

Gevo, Inc.
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 (I.R.S. Employer

incorporation or organization) 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 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 No

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

Large accelerated filer

Accelerated filer

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

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

As of June 30, 2015, 16,499,378 shares of the registrant's common stock were outstanding.

GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$22,528	\$6,359
Accounts receivable	2,319	2,361
Inventories	2,902	4,292
Prepaid expenses and other current assets	571	732
Total current assets	28,320	13,744
Property, plant and equipment, net	77,899	81,240
Debt issue costs, net	414	530
Restricted deposits	2,611	2,611
Deposits and other assets	803	803
Total assets	\$110,047	\$98,928
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$6,614	\$8,588
Current portion of secured debt, net of \$24 and \$31 discount at June 30, 2015 and December 31, 2014, respectively	309	288
Derivative warrant liability	8,114	3,114
Other current liabilities	-	35
Total current liabilities	15,037	12,025
Long-term portion of secured debt, net of \$8 and \$18 discount at June 30, 2015 and December 31, 2014, respectively	325	485
2017 Notes recorded at fair value	22,035	25,460
2022 Notes, net	14,312	13,679
Other long-term liabilities	150	315
Total liabilities	51,859	51,964
Commitments and Contingencies (see note 12)		

Stockholders' Equity

Common stock, \$0.01 par value per share; 250,000,000 authorized; 16,499,378 and

6,641,870 shares issued and outstanding June 30, 2015 and

December 31, 2014, respectively	165	66
Additional paid-in capital	383,034	350,196
Deficit accumulated	(325,011)	(303,298)
Total stockholders' equity	58,188	46,964
Total liabilities and stockholders' equity	\$ 110,047	\$ 98,928

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,	
	2015	2014	2015	2014
Revenue and cost of goods sold				
Ethanol sales and related products, net	\$ 7,955	\$ 5,522	\$ 13,053	\$ 5,522
Hydrocarbon revenue	740	2,018	1,257	2,648
Grant and other revenue	229	181	513	454
Total revenues	8,924	7,721	14,823	8,624
Cost of goods sold	9,898	8,269	19,132	12,949
Gross loss	(974)	(548)	(4,309)	(4,325)
Operating expenses				
Research and development	1,765	3,586	3,487	7,691
Selling, general and administrative	3,792	4,898	8,271	9,938
Total operating expenses	5,557	8,484	11,758	17,629
Loss from operations	(6,531)	(9,032)	(16,067)	(21,954)
Other (expense) income				
Interest expense	(2,029)	(2,609)	(4,064)	(4,210)
Interest expense - debt issue costs	-	(3,185)	-	(3,185)
Gain on conversion of debt	-	-	285	-
Gain on extinguishment of warrant liability	1,775	-	1,775	-
Gain from change in fair value of embedded derivatives of the 2022 Notes	-	1,480	-	2,744
Gain (loss) from change in fair value of 2017 Notes	(340)	(5,129)	3,425	(5,129)
Gain (loss) from change in fair value of derivative warrant liability	(7,247)	1,321	(7,080)	2,599
Other income	2	(2)	13	7
Total other expense	(7,839)	(8,124)	(5,646)	(7,174)
Net loss	(14,370)	(17,156)	(21,713)	(29,128)
Net loss per share - basic and diluted	\$ (1.10)	\$ (3.79)	\$ (2.03)	\$ (6.44)
Weighted-average number of common shares outstanding -				
basic and diluted	13,009,434	4,531,321	10,673,891	4,524,390

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating Activities		
Net loss	\$(21,713)	\$(29,128)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from change in fair value of derivative warrant liability	7,080	(2,599)
Gain from change in fair value of embedded derivative of 2022 Notes	-	(2,744)
Gain from change in fair value of 2017 Notes	(3,425)	5,129
Gain on conversion of debt	(285)	-
Gain on extinguishment of warrant liability	(1,775)	-
Stock-based compensation	698	1,503
Depreciation and amortization	3,281	1,604
Non-cash interest expense	1,767	5,365
Changes in operating assets and liabilities:		
Accounts receivable	42	(1,727)
Inventories	1,389	(661)
Prepaid expenses and other current assets	160	228
Deposits and other assets	-	(31)
Accounts payable, accrued expenses, and long-term liabilities	(2,104)	(2,159)
Net cash used in operating activities	(14,885)	(25,220)
Investing Activities		
Acquisitions of property, plant and equipment	(175)	(3,837)
Proceeds from sales tax refund for property, plant and equipment	144	-
Restricted certificate of deposit	-	(2,611)
Net cash used in investing activities	(31)	(6,448)

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2015	2014
Financing Activities		
Payments on secured debt	(131)	(9,622)
Debt and equity offering costs	(2,785)	(3,352)
Proceeds from issuance of common stock upon exercise of stock options and employee stock purchase plan	-	19
Proceeds from issuance of common stock and common stock units	23,850	-
Proceeds from the exercise of warrants	10,151	-
Proceeds from issuance of convertible debt, net	-	25,906
Net cash provided by financing activities	31,085	12,951
Net increase (decrease) in cash and cash equivalents	16,169	(18,717)
Cash and cash equivalents		
Beginning of period	6,359	24,625
Ending of period	\$22,528	\$5,908

See notes to unaudited consolidated financial statements.

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,	
	2015	2014
Cash paid for interest, net of interest capitalized	\$2,297	\$2,013
Capitalization of interest, from term to 2017 convertible notes	\$-	\$201
Non-cash purchase of property, plant and equipment	\$15	\$400
Conversion of convertible debt to common stock	\$2,000	\$-
Series A Warrant issuance	\$1,437	\$-
Series B Warrant issuance	\$2,528	\$-
Series C Warrant issuance	\$1,299	\$-

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 primarily on isobutanol produced from renewable feedstocks. Gevo, Inc. was incorporated in Delaware on June 9, 2005. 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 to enable the simultaneous production of isobutanol and ethanol. In July 2014, the Company began more consistent 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, this configuration of the plant should allow the Company to continue to optimize its isobutanol technology at a commercial scale, while taking advantage of potentially favorable ethanol contribution margins. Also with a view to maximizing site cash flows, over certain periods of time, the Company may and has operated the plant for the sole production of ethanol across all four fermenters.

As of June 30, 2015, the Company continues to conduct 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 and 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 is only beginning to achieve more 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.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

Financial Condition. For the six months ended June 30, 2015, the Company incurred a consolidated net loss of \$21.7 million and had an accumulated deficit of \$325.0 million. The Company's cash and cash equivalents at June 30, 2015 totaled \$22.5 million which is primarily being used for the following: (i) operating activities 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 North America LLC; 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. 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.

Despite the Company's continued success in meeting isobutanol fermentation targets, including producing isobutanol and ethanol simultaneously, the Company continues to face significant expenses related to its ongoing litigation with Butamax. While the United States District Court for the District of Delaware ("Delaware District Court") has temporarily stayed the litigation with Butamax involving certain patents, trials related to other patents are scheduled for August 2015 and April 2016 and the Company expects to incur significant costs preparing for and participating in these upcoming trials. The Company continues to believe that the Butamax complaints are without merit. However, if it is unable to raise the significant funds that will be required for it to continue to defend its freedom to operate, the Company could be forced to change its business strategy which may include one or more of the following: (i) terminating the research and development, manufacture, sale and use of products that include the subject intellectual property; (ii) conducting research and development and manufacturing any products that include the subject intellectual property outside of the United States; (iii) shifting its focus to the production of ethanol and/or the development of hydrocarbon products, including those that can be produced from ethanol; or (iv) pursuing strategic alternatives, including the monetization of some or all of the Company's assets, in order to maximize stockholder value.

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 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, 2015 and 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, 2014, as amended (the "Annual Report").

On April 15, 2015, the Board of Directors of the Company approved a reverse split of the Company's common stock, par value \$0.01, at a ratio of one-for-fifteen. This reverse stock split became effective on April 20, 2015 and, unless otherwise indicated, all share amounts, per share data, share prices, exercise prices and conversion rates set forth in these notes and the accompanying consolidated financial statements have, where applicable, been adjusted retroactively to reflect this reverse stock split.

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 outline a new, single comprehensive model to use in accounting for revenue arising from contracts with customers. The new revenue recognition model provides a five-step analysis for determining when and how revenue is recognized, depicting the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received in exchange for those goods or services. ASU 2014 09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is not permitted. On July 9, 2015, the FASB Board voted to delay the implementation of ASU 2014-09 by one year to December 15, 2017. The Company is currently evaluating the impact of adopting ASU 2014 09.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

In April 2015, the FASB issued authoritative guidance intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liabilities, consistent with the presentation of debt discounts. This will result in the elimination of debt issuance costs as an asset and will reduce the carrying value of our debt liabilities. This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the potential impact of this guidance.

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 six months ended June 30, 2015 and 2014 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.

	As of June 30,	
	2015	2014
Warrants to purchase common stock	4,023,861	1,504,237
2017 Notes	1,502,532	1,502,532
2022 Notes	291,612	315,034
Outstanding options to purchase common stock	221,679	258,238
Unvested restricted common stock	48,633	61,035
Total	6,088,317	3,641,075

3. Inventories

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

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	June 30, 2015	December 31, 2014
Raw materials		
Corn	\$147	\$ 1,369
Enzymes and other inputs	261	344
Finished goods	570	525
Work in process	535	610
Spare parts	1,389	1,444
Total inventories	\$2,902	\$ 4,292

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).

	Useful Life	June 30, 2015	December 31, 2014
Construction in progress	-	\$440	\$440
Plant machinery and equipment	10 years	13,400	13,367
Site improvements	10 years	7,035	7,015
Retrofit asset	20 years	65,457	65,601
Lab equipment, furniture and fixtures and vehicles	5 years	6,394	6,385
Demonstration plant	2 years	3,597	3,597
Buildings	10 years	2,543	2,543
Computer, office equipment and software	3 years	1,512	1,490
Leasehold improvements, pilot plant, land and support equipment	2 - 5 years	2,144	2,144
Total property, plant and equipment		102,522	102,582
Less accumulated depreciation and amortization		(24,623)	(21,342)
Property, plant and equipment, net		\$77,899	\$81,240

Included in cost of goods sold is depreciation of \$1.4 million and \$0.5 million during the three months ended June 30, 2015 and 2014, respectively, and \$2.9 million and \$1.1 million during the six months ended June 30, 2015 and 2014, respectively.

Included in operating expenses is depreciation of \$0.2 million and \$0.2 million during the three months ended June 30, 2015 and 2014, respectively, and \$0.4 million and \$0.5 million during the six months ended June 30, 2015 and 2014, respectively.

5. Embedded Derivatives

Convertible 2022 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 as one embedded derivative

and recorded at fair value each reporting period.

The Company used a binomial lattice model in order to estimate the fair value of the embedded derivative in the 2022 Notes. A binomial lattice model generates two probable outcomes, whether up or 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 the embedded derivative using a “with-and-without method,” where the value of the 2022 Notes including the embedded derivative, is defined as the “with”, and the value of the 2022 Notes excluding the embedded derivative, is defined as the “without”. This method estimates the value of the embedded derivative by looking at the difference in the values between the 2022 Notes with the embedded derivative and the value of the 2022 Notes without the embedded derivative. 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.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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

	June 30, 2015	December 31, 2014		
Stock price	\$3.27	\$4.80		
Conversion Rate	11.7113	11.7113		
Conversion Price	\$85.39	\$85.39		
Maturity date	July 1, 2022	July 1, 2022		
Risk-free interest rate	2.07	%	2.00	%
Estimated stock volatility	118	%	87	%
Estimated credit spread	34	%	20	%

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; (i) a decline in the stock price; (ii) a decrease in the estimated stock volatility; and (iii) a decrease in the estimated credit spread.

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, 2015	December 31, 2014
Fair value of Convertible Notes:		
With the embedded derivatives	\$15,264	\$19,449
Without the embedded derivatives	15,264	19,449
Estimated fair value of the embedded derivatives	\$-	\$-

Derivative Warrant Liability

In December 2013, the Company sold 1,420,250 shares of the Company's common stock and warrants to purchase an additional 1,420,250 shares of the Company's common stock (the "2013 Warrants"). The agreement governing the 2013 Warrants includes the following terms:

- the 2013 Warrants have an exercise price, after applicable adjustments, of \$12.65 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 2013 Warrants;
- the 2013 Warrants have an expiration date of December 16, 2018;

a holder of 2013 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 2013 Warrants through a cash exercise;

- the exercise price and the number and type of securities purchasable upon exercise of 2013 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 agreement governing the 2013 Warrants), 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 2013 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 2013 Warrants.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

In August 2014, the Company sold 2,000,000 shares of common stock and warrants to purchase an additional 1,000,000 shares of common stock (the "2014 Warrants"). The agreement governing the 2014 Warrants includes the following terms:

- the 2014 Warrants have an exercise price, after applicable adjustments, of \$8.30 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 2014 Warrants;
- the 2014 Warrants have an expiration date of August 5, 2019;
- a holder of the 2014 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 2014 Warrants through a cash exercise;
- the exercise price and the number and type of securities purchasable upon exercise of the 2014 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 agreement governing the 2014 Warrants), 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 2014 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 2014 Warrants.

In February 2015, the Company sold 2,216,667 shares of the Company's common stock, Series A warrants to purchase an additional 2,216,667 shares of the Company's common stock (the "2015 Series A Warrants"), and Series B warrants to purchase an additional 2,216,667 shares of the Company's common stock (the "2015 Series B Warrants").

The agreement governing the 2015 Series A Warrants includes the following terms:

- the 2015 Series A Warrants have an exercise price, after applicable adjustments, of \$3.75 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 2015 Series A Warrants;
- the 2015 Series A Warrants have an expiration date of February 3, 2020;
- a holder of the 2015 Series A 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 2015 Series A Warrants through a cash exercise;
- the exercise price and the number and type of securities purchasable upon exercise of the 2015 Series A 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 agreement governing the 2015 Series A Warrants), 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 2015 Series A Warrants 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 2015 Series A Warrants.

The agreement governing the 2015 Series B Warrants includes the following terms:

·the 2015 Series B Warrants have an exercise price of \$3.00 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 2015 Series A Warrants;

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- the 2015 Series B Warrants have an expiration date of August 3, 2015;
- if, commencing on the 30th day after the 2015 Series B Warrants are issued and continuing through the expiration date of the 2015 Series B Warrants, the adjusted market price (as defined in the 2015 Series B Warrants agreement) of a share of the Company's common stock is less than \$3.00 (as adjusted for stock splits, stock dividends, recapitalization and other similar events), then the holders of the 2015 Series B Warrants may exercise the 2015 Series B Warrants in a cashless exercise. This cashless exercise provision would, subject to certain limitations set forth in the warrant agreement, permit such 2015 Series B Warrants holder to obtain a number of shares of the Company's common stock equal to 100% of (i) the aggregate dollar amount of 2015 Series B Warrants being exercised divided by the market price less (ii) the number of shares into which such 2015 Series B Warrants would then be exercised on a cash basis;
- a holder of the 2015 Series B Warrants may also 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 otherwise exercise the 2015 Series B Warrants through a cash exercise (except as otherwise described above);
- the exercise price and the number and type of securities purchasable upon exercise of the 2015 Series B 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 agreement governing the 2015 Series B Warrants), 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 2015 Series B Warrants 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 2015 Series B Warrants.

In May 2015, the Company sold 4,300,000 shares of the Company's common stock and Series C warrants to purchase an additional 430,000 shares of the Company's common stock (the "2015 Series C Warrants" and together with the 2015 Series A Warrants and the 2015 Series B Warrants, the "2015 Warrants").

The agreement governing the 2015 Series C Warrants includes the following terms:

- the 2015 Series C Warrants have an exercise price of \$5.50 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 2015 Series C Warrants;
- the 2015 Series C Warrants have an expiration date of May 19, 2020;
- a holder of the 2015 Series C 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 2015 Series C Warrants through a cash exercise;
- the exercise price and the number and type of securities purchasable upon exercise of the 2015 Series C 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 agreement governing the 2015 Series C Warrants), 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 2015 Series C Warrants 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 2015 Series C Warrants.

Based on these terms, the Company has determined that the 2013 Warrants, the 2014 Warrants, and the 2015 Warrants (together, the "Warrants") qualify as derivatives 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 of the Warrants was estimated to be \$8.1 million and \$3.1 million as of June 30, 2015 and December 31, 2014, respectively. The fair value of the 2015 Warrants as of their respective issuance

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dates was \$5.2 million and was recorded as a derivative warrant liability and a reduction of additional paid-in capital on the consolidated balance sheets. The increase in the estimated fair value of the Warrants represents an unrealized loss which has been recorded as a loss from the change in fair value of derivative warrant liability in the consolidated statements of operations.

During the six months ended June 30, 2015, Warrants were exercised as described below:

	Six Months Ended June 30, 2015	
	Common	
	Stock	Proceeds
2013 Warrants	304,756	\$1,057,010
2014 Warrants	610,765	2,204,540
2015 Series A Warrants	321,665	1,302,750
2015 Series B Warrants	1,907,773	5,586,564
2015 Series C Warrants	-	-
	3,144,960	\$10,150,863

In May 2015, certain holders of the 2013 Warrants agreed to exercise some or all of their 2013 Warrants for cash, at the then-current exercise price of \$15.30 per share. As an inducement to exercise the 2013 Warrants, the Company agreed to pay each such holder a cash inducement fee in an amount equal to \$11.55 for each share of common stock issued upon such exercise, which resulted in net proceeds to the Company of \$3.75 per share. In addition, certain holders of the 2014 Warrants agreed to exercise some or all of their 2014 Warrants for cash, at the then-current exercise price of \$9.60 per share. As an inducement to exercise the 2014 Warrants, the Company agreed to pay each such holder a cash inducement fee in an amount equal to \$5.85 for each share of common stock issued upon such exercise, which resulted in net proceeds to the Company of \$3.75 per share. The Company received aggregate proceeds, net of inducement fees, of approximately \$3.43 million from the exercises of the 2013 Warrants and 2014 Warrants described above.

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	December
30,	31,
2015	2014

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Accounts payable — trade	\$1,541	\$ 2,639
Accrued legal-related fees	2,392	2,944
Accrued employee compensation	626	801
Accrued interest	934	1,009
Other accrued liabilities *	1,121	1,195
Total accounts payable and accrued liabilities	\$6,614	\$ 8,588

* Other accrued liabilities consists of franchise taxes, property taxes, short term capital lease, audit fees, and a variety of other expenses including software, legal fees, etc. none of which individually represent greater than 5% of total current liabilities.

7. Senior Secured Debt, Secured Debt and 2022 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

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Notes to Unaudited Consolidated Financial Statements (Continued)

2017 Notes (as defined below), which are convertible into shares of the Company's common stock. While outstanding, the Term Loan bore an interest rate equal to 15% per annum, of which 5% was payable in cash and 10% was payable in kind and capitalized and added to the principal amount of the Term Loan.

In June 2014, the Lenders exchanged all \$25.9 million of outstanding principal amount of Term Loan provided in the First Advance for 10% convertible senior secured notes due 2017 (the "2017 Notes" and, together with the 2022 Notes, the "Convertible 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 \$17.38 per share or 0.0576 shares per \$1 principal amount of 2017 Notes. Optional prepayment of the 2017 Notes will not be permitted. The 2017 Notes bear 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, 2015, there was a balance of \$2.6 million in the interest reserve account. This amount is classified as restricted deposits.

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" or "Guarantors"). 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 a 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 a conversion rate of 0.0576 shares of common stock per \$1.00 principal amount of the 2017 Notes (equivalent to a conversion price of approximately \$17.38 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, the Company may pay any Voluntary Conversion Make-Whole Payments either in cash or in shares of common stock, at its election.

The Company has 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, the Company may pay any Mandatory Conversion Make-Whole Payments either in cash or in shares of common stock, at its election. The Company did not require any holders to convert in 2014 and has not required any holders to convert through the six months ended June 30, 2015.

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. A fundamental change includes, among other things, the Company’s common stock ceasing to be listed on a national securities exchange.

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On July 31, 2014, the Company entered into amendments to the 2017 Notes Indenture to, among other things, permit the offering and issuance of the 2014 Warrants and the incurrence of indebtedness by the Company under such warrants.

On January 28, 2015 and May 13, 2015, the Company entered into further amendments to the 2017 Notes Indenture to, among other things, permit the offering and issuance of additional warrants and the incurrence of indebtedness by the Company under such additional warrants.

On June 1, 2015, the Company entered into further amendments to the 2017 Notes Indenture to, among other things, permit (a) the execution, delivery, and performance of the FCStone Agreements (as defined below) and the related Guaranty (as defined below), (b) the incurrence of indebtedness by the Company and Agri-Energy pursuant thereto and (c) the making of the investments by the Company and Agri-Energy thereunder.

In connection with the 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 1.2 million shares of the Company's common stock which are issuable under the 2017 Notes. This registration statement was declared effective on July 25, 2014.

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, 2015 of \$26.1 million has been recorded at its estimated fair value of \$22.0 million and is included in the 2017 Notes recorded at fair value on the consolidated balance sheets at June 30, 2015. Debt issuance costs of \$1.5 million were expensed at issuance and a gain of \$4.1 million has been recognized in subsequent periods in connection with the election of the fair value option. Change in the estimated fair value of the 2017 Notes represents an unrealized gain included in gain (loss) from change in fair value of 2017 Notes in the consolidated statements of operations. The fair value of the 2017 Notes at the issuance date were equal to the net proceeds from the loan. During the six months ended June 30, 2015, the Company incurred cash interest expense of \$1.3 million.

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.

	June 30, 2015	December 31, 2014
Stock price	\$3.27	\$ 4.80
Conversion Rate	57.6	57.6
Conversion Price	\$17.38	\$ 17.38
	March 15, 2017	March 15, 2017
Maturity date	0.54 %	0.80 %
Risk-free interest rate	118.0%	87.0 %
Estimated stock volatility	27.0 %	15.0 %
Estimated credit spread		

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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
Gain from change in fair value of debt	-	-	(648)	(648)
Balance - December 31, 2014	\$-	\$26,108	\$ (648)	\$25,460
Gain from change in fair value of debt	-	-	(3,425)	(3,425)
Balance - June 30, 2015	\$-	\$26,108	\$ (4,073)	\$22,035

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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) decreases in the estimated stock volatility; and (3) a decrease in the estimated credit spread. The change in the estimated fair value of the 2017 Notes during the six months ended June 30, 2015, represents an unrealized gain which has been recorded as gain 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, 2015	December 31, 2014
Secured debt		
TriplePoint - May 2014 Advance	\$ 666	\$ 822
Total secured debt	666	822
Less:		