Gevo, Inc.
Form 10-Q
August 14, 2013

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, 2013

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 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, 2013, 46,937,452 shares of the registrant s common stock were outstanding.

GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2013

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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, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 40,588	$ 66,744
Accounts receivable	498	698
Inventories	3,431	6,659
Prepaid expenses and other current assets	1,477	1,508
Derivative assets	52	271
Total current assets	46,046	75,880
Property, plant and equipment, net	77,994	77,093
Debt issue costs, net	1,037	1,736
Deposits and other assets	1,402	1,402
Total assets	$ 126,479	$ 156,111
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,216	$ 8,244
Current portion of secured debt, net of $739 and $856 discount at June 30, 2013 and December 31, 2012, respectively	10,063	8,513
Derivative liabilities		12
Total current liabilities	20,279	16,769
Long-term portion of secured debt, net of $437 and $784 discount at June 30, 2013 and December 31, 2012, respectively	10,217	15,445
Convertible notes, net	15,929	25,554
Other long-term liabilities	413	512
Total liabilities	46,838	58,280
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, 2013 and December 31, 2012		
Common stock, $0.01 par value per share; 150,000,000 authorized; 46,912,536 and 39,606,668 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	469	396
Additional paid-in capital	308,111	292,782

Deficit accumulated during development stage		(228,939)		(195,347)
Total stockholders equity		79,641		97,831
Total liabilities and stockholders equity	$	126,479	$	156,111

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,
	2013	2012	2013	2012	2013
Revenue and cost of goods sold					
Ethanol sales and related products, net	$	$ 5,650	$	$ 19,908	$ 98,415
Corn sales	909		3,328		4,337
Grant revenue, research and development program revenue and other revenue	950	1,377	2,074	1,991	9,223
Total revenues	1,859	7,027	5,402	21,899	111,975
Cost of corn sales	920		3,375		4,293
Cost of goods sold	2,696	8,510	4,744	23,520	110,270
Gross loss	(1,757)	(1,483)	(2,717)	(1,621)	(2,588)
Operating expenses					
Research and development	5,828	4,723	10,804	9,678	87,454
Selling, general and administrative	6,279	9,540	13,229	22,667	127,535
Other operating expenses					1,248
Total operating expenses	12,107	14,263	24,033	32,345	216,237
Loss from operations	(13,864)	(15,746)	(26,750)	(33,966)	(218,825)
Other income (expense)					
Interest expense	(2,312)	(450)	(5,588)	(1,537)	(20,505)
Gain from change in fair value of embedded derivative	2,023		693		17,693
Loss on extinguishment of	(1,112)		(2,038)		(2,038)

debt									
Other income		43		19		91		19		875
Change in fair value of warrant liabilities										(2,852)
Total other expense		(1,358)		(431)		(6,842)		(1,518)		(6,827)
Net loss		(15,222)		(16,177)		(33,592)		(35,484)		(225,652)
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock										(3,872)
Net loss attributable to Gevo, Inc. common stockholders	$	(15,222)	$	(16,177)	$	(33,592)	$	(35,484)	$	(229,524)
Net loss per share attributable to Gevo, Inc. common stockholders basic and diluted	$	(0.35)	$	(0.62)	$	(0.80)	$	(1.35)		
Weighted-average number of common shares outstanding basic and diluted		43,371,992		26,242,940		42,191,018		26,299,746		

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, 2013	Six Months Ended June 30, 2012	From June 9, 2005 (Date of Inception) To June 30, 2013
Operating Activities			
Net loss	$(33,592)	$(35,484)	$ (225,652)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash interest expense	2,976	806	8,264
Gain from change in fair value of embedded derivative	(693)		(17,693)
Non-cash stock-based compensation	2,126	5,460	28,651
Loss on extinguishment of debt	2,038		2,038
Depreciation and amortization	1,694	1,639	15,299
Loss (gain) from change in fair value of derivatives	207	236	(657)
Loss from change in fair value of warrant liabilities			2,852
Other non-cash expenses			864
Changes in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable	200	1,809	1,501
Inventories	3,228	959	139
Prepaid expenses and other current assets	31	(40)	(2)
Deposits and other assets		(180)	(239)
Accounts payable, accrued expenses, and long-term liabilities	2,598	368	8,022
Net cash used in operating activities	(19,187)	(24,427)	(176,613)
Investing Activities			
Acquisitions of property, plant and equipment	(2,758)	(34,502)	(71,445)
Other		(647)	(700)
Acquisition of Agri-Energy, net of cash assumed			(24,936)
Restricted certificate of deposit			(39)
Net cash used in investing activities	(2,758)	(35,149)	(97,120)

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Cash Flows Continued

(in thousands)

(unaudited)

	Six Months Ended June 30,		From June 9, 2005 (Date of Inception) To
	2013	2012	June 30, 2013
Financing Activities			
Payments on secured debt	(4,141)	(1,241)	(22,837)
Proceeds from issuance of secured debt		5,000	41,578
Proceeds from issuance of common stock upon exercise of stock options and ESPP	9	664	1,126
Deposit on long-term debt and other	(79)	(154)	(539)
Debt and equity offering costs		(316)	(13,503)
Proceeds from issuance of common stock			176,579
Proceeds from issuance of convertible preferred stock			86,025
Proceeds from issuance of convertible debt, net			42,300
Proceeds from issuance of convertible promissory notes with warrants			3,000
Proceeds from the exercise of warrants			592
Net cash (used in) provided by financing activities	(4,211)	3,953	314,321
Net (decrease) increase in cash and cash equivalents	(26,156)	(55,623)	40,588
Cash and cash equivalents			
Beginning of period	66,744	94,225	
Ending of period	$ 40,588	$ 38,602	$ 40,588

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, 2013	2012	From June 9, 2005 (Date of Inception) To June 30, 2013
Conversion of convertible debt to common stock	$ 12,784	$	$ 12,784
Cash paid for interest, net of interest capitalized	$ 2,389	$ 673	$ 11,847
Non-cash purchase of property, plant and equipment	$ 227	$ 9,886	$ 227
Issuance of common stock for services	$ 483	$	$ 483
Warrants issued with secured debt	$	$ 120	$ 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	$	$ 928	$ 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) on September 18, 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 on September 22, 2010. Gevo Development purchased Agri-Energy, LLC (Agri-Energy) on September 22, 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 for a period of time while it focuses on optimizing specific parts of its technology to further enhance isobutanol production rates. In June 2013, the Company resumed limited isobutanol production at the Agri-Energy Facility in single production train mode.

At June 30, 2013, 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, recruiting personnel and raising capital. Ultimately, the attainment of profitable operations are dependent upon future events, including completion of its development activities resulting in sales of isobutanol or isobutanol-derived products and/or technology, obtaining adequate financing to complete its development activities, obtaining adequate financing to acquire access to and complete the retrofit of ethanol plants to isobutanol production, gaining market acceptance and demand for its products and services, and attracting and retaining qualified personnel.

Until May 2012, when the Company commenced initial startup operations for the production of isobutanol at the Agri-Energy Facility, the Company derived revenue from the sale of ethanol, distiller s grains and other related products produced as part of the ethanol production process at this facility. The production of ethanol is not the Company s intended business and its future profitability depends on its ability to produce and market isobutanol, not on production and sales of ethanol. The historical operating results of Agri-Energy and the operating results reported during the retrofit to isobutanol production, the initial startup of isobutanol production and any period in which the production of isobutanol is temporarily paused and the Company s management determines, based on the then-current economic conditions for the production of ethanol, that the Agri-Energy Facility will be temporarily reverted to ethanol production may not be indicative of future operating results for Agri-Energy or Gevo once commercial isobutanol production commences at this facility. Additionally, because the production of ethanol is not the Company s intended business, the Company will continue to report as a development stage company until it begins to generate significant revenue from the sale of isobutanol or other products that are or become the Company s intended business.

Financial Condition. The Company s unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the three and six months ended June 30, 2013, the Company incurred a consolidated net loss of $15.2 million and $33.6 million and had an accumulated deficit of $228.9 million. The Company expects to incur future net losses as it continues to fund the development and commercialization of its product candidates.

From Inception to June 30, 2013, the Company 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, 2013 totaled $40.6 million which is primarily being used for the following: (1) operating activities and startup production of isobutanol at its Agri-Energy Facility; (2) operating activities at its corporate headquarters in Colorado, including research and development work; (3) capital improvements primarily associated with its Agri-Energy Facility; (4) costs associated with optimizing isobutanol production technology; (5) costs associated with the ongoing litigation with Butamax Advanced Biofuels LLC (Butamax), a joint venture between BP p.l.c. (BP) and E.I. du Pont de Nemours and Company (DuPont); and (6) repayment of debt obligations. Based on the Company s current plans, the Company anticipates capital expenditures necessary to complete the retrofit of the Agri-Energy Facility will be significantly lower than the capital expenditures of $49.5 million incurred in fiscal year 2012. The Company believes that actions taken during 2012 to reduce ongoing litigation expenses and other operating expenses will continue to reduce 2013 operating expenses from fiscal year 2012 levels.

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

The Company also has the ability to further limit some cash spend associated with the foregoing activities, including limiting the usage of cash associated with research and development activities or delaying the timing of capital improvements, based on then-current facts and circumstances. Notwithstanding the Company s ability to further reduce its monthly cash usage, based on its current planned level of operations and anticipated growth, the Company believes that cash and cash equivalents on hand at June 30, 2013, will provide sufficient funds for ongoing operations for the remainder of 2013. This includes necessary capital expenditures and working capital requirements and debt obligations ($5.2 million matures in the second half of 2013). The Company believes it has the financial resources to operate into the first quarter of 2014; notwithstanding, the Company is actively working on various ways to address the need for additional capital before the end of the first quarter of 2014. Based on current estimates, additional capital will be required for the Company to continue to meet ongoing operational and working capital requirements past the first quarter of 2014 and to finance the retrofit of incremental isobutanol production capacity including further expansion of the Agri-Energy Facility. Although the Company is pursuing financing options, there are no assurances that the Company will be able to raise additional funds when needed or at all, or achieve or sustain profitability or positive cash flow from operations.

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, 2013 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, 2013 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, 2012, as amended (the Annual Report).

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, 2013 and 2012 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 at June 30, 2013 and 2012 that could potentially dilute the calculation of diluted earnings per share.

	June 30,	
	2013	2012

Convertible debt	4,725,392	
Outstanding options to purchase common stock	3,172,213	3,300,936
Warrants to purchase common stock	1,259,998	1,229,998
Unvested restricted common stock	941,236	454,023
Total	10,098,839	4,984,957

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

3. Inventories

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

	June 30, 2013	December 31, 2012
Raw materials		
Corn	$ 1,002	$ 4,174
Enzymes and other inputs	702	656
Finished goods	330	85
Work in process	340	648
Spare parts	1,057	1,096
Total inventories	$ 3,431	$ 6,659

Included in cost of goods sold is depreciation of $0.6 million and $1.1 million during each of the three and six months ended June 30, 2013 and 2012. Depreciation expense included in cost of goods sold from Inception to June 30, 2013 was $5.8 million.

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, 2013	December 31, 2012
Construction in progress		$ 59,153	$ 57,185
Plant machinery and equipment	10 years	11,030	11,030
Site improvements	10 years	7,007	7,007
Lab equipment, furniture and fixtures and vehicles	5 years	6,165	5,553
Demonstration plant	2 years	3,597	3,597
Buildings	10 years	2,543	2,543
Computer, office equipment and software	3 years	1,412	1,411
Leasehold improvements, pilot plant, land and support equipment	0-5 years	2,084	2,069
Total property, plant and equipment		92,991	90,395
Less accumulated depreciation and amortization		(14,997)	(13,302)
Property, plant and equipment, net		$ 77,994	$ 77,093

Construction in progress includes $58.5 million and $56.1 million at June 30, 2013 and December 31, 2012, respectively, related to the retrofit of the Agri-Energy Facility to isobutanol production.

During the three and six months ended June 30, 2012, 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. Accordingly, the Company capitalized $0.1 million during the three and six months ended June 30, 2013, $1.0 million and $1.3 million of interest incurred during the three and six months ended June 30, 2012, respectively, and $1.7 million during the period from Inception to June 30, 2013.

5. Derivative Instruments

Forward Purchase and Exchange-Traded Futures Contracts

Since the acquisition of Agri-Energy on September 22, 2010, the Company s activities expose it to a variety of market risks, including the effects of changes in commodity prices for corn. These financial exposures are monitored and 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.

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

The Company generally follows a policy of using exchange-traded futures contracts as a means of managing exposure to changes in corn prices. Exchange-traded futures contracts are valued at fair value and were recorded as a derivative asset at June 30, 2013 and December 31, 2012 in the consolidated balance sheets 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. During the three and six months ended June 30, 2013 and 2012, 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 during the three and six months ended June 30, 2013 and 2012 have been recorded in cost of goods sold in the consolidated statements of operations. At June 30, 2013, these contracts were recorded at their fair value which has been included as a component of derivative liability in the consolidated balance sheets.

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, 2013 and December 31, 2012, the Company had $0.1 million held in a margin deposit account for its exchange-traded futures contracts.

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Inception to June 30, 2013
Realized Gain / (Loss)					
Exchange-traded futures contracts	$ 73	$ 303	$ 322	$ 264	$ (555)
Unrealized Gain / (Loss)					
Exchange-traded futures contracts	$ 58	$ (482)	$ (218)	(234)	$ 701
Forward purchase contracts	$ (8)	$ 45	$ 12	(2)	$ (43)

The following table represents the Company s net short positions of derivative instruments held (in thousands).

Year of Expiration	June 30, 2013 Corn Net Short Position Bushels	December 31, 2012 Corn Net Short Position Bushels
2013	160	683

Convertible Notes

In July 2012, the Company issued 7.5% convertible senior notes due 2022 (the Convertible 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 Convertible 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 Convertible Notes on or after January 1, 2013 but prior to July 1, 2017. Embedded derivatives are separated from the host contract, the Convertible 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 Convertible Notes meet these criteria and, as such, must be valued separate and apart from the Convertible 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 Convertible 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 Convertible 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 model was initially used to determine if the Convertible Notes would be converted, called or held at each decision point. Within the lattice model, the following assumptions are made: (i) the Convertible Notes will be converted early if the conversion value is greater than the holding value; or (ii) the Convertible 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 Convertible 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 Convertible Notes.

Using this lattice model, the Company valued these embedded derivatives using a with-and-without method, where the value of the Convertible Notes including the embedded derivatives, is defined as the with , and the value of the Convertible 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 Convertible Notes with the embedded derivatives and the value of the Convertible 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, 2013	December 31, 2012
Stock price	$ 2.03	$ 1.54
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%	1.7%
Estimated stock volatility	65%	79%
Estimated credit spread	33%	37%

Changes in certain inputs into the lattice model can have a significant impact on changes in the estimated fair value of the embedded derivative.

The following table sets forth the value of the Convertible Notes with and without the embedded derivative, and the fair value of the embedded derivative as of June 30, 2013 and December 31, 2012 (in thousands).

	June 30, 2013	December 31, 2012
Fair value of Convertible Notes:		
With the embedded derivative	$ 17,431	$ 26,000
Without the embedded derivative	11,540	15,000
Estimated fair value of the embedded derivative	$ 5,891	$ 11,000

The decrease in the carrying value of the embedded derivative between December 31, 2012 and June 30, 2013 is due to the conversion of debt which resulted in a $4.4 million reduction in the carrying value of the embedded derivative. The carrying value of the embedded derivative was also impacted by a $0.7 million decrease in the estimated fair value of the derivative outstanding at June 30, 2013. The change in estimated fair value of the embedded derivative represents an unrealized gain and is included in gain from change in fair value of embedded derivative in the consolidated statement 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 at June 30, 2013 and December 31, 2012 (in thousands).

	June 30, 2013	December 31, 2012
Accrued legal-related expenses	$ 2,240	$ 2,757
Accrued employee compensation	1,652	1,109
Accounts payable trade	2,644	1,211
Deferred revenue	1,196	1,196
Other accrued liabilities	2,484	1,971
Total accounts payable and accrued liabilities	$ 10,216	$ 8,244

7. Secured Debt and Convertible Notes

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, 2013	December 31, 2012
Secured debt		
TriplePoint Matures September 2014	$ 9,190	$ 11,643
TriplePoint Matures October 2015	8,108	9,266
TriplePoint Matures December 2015	4,158	4,689
Total secured debt	21,456	25,598
Less:		
Unamortized debt discounts	(1,176)	(1,640)
Total secured debt net of debt discounts	20,280	23,958
Less current portion of secured debt	(10,063)	(8,513)
Long-term portion of secured debt	$ 10,217	$ 15,445

TriplePoint

Gevo Loan Agreement. In August 2010, concurrent with the execution of the agreement to acquire Agri-Energy, Gevo, Inc. entered into a loan and security agreement with TriplePoint (the Gevo Loan Agreement), pursuant to which the Company borrowed $5.0 million. Under the terms of each of (i) the Gevo Loan Agreement and (ii) Gevo, Inc. s guarantee of Agri-Energy s obligations under the Original Agri-Energy Loan Agreement described below, the Company is prohibited from granting a security interest in its intellectual property assets to any other entity until both TriplePoint loans are paid in full. In July 2012, the Company used $5.4 million of the proceeds from its Convertible Note offering that was completed in July 2012 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 was amended to make Agri-Energy the borrower under the facility. This loan and security agreement (the Original Agri-Energy Loan Agreement) includes customary affirmative and negative covenants for agreements of this type and events of default. The aggregate amount outstanding under the Original Agri-Energy Loan Agreement bears interest at a rate equal to 13% and is subject to an end-of-term payment equal to 8% of the amount borrowed. The loan is secured by the equity interests of Agri-Energy held by Gevo Development and substantially all the assets of Agri-Energy. The loan matures on September 1, 2014. The loan is guaranteed by Gevo, Inc. pursuant to a continuing guaranty executed by Gevo, Inc. in favor of TriplePoint, which is secured by substantially all of the assets of Gevo, Inc., other than its intellectual property.

Amended Agri-Energy Loan Agreement. In October 2011, Agri-Energy entered into the Amended Agri-Energy Loan Agreement with TriplePoint which amends and restates the Original Agri-Energy Loan Agreement (the Amended Agri-Energy Loan Agreement). The Amended Agri-Energy Loan Agreement includes customary affirmative and negative covenants for agreements of this type and events of default. The Amended Agri-Energy Loan Agreement provides Agri-Energy with additional term loan facilities of up to $15.0 million (the New Loan) (which amount is in addition to the existing $12.5 million term loan (the Existing Loan) provided under the Original Agri-Energy Loan Agreement, which Existing Loan remains in place under the Amended Agri-Energy Loan Agreement), the proceeds of which were used to pay a portion of the costs, expenses, and other amounts associated with the retrofit of the Agri-Energy Facility to produce isobutanol. The aggregate amount outstanding under the New Loan bears interest at a rate of 11% and is subject to an end-of-term payment equal to 5.75% of the amount borrowed.

On October 20, 2011, Agri-Energy borrowed a portion of the New Loan in the amount of $10.0 million under the Amended Agri-Energy Loan Agreement that matures on October 31, 2015. On January 6, 2012, Agri-Energy borrowed an additional $5.0 million under the Amended Agri-Energy Loan Agreement that matures on December 31, 2015, bringing the total borrowed under the New Loan at June 30, 2013 to $15.0 million. At June 30, 2013, the Company was in compliance with the debt covenants under the Amended Agri-Energy Loan Agreement.

The Amended Agri-Energy Loan Agreement provides that Agri-Energy will secure all of its obligations under the Amended Agri-Energy Loan Agreement and any other loan documents by granting to TriplePoint a security interest in and lien upon all or substantially all of its assets. Gevo, Inc. has guaranteed Agri-Energy s obligations under the Amended Agri-Energy Loan Agreement. 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 secures its guarantee of Agri-Energy s obligations (including up to $32.5 million in term loans) under the Amended Agri-Energy Loan Agreement.

June Amendments. In June 2012, Gevo, Inc. 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: (i) permitted the issuance of the Convertible Notes; (ii) removed Agri-Energy s and the Company s options to elect additional interest-only periods upon the achievement of certain milestones; (iii) permit Agri-Energy to make dividend payments and distributions to the Company for certain defined purposes related to the Convertible Notes; (iv) add as an event of default the payment, repurchase or redemption of the Convertible Notes or of amounts payable in connection therewith other than certain permitted payments related to the Convertible Notes; (v) add a negative covenant whereby the Company may not incur any indebtedness other than as permitted under the Security Agreement Amendment; and (vi) add a prohibition on making any Coupon Make-Whole Payments in cash prior to the payment in full of all remaining outstanding obligations under the Amended Agri-Energy Loan Agreement.

Convertible Notes

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

	Embedded Derivatives	Convertible Notes	Debt Discount	Total
Balance December 31, 2012	$ 11,000	$ 45,000	$ (30,446)	$ 25,554
Amortization of debt discount			2,307	2,307
Write-off of debt discount associated with conversion of debt			11,277	11,277
Change in fair value of embedded derivatives	(693)			(693)
Conversion	(4,416)	(18,100)		(22,516)
Balance June 30, 2013	$ 5,891	$ 26,900	$ (16,862)	$ 15,929

In July 2012, the Company sold $45.0 million in aggregate principal amount of Convertible Notes, with net proceeds of $40.9 million, after accounting for $2.7 million and $1.4 million of discounts and issue costs, respectively. The Convertible Notes bear interest at 7.5% which is to be paid semi-annually in arrears on January 1 and July 1 of each year commencing on January 1, 2013. The Convertible Notes will mature on July 1, 2022, unless earlier repurchased, redeemed or converted. During the three and six

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months ended June 30, 2013, the Company recorded $0.7 million and $2.3 million of expense related to the amortization of debt discounts and issue costs and recorded $0.6 million and $1.3 million of interest expense related to the Convertible Notes. The amortization of debt issue costs and debt discounts and cash interest are included as a component of interest expense in the consolidated statements of operations. The Company amortizes debt discounts and debt issue costs associated with the Convertible Notes using an effective interest rate of 40% from the issuance date through July 1, 2017, a five-year period, which represents the date the holders can require the Company to repurchase the Convertible Notes.

The Convertible Notes are convertible at an initial Conversion Rate of 175.6697 shares of the Company s common stock per $1,000 principal amount of Convertible Notes, subject to adjustment in certain circumstances as described in the Indenture. This is equivalent to an initial Conversion Price of approximately $5.69 per share of common stock. Holders may convert the Convertible Notes at any time prior to the close of business on the third business day immediately preceding the maturity date of July 1, 2022.

If a holder elects to convert its Convertible Notes on or after January 1, 2013 but prior to July 1, 2017, such holder shall be entitled to receive, in addition to the consideration upon conversion, a Coupon Make-Whole Payment. The Coupon Make-Whole Payment is equal to the sum of the present values of the lesser of: (a) eight semi-annual interest payments; or (b) the number of semi-annual interest payments that would have been payable on the Convertible Notes that a holder has elected to convert from the last day through which interest was paid, or the issue date if no interest has been paid, up to but excluding July 1, 2017, computed using a discount rate of 2%. The Company may pay any Coupon Make-Whole Payment either in cash or in shares of common stock at its election. Under the Amended Agri-Energy Loan Agreement with TriplePoint, the Company is prohibited from making any Coupon Make-Whole Payments in cash prior to the payment in full of all remaining outstanding obligations under the Amended Agri-Energy Loan Agreement. If the Company elects to pay in common stock, the stock will be valued at 90% of the average of the daily volume weighted average prices of the Company s common stock for the 10 trading days preceding the date of conversion. During the six months ended June 30, 2013, certain holders of the Convertible Notes elected to convert bonds totaling $18.1 million, reducing the principal balance of the Convertible Notes to $26.9 million. Upon conversion, the Convertible Note holders received 3,179,608 shares of common stock in payment of converted principal of $18.1 million and, pursuant to the terms of the Indenture, such holders also received 2,957,775 shares of common stock in settlement of Coupon Make-Whole Payments (as defined in the Indenture) of $4.9 million.

If a Make-Whole Fundamental Change (as defined in the Indenture) occurs and a holder elects to convert its Convertible Notes prior to July 1, 2017, the Conversion Rate will increase based upon reference to the table set forth in Schedule A of the Indenture. In no event will the Conversion Rate increase to more than 202.0202 per $1,000 principal amount of Convertible Notes.

If a Fundamental Change (as defined in the Indenture) occurs, at any time, then each holder will have the right to require the Company to repurchase all of such holder s Convertible Notes, or any portion thereof that is an integral multiple of $1,000 principal amount, for cash at a repurchase price of 100% of the principal amount of such Convertible Notes plus any accrued and unpaid interest thereon through, but excluding, the repurchase date. Additionally, on July 1, 2017, each holder will have the right to require the Company to repurchase all of such holder s Convertible Notes, or any portion thereof that is an integral multiple of $1,000 principal amount, for cash at a repurchase price of 100% of the principal amount of such Convertible Notes plus any accrued and unpaid interest thereon through, but excluding, the repurchase date.

The Company shall have a provisional redemption right (Provisional Redemption) to redeem, at its option, all or any part of the Convertible Notes at a price payable in cash, beginning on July 1, 2015 and prior to July 1, 2017, provided that the Company s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day immediately prior to the date of the redemption notice exceeds 150% of the Conversion Price in effect on such trading day. On or after July 1, 2017, the Company shall have an optional redemption right (Optional Redemption) to redeem, at its option, all or any part of the Convertible Notes at a price payable in cash. The price payable in cash for the Optional Redemption or Provisional Redemption is equal to 100% of the principal amount of Convertible Notes redeemed plus any accrued and unpaid interest thereon through, but excluding, the repurchase date.

If there is an Event of Default (as defined in the Indenture) under the Convertible Notes, the holders of not less than 25% in principal amount of Outstanding Notes (as defined in the Indenture) by notice to the Company and the trustee may, and the trustee at the request of such holders shall, declare the principal amount of all the Outstanding Notes and accrued and unpaid interest thereon to be due and payable immediately.

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8. Significant Agreements

Off-Take, Distribution and Marketing Agreements

International Off-Take and Distribution Agreement with Sasol. On July 29, 2011, the Company and Sasol Chemical Industries Limited (Sasol) entered into an international off-take agreement to market and distribute renewable isobutanol globally. The agreement has an initial term of three years and appoints Sasol as a non-exclusive distributor of high-purity isobutanol in North and South America and as the exclusive distributor for high-purity isobutanol for solvent and chemical intermediate applications in the rest of the world. Beginning upon the Company s first commercial sale of high-purity isobutanol under the terms of the agreement, if Sasol desires to maintain its exclusive distribution rights, Sasol is obligated to either purchase certain minimum quantities of high-purity isobutanol or pay the Company applicable shortfall fees and the Company is obligated to either supply Sasol with certain minimum quantities of high-purity isobutanol or pay Sasol applicable shortfall fees. No amounts have been recorded under this agreement as of June 30, 2013.

Exclusive Supply Agreement with LANXESS. On January 14, 2011, the Company entered into an exclusive supply agreement, as amended, with LANXESS Inc. (LANXESS) pursuant to which LANXESS has granted the Company an exclusive first right to supply LANXESS and its affiliates with certain of their requirements for biobased isobutanol during the term of the agreement. The Company s exclusive first right to supply biobased isobutanol to LANXESS and its affiliates will be subject to the terms of a supply agreement to be mutually agreed upon by the parties at a later date. Additionally, pursuant to the terms of the exclusive supply agreement the Company has granted LANXESS, subject to certain exceptions and conditions, (a) an exclusive first right to acquire its biobased isobutanol to produce isobutylene and butenes for use and sale in the field of chemicals, and (b) an exclusive right to use the Company s isobutanol to produce butadiene and isobutylene for use in the production of polybutadiene and butyl rubber. The initial term of the mutual exclusivity is ten years, subject to mutual extension. No amounts have been incurred under this agreement as of June 30, 2013.

Off-Take and Marketing Alliance Agreement and Renewable Fuels Supply Chain Agreement with Mansfield Oil Company. On August 12, 2011, the Company entered into a commercial off-take agreement with Mansfield Oil Company (Mansfield), to distribute isobutanol-based fuel into the petroleum market. The agreement allows Mansfield to blend the Company s isobutanol for its own use, and to be a distributor of the Company s isobutanol for a term of five years. The Company also entered into a three-year supply services agreement with C&N, a Mansfield subsidiary, which will provide supply chain services including logistics management, customer service support, invoicing and billing services. No amounts have been recorded under these agreements as of June 30, 2013.

Ethanol Marketing Agreement with C&N, a subsidiary of Mansfield Oil Company. Substantially all ethanol sold through Agri-Energy from the date of acquisition through December 31, 2012 was sold to C&N pursuant to an ethanol purchase and marketing agreement. The Company has not sold any ethanol in the three and six months ended June 30, 2013. The ethanol purchase and marketing agreement with C&N was entered into on April 1, 2009 and automatically renews for subsequent one-year terms unless either party terminates the agreement 60 days before the end of a term. Under the terms of the agreement, C&N will market substantially all of Agri-Energy s ethanol production from the Agri-Energy Facility and will pay to Agri-Energy the gross sales price paid by the end customer less expenses and a marketing fee.

Jet Fuel Supply Agreements with the Defense Logistics Agency (U.S. Air Force and U.S. Army). During September 2011, the Company was awarded a contract for the procurement of up to 11,000 gallons of alcohol-to-jet (ATJ) fuel for the purposes of certification and testing by the U.S. Air Force. The term of the agreement was through December 30, 2012. The Company recorded $0.3 million and $0.5 million of revenue under this award during the three and six months ended June 30, 2012, respectively. In September 2012, the Company was awarded an additional contract for the procurement of up to 45,000 gallons of biojet fuel. Additionally, in March 2013, the Company entered into a contract with the Defense Logistics Agency to supply the U.S. Army with 3,650 gallons of renewable jet fuel and in May this initial order was increased by 12,500 gallons. Revenue under these contracts is recognized upon shipment of product which is when transfer of risk of loss and title occurs. During the three and six months ended June 30, 2013, the Company recorded $0.3 million and $0.7 million, respectively, of revenue under these contracts.

Commercialization and Development Agreements

Development and Commercialization Agreements with ICM, Inc. In October 2008, the Company signed development and commercialization agreements with ICM, Inc. (ICM).

Under the terms of the development agreement, the Company performed commercial-scale isobutanol production trials in ICM s research plant and facility in St. Joseph, Missouri, the demonstration plant. The Company was required to pay for or reimburse ICM for engineering fees, equipment, plant modification costs, project fees and various operating expenses. In December 2011, the

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development agreement was amended to extend the term indefinitely. The development agreement, as amended, may be cancelled by either party with 30 days prior written notice. The Company did not incur any operating expenses or capital expenditures relating to the demonstration plant during the three and six months ended June 30, 2013 or 2012.

The commercialization agreement, which was amended and restated on August 11, 2011, is effective through October 15, 2018, and outlines the terms and fees under which ICM acts as the Company s exclusive provider of certain engineering and construction services. Also, under the commercialization agreement, the Company is ICM s exclusive technology partner for the production of butanols, pentanols and propanols from the fermentation of sugars.

The Company has also engaged ICM to perform engineering studies, plant evaluations and other services. In August 2011, the Company entered into a work agreement with ICM whereby ICM will provide engineering, procurement and construction services for the retrofit of ethanol plants.

Joint Research, Development, License and Commercialization Agreement with The Coca-Cola Company. During November 2011, the Company entered into a joint research, development, license and commercialization agreement with The Coca-Cola Company (Coca-Cola). During the first two years of the agreement, Coca-Cola will pay the Company a fixed price fee for a research program outlined in the agreement. The Company recognizes these fees as revenue over the performance period. The payments received are not refundable. During each of the three and six months ended June 30, 2013 and 2012, the Company recognized $0.3 million and $0.6 million of revenue under this agreement, respectively.

License Agreement

License Agreement with Cargill, Incorporated. During February 2009, the Company entered into a license agreement with Cargill, Incorporated (Cargill) to obtain certain biological materials and license patent rights to use a biocatalyst owned by Cargill. Under the license agreement, Cargill has granted the Company an exclusive, royalty-bearing license, with limited rights to sublicense, to use the patent rights in a certain field, as defined in the license agreement.

The license agreement contains five milestone payments totaling approximately $4.3 million that are payable by the Company after each milestone is completed. During 2009, two milestones were completed and the Company recorded the related milestone amounts, along with an up-front signing fee, totaling $0.9 million, to research and development expense. During March 2010, the Company completed milestone number three and recorded the related milestone amount of $2.0 million to research and development expense at its then-current present value of $1.6 million because the milestone payment was paid over a period greater than 12 months from the date that it was incurred. As of December 2012, the Company had not completed milestone number four. However, under the terms of the agreement, the Company was entitled to pay a $0.5 million license fee in lieu of completing milestone number four. This fee was paid in March 2013 through the issuance of 250,000 shares of the Company s common stock to Cargill. The Company had accrued the $0.5 million license fee as of December 31, 2012 and included the expense as a component of research and development expense in its consolidated statement of operations. Milestone number five included in the license agreement representing potential payments of up to $1.0 million, which is due by December 2015, has not been met as of June 30, 2013 and no amount has been recorded as a liability for this milestone.

Upon commercialization of a product which uses Cargill s biological material or is otherwise covered by the patent rights under the license agreement, a royalty based on net sales is payable by the Company, subject to a minimum royalty amount per year, as defined in the license agreement, and up to a maximum amount per year.

The license agreement provides an option for Cargill to purchase a nonexclusive, royalty-bearing license for the use of a Company biocatalyst that utilizes the Cargill biological material or licensed patents for a royalty rate equal to the lowest rate offered to any third party.

The Company may terminate the license agreement at any time upon 90 days prior written notice. Unless terminated earlier, the license agreement remains in effect until the later of December 31, 2025 and the date that no licensed patent rights remain.

Other

In June 2011, the Company announced that it had successfully produced fully renewable and recyclable polyethylene terephthalate (PET) in cooperation with Toray Industries, Inc. (Toray Industries). Working directly with Toray Industries, the Company employed prototypes of commercial operations from the petrochemical and refining industries to make para-xylene (PX) from isobutanol. Toray Industries used the Company s bio-PX and commercially available renewable mono ethylene glycol to produce fully renewable PET films and fibers. On June 1, 2012, the Company entered into a definitive agreement with Toray

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Industries for the joint development of an integrated supply chain for the production of bio-PET. Pursuant to the terms of the agreement with Toray Industries, the Company received $1.0 million which shall be used by the Company for the design, construction and/or operation of a pilot plant. The Company anticipates producing bio-PX at the pilot plant, some of which will be sold to Toray Industries. Toray Industries is obligated to purchase initial volumes of bio-PX. Any excess bio-PX that is produced can be sold to third parties. In the event that the Company is unable to produce and deliver a minimum quantity of bio-PX to Toray Industries by December 31, 2013, the Company will be required to refund the $1.0 million by January 31, 2014. The Company has included the $1.0 million as a component of accounts payable and accrued liabilities in its consolidated balance sheets.

Within its research and development activities, the Company routinely enters into research and license agreements with various entities. Future royalty payments may apply under these license agreements if the technologies are used in future commercial products. In addition, the Company may from time to time make gifts to universities and other organizations to expand research activities in its fields of interest. Any amounts paid under these agreements are generally recorded as research and development expenses as incurred.

The Company has been awarded grants or cooperative agreements from a number of government agencies, including the U.S. Department of Energy, U.S. National Science Foundation, U.S. Environmental Protection Agency, Army Research Labs and the U.S. Department of Agriculture. Revenues recorded related to these grants and cooperative agreements are recorded within grant and research and development program revenue in the Company s consolidated statements of operations.

9. Gevo Development

Gevo, Inc. formed Gevo Development on September 18, 2009 to finance and develop biorefineries through joint venture, tolling arrangements or direct acquisition. Biorefinery plants accessed through Gevo Development are intended to be retrofitted using Gevo, Inc. s integrated fermentation technology to produce isobutanol.

Gevo, Inc. currently owns 100% of the outstanding equity interests of Gevo Development as a wholly owned subsidiary. Gevo Development has two classes of membership interests outstanding. Gevo, Inc. is the sole owner of the class A interests. Prior to September 22, 2010, CDP Gevo, LLC (CDP), was the sole owner of the class B interests, which comprise 10% of the outstanding equity interests of Gevo Development. In September 2010, Gevo, Inc. became the sole owner of Gevo Development by acquiring 100% of the class B interests in Gevo Development from CDP pursuant to an equity purchase agreement. In exchange for the class B interests, CDP received aggregate consideration of $1.1 million.

The original issuance of the class B interests was considered to be a grant of non-employee stock-based compensation. As vesting of the awards was dependent on counterparty performance conditions (the acquisition and retrofit of a biorefinery plant), no compensation expense had been recorded prior to September 22, 2010 because the lowest aggregate fair value of the awards was zero. Upon the purchase of the class B interests on September 22, 2010, the Company recorded stock-based compensation of $0.8 million, which reflected the amount paid during 2010 for the class B interests that was not dependent on counterparty performance. The final payment of $0.1 million made in January 2012 was dependent on the continued employment of the two co-managing directors of Gevo Development. The employment of the co-managing directors was terminated effective March 23, 2012 (as discussed in more detail below).

Gevo, Inc. made capital contributions to Gevo Development of $4.1 million and $7.1 million, respectively, during the three and six months ended June 30, 2013, respectively, and $20.6 million and $20.8 million, respectively, during the three and six months ended June 30, 2012, respectively. From Inception to June 30, 2013, Gevo, Inc. has made capital contributions of $86.9 million to Gevo Development.

The following table sets forth (in thousands) the net loss incurred by Gevo Development (including Agri-Energy after September 22, 2010, the closing date of the acquisition) which has been fully allocated to Gevo, Inc. s capital contribution account based upon its capital contributions (for the period prior to September 22, 2010) and 100% ownership (for the period after September 22, 2010).

	Three Months Ended June 30,		Six Months Ended June 30,		Inception to
	2013	2012	2013	2012	June 30, 2013
Gevo Development Net Loss	$ (3,813)	$ (3,295)	$ (7,303)	$ (5,105)	$ (26,922)

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In connection with the formation of Gevo Development in September 2009, the Company granted CDP a warrant to purchase 858,000 shares of the Company s common stock. The warrant has an exercise price of $2.70 per share which represented the estimated fair value of Gevo, Inc. s common stock on the date of grant. The warrant expires in September 2016, unless terminated earlier as provided in the agreement.

On September 22, 2010, the beneficial owners of the equity interests of CDP became employees of Gevo, Inc. and the warrant agreement was amended and restated to provide that 50% of the warrant shares granted under such warrant agreement would vest on September 22, 2010. The remaining warrant shares were to vest over a two-year period beginning on September 22, 2010, subject to acceleration and termination in certain circumstances. The Company valued the warrant shares at $14.0 million. Effective March 23, 2012, the employment of the beneficial owners of CDP was terminated. Pursuant to the terms of the warrant agreement, all unvested warrant shares became immediately vested and, as such, the Company recorded $2.6 million of stock-based compensation expense during the six months ended June 30, 2012.

Since its formation, Gevo Development has been and continues to be considered a variable interest entity. Gevo, Inc., the primary beneficiary of Gevo Development, has both (i) the power to direct the activities of Gevo Development that most significantly impact Gevo Development s economic performance and (ii) the obligation to absorb losses of Gevo Development that could potentially be significant to Gevo Development or the right to receive benefits from Gevo Development that could potentially be significant to Gevo Development. As such, Gevo Development is consolidated. The accounts of Agri-Energy are consolidated within Gevo Development as a wholly owned subsidiary. As of June 30, 2013 and December 31, 2012, Gevo Development does not have any assets that can be used only to settle obligations of Gevo Development. However, under the terms of the Amended Agri-Energy Loan Agreement with TriplePoint, as amended, subject to certain limited exceptions, Agri-Energy is only permitted to pay dividends if all principal balances due to TriplePoint have been paid. No gain or loss was recognized by the Company upon the initial consolidation of Gevo Development.

10. Redfield Energy, LLC

On June 15, 2011, Gevo Development entered into an isobutanol joint venture agreement (the Joint Venture Agreement) with Redfield Energy, LLC, a South Dakota limited liability company (Redfield), and executed the second amended and restated operating agreement of Redfield (together with the Joint Venture Agreement, the Joint Venture Documents). Under the terms of the Joint Venture Documents, Gevo Development and Redfield have agreed to work together to retrofit Redfield s approximately 50 million gallon per year ethanol production facility located near Redfield, South Dakota (the Redfield Facility) for the commercial production of isobutanol. Under the terms of the Joint Venture Agreement, Redfield has issued 100 Class G membership units in Redfield (the Class G Units) to Gevo Development. Gevo Development is the sole holder of Class G units, which entitle Gevo Development to certain information and governance rights with respect to Redfield, including the right to appoint two members of Redfield s 11-member board of managers. The Class G units currently carry no interest in the allocation of profits, losses or other distributions of Redfield and no voting rights. Such rights will vest upon the commencement of commercial isobutanol production at the Redfield Facility, at which time Gevo Development anticipates consolidating Redfield s operations because Gevo anticipates it will control the activities that are most significant to the entity.

Gevo Development will be responsible for all costs associated with the retrofit of the Redfield Facility. Redfield will remain responsible for certain expenses incurred by the facility including certain repair and maintenance expenses and any costs necessary to ensure that the facility is in compliance with applicable environmental laws. The Company anticipates that the Redfield Facility will continue its current ethanol production activities during much of the retrofit.

Once the retrofit assets have been installed, the ethanol production operations will be suspended to enable testing of the isobutanol production capabilities of the facility (the Performance Testing Phase). During the Performance Testing Phase, Gevo Development will be entitled to receive all revenue generated by the Redfield Facility and will make payments to Redfield to cover the costs incurred by Redfield to operate the facility plus the profits, if any, that Redfield would have received if the facility had been producing ethanol during that period (the Facility Payments). Gevo Development has also agreed to maintain an escrow fund during the Performance Testing Phase as security for its obligation to make the Facility Payments.

If certain conditions are met, commercial production of isobutanol at the Redfield Facility will begin upon the earlier of the date upon which certain production targets have been met or the date upon which the parties mutually agree that commercial isobutanol production at the Redfield Facility will be commercially viable at the then-current production rate. At that time, (i) Gevo Development will have the right to appoint a total of four members of Redfield s 11-member board of managers, and (ii) the voting and economic interests of the Class G units will vest and Gevo Development, as the sole holder of the Class G Units, will be entitled to a percentage of Redfield s profits, losses and distributions, to be calculated based upon the demonstrated isobutanol production capabilities of the Redfield Facility.

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Gevo Development, or one of its affiliates, will be the exclusive marketer of all products produced by the Redfield Facility once commercial production of isobutanol has begun. Additionally, Gevo, Inc. will license the technology necessary to produce isobutanol at the Redfield Facility to Redfield, subject to the continuation of the marketing arrangement described above. In the event that the isobutanol production technology fails or Redfield is permanently prohibited from using such technology, Gevo Development will forfeit the Class G Units and lose the value of its investment in Redfield.

Gevo, Inc. entered into a guaranty effective as of June 15, 2011, pursuant to which it has unconditionally and irrevocably guaranteed the payment by Gevo Development of any and all amounts owed by Gevo Development pursuant to the terms and conditions of the Joint Venture Agreement and certain other agreements that Gevo Development and Redfield expect to enter into in connection with the retrofit of the Redfield Facility.

The Company has undertaken the preliminary project engineering and permitting process for the Redfield Facility retrofit. As of June 30, 2013, the Company has incurred $0.4 million in costs for the future retrofit of the Redfield Facility which have been recorded on the Company s consolidated balance sheets in deposits and other assets.

11. Stock-Based Compensation

The Company records expense during the vesting period for share-based payment awards granted to employees and non-employees.

The following table sets forth the Company s stock-based compensation expense (in thousands) for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,		Inception to
	2013	2012	2013	2012	June 30, 2013
Stock options and ESPP shares issued					
Research and development	$ 170	$ 210	$ 335	$ 390	$ 2,812
Selling, general and administrative	466	877	1,088	1,443	8,357
Restricted stock issued					
Research and development		(507)		(26)	802
Selling, general and administrative	364	761	664	1,037	2,686
Warrant issued					
Selling, general and administrative	39		39	2,616	13,994
Non-cash stock-based compensation	1,039	1,341	2,126	5,460	28,651
Modified stock option awards					
Selling, general and administrative		231		890	1,500
Purchase of Class B interests of Gevo Development from CDP for					

cash					
Selling, general and administrative				74	1,144
Cash stock-based compensation		231		964	2,644
Total stock-based compensation	$ 1,039	$ 1,572	$ 2,126	$ 6,424	$ 31,295

12. Stockholders Equity

The Company currently grants share-based payment awards under the Gevo, Inc. Amended and Restated 2010 Stock Incentive Plan (2010 Plan) which was approved by its stockholders in February 2011 and amended in June 2013. As of June 30, 2013, the Company has reserved 5,571,286 shares of common stock for issuance under the 2010 Plan. As of June 30, 2013 and December 31, 2012, there were 3,290,628 shares and 1,340,974 shares available for grant under the 2010 Plan, respectively.

During the six months ended June 30, 2013, the Company issued 6,137,383 shares as a result of the conversion of Convertible Notes and settlement of Coupon Make-Whole Payments (see Note 7), 983,331 shares of restricted stock granted to employees and 250,000 shares of common issued to Cargill (see Note 8).

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

13. Commitments and Contingencies

Legal Matters. On January 14, 2011, Butamax filed a complaint (the Complaint) in the United States District Court for the District of Delaware, as Case No. 1:11-cv-00054-SLR, alleging that the Company is infringing one or more claims made in U.S. Patent No. 7,851,188 (the 188 Patent), entitled Fermentive Production of Four Carbon Alcohols. The 188 Patent, which has been assigned to Butamax, claims certain recombinant microbial host cells that produce isobutanol and methods for the production of isobutanol using such host cells. Butamax is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. On March 25, 2011, the Company filed a response to the Complaint, denying Butamax s allegations of infringement and raising affirmative defenses.

On August 11, 2011, Butamax amended the Complaint to include allegations that the Company is infringing one or more claims made in U.S. Patent No. 7,993,889 (the 889 Patent), also entitled Fermentive Production of Four Carbon Alcohols (the Amended Complaint). The 889 Patent, which has been assigned to Butamax, claims methods for producing isobutanol using certain recombinant yeast microorganisms expressing an engineered isobutanol biosynthetic pathway. The Company believes that the Amended Complaint is without merit and will continue to aggressively defend its freedom to operate.

On September 13, 2011, the Company filed an answer to the Amended Complaint in which it asserted counterclaims against Butamax and DuPont for infringement of U.S. Patent No. 8,017,375 (the 375 Patent), entitled Yeast Organism Producing Isobutanol at a High Yield and U.S. Patent No. 8,017,376 (the 376 Patent), entitled Methods of Increasing Dihydroxy Acid Dehydratase Activity to Improve Production of Fuels, Chemicals, and Amino Acids. The counterclaims sought a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. These counterclaims were set for trial in August 2013. On July 26, 2013, the U.S. District Court of Delaware issued an order regarding claim construction and summary judgment of Gevo s counterclaims involving the 375 and 376 Patents. Both parties had asked the court to resolve certain issues regarding the 375 and 376 Patents without a trial by seeking summary judgment from the court. Butamax had filed motions seeking summary judgment that it did not infringe such patents and the court granted Butamax s motions on this issue. Butamax had also moved for summary judgment of invalidity on both patents. The court granted Butamax s motion of invalidity on the 375 Patent, but denied Butamax s motion of invalidity on the 376 Patent. On August 8, 2013, an order was issued by the U.S. District Court of Delaware which entered a final judgment of non-infringement in favor of Butamax and DuPont with respect to the claims of the 375 and 376 Patents. The August 8, 2013 order also entered a final judgment of invalidity in favor of Butamax and DuPont with respect to the claims of the 375 Patent. In addition, it was further ordered that the Butamax and DuPont claims and counterclaims relating to the unenforceability of the 375 Patent, and the invalidity and/or unenforceability of the 376 Patent, would be dismissed without prejudice, and that the Butamax and DuPont claims for exceptional case, attorney s fees and/or costs would be preserved for later presentation to the Court. As a result of the August 8, 2013 order, a trial will not occur on August 12, 2013 as previously scheduled.

On September 22, 2011, Butamax filed a motion for preliminary injunction with respect to the alleged infringement by the Company of one or more claims made in the 889 Patent.

On January 24, 2012, the Company filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-00070-SLR, alleging that Butamax and DuPont are infringing one or more claims made in U.S. Patent No. 8,101,808 (the 808 Patent) entitled Recovery of Higher Alcohols from Dilute Aqueous Solutions. The 808 Patent claims methods to produce a C3-C6 alcohol for example, isobutanol through fermentation and to recover that alcohol from the fermentation medium. The Company sought a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. On May 8, 2013, the Company stipulated and agreed to dismiss without prejudice the 808 Patent suit against Butamax, DuPont, or their affiliates, with each side bearing its own costs and fees in the action. The Company and Butamax further stipulated and agreed that the Company shall not re-assert the 808 Patent against Butamax, DuPont, or their affiliates until a final Certificate of Reexamination is received from the USPTO in Inter Partes Reexamination Control No. 95/000,666.

On March 12, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-00298-SLR, alleging that the Company is infringing one or more claims made in U.S. Patent No. 8,129,162, entitled Ketol-Acid Reductoisomerase Using NADH. This complaint is in addition to the Amended Complaint discussed above. Butamax is seeking a declaratory judgment, injunctive relief, damages, interest, costs and expenses, including attorney s fees. The Company believes that it has meritorious defenses to these claims and intends to vigorously defend this lawsuit.

On March 13, 2012, the Company filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-00301-SLR, alleging that Butamax and DuPont are infringing U.S. Patent No. 8,133,715 (the 715 Patent), entitled Reduced By-Product Accumulation for Improved Production of Isobutanol. The 715 Patent claims recombinant microorganisms, including yeast, with modifications for the improved production of isobutanol. The Company is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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

On April 10, 2012, the Company filed a complaint (the Gevo Complaint) in the United States District Court for the District of Delaware, as Case No. 1:12-cv-00448-SLR, alleging that Butamax and DuPont are infringing one or more claims made in U.S. Patent No. 8,153,415 (the 415 Patent) entitled Reduced By-Product Accumulation for Improved Production of Isobutanol. The 415 Patent claims technology which eliminates two pathways that compete for isobutanol pathway intermediates in yeast. The Company is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On April 17, 2012, the Company amended the Gevo Complaint to include allegations that Butamax and DuPont are infringing one or more claims made in U.S. Patent No. 8,158,404 (the 404 Patent) entitled Reduced By-Product Accumulation for Improved Production of Isobutanol. The 404 Patent claims the reduction or elimination of important enzymes in a pathway in isobutanol- producing yeast. The Company is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On May 9, 2012, coordinated discovery was ordered for Case Nos. 1:12-cv-00070-SLR, 1:12-cv-00298-SLR, 1:12-cv-00301-SLR, and 1:12-cv-00448-SLR. By virtue of the same order, discovery in Case No. 1:12-cv-00602-SLR was also coordinated with these cases.

On May 15, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-00602-SLR, alleging that the Company is infringing one or more claims made in U.S. Patent No. 8,178,328, entitled Fermentive Production of Four Carbon Alcohols. Butamax is seeking a declaratory judgment, injunctive relief, damages, interest, costs and expenses, including attorney s fees. The Company believes that it has meritorious defenses to these claims and intends to vigorously defend this lawsuit.

On June 19, 2012, the United States District Court for the District of Delaware denied the motion for preliminary injunction which was filed by Butamax on September 22, 2011 with respect to the alleged infringement by the Company of one or more claims made in the 889 Patent. As is normal and customary in patent infringement actions of this nature, Butamax then filed a notice of appeal. In connection with their appeal, Butamax also filed a motion with the United States District Court for the District of Delaware seeking a temporary order to limit the Company s activities with respect to the automotive fuel blending market while Butamax appealed the denial of its motion for preliminary injunction.

On July 6, 2012, the United States District Court for the District of Delaware issued a temporary order which stated, in part, that the Company could not deliver, provide, distribute, ship, release or transfer in any way bio-isobutanol produced at the Agri-Energy Facility to any third party for any use or purpose related to the automotive fuel blending market while Butamax appealed the denial of its motion for preliminary injunction. The Company filed an appeal of the temporary order. Under the temporary order, the Company remained free to operate in markets such as chemicals, jet fuel, marine fuel and small engine fuel. On August 10, 2012, the Federal Circuit Court of Appeals granted Gevo s motion to stay the status quo order entered on July 6, 2012 by the United States District Court for the District of Delaware. On November 16, 2012, the Federal Circuit Court of Appeals affirmed the District Court s denial of Butamax s preliminary injunction motion.

On July 31, 2012, the Company filed a complaint in the United States District Court for the Eastern District of Texas, as Case No. 2:12-cv-00417, alleging that Butamax, DuPont, BP p.l.c., BP Corporation North America Inc. and BP Biofuels North America LLC are infringing U.S. Patent No. 8,232,089 (the 089 Patent), entitled Cytosolic Isobutanol Pathway Localization for the Production of Isobutanol. The Company is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. On December 17, 2012, this case was transferred to the United States District Court for the District of Delaware as Case No. 1:12-cv-01724-SLR. On February 19, 2013, BP p.l.c. filed a motion seeking to dismiss the Company s complaint for failure to state a claim against it. On March 8, 2013, the Company filed a response in opposition to B.P. p.l.c. s motion. On March 18, 2013, B.P. p.l.c. filed its reply brief, and the issue was submitted to the court for decision. On July 8, 2013, the court granted B.P. p.l.c. s motion. Despite the court s decision, Butamax, DuPont, BP Corporation North America Inc. and BP Biofuels North America LLC remain defendants in the suit.

On July 31, 2012, Butamax and DuPont filed a lawsuit in the United States District Court for the District of Delaware for declaratory judgment against the Company, as Case No. 1:12-cv-00999-SLR, seeking a judicial determination that the 089 Patent is invalid and that Butamax and DuPont do not infringe it. On January 28, 2013, this case was closed following a voluntary stipulation of dismissal filed by both parties.

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

On August 6, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01014-SLR, alleging that the Company is infringing U.S. Patent No. 8,222,017, entitled Ketol-Acid Reductoisomerase Using NADH. Butamax is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. On January 22, 2013, discovery in this case was consolidated with Case Nos. 1:12-cv-00070-SLR, 1:12-cv-00298-SLR, 1:12-cv-00301-SLR, 1:12-cv-00448-SLR, and 1:12-cv-00602-SLR.

On August 14, 2012, the Company filed a lawsuit in the United States District Court for the Eastern District of Texas for declaratory judgment against Butamax, DuPont, BP p.l.c., BP Corporation North America Inc. and BP Biofuels North America LLC, as Case No. 2:12-cv-00435, seeking a judicial determination that a recently issued Butamax U.S. Patent No. 8,241,878 (the 878 Patent), entitled Recombinant Yeast Host Cell with Fe-S Cluster Proteins and Methods of Using Thereof is invalid and that the Company does not infringe it. On December 17, 2012, this case was transferred to the United States District Court for the District of Delaware as Case No. 1:12-cv-01725-SLR. On January 28, 2013, this case was closed following a voluntary stipulation of dismissal filed by both parties.

On August 14, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01036-SLR, alleging that the Company is infringing the 878 Patent. Butamax is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On September 25, 2012, the Company filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01202-SLR, alleging that Butamax and DuPont are infringing U.S. Patent No. 8,273,565 (the 565 Patent), entitled Methods of Increasing Dihydroxy Acid Dehydratase Activity to Improve Production of Fuels, Chemicals, and Amino Acids. The Company is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses. On September 25, 2012, Butamax and DuPont filed a lawsuit in the United States District Court for the District of Delaware for declaratory judgment against the Company, as Case No. 1:12-cv-01201-SLR, seeking a judicial determination that the 565 Patent is invalid and that Butamax and DuPont do not infringe it.

On September 25, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01200-SLR, alleging that the Company is infringing U.S. Patent No. 8,273,558, entitled Fermentive Production of Four Carbon Alcohols. Butamax is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On October 8, 2012, Butamax filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01300-SLR, alleging that the Company is infringing U.S. Patent No. 8,283,144, entitled Fermentive Production of Four Carbon Alcohols. Butamax is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On October 8, 2012, Butamax filed a lawsuit in the United States District Court for the District of Delaware for declaratory judgment against us, as Case No. 1:12-cv-01301-SLR, seeking a judicial determination that Butamax is not infringing Gevo s recently issued U.S. Patent No. 8,283,505, entitled Recovery of Higher Alcohols from Dilute Aqueous Solutions.

On February 13, 2013, coordinated discovery was ordered for Case Nos. 1:12-cv-01036-SLR, 1:12-cv-01200-SLR, 1:12-cv-01201-SLR, 1:12-cv-01202-SLR, 1:12-cv-01300-SLR, 1:12-cv-01301-SLR, and 1:12-cv-01724-SLR. These cases are currently set for trial in August 2015.

On March 19, 2013, the U.S. District Court of Delaware issued an order regarding claim construction and summary judgment in the patent suit involving the 188 Patent and the 889 Patent. Both parties had asked the court to resolve certain issues regarding the 188 Patent and the 889 Patent without a trial by seeking summary judgment from the court. Butamax had filed a motion seeking summary judgment that we infringed such patents, but the court denied Butamax s motion. The Company moved for summary judgment of noninfringement, both as a matter of literal infringement and infringement under the doctrine of equivalents, and the court granted our motion regarding doctrine of equivalents infringement. The Company also moved for summary judgment of invalidity of various claims in the 188 Patent and the 889 Patent. The court granted this motion in part, ruling that Butamax s claims related to the inactivation of competing pathways for carbon flow were invalid.

The court also provided certain claim construction rulings, including a ruling that Butamax s patent claims were limited to an acetohydroxy acid isomeroreductase enzyme that is NADPH-dependent. The remaining issues were to be resolved by a jury trial, scheduled to commence on April 1, 2013.

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

On March 20, 2013, the U.S. District Court for the District of Delaware held the final pre-trial hearing leading up to the trial on the 188 Patent and the 889 Patent scheduled to commence April 1, 2013. During the hearing, Butamax s attorney acknowledged that Gevo does not infringe such patents under the court s construction of a key claim term in such patents, acetohydroxy acid isomeroreductase. Butamax offered to stipulate to no literal infringement under the court s construction. In view of this stipulation and the court s prior ruling of no infringement under Butamax s alternative infringement theory, the doctrine of equivalents, on April 10, 2013 a judgment of no infringement was entered in favor of Gevo.

On April 19, 2013, Butamax filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit to appeal the District Court of Delaware s Memorandum and Order of March 19, 2013, and the District Court of Delaware s Amended Final Judgment of April 10, 2013.

Due to the nature and stage of this litigation, the Company has determined that the possible loss or range of loss related to this litigation cannot be reasonably estimated at this time. Trials are currently scheduled for July 2014 and August 2015. The Company expects to continue to incur significant costs related to its involvement in the foregoing legal proceedings.

Indemnifications. In the ordinary course of its business, the Company makes certain indemnities under which it may be required to make payments in relation to certain transactions. As of June 30, 2013 and December 31, 2012, the Company did not have any liabilities associated with indemnities.

The Company, as permitted under Delaware law and in accordance with its amended and restated certificate of incorporation and amended and restated bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company s request in such capacity. The duration of these indemnifications, commitments, and guarantees varies and, in certain cases, is indefinite. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that may enable it to recover a portion of any future amounts paid. The Company accrues for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. No such losses have been recorded to date.

Environmental Liabilities. The Company s operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of materials at its locations. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health and the production, handling, storage and use of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities are recorded when the Company s liability is probable and the costs can be reasonably estimated. No environmental liabilities have been recorded as of June 30, 2013.

14. Fair Value Measurements

Accounting standards define fair value, outline a framework for measuring fair value, and detail the required disclosures about fair value measurements. Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. Standards establish a hierarchy in determining the fair market value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. Standards require the utilization of the highest possible level of input to determine fair value.

Level 1 inputs include quoted market prices in an active market for identical assets or liabilities.

Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data.

Level 3 inputs are unobservable and corroborated by little or no market data.

Cash and Cash Equivalents. For cash and cash equivalents, the fair value, based upon Level 1 inputs, approximates carrying value due to the short-term nature of these instruments.

Inventories. The Company records its inventory, primarily corn inventory, at fair value only when the Company s cost of corn purchased exceeds the market value for corn. The Company determines the market value of corn based upon Level 1 inputs using

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

quoted market prices. The Company did not incur any write-down of corn to market prices during the three and six months ended June 30, 2013 or 2012.

Derivative Assets and Liabilities. The fair value of exchange-traded derivative instruments is based on Level 1 inputs using quoted market prices. Exchange-traded derivative instruments are recorded in the consolidated balance sheets at fair value. The fair value of the Company s exchange-traded derivative instruments were not material at June 30, 2013 and December 31, 2012.

The fair value of the Company s forward contract derivative instruments are derived based upon a market approach using Level 2 inputs, including, the price at the delivery location adjusted for basis differentials, counterparty credit quality, the effect of the Company s own credit worthiness, the time value of money and/or the liquidity of the market. The fair value of the Company s forward contract derivative instruments were not material at June 30, 2013 and December 31, 2012.

Property, Plant and Equipment. The Company records its property, plant and equipment, primarily its Agri-Energy retrofit assets, at fair value only when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is considered to be impaired if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The Company s estimated cash flows for its Agri-Energy retrofit assets are based upon Level 3 cash flow inputs, primarily estimates associated with the following: (1) sales prices of isobutanol and dried distiller s grains; (2) cost of corn and; (3) costs of nutrients and other production inputs. During the three and six months ended June 30, 2013 and 2012, the Company did not record any property, plant and equipment at fair value.

Secured Debt. The Company has estimated the fair value of its secured debt obligations based upon discounted cash flows with Level 3 inputs, such as the terms that management believes would currently be available to the Company for similar issues of debt, taking into account the current credit risk of the Company and other market factors.

The following table sets forth the principal balance of the Company s secured debt obligations and the associated estimated fair value at June 30, 2013 and December 31, 2012 (in thousands).

	June 30, 2013		December 31, 2012	
Issuance	Principal	Fair Value	Principal	Fair Value
TriplePoint Matures September 2014	$ 9,190	$ 8,525	$ 11,643	$ 10,604
TriplePoint Matures October 2015	8,108	7,019	9,266	7,864
TriplePoint Matures January 2016	4,158	3,554	4,689	3,929

Convertible Notes and Embedded Derivatives. The Company has estimated the fair value of the Convertible Notes, including the embedded derivatives, to be $17.4 million and $26.0 million at June 30, 2013 and December 31, 2012, respectively, based upon Level 2 inputs, including the market price of the Convertible Notes derived from actual trades of the Convertible Notes. The Company has estimated the fair value of the embedded derivatives on a stand-alone basis to be $5.9 million and $11.0 million at June 30, 2013 and December 31, 2012, respectively, based upon Level 2 inputs. See Note 5 for the fair value inputs used to estimate the fair value of the Convertible Notes with and without the embedded derivatives and the fair value of the embedded derivatives.

While the Company believes that its valuation methods are appropriate and consistent with other market participants, it recognizes that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

15. Information on Business Segments

The Company s chief operating decision maker is provided with and reviews the financial results of each of the Company s consolidated legal entities, Gevo, Gevo Development, and Agri-Energy. The Company organizes its business segments based on the nature of the products and services offered through each of the Company s consolidated legal entities. All revenue is earned, and all assets are held, in the U.S.

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

The financial results of Gevo Development and Agri-Energy have been aggregated in the following table as this segment has historically been responsible for the production of ethanol and related products and will be responsible for the production of isobutanol and related products.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Gevo	$ 949	$ 1,377	$ 2,073	$ 1,991
Gevo Development / Agri-Energy	910	5,650	3,329	19,908
Consolidated	$ 1,859	$ 7,027	$ 5,402	$ 21,899
Operating loss:				
Gevo	$ (10,904)	$ (12,612)	$ (21,317)	$ (29,823)
Gevo Development / Agri-Energy	(2,960)	(3,134)	(5,433)	(4,143)
Consolidated	$ (13,864)	$ (15,746)	$ (26,750)	$ (33,966)
Interest expense:				
Gevo	$ 1,455	$ 271	$ 3,712	$ 557
Gevo Development / Agri-Energy	857	179	1,876	980
Consolidated	$ 2,312	$ 450	$ 5,588	$ 1,537
Depreciation expense:				
Gevo	$ 311	$ 323	$ 627	$ 589
Gevo Development / Agri-Energy	534	528	1,067	1,050
Consolidated	$ 845	$ 851	$ 1,694	$ 1,639
Acquisitions of plant, property and equipment:				
Gevo	$ 14	$ 698	$ 262	$ 1,352
Gevo Development / Agri-Energy	747	25,759	2,496	33,150
Consolidated	$ 761	$ 26,457	$ 2,758	$ 34,502

	June 30, 2013	December 31, 2012
Total assets:		
Gevo	$ 104,918	130,900
Gevo Development / Agri-Energy	72,745	83,872
Intercompany eliminations	(51,184)	(58,661)
Consolidated	$ 126,479	$ 156,111

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

Forward-Looking Statements

This report contains forward-looking statements. When used anywhere in this Quarterly Report on Form 10-Q (this Report), the words expect, believe, anticipate, estimate, intend, plan and similar expressions are intended t forward-looking statements. These statements relate to future events or our future financial or operational performance and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Such risks and uncertainties include those related to the achievement of advances in our technology platform, the success of our retrofit production model, our ability to gain market acceptance for our products, additional competition, changes in economic conditions and those described in documents we have filed with the Securities and Exchange Commission (the SEC), including this Report in Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors, our Annual Report on Form 10-K for the year ended December 31, 2012, as amended (our Annual Report) and other reports that we have filed with the SEC. All forward-looking statements in this document are qualified entirely by the cautionary statements included in this document and such other filings. These risks and uncertainties could cause actual results to differ materially from results expressed or implied by forward-looking statements contained in this document. These forward-looking statements speak only as of the date of this document. We disclaim any undertaking to publicly update or revise any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Unless the context requires otherwise, in this Report the terms we, us, our and the Company refer to Gevo, Inc. and its wholly owned or indirec subsidiaries, and their predecessors.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes and other financial information appearing elsewhere in this Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including, without limitation, the disclosures in our Annual Report (including the disclosures made in Part I, Item 1A Risk Factors and the audited consolidated financial statements and related notes included in Part II, Item 8 Financial Statements and Supplementary Data ,) and the disclosures made in Part II, Item 1A Risk Factors of this Report.

Overview

We are a renewable chemicals and next generation biofuels company. Our overall strategy is to commercialize bio-based alternatives to petroleum-based products using a combination of synthetic biology and chemical technology. In order to implement this strategy, we are taking a building block approach. Initially, we intend to produce and sell isobutanol from renewable feedstocks. Isobutanol is a four carbon alcohol that can be sold directly for use as a specialty chemical in the production of solvents, paints, and coatings or as a value-added fuel blendstock. Isobutanol can also be converted into butenes using straightforward dehydration chemistry deployed in the refining and petrochemicals industries today. The convertibility of isobutanol into butenes is important because butenes are primary hydrocarbon building blocks used in the production of lubricants, rubber, plastics, fibers, other polymers and hydrocarbon fuels.

We believe that products derived from our isobutanol will be drop-in products, which means that our customers will be able to replace petroleum-based intermediate products with bio-isobutanol-based intermediate products without modification to their equipment or production processes. The final products produced from our bio-isobutanol-based intermediate products will be chemically and visually identical to those produced from petroleum-based intermediate products, except that they will contain carbon from renewable sources. Customer interest in our isobutanol is primarily driven by our production route, which we believe will be cost-efficient, and our isobutanol s potential to serve as a cost-effective, environmentally sensitive alternative to the petroleum-based intermediate products that they currently use. We believe that at every step of the value chain, renewable products that are chemically identical to the incumbent petrochemical products will have lower market adoption hurdles in contrast with other bio-industrial products because the infrastructure and applications for such products already exist. In addition, we believe that products made from bio-isobutanol will be subject to less cost volatility than the petroleum-based products in use today based on the historical cost volatility of agricultural feedstocks compared to oil.

In order to produce and sell isobutanol made from renewable sources, we have developed the Gevo Integrated Fermentation Technology® (GIFT®), an integrated technology platform for the efficient production and separation of isobutanol. GIFT® consists of two components, proprietary biocatalysts, which convert sugars derived from multiple renewable feedstocks into isobutanol through fermentation, and a proprietary separation unit, which is designed to continuously separate isobutanol from water during the fermentation process. We developed our technology platform to be compatible with the existing approximately 23 billion gallons per year of global operating ethanol production capacity, as estimated by the Renewable Fuels Association. GIFT® is designed to allow relatively low capital expenditure retrofits of existing ethanol facilities, enabling a rapid route to isobutanol production from the fermentation of renewable feedstocks. We believe that our production route will be cost-efficient and will enable rapid deployment of our technology platform which will allow our isobutanol and the products produced from it to be economically competitive with many of the petroleum-based products used in the chemicals and fuels markets today.

We expect that the combination of our efficient proprietary technology, our marketing focus on providing drop-in substitutes for incumbent petrochemical products and our relatively low capital investment retrofit approach will mitigate many of the historical issues associated with the commercialization of renewable chemicals and fuels.

In September 2009, Gevo, Inc. formed Gevo Development, LLC (Gevo Development) to develop isobutanol production assets using GIFT®. Gevo Development has a flexible business model and aims to secure access to existing ethanol capacity either through joint venture, licensing arrangements, tolling arrangements or direct acquisition.

Agri-Energy

In September 2010, we acquired a 22 million gallon per year (MGPY) ethanol production facility in Luverne, Minnesota (the Agri-Energy Facility). The Agri-Energy Facility is a traditional dry-mill facility, which means that it uses corn as a feedstock. In partnership with ICM, Inc. (ICM), we developed a detailed retrofit design for this facility and began the retrofit in 2011. In May 2012, we commenced initial startup operations for the production of isobutanol at this facility. During initial startup operations we produced approximately 100,000 gallons of bio- isobutanol for sale and future customer testing. These initial startup operations included production of initial quantities of isobutanol produced at commercial scale, completion of initial commissioning of new equipment and development of operating discipline at commercial scale. In September 2012, as a result of a lower than planned production rate of isobutanol and some microbial contamination in our plant, we made the strategic decision to pause isobutanol production at the Agri-Energy Facility for a period of time to focus on optimizing specific parts of our technology to further enhance isobutanol production rates as well as control and manage contamination. There were several factors that contributed to this strategic decision. In particular, we determined that continuing to produce isobutanol at startup production rates while working to improve those production rates would require us to operate the Agri-Energy Facility at significantly below our estimated break-even cash flow level. In addition, our work to optimize our technology did not require us to continue production as we believed that we had already generated the necessary information required from our startup operations to work on enhancing our production rates at our testing laboratory in Colorado. During the period from November 2012 to June 2013, we developed and implemented changes that we believe will allow us to manage the contamination issues that significantly contributed to the lower than planned isobutanol production rates observed in the initial startup production period by changing the fermentation conditions and related operating parameters, making equipment modifications to improve sanitization, and, most importantly, improving the operating procedures we use at the plant. As of result of these efforts, in June 2013 we resumed the limited production of isobutanol operating one fermenter and one GIFT® separation system in single production train mode. In August 2013 we brought online a second fermenter and GIFT® system. We plan to be producing isobutanol and operating throughout the rest of this year. We plan on bringing the remaining fermenters and GIFT® systems online in the third and fourth quarters of 2013, testing production run rates, then ramping up production in the second half of 2013 and in 2014.

Through June 30, 2013, we have incurred capital expenditures of approximately $58.5 million on the retrofit of the Agri-Energy Facility. Capital expenditures at the Agri-Energy Facility include upfront design and engineering expenses, plant modifications identified as necessary during initial startup operations for the production of isobutanol as well as sales tax on equipment and capitalized interest. The retrofit of the Agri-Energy Facility also includes a number of additional capital costs that are unique to the design of the facility, including additional equipment that we believe will allow us to switch between ethanol and isobutanol production, modifications to increase the potential production capacity of GIFT® at the Agri-Energy Facility and the establishment of an enhanced yeast seed train to accelerate the adoption of improved yeast strains at the Agri-Energy Facility and at future plants. We have incurred approximately $24.0 million in capital expenditures associated with these additional design features and other costs. We do not anticipate installing an advanced yeast seed train at each future retrofit site.

Until May 2012, when we commenced initial startup operations for the production of isobutanol at the Agri-Energy Facility, we 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. Continued ethanol production during the retrofit process allowed us to retain local staff for the future operation of the plant, maintain the equipment and generate cash flow. However, the continued production of ethanol is not our intended business and our future return on invested capital depends on our ability to produce and market isobutanol and products derived from isobutanol, not on continued production and sales of ethanol. We believe that we will be able to transition back to the production and sale of ethanol and related products at the Agri-Energy Facility, other than during certain periods while we are working to optimize certain parts of our isobutanol production technology, if we were to project positive cash flows from ethanol operations versus maintaining the facility at idle, including any costs related to the transition, but there is no guarantee that this will be the case. During the first half of 2013, we did not transition back to ethanol production because we were engaged in activities at the Agri-Energy Facility to optimize specific parts of our technology to further enhance isobutanol production rates. Following the commencement of full-scale commercial production of isobutanol, we do not expect to generate significant future revenues from the sale of ethanol produced at the Agri-Energy Facility. Accordingly, the historical operating results of our subsidiary, Agri-Energy, LLC (Agri-Energy) and the operating results reported during the retrofit to isobutanol production may not be indicative of future operating results for Agri-Energy or Gevo once full-scale commercial production of isobutanol commences at the Agri-Energy Facility.

Revenues, Cost of Goods Sold and Operating Expenses

Revenues

During the three and six months ended June 30, 2013, we derived revenue primarily from grants, research and development programs and sales of excess corn inventory. Our grant and research and development programs and other revenue primarily consists of the following: (i) revenues relating to government research grants; (ii) revenues relating to cooperative agreements and research services; and (iii) the sale of biojet derived from our isobutanol for purposes of certification and testing.

During the three and six months ended June 30, 2012, we derived revenue primarily from the sale of ethanol. Substantially all ethanol sold through Agri-Energy was sold to C&N, a subsidiary of Mansfield Oil Company, pursuant to an ethanol purchase and marketing agreement. Our revenue also includes the sale of distiller s grains and other products produced as part of the ethanol production process to third parties.

Cost of Goods Sold and Gross Loss

Our cost of goods sold in the three and six months ended June 30, 2013 includes costs incurred in conjunction with the initial operations for the production of isobutanol at the Agri-Energy Facility. During the first half of 2012, cost of goods sold included costs directly associated with our ethanol production process which include costs for direct materials, direct labor and certain plant overhead costs. Direct materials consist of dextrose for initial production of isobutanol, corn feedstock, denaturant and process chemicals. Direct labor includes compensation of personnel directly involved in production operations at the Agri-Energy Facility. Plant overhead costs primarily consist of plant utilities, including natural gas, and plant depreciation. We periodically enter into forward purchase contracts and exchange-traded futures contracts associated with corn. Accordingly, our cost of goods sold also includes gains or losses and/or changes in fair value from our forward purchase contracts and exchange-traded futures contracts. Our gross loss is defined as our total revenues less our cost of goods sold.

Research and Development

Our research and development costs consist of expenses incurred to identify, develop and test our technologies for the production of isobutanol and the development of downstream applications thereof. Research and development expense includes personnel costs (including stock-based compensation), consultants and related contract research, facility costs, supplies, depreciation and amortization expense on property, plant and equipment used in product development, license fees paid to third parties for use of their intellectual property and patent rights and other overhead expenses incurred to support our research and development programs. Research and development expenses also include upfront fees and milestone payments made under licensing agreements and payments for sponsored research and university research gifts to support research at academic institutions.

Selling, General and Administrative

Selling, general and administrative expenses consist of personnel costs (including stock-based compensation), consulting and service provider expenses (including patent counsel-related costs), legal fees, marketing costs, corporate insurance costs, occupancy-related costs, depreciation and amortization expenses on property, plant and equipment not used in our product development programs or recorded in cost of goods sold, travel and relocation and hiring expenses.

We also record selling, general and administrative expenses for the operations of the Agri-Energy Facility that include administrative and oversight, certain personnel-related expenses, insurance and other operating expenses.

Critical Accounting Policies and Estimates

Our unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include our accounts and the accounts of our wholly owned subsidiaries, Gevo Development and Agri-Energy. The preparation of our unaudited consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the applicable periods. Management bases its estimates, assumptions and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our unaudited consolidated financial statements, which, in turn, could change the results from those reported. Our management evaluates its estimates, assumptions and judgments on an ongoing basis.

The accounting policies and estimates, which we believe are critical and require the use of complex judgment in their application, are those related to: (i) accounting for convertible debt and embedded derivatives; (ii) impairment of property, plant and equipment; (iii) stock-based compensation; (iv) revenue recognition; and (v) cost of goods sold and derivatives. Our critical accounting estimates and policies have not changed from those reported under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report.

Results of Operations

Comparison of the three months ended June 30, 2013 and 2012 (in thousands)

	Three Months Ended June 30,		
	2013	2012	Change
Revenue and cost of goods sold			
Ethanol sales and related products, net	$	$ 5,650	$(5,650)
Corn sales	909		909
Grant, research and development programs and other revenue	950	1,377	(427)
Total revenues	1,859	7,027	(5,168)
Cost of corn sales	920		920
Cost of goods sold	2,696	8,510	(5,814)
Gross loss	(1,757)	(1,483)	(274)
Operating expenses			
Research and development	5,828	4,723	1,105
Selling, general and administrative	6,279	9,540	(3,261)
Total operating expenses	12,107	14,263	(2,156)
Loss from operations	(13,864)	(15,746)	1,882
Other income (expense)			
Interest expense	(2,312)	(450)	(1,862)
Gain from change in fair value	2,023		2,023
Loss on extinguishment of debt	(1,112)		(1,112)
Other income	43	19	24

Total other expense	(1,358)	(431)	(927)
Net loss	$(15,222)	$(16,177)	$ 955

Revenues. During the three months ended June 30, 2013, we were not producing ethanol and resumed startup production of isobutanol during June 2013 and, as a result, we did not make any shipments of or report any sales of ethanol and shipments of isobutanol were limited to immaterial sample test quantities during this period. During the three months ended June 30, 2012, we generated revenue from the sale of ethanol and related products at our Agri-Energy Facility. In May 2012, we suspended the production of ethanol at our Agri-Energy Facility in advance of the conversion of that facility to the production of isobutanol.

During the three months ended June 30, 2013, we sold excess corn inventory which generated $0.9 million of revenue. We did not have any sales of corn during the same period in 2012. We generated $1.0 million and $1.4 million of revenue from grants, research and development programs and other revenue during the three months ended June 30, 2013 and 2012, respectively. Included in grant and research and development program revenue during each of the three months ended June 30, 2013 and 2012 was $0.3 million for the sale of biojet produced from isobutanol to the U.S. Air Force (USAF). Also, in February 2013 a grant with the United States Department of Agriculture ended that accounted for $0.2 million of grant revenue reported in the three months ended June 30, 2012.

Cost of goods sold. Our cost of goods sold during the three months ended June 30, 2013 primarily includes the following: (i) $0.9 million associated with costs related to the sale of excess corn inventory; (ii) $2.2 million in on-going operating costs of our Agri-Energy Facility; and (iii) $0.5 million in depreciation expense. Our cost of goods sold during the three months ended June 30, 2012 primarily related to: (i) $6.5 million associated with the sale of ethanol and related products; (ii) $1.5 million in costs incurred in conjunction with the initial start-up operations at the Agri-Energy Facility in May 2012; and (iii) $0.5 million in depreciation expense.

Research and development. Research and development expenses increased during the three months ended June 30, 2013 primarily due to a $0.5 million increase in stock-based compensation expense and a $1.3 million increase in costs at the pilot plant located at the South Hampton Resources, Inc. facility in Silsbee, Texas to produce test quantities of biojet fuel for the USAF and establish a bio-para-xylene (bio-PX) pilot plant under our agreement with Toray Industries, Inc. (Toray Industries). These items were partially offset by a $0.5 million decrease in expenses related to laboratory consultants and supplies and a $0.1 million decrease in travel-related expenses.

Selling, general and administrative. The decrease in selling, general and administrative expenses during the three months ended June 30, 2013 primarily resulted from decreases related to the following items: (i) $1.8 million in salary and compensation-related expenses, including $1.0 million associated with stock-based compensation; (ii) $0.7 million in other general and administrative costs, including travel, consulting and public company-related expenses; and (iii) $0.8 million in legal-related expenses including expenses in support of our ongoing litigation with Butamax Advanced Biofuels, LLC (Butamax), a joint venture between BP Biofuels North American LLC and E.I. DuPont de Nemours and Co. (DuPont).

Interest expense. Interest expense increased during the three months ended June 30, 2013 primarily resulting from the following: (i) a $0.4 million increase in expense associated with our debt with TriplePoint Capital LLC (TriplePoint) due to capitalizing a majority of our incurred interest during the second quarter of 2012 during construction of the retrofit assets at our Agri-Energy Facility; and (ii) increase of $0.6 million and $0.7 million related to cash interest and non-cash amortization of debt issue costs and discounts, respectively, associated with our 7.5% convertible senior notes due 2022 (the Convertible Notes) issued on July 5, 2012.

Change in fair value of embedded derivatives. During the three months ended June 30, 2013, we reported income of $2.0 million associated with the increase in the fair value of derivatives embedded in our Convertible Notes which were issued in July 2012.

Loss on extinguishment of debt. During the three months ended June 30, 2013, holders of $8.9 million principal amount of Convertible Notes opted to convert their holdings into shares of our common stock. Upon conversion, the Convertible Note holders received 1,561,698 shares of our common stock in payment of converted principal, pursuant to the terms of the indenture governing the Convertible Notes (the Indenture). The Convertible Note holders also received 1,417,324 shares of our common stock in settlement of Coupon Make-Whole Payments (as defined in the Indenture) of $2.3 million. We recorded a loss on extinguishment of debt of $1.1 million as a result of the conversion of the Convertible Notes and settlement of the Coupon Make-Whole Payments.

Results of Operations

Comparison of the six months ended June 30, 2013 and 2012 (in thousands)

	Six Months Ended June 30,		
	2013	2012	Change
Revenue and cost of goods sold			
Ethanol sales and related products, net	$	$ 19,908	$ (19,908)
Corn sales	3,328		3,328
Grant, research and development programs and other revenue	2,074	1,991	83
Total revenues	5,402	21,899	(16,497)
Cost of corn sales	3,375		3,375
Cost of goods sold	4,744	23,520	(18,776)
Gross loss	(2,717)	(1,621)	(1,096)
Operating expenses			
Research and development	10,804	9,678	1,126
Selling, general and administrative	13,229	22,667	(9,438)
Total operating expenses	24,033	32,345	(8,312)
Loss from operations	(26,750)	(33,966)	7,216
Other income (expense)			