Gevo, Inc.
Form 10-Q
August 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
Commission File Number 001-35073

GEVO, INC.

(Exact name of registrant as specified in its charter)

Delaware	87-0747704
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

345 Inverness Drive South, Building C, Suite 310

Englewood, CO 80112

(303) 858-8358

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 31, 2014, 69,488,094 shares of the registrant's common stock were outstanding.

GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GEVO, INC.

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$5,908	$24,625
Accounts receivable	3,085	1,358
Inventories	4,243	3,581
Prepaid expenses and other current assets	935	1,163
Total current assets	14,171	30,727
Property, plant and equipment, net	83,704	83,475
Debt issue costs, net	603	801
Restricted deposits	2,611	-
Deposits and other assets	883	1,352
Total assets	$101,972	$116,355
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$8,195	$13,030
Current portion of secured debt, net of $36 and $492 discount at June 30, 2014 and December 31, 2013, respectively	268	788
Derivative warrant liability	4,687	7,243
Total current liabilities	13,150	21,061
Long-term portion of secured debt, net of $32 and $450 discount at June 30, 2014 and December 31, 2013, respectively	31,871	9,339
2022 notes, net (see note 7)	12,956	14,501
Other long-term liabilities	359	479
Total liabilities	58,336	45,380
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value per share; 10,000,000 shares authorized; none issued and outstanding at June 30, 2014 and December 31, 2013	-	-

Common stock, $0.01 par value per share; 150,000,000 authorized; 69,104,005 and 68,492,894 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	691	685
Additional paid-in capital	334,226	332,443
Deficit accumulated during development stage	(291,281)	(262,153)
Total stockholders' equity	43,636	70,975
Total liabilities and stockholders' equity	$101,972	$116,355

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Operations

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		From June 9, 2005 (Date of Inception) To June 30,
	2014	2013	2014	2013	2014
Revenue and cost of goods sold					
Ethanol sales and related products, net	$5,522	$-	$5,522	$-	$103,937
Hydrocarbon revenue	2,018	573	2,648	1,312	5,455
Grant and other revenue	181	377	454	762	9,675
Corn sales	-	909	-	3,328	4,354
Total revenues	7,721	1,859	8,624	5,402	123,421
Cost of corn sales	-	920	-	3,375	4,309
Cost of goods sold	8,269	2,696	12,949	4,744	132,997
Gross loss	(548)	(1,757)	(4,325)	(2,717)	(13,885)
Operating expenses					
Research and development	3,586	5,828	7,691	10,804	104,520
Selling, general and administrative	4,898	6,279	9,938	13,229	149,792
Other operating expenses	-	-	-	-	1,347
Total operating expenses	8,484	12,107	17,629	24,033	255,659
Loss from operations	(9,032)	(13,864)	(21,954)	(26,750)	(269,544)
Other (expense) income					
Interest expense	(2,609)	(2,312)	(4,210)	(5,588)	(28,428)
Interest expense - debt issuance costs	(3,185)	-	(3,185)	-	(3,185)
Loss on conversion of debt	-	(1,112)	-	(2,038)	(2,038)
Gain (loss) from change in fair value of embedded derivatives of the 2022 Notes	1,480	2,023	2,744	693	22,858
Gain (loss) from change in fair value of derivative warrant liability	1,321	-	2,599	-	(3,448)
Gain (loss) from change in fair value of 2017 Notes	(5,129)		(5,129)		(5,129)
Other income	(2)	43	7	91	920
Total other income (expense)	(8,124)	(1,358)	(7,174)	(6,842)	(18,450)
Net loss	(17,156)	(15,222)	(29,128)	(33,592)	(287,994)

Deemed dividend - amortization of beneficial conversion feature on Series D-1 preferred stock	-	-	-	-	(3,872)
Net loss attributable to Gevo, Inc. common stockholders	$(17,156)	$(15,222)	$(29,128)	$(33,592)	$(291,866)
Net loss per share attributable to Gevo, Inc. common stockholders - basic and diluted	$(0.25)	$(0.35)	$(0.43)	$(0.80)	
Weighted-average number of common shares outstanding - basic and diluted	67,969,811	43,371,992	67,865,844	42,191,018	

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30, 2014	2013	From June 9, 2005 (Date of Inception) To June 30, 2014
Operating Activities			
Net loss	$(29,128)	$(33,592)	$(287,994)
Adjustments to reconcile net loss to net cash used in operating activities:			
(Gain) loss from change in fair value of warrant liabilities	(2,599)	-	3,448
(Gain) loss from change in fair value of embedded derivative	(2,744)	(693)	(22,858)
(Gain) loss from change in fair value of convertible debt	5,129		5,129
Non-cash stock-based compensation	1,503	2,126	31,939
Depreciation and amortization	1,604	1,694	18,602
Non-cash interest expense	5,365	2,976	15,372
Loss on conversion of debt	-	2,038	2,038
Loss (gain) from change in fair value of derivatives	42	207	(563)
Other non-cash expenses	-	-	1,855
Changes in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable	(1,727)	200	(1,086)
Inventories	(661)	3,228	(1,602)
Prepaid expenses and other current assets	228	31	540
Deposits and other assets	(31)	-	(318)
Accounts payable, accrued expenses, and long-term liabilities	(2,201)	2,598	5,804
Net cash used in operating activities	(25,220)	(19,187)	(229,694)
Investing Activities			
Acquisitions of property, plant and equipment	(3,837)	(2,758)	(82,330)
Proceeds from sales tax refund	-	-	2,006
Other	-	-	(575)
Acquisition of Agri-Energy, net of cash assumed	-	-	(24,936)
Restricted deposits	(2,611)	-	(2,650)
Net cash used in investing activities	(6,448)	(2,758)	(108,485)

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

	Six Months Ended June 30,		From June 9, 2005 (Date of Inception) To June 30,
	2014	2013	2014
Financing Activities			
Payments on secured debt	(9,622)	(4,141)	(42,847)
Debt and equity offering costs	(3,353)	-	(18,567)
Proceeds from issuance of common stock upon exercise of stock options and ESPP	19	9	1,398
Proceeds from issuance of common stock and common stock units	-	-	205,340
Proceeds from issuance of convertible preferred stock	-	-	86,025
Proceeds from issuance of Term Loan, net	25,907	-	68,207
Proceeds from issuance of secured debt	-	-	41,578
Proceeds from issuance of convertible promissory notes with warrants	-	-	3,000
Deposit on secured debt and other	-	(79)	(639)
Proceeds from the exercise of warrants	-	-	592
Net cash (used in) provided by financing activities	12,951	(4,211)	344,087
Net (decrease) increase in cash and cash equivalents	(18,717)	(26,156)	5,908
Cash and cash equivalents			
Beginning of period	24,625	66,744	-
Ending of period	$5,908	$40,588	$5,908

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

Supplemental disclosures of cash and non-cash investing and financing transactions	Six Months Ended June 30, 2014	2013	From June 9, 2005 (Date of Inception) To June 30, 2014
Cash paid for interest, net of interest capitalized	$2,013	$2,389	$ 15,934
Capitalization of interest, from term to 2017 Convertible Notes	$201	$-	$ 201
Non-cash purchase of property, plant and equipment	$400	$227	$ 400
Conversion of convertible debt to common stock	$-	$12,784	$ 12,784
Issuance of common stock for services	$-	$483	$ 483
Issuance of common stock warrants	$-	$-	$ 4,048
Modification of warrants	$-	$-	$ 179
Warrants issued with secured debt	$-	$-	$ 1,746
Warrants issued with convertible promissory notes	$-	$-	$ 505
Conversion of preferred stock warrants to common stock warrants upon initial public offering and reclassification of related liability to additional paid-in-capital	$-	$-	$ 2,063
Deemed dividend—amortization of beneficial conversion feature on Series D-1 preferred stock	$-	$-	$ 3,872
Promissory notes and accrued interest converted to Series C preferred stock	$-	$-	$ 3,043
Issuance of Series C preferred stock upon exercise of warrant (amount reclassified from liability to equity)	$-	$-	$ 1,458
Issuance of Series D-1 preferred stock to ICM, Inc. in exchange for a credit against future services	$-	$-	$ 1,000
Reclassified deferred offering costs to additional paid-in-capital upon initial public offering	$-	$-	$ 4,296

See notes to unaudited consolidated financial statements.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements

1. Nature of Business, Financial Condition and Basis of Presentation

Nature of Business. Gevo, Inc. ("Gevo" or the "Company," which, unless otherwise indicated, refers to Gevo, Inc. and its subsidiaries) is a renewable chemicals and next generation biofuels company focused on the development and commercialization of alternatives to petroleum-based products based on isobutanol produced from renewable feedstocks. Gevo, Inc. was incorporated in Delaware on June 9, 2005 ("Inception"). Gevo, Inc. formed Gevo Development, LLC ("Gevo Development") in September 2009 to finance and develop biorefineries either through joint venture, licensing arrangements, tolling arrangements or direct acquisition (see Note 9). Gevo Development became a wholly owned subsidiary of the Company in September 2010. Gevo Development purchased Agri-Energy, LLC ("Agri-Energy") in September 2010. Through May 2012, Agri-Energy, a wholly owned subsidiary of Gevo Development, was engaged in the business of producing and selling ethanol and related products produced at its plant located in Luverne, Minnesota (the "Agri-Energy Facility"). The Company commenced the retrofit of the Agri-Energy Facility in 2011 and commenced initial startup operations for the production of isobutanol at this facility in May 2012. In September 2012, the Company made the strategic decision to pause isobutanol production at the Agri-Energy Facility to focus on optimizing specific parts of the process to further enhance isobutanol production rates. In 2013, the Company modified the Agri-Energy Facility in order to increase the isobutanol production rate. In June 2013, the Company resumed the limited production of isobutanol, operating one fermenter and one Gevo Integrated Fermentation Technology® ("GIFT®") separation system in order to (i) verify that the modifications had significantly reduced the previously identified infections, (ii) demonstrate that its biocatalyst performs in the one million liter fermenters at the Agri-Energy Facility, and (iii) confirm GIFT® efficacy at commercial scale at the Agri-Energy Facility. In August 2013, the Company expanded production capacity at the Agri-Energy Facility by adding a second fermenter and second GIFT® system to further verify its results with a second configuration of equipment. In October 2013, the Company began commissioning the Agri-Energy Facility on corn mash to test isobutanol production run rates and to optimize biocatalyst production, fermentation separation and water management systems. In March 2014, the Company decided to leverage the flexibility of its GIFT® technology and further modify the Agri-Energy Facility which it believes will to enable the simultaneous production of isobutanol and ethanol. In May 2014, the Company commenced the co-production of isobutanol and ethanol at the Agri-Energy Facility, with one fermenter utilized for isobutanol production and three fermenters utilized for ethanol production. In line with the Company's strategy to maximize asset utilization and site cash flows, the Company believes that this configuration of the plant should allow it to continue to optimize its isobutanol technology at a commercial scale, while taking advantage of the positive ethanol margins currently available in the marketplace.

At June 30, 2014, the Company is considered to be in the development stage as its primary activities, since Inception, have been conducting research and development, business development, business and financial planning, establishing its facilities including retrofitting the Agri-Energy Facility, initial startup operations for isobutanol production at the Agri-Energy Facility and raising capital. Ultimately, the Company believes that the attainment of profitable operations is dependent upon future events, including completion of its development activities resulting in commercial production and sales of isobutanol or isobutanol-derived products and/or technology, obtaining adequate financing to complete its development activities, obtaining adequate financing to build out further isobutanol production capacity, gaining market acceptance and demand for its products and services, and attracting and retaining qualified personnel.

The Company has primarily derived revenue from the sale of ethanol, distiller's grains and other related products produced as part of the ethanol production process at the Agri-Energy Facility. The production of ethanol alone is not the Company's intended business and its future strategy is expected to depend on its ability to produce and market isobutanol and products derived from isobutanol. Given that the production of ethanol alone is not the Company's intended business, and the Company has not yet achieved consistent production and revenue from the sale of isobutanol, the historical operating results of Agri-Energy may not be indicative of future operating results for Agri-Energy or Gevo. As a result, the Company will continue to report as a development stage company until it begins to generate consistent production and revenue from the sale of isobutanol or other products that are or become the Company's intended business.

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

Financial Condition. For the three and six months ended June 30, 2014, the Company incurred a consolidated net loss of $17.2 million and $29.1 million,, respectively, and had an accumulated deficit of $291.3 million. From Inception to June 30, 2014, the Company has incurred significant net losses and has funded its operations primarily through equity offerings, issuances of debt, borrowings under its secured debt financing arrangements and revenues earned primarily from the sale of ethanol and related products. The Company's cash and cash equivalents at June 30, 2014 totaled $5.9 million which is primarily being used for the following: (i) operating activities and completion of the side-by-side configuration of the Agri-Energy Facility; (ii) operating activities at its corporate headquarters in Colorado, including research and development work; (iii) capital improvements primarily associated with its Agri-Energy Facility; (iv) costs associated with optimizing isobutanol production technology; (v) costs associated with the ongoing litigation with Butamax Advanced Biofuels LLC ("Butamax"), a joint venture between British Petroleum ("BP"), E.I. du Pont de Nemours and Company ("DuPont"), and Dupont and BP Biofuels; and (vi) debt service obligations. The Company expects to incur future net losses as it continues to fund the development and commercialization of its product candidates. The Company's transition to profitability is dependent upon, among other things, the successful development and commercialization of its product candidates and the achievement of a level of revenues adequate to support the Company's cost structure. The Company may never achieve profitability or positive cash flows, and unless and until it does, the Company will continue to need to raise additional cash. Management intends to fund future operations through additional private and/or public offerings of debt or equity securities. In addition, the Company may seek additional capital through arrangements with strategic partners or from other sources, it may seek to restructure its debt and it will continue to address its cost structure. Notwithstanding, there can be no assurance that the Company will be able to raise additional funds, or achieve or sustain profitability or positive cash flows from operations. Based on the Company's operating plan, existing working capital at June 30, 2014 was not sufficient to meet the cash requirements to fund planned operations through December 31, 2014 without additional sources of cash. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business.

Basis of Presentation. The unaudited consolidated financial statements of the Company (which include the accounts of its wholly-owned subsidiaries Gevo Development and Agri-Energy) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company at June 30, 2014 and for all periods presented. The consolidated statements of operations for the three and six months ended June 30, 2013 and consolidated statements of cash flows for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included under the heading "Financial Statements and Supplementary Data" in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Annual Report").

Significant accounting policies. The Company has elected the fair value option for certain long-term debt instruments that qualify for such treatment. See note 7 for a detailed description of the accounting the 2017 convertible notes entered that are accounted for in this manner.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014 09"). The objective of

ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. ASU 2014 09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014 09.

In June 2014, the FASB issued Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation ("ASU 2014-10"). The amendments in ASU 2014-10 remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, including the removal of Topic 915, Development Stage Entities, from the FASB Accounting Standards Codification®. ASU 2014-10 is effective for the first annual period beginning after December 15, 2014. The revised consolidation standards are effective one year later, in annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2014 10.

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

2. Earnings per Share

Basic net loss per share is computed by dividing the net loss attributable to Gevo, Inc. common stockholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share ("EPS") includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Diluted EPS for the three and six months ended June 30, 2014 and 2013 excluded common stock equivalents because the effect of their inclusion would be anti-dilutive, or would decrease the reported loss per share.

The following table sets forth securities outstanding that could potentially dilute the calculation of diluted earnings per share.

	Six Months Ended June 30,	
	2014	2013
Warrants to purchase common stock	22,563,548	1,259,998
Convertible 2017 notes	22,537,983	-
Convertible 2022 notes	4,725,516	4,725,392
Outstanding options to purchase common stock	3,873,563	3,172,213
Unvested restricted common stock	915,518	941,236
Total	54,616,128	10,098,839

3. Inventories

The following table sets forth the components of the Company's inventory balances (in thousands).

	June 30, 2014	December 31, 2013
Raw materials		
Corn	$1,182	$ 1,456
Enzymes and other inputs	306	514
Finished goods	1,071	192
Work in process	266	224
Spare parts	1,418	1,195
Total inventories	$4,243	$ 3,581

Included in cost of goods sold is depreciation of $0.5 million and $0.6 million during the three months ended June 30, 2014 and 2013, respectively, and $1.1 million and $1.1 million during the six months ended June 30, 2014 and 2013, respectively. Depreciation expense included in cost of goods sold from Inception to June 30, 2014 was $7.9 million.

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

4. Property, Plant and Equipment

The following table sets forth the Company's property, plant and equipment by classification (in thousands).

		June 30, 2014	December 31, 2013
Construction in progress	-	$ 67,711	$ 66,033
Plant machinery and equipment	10 years	11,009	11,009
Site improvements	10 years	7,009	7,007
Lab equipment, furniture and fixtures and vehicles	5 years	6,369	6,303
Demonstration plant	2 years	3,597	3,597
Buildings	10 years	2,543	2,543
Computer, office equipment and software	3 years	1,437	1,437
Leasehold improvements, pilot plant, land and support equipment	2 - 5 years	2,143	2,105
Total property, plant and equipment		101,818	100,034
Less accumulated depreciation and amortization		(18,114)	(16,559)
Property, plant and equipment, net		$ 83,704	$ 83,475

Construction in progress includes $65.7 million at June 30, 2014 and December 31, 2013 related to the retrofit of the Agri-Energy Facility to isobutanol production.

Prior to the first quarter of 2014, the Company capitalized interest on its secured debt associated with its qualifying assets, which related to the retrofit of the Agri-Energy Facility that was actively being developed. The Company did not capitalize any interest during the three and six months ended June 30, 2014 as there were no qualifying assets which were actively being developed. The Company capitalized $0.1 million of interest during the three and six months ended June 30, 2013, and $1.8 million of interest from Inception to June 30, 2014.

5. Derivative Instruments

Forward Purchase and Exchange-Traded Futures Contracts

The Company's activities generally expose it to a variety of market risks, including the effects of changes in commodity prices such as corn. These financial exposures are monitored and have been managed by the Company through derivative instruments, including forward purchase contracts and exchange traded futures contracts, as an integral part of its overall risk management program. The Company's risk management program focuses on the unpredictability of financial and commodities markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results.

The Company has historically followed a policy of using exchange-traded futures contracts as a means of managing its exposure to fluctuations in operating margins based on changes in commodity prices. The Company did not have any exchange-traded futures contracts as of June 30, 2014. During the three and six months ended June 30, 2013, exchange-traded futures contracts were valued at fair value and changes in fair value are recorded in cost of goods sold in the consolidated statements of operations.

Forward purchase contracts are recorded at fair value unless a company elects to use the "normal purchases and normal sales scope exception" guidance of GAAP. To qualify for the normal purchases and normal sales scope exception, a contract must be appropriately designated and must provide for the purchase or sale of physical commodities in quantities that are expected to be used or sold over a reasonable period of time in the normal course of operations. The Company did not have forward purchase contracts during the three and six months ended June 30, 2014. During the three and six months ended June 30, 2013, the Company did not elect the normal purchase and normal sales scope exception to its forward purchase contracts. Accordingly, changes in the fair value of these contracts have been recorded in cost of goods sold in the consolidated statements of operations.

The foregoing derivatives do not include any credit risk related contingent features, the Company has not entered into these derivative financial instruments for trading or speculative purposes, and it has not designated any of its derivatives as hedges for financial accounting purposes. At June 30, 2014 and December 31, 2013, the Company did not have any exchange-traded futures contracts or forward purchase contracts and, as such, did not hold any cash in margin deposit accounts.

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

The following table summarizes the realized and unrealized gain / (loss) of the Company's derivative instruments (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,		From Inception to June 30,
Realized Gain / (Losses)	2014	2013	2014	2013	2014
Exchange-traded futures contracts	$ -	$ 73	$ -	$ 322	$ (235)
Unrealized Gain / (Losses)					
Exchange-traded futures contracts	-	58	-	(218)	648
Forward purchase contracts	-	(8)	-	12	(43)

Convertible Notes

In July 2012, the Company issued 7.5% convertible senior notes due 2022 (the "2022 Notes") which contain the following embedded derivatives: (i) rights to convert into shares of the Company's common stock, including upon a Fundamental Change (as defined in the indenture governing the 2022 Notes (the "Indenture")); and (ii) a Coupon Make-Whole Payment (as defined in the Indenture) in the event of a conversion by the holders of the 2022 Notes prior to July 1, 2017. Embedded derivatives are separated from the host contract, the 2022 Notes, and carried at fair value when: (a) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract; and (b) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument. The Company has concluded that the embedded derivatives within the 2022 Notes meet these criteria and, as such, must be valued separate and apart from the 2022 Notes and recorded at fair value each reporting period.

The Company combines these embedded derivatives and values them together as one unit of accounting. At each reporting period, the Company records these embedded derivatives at fair value which is included as a component of the 2022 Notes on the consolidated balance sheets.

The Company used a binomial lattice model in order to estimate the fair value of these embedded derivatives in the 2022 Notes. A binomial lattice model generates two probable outcomes—one up and another down—arising at each point in time, starting from the date of valuation until the maturity date. A lattice was initially used to determine if the 2022 Notes would be converted, called or held at each decision point. Within the lattice model, the following assumptions are made: (i) the 2022 Notes will be converted early if the conversion value is greater than the holding value; or (ii) the 2022 Notes will be called if the holding value is greater than both (a) the Redemption Price (as defined in the Indenture) and (b) the conversion value plus the Coupon Make-Whole Payment at the time. If the 2022 Notes are called, then the holders will maximize their value by finding the optimal decision between (1) redeeming at the Redemption Price and (2) converting the 2022 Notes.

Using this lattice, the Company valued these embedded derivatives using a "with-and-without method," where the value of the 2022 Notes including the embedded derivatives, is defined as the "with", and the value of the 2022 Notes excluding the embedded derivatives, is defined as the "without". This method estimates the value of the embedded derivatives by looking at the difference in the values between the 2022 Notes with the embedded derivatives and the value of the 2022 Notes without the embedded derivatives. The lattice model requires the following inputs: (i) price of Gevo common stock; (ii) Conversion Rate (as defined in the Indenture); (iii) Conversion Price (as defined in the Indenture); (iv) maturity date; (v) risk-free interest rate; (vi) estimated stock volatility; and (vii) estimated credit spread for the Company.

The following table sets forth the inputs to the lattice model that were used to value the embedded derivatives.

	June 30, 2014	December 31, 2013
Stock price	$0.86	$1.43
Conversion Rate	175.6697	175.6697
Conversion Price	$5.69	$5.69
Maturity date	July 1, 2022	July 1, 2022
Risk-free interest rate	2.3 %	2.8 %
Estimated stock volatility	80 %	65 %
Estimated credit spread	26 %	33 %

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

The following table sets forth the value of the 2022 Notes with and without the embedded derivative, and the fair value of the embedded derivative (in thousands).

	June 30, 2014	December 31, 2013
Fair value of Convertible Notes:		
With the embedded derivatives	$17,243	$ 15,925
Without the embedded derivatives	16,517	12,455
Estimated fair value of the embedded derivatives	$726	$ 3,470

Changes in certain inputs into the lattice model can have a significant impact on changes in the estimated fair value of the embedded derivatives. For example, the estimated fair value of the embedded derivatives will generally decrease with; (1) a decline in the stock price; (2) increases in the estimated stock volatility; and (3) increase in the estimated credit spread. The change in the estimated fair value of the embedded derivatives during the three and six months ended June 30, 2014 and 2013 represents an unrealized gain and loss, respectively, which has been recorded as gains from change in fair value of embedded derivatives in the consolidated statements of operations.

Derivative Warrant Liability

In December 2013, the Company sold 21,303,750 common stock units. Each common stock unit consisted of one share of the Company’s common stock and a warrant to purchase one share of the Company’s common stock. The agreement governing the warrants includes the following terms:

the warrants have an exercise price of $1.43 per share, subject to adjustment for certain events, including the issuance of stock dividends on the Company’s common stock and, in certain instances, the issuance of the Company’s common stock or instruments convertible into the Company’s common stock at a price per share less than the exercise price of the warrants;

the warrants have an expiration date of December 16, 2018;

a holder of warrants may exercise the warrants through a cashless exercise if, and only if, the Company does not have an effective registration statement then available for the issuance of the shares of its common stock. If an effective registration statement is available for the issuance of its common stock a holder may only exercise the warrants through a cash exercise;

the exercise price and the number and type of securities purchasable upon exercise of warrants are subject to adjustment upon certain corporate events, including certain combinations, consolidations, liquidations, mergers, recapitalizations, reclassifications, reorganizations, stock dividends and stock splits, a sale of all or substantially all of the Company’s assets and certain other events; and

in the event of an extraordinary transaction (as defined in the warrant agreement), generally including any merger with or into another entity, sale of all or substantially all of the Company’s assets, tender offer or exchange offer, or reclassification of its common stock, the Company or any successor entity will pay the warrant holder, at such holder’s option, exercisable at any time concurrently with or within 30 days after the consummation of the extraordinary transaction, an amount of cash equal to the value of such holder’s warrants as determined in accordance with the Black Scholes option pricing model and the terms of the warrants.

Based on these terms, the Company has determined that the warrants qualify as a derivative and, as such, are presented as derivative warrant liability on the consolidated balance sheets and recorded at fair value each reporting period. The fair value was estimated to be $4.7 million and $7.2 million as of June 30, 2014 and December 31, 2013, respectively. The decrease in the estimated fair value of the warrants represents an unrealized gain which has been recorded as a gain from the change in fair value of derivative warrant liability in the consolidated statements of operations.

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

6. Accounts Payable and Accrued Liabilities

The following table sets forth the components of the Company's accounts payable and accrued liabilities in the consolidated balance sheets (in thousands).

	June 30, 2014	December 31, 2013
Accounts payable — trade	$3,233	$ 6,460
Accrued legal-related fees	2,654	2,999
Deferred revenue	-	1,000
Accrued employee compensation	834	818
Other accrued liabilities	1,474	1,753
Total accounts payable and accrued liabilities	$8,195	$ 13,030

7. Senior Secured Debt, Secured Debt and Convertible Notes

Senior Secured Debt

In May 2014, the Company entered into a Term Loan Agreement (the "Loan Agreement") with the lenders party thereto from time to time (each, a "Lender" and collectively, the "Lenders") and Whitebox Advisors, LLC, as administrative agent for the Lenders ("Whitebox"), with a maturity date of March 15, 2017, pursuant to which the Lenders committed to provide one or more senior secured term loans to the Company in an aggregate amount of up to approximately $31.1 million on the terms and conditions set forth in the Loan Agreement (collectively, the "Term Loan"). The first advance of the Term Loan in the amount of $22.8 million (the "First Advance"), net of discounts and issue costs of $1.6 million and $1.5 million, respectively, was made to the Company in May 2014. Also in May 2014, the Company and its subsidiaries entered into an Exchange and Purchase Agreement (the "Exchange and Purchase Agreement") with WB Gevo, Ltd. and the other Lenders party thereto from time to time and Whitebox, in its capacity as administrative agent for the Lenders. Pursuant to the terms of the Exchange and Purchase Agreement, the Lenders were given the right, subject to certain conditions, to exchange all or a portion of the outstanding principal amount of the Term Loan for the Company's newly created 10% Convertible Senior Secured Notes due March 2017 (the "2017 Notes" and, together with the 2022 Notes, the "Convertible Notes"), which are convertible into shares of the Company's common stock. The Exchange and Purchase Agreement also provides Whitebox with an option, subject to certain conditions, to purchase up to an additional $32.0 million aggregate principal amount of 2017 Notes. This option will expire in October of 2014.

In June 2014, the Lenders exchanged all $25.9 million of outstanding principal amount of Term Loan provided in the First Advance for 2017 Notes, together with accrued paid-in-kind interest of $0.2 million. The terms of the 2017 Notes are set forth in an indenture by and among the Company, its subsidiaries in their capacity as guarantors, and Wilmington Savings Fund Society, FSB, as trustee (the "2017 Notes Indenture"). The 2017 Notes will mature on March 15, 2017. The 2017 Notes have a conversion price (the "Conversion Price") equal to $1.1584 per share or .8663 shares per $1 principal amount of 2017 Notes.. Optional prepayment of the 2017 Notes will not be permitted. The

2017 Notes bear an interest at a rate equal to 10% per annum, which is payable 5% in cash and under certain circumstances 5% in kind and capitalized and added to the principal amount of the 2017 Notes. While the 2017 Notes are outstanding, the Company is required to maintain an interest reserve in an amount equal to 10% of the aggregate outstanding principal amount, to be adjusted on an annual basis. As of June 30, 2014, there was a balance of $2.6 million in the interest reserve account. This amount classified as restricted cash.

While outstanding, the Term Loan bore an interest rate equal to 15% per annum, of which 5% was payable in cash and 10% is payable in kind and capitalized and added to the principal amount of the Term Loan.

The 2017 Notes Indenture contains customary affirmative and negative covenants for agreements of this type and events of default, including, restrictions on disposing of certain assets, granting or otherwise allowing the imposition of a lien against certain assets, incurring certain amounts of additional indebtedness, making investments, acquiring or merging with another entity, and making dividends and other restricted payments, unless the Company receives the prior approval of the required holders. The 2017 Notes Indenture also contains limitations on the ability of the holder to assign or otherwise transfer its interest in the 2017 Notes. The 2017 Notes are secured by a lien on substantially all of the assets of the Company and is guaranteed by Agri-Energy and Gevo Development (together, the "Guarantor Subsidiaries"). On June 6, 2014, in connection with the issuance of the 2017 Notes, the Company and the Guarantor Subsidiaries entered into a Pledge and Security Agreement in favor of the collateral trustee. The collateral pledged includes substantially all of the assets of the Company and the Guarantor Subsidiaries, including intellectual property and real property. Agri-Energy has also entered into an Amended and Restated Mortgage with respect to the real property located in Luverne Minnesota.

The holders of the 2017 Notes may, at any time until the close of business on the business day immediately preceding the maturity date, convert the principal amount of the 2017 Notes, or any portion of such principal amount which is at least $1,000, into shares of the Company's common stock. Upon conversion of the 2017 Notes, the Company will deliver shares of common stock at an initial conversion rate of 0.8633 shares of common stock per $1.00 principal amount of the 2017 Notes (equivalent to an initial conversion price of approximately $1.1584 per share of common stock). Such conversion rate is subject to adjustment in certain circumstances, including in the event that there is a dividend or distribution paid on shares of the common stock or a subdivision, combination or reclassification of the common stock. The Company also has the right to increase the conversion rate (i) by any amount for a period of at least 20 business days if the Company's board of directors determines that such increase would be in the Company's best interest or (ii) to avoid or diminish any income tax to holders of shares of common stock or rights to purchase shares of common stock in connection with any dividend or distribution. In addition, subject to certain conditions described herein, each holder who exercises its option to voluntarily convert its 2017 Notes will receive a make-whole payment in an amount equal to any unpaid interest that would otherwise have been payable on such 2017 Notes through the maturity date (a "Voluntary Conversion Make-Whole Payment"). Subject to certain limitations, we may pay any Voluntary Conversion Make-Whole Payments either in cash or in shares of common stock, at its election.

Beginning on December 6, 2014, the Company will have the right to require holders of the 2017 Notes to convert all or part of the 2017 Notes into shares of its common stock if the last reported sales price of the common stock over any 10 consecutive trading days equals or exceeds 150% of the applicable conversion price (a "Mandatory Conversion"). Each holder whose 2017 Notes are converted in a Mandatory Conversion will receive a make-whole payment for the converted notes in an amount equal to any unpaid interest that would have otherwise been payable on such 2017 Notes through the maturity date (a "Mandatory Conversion Make-Whole Payment"). Subject to certain limitations, we may pay any Mandatory Conversion Make-Whole Payments either in cash or in shares of common stock, at its election.

If a fundamental change of the Company occurs, the holders of 2017 Notes may require the Company to repurchase all or a portion of the 2017 Notes at a cash repurchase price equal to 100% of the principal amount of such 2017 Notes, plus accrued and unpaid interest, if any, through, but excluding, the repurchase date, plus a cash make-whole payment for the repurchased 2017 Notes in an amount equal to any unpaid interest that would otherwise have been payable on such convertible 2017 Notes through the maturity date.

In connection with transactions described above, the Company also entered into a Registration Rights Agreement, dated May 9, 2014 (the "Registration Rights Agreement"), pursuant to which the Company filed a registration statement on Form S-3 registering the resale of 17.5 million shares of the Company's common stock which are issuable under the 2017 Notes. The Company expects to file additional registration statements on Form S-3 or to amend filings in order to register additional shares of common stock of the Company for sale or resale, as necessary in connection with the 2017 Notes.

The Company has elected the fair value option for accounting of the Term Loan and 2017 Notes in order for management to mitigate income statement volatility caused by measurement basis differences between the embedded instruments or to eliminate complexities of applying certain accounting models. Accordingly, the principal amount of 2017 Notes outstanding at June 30, 2014 of $26.1 million has been recorded at its estimated fair value of $31.2 million and are included in senior long-term debt in the consolidated balance sheets at June 30, 2014. Change in the estimated fair value of the 2017 Notes represents an unrealized loss included in loss on change in fair value of 2017 Notes in the consolidated statement of operations. During the three and six months ended June 30, 2014, the Company incurred cash interest expense of $0.3 million and non-cash paid-in-kind interest expense of $0.2 million, which has been capitalized and included in the principal amount of 2017 Notes as of June 30, 2014.

The following table sets forth the inputs to the lattice model that were used to value the Term Loan and 2017 Notes for which the fair value option was elected.

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Notes to Unaudited Consolidated Financial Statements (Continued)

	June 30, 2014
Stock price	$0.86
Conversion Rate	863.3
Conversion Price	$1.16
Maturity date	March 15, 2017
Risk-free interest rate	0.76 %
Estimated stock volatility	80.0 %
Estimated credit spread	20.0 %

The following table sets forth information pertaining to the Term Loan and 2017 Notes which is included in the Company's consolidated balance sheets (in thousands).

	Principal Amount of Term Loans	Principal Amount of 2017 Notes	Change in Estimated Fair Value	Total
Balance - December 31, 2013	$ -	$ -	$ -	$ -
Issuance of Term Loan	25,907	-	-	25,907
Exchange of Term Loan for 2017 Notes	(25,907)	25,907	-	-
Non-cash paid-in-kind interest expense	-	201	-	201
Loss from change in fair value of debt	-	-	5,129	5,129
Balance - June 30, 2014	$ -	$ 26,108	$ 5,129	$ 31,237

Changes in certain inputs into the lattice model can have a significant impact on changes in the estimated fair value of the Term Loan and 2017 Notes. For example, the estimated fair value will generally decrease with; (1) a decline in the stock price; (2) increases in the estimated stock volatility; and (3) increase in the estimated credit spread. The change in the estimated fair value of the 2017 Notes during the three and six months ended June 30, 2014 represents an unrealized loss which has been recorded as loss from change in fair value of 2017 Notes in the consolidated statements of operations.

Secured Debt

The following table sets forth information pertaining to the Company's secured debt issued to TriplePoint Capital LLC ("TriplePoint") which is included in the Company's consolidated balance sheets (in thousands).

	June 30, 2014	December 31, 2013
Secured debt		
TriplePoint - September 2010 Advance	$ -	$ 917
TriplePoint - October 2011 Advance	-	6,657
TriplePoint - January 2012 Advance	-	3,495
TriplePoint - May 2014 Advance	970	-
Total secured debt	970	11,069
Less:		
Unamortized debt discounts	(68)	(942)
	902	10,127
Less current portion of debt	(268)	(788)
Long-term portion of debt	$ 634	$ 9,339

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GEVO, INC.
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Gevo Loan Agreement. In August 2010, Gevo, Inc. entered into a loan and security agreement (the “Gevo Loan Agreement”) with TriplePoint, pursuant to which the Company borrowed $5.0 million. In July 2012, the Company used $5.4 million of the proceeds from the July 2012 offering of the 2022 Notes to pay in full all amounts outstanding under the Gevo Loan Agreement, including an end-of-term payment equal to 8% of the amount borrowed.

Original Agri-Energy Loan Agreement. In August 2010, Gevo Development borrowed $12.5 million from TriplePoint to finance its acquisition of Agri-Energy. In September 2010, upon completion of the acquisition, the loan and security agreement (the “Original Agri-Energy Loan Agreement”) was amended to make Agri-Energy the borrower under the facility. In December 2013, the Company used $5.1 million of the proceeds from the offering of common stock units that was completed in December 2013 to pay off the remaining $5.1 million in outstanding principal under this loan.

Amended Agri-Energy Loan Agreement. In October 2011, the Original Agri-Energy Loan Agreement was amended and restated (the “Amended Agri-Energy Loan Agreement”) to provide Agri-Energy with additional term loan facilities of up to $15.0 million to pay a portion of the costs, expenses, and other amounts associated with the retrofit of the Agri-Energy Facility to produce isobutanol. In October 2011, Agri-Energy borrowed $10.0 million under the additional term loan facilities which bore interest at a rate equal to 11%. In January 2012, Agri-Energy borrowed an additional $5.0 million under the additional term loan facilities, bringing the total borrowed under the additional term loan facilities to $15.0 million. As additional security, concurrently with the execution of the Amended Agri-Energy Loan Agreement, (i) Gevo Development entered into a limited recourse continuing guaranty in favor of TriplePoint, (ii) Gevo Development entered into an amended and restated limited recourse membership interest pledge agreement in favor of TriplePoint, pursuant to which it pledged the membership interests of Agri-Energy as collateral to secure the obligations under its guaranty and (iii) Gevo, Inc. entered into an amendment to its security agreement with TriplePoint (the “Gevo Security Agreement”), which secured its guarantee of Agri-Energy’s obligations under the Amended Agri-Energy Loan Agreement.

June 2012 Amendments. In June 2012, the Company entered into (i) an amendment (the “Security Agreement Amendment”) to the Gevo Security Agreement and (ii) an amendment (the “Gevo Loan Amendment”) to the Gevo Loan Agreement. In addition, concurrently with the execution of the Security Agreement Amendment and the Gevo Loan Amendment, Agri-Energy entered into an amendment to the Amended Agri-Energy Loan Agreement. These amendments, among other things, permitted the issuance of the 2022 Notes.

December 2013 Amendments. In December 2013, Gevo, Inc. entered into additional amendments to certain of its existing agreements with TriplePoint to, among other things:

permit the issuance of warrants associated with the Company’s December 2013 offering of common stock units;
waive any prepayment premium (but not any end-of-term payment) with respect to the Original Agri-Energy Loan Agreement and the Amended Agri-Energy Loan Agreement;
expand the events of default to add as an event of default the repurchase of the warrants;
grant TriplePoint a lien and security interest in all of the Intellectual property of the Company;
re-price the three outstanding warrants to purchase common stock of the Company that are held by TriplePoint, which as of June 30, 2014 are exercisable in the aggregate for 388,411 shares of the Company’s common stock, to reflect an exercise price equal to $1.18 per share;
waive the requirement for Agri-Energy to make principal amortization payments on the Amended Agri-Energy Loan Agreement through December 31, 2014 (the “Restructure Period”);

raise the interest rates under the Amended Agri-Energy Loan Agreement to 13% during the Restructure Period (provided that such rate will return to 11% following the Restructure Period so long as no event of default under the Amended Agri-Energy Loan Agreement shall be continuing on the last day of the Restructure Period); and

during the period beginning January 2015, and continuing through and including the final monthly installment due under the Amended Agri-Energy Loan Agreement, adjust the monthly payment due and payable to 50% of the fully amortizing amount of principal and interest otherwise due and payable for such month, applied first to outstanding accrued interest and then to principal, with the remaining 50% portion of such required payments of principal and interest for such month accruing and made due and payable at the time of the final monthly installment.

May 2014 Amendments. In May 2014, the Company and its subsidiaries entered into a Consent Under and Third Amendment to Amended and Restated Plain English Growth Capital Loan and Security Agreement and Omnibus Amendment to Loan Documents (the “2014 Amendment”) pursuant to which TriplePoint amended its agreements with the Company and its subsidiaries and consented

GEVO, INC.
Notes to Unaudited Consolidated Financial Statements (Continued)

to (a) the execution, delivery, and performance of the Loan Agreement, the Exchange and Purchase Agreement, the Registration Rights Agreement, the 2017 Notes Indenture, the 2017 Notes, and the other documents related thereto (collectively the “Senior Loan Documents”); (b) the incurrence of the Term Loan with Whitebox and any other indebtedness under the Senior Loan Documents (collectively, the “Senior Indebtedness”); (c) the consummation of the exchange of the Term Loan for the 2017 Notes; (d) the offering, issuance and sale of the 2017 Notes to Whitebox and the conversion of any 2017 Notes into the common stock of the Company pursuant to the terms of the 2017 Notes Indenture; (e) the guaranty of the Senior Indebtedness provided by the Guarantors; (f) the liens granted by each of the Company and the Guarantors to secure the Senior Indebtedness and the other obligations under the Senior Loan Documents; (g) the consummation of any transactions contemplated by, and the terms of, the Senior Loan Documents by the Company and the Guarantors; and (h) the payment and performance of any of the obligations under the Senior Loan Documents by the Company and the Guarantors, including the making of dividends and distributions by the Guarantors to the Company for the purpose of enabling the Company to make any payments under the Senior Loan Documents.

As part of the May 2014 Amendments, the Company repaid $9.6 million in principal payments due under the foregoing loan agreements with TriplePoint and entered into an amended Loan Agreement with TriplePoint. At June 30, 2014, the amended loan agreement had a principal balance of $1.0 million, which amortizes over 36 months and bears interest at a rate equal to 9% per annum and matures in May of 2017. There were no additional concessions or terms of the agreement which would require recognition of a gain or loss due to this amended agreement. As of June 30, 2014, Agri-Energy has granted TriplePoint a junior security interest in all of its assets as security for its obligations under the Amended Agri-Energy Loan Agreement

. On July 31, 2014, the Company entered into amendments to the Amended Agri-Energy Loan Agreement and the Gevo Security Agreement to, among other things, permit the offering and issuance of warrants and the incurrence of indebtedness by the Company under such warrants.

2022 Notes

The following table sets forth information pertaining to the 2022 Notes which is included in the Company’s consolidated balance sheets (in thousands).

	Embedded Derivatives	Principal Amount of 2022 Notes	Debt Discount	Total
Balance - December 31, 2013	$ 3,470	$ 26,900	$ (15,869)	$ 14,501
Amortization of debt discount				