses for the foreseeable future as we continue the development, preclinical and clinical trials of, and seek marketing approval for, our product candidates. We incurred net income (losses) of \$15.0 million and \$(14.8) million for

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the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 we had an accumulated deficit of \$55.1 million, net working capital of \$23.3 million and cash and cash equivalents of \$24.0 million primarily due to the sale of CERC-501. To date, we have not generated any commercial revenues from the sale of products and we do not anticipate generating any revenues from the commercial sale of our product candidates for the foreseeable future. Historically, we have financed our operations principally through private and public placements of common stock, private placements of convertible preferred stock and convertible and nonconvertible debt. In April 2017, we raised gross proceeds of \$5.0 million from a private placement of our equity securities. On August 14, 2017, we sold all of our rights to CERC-501 to Janssen in exchange for initial gross proceeds of \$25.0 million, of which \$3.75 million was deposited into a twelve month escrow to secure certain indemnification obligations to Janssen. In addition to the initial proceeds, the terms of the agreement provide for a potential future \$20 million regulatory milestone payment. Further, the terms of the agreement provide that Janssen will assume ongoing clinical trials and be responsible for any new development and commercialization of CERC-501.

We will require substantial additional financing to fund our operations to continue to execute our strategy. Our strategy is to seek funding for our operations from further offerings of equity or debt securities, non-dilutive financing arrangements such as federal grants, collaboration agreements or out-licensing arrangements, and to explore strategic alternatives such as an acquisition, merger, or business combination. Based on our current research and development plans we expect that our existing cash and cash equivalents, together with the initial proceeds from the Janssen sale, will enable us to fund our operating expenses and capital expenditure requirements through 2018.

### **Term Loan**

In August 2014, we received a \$7.5 million secured term loan from a finance company. The loan was secured by a lien on all our assets, excluding intellectual property, which was subject to a negative pledge. The loan agreement contained certain additional nonfinancial covenants. In connection with the loan agreement, our cash and investment accounts were subject to account control agreements with the finance company that give the finance company the right to assume control of the accounts in the event of a loan default. Loan defaults were defined in the loan agreement and include, among others, the finance company's determination that there was a material adverse change in our operations, other than adverse results of clinical trials. Interest on the loan was at a rate of the greater of 7.95%, or 7.95% plus the prime rate as reported in The Wall Street Journal minus 3.25%. On August 1, 2017, we made the final payment of \$494,231 under the loan, which included a termination fee of \$187,500.

### **Cash Flows**

The following table summarizes our cash flows for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 15,110	\$ (10,860)
Investing activities	(8)	(26)
Financing activities	3,726	(1,461)
Net increase (decrease) in cash and cash equivalents	<u>\$ 18,828</u>	<u>\$ (12,347)</u>

#### *Net cash provided by (used in) operating activities*

Net cash provided by operating activities was \$15.1 million for the nine months ended September 30, 2017 and consisted primarily of net income of \$15.0 million, offset by an increase in escrowed cash receivable of \$3.8 million which resulted from the sale of all of our rights to CERC-501 and a \$698,000 decrease in accounts payable. These were offset by non-cash stock-based compensation expense of \$852,000.

Net cash used in operating activities was \$10.9 million for the nine months ended September 30, 2016 and consisted primarily of a net loss of \$14.8 million, offset by non-cash stock-based compensation expense of \$1.4 million and an increase in accrued expenses and other liabilities of \$2.5 million.

#### *Net cash provided by (used in) financing activities*

Net cash provided by financing activities was \$3.7 million for the nine months ended September 30, 2017, which consisted of gross proceeds of \$1.7 million from the sale of common stock under an equity distribution agreement with the Maxim Group and \$4.6 million, net from a private placement of equity securities to Armistice Capital Master Fund Ltd, offset by principal payments on our term loan of \$2.4 million.

Net cash used in financing activities was \$1.5 million for the nine months ended September 30, 2016, which consisted primarily of proceeds of \$1.0 million from the sale of common stock offset by principal payments on our term loan of \$2.5 million.

### ***Operating and Capital Expenditure Requirements***

We have not achieved profitability since our inception and, while we did recognize license and other revenue from the sale of CERC-501, we expect to continue to incur net losses for the foreseeable future. We expect to continue to incur significant legal, accounting and other expenses that relate to being a public company. In addition, the Sarbanes-Oxley Act, as well as rules adopted by the Securities and Exchange Commission, or SEC, and the NASDAQ Stock Market, requires public companies to implement specified corporate governance practices that are inapplicable to private companies. We expect these rules and regulations will continue to increase our legal and financial compliance costs and will make some activities more time consuming and costly. Based on our research and development plans, we expect that our existing cash and cash equivalents, together with the initial proceeds of \$25.0 million from the Janssen sale, of which \$3.75 million will be held in escrow for twelve months, which will enable us to fund our operating expenses and capital expenditure requirements through 2018. We will require substantial additional financing to fund our operations and to continue to develop our product candidates. Our strategy is to seek funding for our operations from further offerings of equity or debt securities, non-dilutive financing arrangements such as federal grants, collaboration agreements or out-licensing arrangements, and to explore strategic alternatives such as an acquisition, merger, or business combination.

Each of our product candidates are still in the early stages of preclinical and clinical development and the outcome of these efforts is uncertain. We cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may generate revenue.

We will need to raise substantial additional capital in the future to fund our operations and to further develop our product candidates and we anticipate funding our operations from further offerings of equity or debt securities, non-dilutive financing arrangements such as federal grants, collaboration agreements or out-licensing arrangements, and to explore strategic alternatives such as an acquisition, merger, or business combination. However, there can be no assurance that we will be able to obtain additional equity or debt financing, or strategic alternatives, on terms acceptable to us, if at all. If we raise additional funds through collaboration and licensing agreements with third parties, it may be necessary to relinquish valuable rights to our product candidates, technologies or future revenue streams or to grant licenses on terms that may not be favorable to us. There can also be no assurance that the exploration of strategic alternatives will result in any such transaction. Our future capital requirements will depend on many forward-looking factors, including:

- the progress and results of any clinical trials for CERC-301
- the progress and results of any clinical trials for CERC-611 and any changes to our development plan with respect to CERC-611, if any;
- our plan and ability to enter into collaborative or licensing agreements for the development and commercialization of our product candidates;
- the number and development requirements of any other product candidates that we may pursue;
- the scope, progress, results and costs of researching and developing our product candidates or any future product candidates, both in the United States and in territories outside the United States;
- the costs, timing and outcome of regulatory review of our product candidates or any future product candidates, both in the United States and in territories outside the United States;

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- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution for any of our product candidates for which we receive marketing approval;
- the costs and timing of any product candidate acquisition or in-licensing opportunities;
- any product liability or other lawsuits related to our products;
- the expenses needed to attract and retain skilled personnel;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval; and
- the costs involved in preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending our intellectual property-related claims, both in the United States and in territories outside the United States.

We have entered into agreements with contract research organizations and other external service providers for services, primarily in connection with the clinical trials and development of our product candidates. We were contractually obligated for up to approximately \$1.2 million of future services under these agreements as of September 30, 2017. Our actual contractual obligations will vary depending upon several factors, including the progress and results of the underlying services.

Please refer to the section entitled “Risk Factors” at Item 1A of this Quarterly Report on Form 10-Q for additional risks associated with our substantial capital requirements.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined by applicable SEC rules and regulations.

### **Recent Accounting Pronouncements**

See Item 1 of Part I, “Notes to Unaudited Financial Statements,” Note 2, of this Quarterly Report on Form 10-Q.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

We maintain a short-term investment portfolio consisting mainly of highly liquid short-term money market funds, which we consider to be cash equivalents. These investments earn interest at variable rates and, as a result, decreases in market interest rates would generally result in decreased interest income. We do not believe that a 10% increase or decrease in interest rates would have a material effect on the fair value of our investment portfolio due to the short-term nature of these instruments, and accordingly we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal controls over financial reporting during the quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 10, 2017, which could materially affect our business, financial condition or future results. Our risk factors as of the date of this Quarterly Report on Form 10-Q have not changed materially from those described in our Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results of operations and the trading price of our common stock.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

None.

### Item 5. Other Information.

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
2.1	<a href="#">Asset Purchase Agreement, dated as of August 14, 2017, by and among Cerecor Inc. and Janssen Pharmaceuticals, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 14, 2017).</a>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Cerecor Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 20, 2015).</a>
3.1.1	<a href="#">Form of Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of Cerecor Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 28, 2017).</a>
3.2	<a href="#">Amended and Restated Bylaws of Cerecor Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Current Report on Form 8-K filed on October 20, 2015).</a>
4.1	<a href="#">Second Amended and Restated Investors' Rights Agreement, dated as of July 11, 2014 (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.2	<a href="#">Form of Warrant to Purchase Shares of Common Stock issued in connection with the sale of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.3	<a href="#">Form of Warrant to Purchase Shares of Common Stock issued in connection with the sale of Series A-1 Convertible Preferred Stock, as amended by the Amendment to Common Stock Warrants, dated as of July 11, 2014 (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.4	<a href="#">Form of Warrant to Purchase Shares of Common Stock, issued to CIFCO International Group and its affiliate (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.5	<a href="#">Form of Warrant to Purchase Shares of Common Stock issued in connection with the issuance of convertible promissory notes from April 2014 through June 2014 (incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.6	<a href="#">Warrant Agreement, dated as of August 19, 2014, issued to Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.7	<a href="#">Form of Unit Purchase Option (incorporated by reference to Annex IV of Exhibit 1.1 to the Registration Statement on Form S-1 filed on June 12, 2015).</a>
4.9	<a href="#">Form of Class A Warrant Agreement (incorporated by reference to Exhibit 4.9 to the Registration Statement on Form S-1 filed on October 13, 2015).</a>
4.1	<a href="#">Specimen Class A Warrant Certificate (incorporated by reference to Exhibit 4.10 to the Registration Statement on Form S-1 filed on October 13, 2015).</a>
4.11	<a href="#">Form of Class B Warrant Agreement (incorporated by reference to Exhibit 4.11 to the Registration Statement on Form S-1 filed on October 13, 2015).</a>
4.12	<a href="#">Specimen Class B Warrant Certificate (incorporated by reference to Exhibit 4.12 to the Registration Statement on Form S-1 filed on October 13, 2015).</a>



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4.13	<a href="#">Specimen Unit Certificate (incorporated by reference to Exhibit 4.13 to the Registration Statement on Form S-1 filed on October 13, 2015).</a>
4.14	<a href="#">Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed on May 20, 2016).</a>
4.15	<a href="#">Form of Warrant to Purchase Common Stock of Cerecor Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on April 28, 2017).</a>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1 *	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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\* These certifications are being furnished solely to accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Cerecor Inc.**

/s/ John Kaiser

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**John Kaiser**

Interim Chief Executive Officer  
*(on behalf of the registrant and as the registrant's  
Principal Executive Officer)*

Date: November 6, 2017

/s/ Mariam E. Morris

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**Mariam E. Morris**

Chief Financial Officer  
*(Principal Financial Officer)*

Date: November 6, 2017

**CERTIFICATION OF PERIODIC REPORT  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Kaiser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cerecor Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2017

/s/ John Kaiser

John Kaiser  
President and Chief Executive Officer  
(Registrant's Principal Executive Officer)

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**CERTIFICATION OF PERIODIC REPORT PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Mariam E. Morris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cerecor Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2017

/s/ Mariam E. Morris

Mariam E. Morris  
Chief Financial Officer

(Registrant's Principal Financial and Accounting Officer)

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cerecor Inc. (the “Registrant”) on Form 10-Q for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Kaiser, Chief Executive Officer of the Registrant, and I, Mariam E. Morris, Chief Financial Officer of the Registrant, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 6, 2017

By: /s/ John Kaiser  
 Name: **John Kaiser**  
 Title: **Chief Executive Officer  
 (Registrant’s Principal Executive Officer)**

Date: November 6, 2017

By: /s/ Mariam E. Morris  
 Name: **Mariam E. Morris**  
 Title: **Chief Financial Officer  
 (Registrant’s Principal Financial and Accounting Officer)**

*The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Cerecor Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.*

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