Gevo, Inc.
Form 10-Q
November 02, 2012
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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 September 30, 2012

or

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

Commission File Number 001-35073

GEVO, INC.

(Exact name of registrant as specified in its charter)

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

345 Inverness Drive South, Building C, Suite 310

Englewood, CO 80112

(303) 858-8358

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

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

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

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

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

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

As of September 30, 2012, 39,408,052 shares of the registrant s common stock were outstanding.

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GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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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)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 91,997	$ 94,225
Accounts receivable	736	2,938
Inventories	3,798	3,814
Prepaid expenses and other current assets	1,229	1,283
Derivative assets	219	
Margin deposit	277	474
Total current assets	98,256	102,734
Property, plant and equipment, net	76,836	28,777
Debt issue costs, net	1,900	1,017
Deposits and other assets	1,370	502
Total assets	$ 178,362	$ 133,030
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 12,647	$ 12,440
Current portion of secured debt, net of $902 and $969 discount at September 30, 2012 and December 31, 2011, respectively	8,952	3,491
Derivative liabilities		186
Total current liabilities [1]	21,599	16,117
Long-term portion of secured debt, net of $973 and $1,504 discount at September 30, 2012 and December 31, 2011, respectively	17,910	24,752
Convertible notes, net of $15,000 change in fair value of embedded derivative and net of $2,556 discount	27,444	
Other long-term liabilities	1,518	24
Total liabilities	68,471	40,893
Commitments and Contingencies		
Stockholders Equity		
Preferred stock, $0.01 par value per share; 5,000,000 shares authorized; none issued and outstanding at September 30, 2012 and December 31, 2011		
Common stock, $0.01 par value per share; 100,000,000 authorized; 39,408,052 and 26,382,058 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	394	264
Additional paid-in capital	291,667	226,508

Deficit accumulated during development stage		(182,170)		(134,635)
Total stockholders equity		109,891		92,137
Total liabilities and stockholders equity	$	178,362	$	133,030

1 Liabilities of Gevo, Inc. s consolidated subsidiaries for which creditors do not have recourse to the general credit of Gevo, Inc. were $0.7 million and $4.5 million at September 30, 2012 and December 31, 2011, respectively, and are recorded within current liabilities.

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Operations

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		From June 9, 2005 (Date of Inception) To
	2012	2011	2012	2011	September 30, 2012
Revenue and cost of goods sold					
Ethanol sales and related products, net	$	$ 17,318	$ 19,908	$ 46,748	$ 98,415
Grant revenue and research and development program revenue	562	188	2,553	572	6,096
Licensing revenue					138
Total revenues	562	17,506	22,461	47,320	104,649
Cost of goods sold	6,079	16,232	29,599	45,062	103,633
Gross (loss) margin	(5,517)	1,274	(7,138)	2,258	1,016
Operating expenses					
Research and development	5,401	5,211	15,079	13,815	72,298
Selling, general and administrative	13,508	7,587	36,175	20,001	106,500
Other operating expenses				11	1,248
Total operating expenses	18,909	12,798	51,254	33,827	180,046
Loss from operations	(24,426)	(11,524)	(58,392)	(31,569)	(179,030)
Other income (expense)					
Interest expense	(2,624)	(798)	(4,161)	(2,541)	(12,740)
Gain from change in fair value of embedded derivative	15,000		15,000		15,000
Other (expense) income	(1)	17	18	85	739
Change in fair value of warrant liabilities				(29)	(2,852)
Total other income (expense)	12,375	(781)	10,857	(2,485)	147
Net loss	(12,051)	(12,305)	(47,535)	(34,054)	(178,883)
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock				(1,094)	(3,872)
Net loss attributable to Gevo, Inc. common stockholders	$ (12,051)	$ (12,305)	$ (47,535)	$ (35,148)	$ (182,755)

Net loss per share attributable to Gevo, Inc. common stockholders basic and diluted	$ (0.31)	$ (0.48)	$ (1.56)	$ (1.61)
Weighted-average number of common shares outstanding basic and diluted	38,547,441	25,870,060	30,374,378	21,866,633

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,		From June 9, 2005 (Date of Inception) To September 30, 2012
	2012	2011	
Operating Activities			
Net loss	$ (47,535)	$ (34,054)	$ (178,883)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash stock-based compensation	6,990	4,897	25,536
Depreciation and amortization	2,537	3,372	12,829
Non-cash interest expense	1,698	625	4,779
Gain from change in fair value of derivatives	(405)	(1,414)	(824)
Gain from change in fair value of embedded derivative	(15,000)		(15,000)
Loss from change in fair value of warrant liabilities		29	2,852
Other non-cash expenses		11	364
Changes in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable	2,202	81	1,263
Inventories	16	(1,209)	(228)
Prepaid expenses and other current assets	2	(535)	(646)
Margin deposit	197	624	615
Deposits and other assets	(117)		(207)
Accounts payable, accrued expenses, and long-term liabilities	2,103	1,813	10,870
Net cash used in operating activities	(47,312)	(25,760)	(136,680)
Investing Activities			
Acquisitions of property, plant and equipment, net	(50,936)	(3,580)	(67,191)
Other	(647)		(700)
Acquisition of Agri-Energy, net of cash assumed			(24,936)
Restricted certificate of deposit	40	40	(39)
Net cash used in investing activities	(51,543)	(3,540)	(92,866)

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

	Nine Months Ended September 30,		From June 9, 2005 (Date of Inception) To September 30, 2012
	2012	2011	
Financing Activities			
Proceeds from issuance of secured debt	5,000		41,578
Proceeds from issuance of convertible debt, net	42,300		42,300
Proceeds from issuance of common stock	61,875	114,704	176,579
Proceeds from issuance of common stock upon exercise of stock options and ESPP	737	21	977
Payments on secured debt	(7,267)	(1,402)	(15,557)
Deposit on long-term debt and other	(154)		(460)
Proceeds from issuance of convertible preferred stock			86,025
Proceeds from issuance of convertible promissory notes with warrants			3,000
Proceeds from the exercise of warrants			592
Debt and equity offering costs	(5,864)	(1,692)	(13,491)
Net cash provided by financing activities	96,627	111,631	321,543
Net (decrease) increase in cash and cash equivalents	(2,228)	82,331	91,997
Cash and cash equivalents			
Beginning of period	94,225	15,274	
Ending of period	$ 91,997	$ 97,605	$ 91,997

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

	Nine Months Ended September 30,		From June 9, 2005 (Date of Inception) To September 30, 2012
	2012	2011	
Supplemental disclosures of cash and non-cash investing and financing transactions			
Non-cash purchase of property, plant and equipment	$ 1,506	$ 648	$ 1,506
Warrants issued with secured debt	$ 120	$	$ 1,746
Cash paid for interest, net of interest capitalized	$ 1,696	$ 1,766	$ 6,847
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	$ 2,063
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock	$	$ 1,094	$ 3,872
Fixed assets acquired using ICM, Inc. credit	$	$ 288	$ 726
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

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements

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

Nature of Business Gevo, Inc. (together with its subsidiaries, Gevo or the Company) 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 through joint venture, 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 start-up operations for the production of isobutanol at this facility in May 2012. The Company expects to conclude initial start-up operations in the second half of 2012. These initial start-up 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. During the 2012 third quarter, the Company made the strategic decision to pause isobutanol production at the Agri-Energy Facility for a period of time during which it plans to produce ethanol at the Agri-Energy Facility, based on then current economic conditions for ethanol production while it focuses on optimizing specific parts of its technology to further enhance isobutanol production rates. The Company intends to resume isobutanol production at the Agri-Energy Facility in support of future commercial operations once this work has been completed.

At September 30, 2012, 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 start-up 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 24, 2012, when the Company commenced initial start-up 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. Similarly, the Company expects to derive revenue from the sale of ethanol, and distiller s grains during any period in which the Agri-Energy Facility is temporarily reverted to ethanol production, including the current planned reversion during which the Company will focus on optimizing specific parts of its technology to further enhance isobutanol production rates. However, 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 continued 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 start-up of isobutanol production and any period when the Company may temporarily revert to ethanol production will not be indicative of future operating results for Agri-Energy or Gevo once full-scale 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 nine months ended September 30, 2012, the Company incurred a consolidated net loss of $12.1 million and $47.5 million, respectively and had an accumulated deficit of $182.2 million at September 30, 2012. The Company expects to incur future net losses as it continues to fund the development and commercialization of its product candidates.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

The Company has funded its activities since Inception primarily through private placements of convertible preferred stock, the issuance of convertible and nonconvertible debt and proceeds raised through its public offerings. The Company expects to obtain funding through additional equity offerings and issuances of debt until it achieves positive cash flow from operations. The Company s cash and cash equivalents at September 30, 2012 totaled $92.0 million. Management expects that cash on hand at September 30, 2012, will provide the Company with adequate funding for at least the next 12 months. There are no assurances that the Company will be able to raise additional funds, or achieve or sustain profitability or positive cash flow from operations. The accompanying unaudited consolidated financial statements do not include any adjustments that may result from the Company s inability to raise sufficient funds or achieve profitability.

Basis of Presentation The unaudited consolidated financial statements of the Company (which includes the accounts of its wholly-owned subsidiaries Gevo Development and Agri-Energy) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company at September 30, 2012 and for all periods presented. 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, 2011, as amended (the Annual Report).

The consolidated statements of operations for the three and nine months ended September 30, 2012 and consolidated statements of cash flows for the nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. Refer to the economic conditions described under the heading Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Certain prior year balances have been reclassified to conform to the current year s presentation.

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 net loss per share is computed by dividing net loss attributable to Gevo, Inc. common stockholders for the period by the weighted-average number of dilutive common shares outstanding during the period. Dilutive shares outstanding are calculated by adding to the weighted shares outstanding any potential (unissued) shares of common stock and warrants based on the treasury stock method.

Diluted net loss per share is the same as basic net loss per share for all periods presented because any potentially dilutive common shares were anti-dilutive. Such potentially dilutive shares are excluded from the computation of diluted net loss per share when the effect would be to reduce net loss per share. Therefore, in periods when a loss is reported, the calculation of basic and dilutive net loss per share results in the same value.

The table below sets forth potentially dilutive securities that are excluded from the calculation of diluted net loss per share during each period as the effect was anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Convertible debt	7,905,000		7,905,000	
Outstanding options to purchase common stock	1,093,026	2,144,815	1,517,605	2,284,221
Warrants to purchase common stock	1,229,998	1,086,785	1,229,998	1,086,785
Unvested restricted common stock			34,277	50,173
Total	10,228,024	3,231,600	10,686,880	3,421,179

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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).

	September 30, 2012	December 31, 2011
Raw materials		
Corn	$ 1,729	$ 2,408
Enzymes and other inputs	747	151
Finished goods		
Ethanol		349
Distiller s grains		17
Work in process	420	456
Spare parts	902	433
Total inventories	$ 3,798	$ 3,814

Included in cost of goods sold is depreciation of $0.5 million and $1.6 million during the three and nine months ended September 30, 2012, respectively, and $0.5 million and $1.5 million during the three and nine months ended September 30, 2011, respectively. Depreciation expense included in cost of goods sold from Inception to September 30, 2012 was $4.2 million.

4. Property, Plant and Equipment

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

		September 30, 2012	December 31, 2011
Construction in progress		$ 56,457	$ 8,403
Plant machinery and equipment	10 years	10,960	10,822
Site improvements	10 years	7,007	6,994
Lab equipment, furniture and fixtures and vehicles	5 years	5,346	4,035
Demonstration plant	2 years	3,597	3,597
Buildings	10 years	2,543	2,543
Computer, office equipment and software	3 years	1,393	614
Leasehold improvements, pilot plant, land and support equipment	0 -5 years	2,058	1,759
Total property, plant and equipment		89,361	38,767
Less accumulated depreciation and amortization		(12,525)	(9,990)
Property, plant and equipment, net		$ 76,836	$ 28,777

The Company s construction in progress of $55.6 million is associated with the retrofit of the Agri-Energy Facility. These costs include a number of capital costs that are unique to the design of the Agri-Energy Facility, including equipment necessary to switch between ethanol and isobutanol production, functionality 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 at the Agri-Energy Facility and at future plants. Total capital

expenditures at the Agri-Energy Facility also include upfront design and engineering costs, plant modifications identified as necessary during initial start-up operations for the production of isobutanol as well as sales tax on equipment and capitalized interest. The Company incurred approximately $21.2 million associated with design features for expanded capacity including the enhanced yeast seed train plus approximately $3.8 million for sales tax and capitalized interest.

The Company capitalized interest incurred in connection with the retrofit of the Agri-Energy Facility during the period of construction through the date it became substantially complete, June 30, 2012. The Company capitalized $1.3 million of incurred interest during 2012.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company s risk management program focuses on the unpredictability of financial and commodities markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results.

The Company periodically enters into forward purchase contracts for corn to ensure supply and manage the price of this commodity. These transactions are considered to be derivatives and during the year ended December 31, 2011 the Company designated all of its forward purchase contracts for corn under the normal purchase and normal sales scope exception and therefore they were not marked to market during the three and nine months ended September 30, 2011. For new contracts entered into beginning January 1, 2012, the Company did not apply the normal purchase and normal sales scope exception to its forward purchase contracts. Accordingly at September 30, 2012, the Company recorded these contracts at their fair market value which has been included as a component of derivative asset or liability in the consolidated balance sheet. Changes in the fair market value of these contracts during the three and nine months ended September 30, 2012 have been recorded in cost of goods sold in the consolidated statements of operations.

The Company generally follows a policy of using exchange-traded futures contracts to reduce its net position in agricultural commodity inventories and forward purchase contracts to reduce price risk. Exchange-traded futures contracts are valued at market price and are recorded as a derivative asset or liability in the consolidated balance sheet. Changes in market price are recorded in cost of goods sold.

The Company s derivatives do not include any credit risk related contingent features. At September 30, 2012 and December 31, 2011, the Company had $0.3 million and $0.5 million, respectively, in a margin deposit account for its exchange-traded futures contracts. The Company has not designated any of its derivatives as hedges for financial accounting purposes.

The Company records realized gains or losses on its exchange traded futures contracts as a component of cost of goods of sold. The Company incurred realized losses on its exchange-traded futures contracts of $1.2 million and $0.9 million during the three and nine months ended September 30, 2012, respectively. The Company incurred realized losses on its exchange-traded futures contracts of $0.3 million, $0.8 million and $1.4 million during the three and nine months ended September 30, 2011 and from Inception to September 30, 2012, respectively.

The following table summarizes the unrealized gains/(losses) of the Company s derivative instruments that were recorded in cost of goods sold in the consolidated statements of operations (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,		Inception to September 30, 2012
	2012	2011	2012	2011	
Exchange-traded futures contracts	$ 638	$ 1,020	$ 404	$ 1,775	$ 866
Forward purchase contracts	$ 2	$	$	$ (361)	43

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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

Year of Expiration	September 30, 2012 Corn Net Short Position Bushels	December 31, 2011 Corn Net Short Position Bushels
2012	81	77

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. In accordance with generally accepted accounting principles in the U.S., 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 this embedded derivative at fair value which is included as a component of convertible notes on the consolidated balance sheets.

The Company used a binomial lattice model in order to estimate the fair value of the embedded derivative 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 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 or (2) converting the Convertible Notes.

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

The following table sets forth the inputs (Level 2 as defined in Note 14) to the lattice model that were used to value the embedded derivative.

	Issuance Date	September 30, 2012
Stock price	$ 4.95	$ 2.14
Conversion Rate	175.6697	175.6697
Conversion Price	$ 5.69	$ 5.69
Maturity date	July 1, 2022	July 1, 2022

Risk-free interest rate	1.62%	1.65%
Estimated stock volatility	72%	80%
Estimated credit spread	30%	33%

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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 the issuance date and September 30, 2012 (in thousands).

	Issuance Date	September 30, 2012
Fair value of Convertible Notes:		
With the embedded derivative	$ 45,000	$ 30,000
Without the embedded derivative	17,000	17,000
Estimated fair value of the embedded derivative	$ 28,000	$ 13,000

The $15.0 million decrease in the estimated fair value of the embedded derivative between the issue date and September 30, 2012 represents an unrealized gain which has been recorded as gain from change in fair value of embedded derivative in the consolidated statement of operations.

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 September 30, 2012 and December 31, 2011 (in thousands).

	September 30, 2012	December 31, 2011
Accrued legal-related expenses	$ 5,152	$ 1,455
Accrued employee compensation	2,285	941
Accounts payable trade	1,607	6,193
Accrued expenses ICM, Inc.	729	1,634
Cargill license agreement	259	924
Other accrued liabilities	2,615	1,293
Total accounts payable and accrued liabilities	$ 12,647	$ 12,440

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

7. Secured Debt and Convertible Notes

The following table sets forth information pertaining to the Company s secured debt issued to Lighthouse Capital Partners V, LP (Lighthouse) and TriplePoint Capital LLC (TriplePoint) and the Convertible Notes, each of which is included in the Company s consolidated balance sheets (in thousands).

	September 30, 2012	December 31, 2011
Secured debt		
Lighthouse Paid in full at June 2012	$	$ 1,241
TriplePoint Paid in full at July 2013		5,400
TriplePoint Matures September 2014	13,500	13,500
TriplePoint Matures October 2015	10,146	10,575
TriplePoint Matures January 2016	5,091	
Total secured debt	28,737	30,716
Convertible senior notes	45,000	
Total debt	73,737	30,716
Less:		
Change in fair value of embedded derivative	(15,000)	
Unamortized debt discounts	(4,431)	(2,473)
	54,306	28,243
Less current portion of debt	(8,952)	(3,491)
Long-term portion of debt	$ 45,354	$ 24,752

Lighthouse

On December 18, 2006, the Company entered into a loan and security agreement, as amended, with Lighthouse. As of September 30, 2012, the Company had repaid all outstanding amounts under its loan and security agreement with Lighthouse.

TriplePoint

In January 2012, the Company s wholly owned subsidiary, Agri-Energy, borrowed $5.0 million under the amended and restated loan and security agreement, dated October 20, 2011 (the Amended Agri-Energy Loan Agreement), by and between Agri-Energy and TriplePoint. The loan, which matures in January 2016, bears an interest rate of 11%. The Amended Agri-Energy Loan Agreement includes customary affirmative and negative covenants for agreements of this type and events of default. At September 30, 2012, the Company was in compliance with the financial covenants under the Amended Agri-Energy Loan Agreement.

In June 2012, the Company entered into (i) an amendment (the Security Agreement Amendment) to the security agreement, by and between the Company and TriplePoint, dated as of September 22, 2010 (the Security Agreement), which secures the Company s guarantee of Agri-Energy s obligations under the Amended Agri-Energy Loan Agreement, and (ii) an amendment (the Gevo Loan Amendment) to the loan and security agreement, dated August 5, 2010, by and between Company and TriplePoint (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 took effect upon the closing of the Convertible Notes offering on July 5, 2012.

These amendments, among other things: (i) permitted the issuance of the Company s 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; 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 in full under the Amended Agri-Energy Loan Agreement.

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In July 2012, upon issuance of the Convertible Notes, the Company used $5.4 million of the proceeds to pay in full all amounts outstanding under the Gevo Loan Agreement.

Convertible Notes

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 months ended September 30, 2012, the Company recorded $0.2 million of expense related to the amortization of debt discounts and issue costs and recorded $0.8 million of interest expense. The amortization of interest expense, issue costs and debt discounts are included as a component of interest expense in the consolidated statements of operations.

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 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, 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 Gevo common stock at its election. 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.

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 through 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 Convertible Notes plus any accrued and unpaid interest through the repurchase date.

The Company shall have a provisional redemption right (Provisional Redemption), at its option, to redeem, 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 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), at its option to redeem, 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 plus any accrued and unpaid interest through 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 of all the Outstanding Notes and accrued and unpaid interest 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, 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 September 30, 2012.

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 September 30, 2012.

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 September 30, 2012.

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 September 30, 2012 was sold to C&N pursuant to an ethanol purchase and marketing agreement. 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. The Company did not have any amounts due from C&N as of September 30, 2012 as it did not produce and sell ethanol during the three months ended September 30, 2012. The Company had $1.7 million in receivables due from C&N as of December 31, 2011 associated with the sale of ethanol. The remaining receivable balance of $1.2 million at December 31, 2011 primarily relates to the sale of distiller s grains to other customers.

Jet Fuel Supply Agreement with the Defense Logistics Agency (U.S. Air Force) During September 2011, the Company was awarded a contract for the procurement of up to 11,000 gallons of biojet fuel for the purposes of certification and testing by the U.S. Air Force. The total contract value may be up to $0.6 million. The term of the agreement is through December 30, 2012. Revenue is recognized upon shipment of product to the U.S. Air Force which is when transfer of risk of loss and title occurs. The Company recorded $0.5 million of revenue under this contract during the nine months ended September 30, 2012. In September 2012, the Company was awarded an additional contract for the procurement of up to 45,000 gallons of biojet fuel for delivery by October 31, 2013.

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 performs commercial-scale isobutanol production trials in ICM s research plant and facility in St. Joseph, Missouri, the demonstration plant. The Company is 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 written notice. The Company did not incur any capital expenditures with ICM relating to the demonstration plant during the three or nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, the Company incurred $0.1 million and $0.7 million in capital expenditures with ICM relating to the demonstration plant.

The commercialization agreement, as amended, 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.

In addition to amounts recorded under the development and commercialization agreements noted above, 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.

The Company incurred capital expenditures with ICM relating to the retrofit of the Agri-Energy Facility to isobutanol production of $6.7 million and $43.2 million during the three and nine months ended September 30, 2012, respectively, and $1.0 million and $2.0 million during the three and nine months ended September 30, 2011, respectively.

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 as defined in the agreement. The Company recognizes these fees as revenue over the performance period. The payments received are not refundable. The Company recognized $0.3 million and $0.9 million of revenue under this agreement during the three and nine months ended September 30, 2012, respectively.

License Agreements

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 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 will be paid over a period greater than 12 months from the date that it was incurred. Milestones number four and five included in the license agreement representing potential payments of up to $1.5 million have not been met as of September 30, 2012 and no amounts have been recorded as a liability for these milestones.

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 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

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produce fully renewable PET films and fibers. On June 1, 2012, the Company entered into a definitive agreement with Toray 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 Pilot Plant). The Company anticipates producing bio-based PX (the Product) at the Pilot Plant, some of which will be sold to Toray Industries. Toray Industries is obligated to purchase initial volumes of Product. Any excess Product that is produced can be sold to other third parties. In the event that the Company is unable to produce and deliver a minimum amount of the Product 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 other long-term liabilities in its consolidated balance sheets as of September 30, 2012.

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 on the Company s 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 were not dependent on counterparty performance. The Company recorded stock compensation of $0.1 million during the nine months ended September 30, 2012 and $0.1 million and $0.2 million for the three and nine months ended September 30, 2011. 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 (for more information, see the description of the Amended and Restated Warrant Agreement below).

Gevo, Inc. made capital contributions to Gevo Development of $23.2 million and $43.8 million, respectively, during the three and nine months ended September 30, 2012 and $1.0 million and $3.8 million, respectively, during the three and nine months ended September 30, 2011. From Inception to September 30, 2012, Gevo, Inc. has made capital contributions of $68.1 million to Gevo Development.

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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 September 30,		Nine Months Ended September 30,		Inception To
	2012	2011	2012	2011	September 30, 2012
Gevo Development Net (Loss) Gain	$ (7,579)	$ 434	$ (12,684)	$ (1,147)	$ (16,433)

Amended and Restated Warrant Agreement The warrant agreement, as amended, details the terms upon which the Company has granted a warrant to CDP to purchase 858,000 shares of Gevo, Inc. common stock. The warrant agreement has an exercise price of $2.70 per share which was the estimated fair value of a share of Gevo, Inc. s common stock on the grant date. The warrant expires in September 2016, unless terminated earlier as provided in the agreement. The warrant shares were initially unvested and vested in increments upon the achievement of specific performance milestones.

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 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 nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, the Company recorded $0.9 million and $2.6 million, respectively, of stock-based compensation associated with this warrant agreement.

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 September 30, 2012 and December 31, 2011, 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 certain conditions are satisfied. As of September 30, 2012 and December 31, 2011, the creditors of Gevo Development have recourse to the general credit of Gevo, Inc. with the exception of $0.7 million and $4.5 million, respectively, which are recorded within current liabilities, which includes the liabilities of Agri-Energy. 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, 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.

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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.

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 retrofit. As of September 30, 2012, the Company has incurred $0.4 million in costs for the retrofit of the Redfield Facility which have been recorded on the Company s consolidated balance sheets in deposits and other assets.

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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).

	Three Months Ended September 30,		Nine Months Ended September 30,		From June 9, 2005 (Date of Inception) To
	2012	2011	2012	2011	September 30, 2012
Stock options and ESPP shares issued					
Research and development	$ 273	$ 199	$ 663	$ 591	$ 2,332
Selling, general and administrative	634	567	2,077	1,288	6,718
Restricted stock issued					
Research and development	343	52	317	139	791
Selling, general and administrative	280	125	1,317	263	1,740
Warrant issued to CDP					
Selling, general and administrative		872	2,616	2,616	13,955
Non-cash stock-based compensation	1,530	1,815	6,990	4,897	25,536
Modified stock option awards					
Selling, general and administrative			890		1,500
Purchase of Class B interests of Gevo Development from CDP for cash					
Selling, general and administrative		74	74	222	1,144
Cash stock-based compensation		74	964	222	2,644
Total stock-based compensation	$ 1,530	$ 1,889	$ 7,954	$ 5,119	$ 28,180

12. Stockholders Equity

In July 2012, the Company issued 12.5 million shares of its common stock at a price of $4.95 per share and received proceeds of $57.4 million net of $4.4 million in issue costs.

The Company currently grants share-based payment awards under the Gevo, Inc. 2010 Stock Incentive Plan (2010 Plan) which was approved by its stockholders in February 2011. The Company has reserved 2.6 million shares of common stock for issuance under the 2010 Plan and there were 1.3 million shares and 1.7 million shares available for grant as of September 30, 2012 and December 31, 2011, respectively.

13. Commitments and Contingencies

Legal Matters On January 14, 2011, Butamax Advanced Biofuels LLC (Butamax), a joint venture between BP Biofuels North America LLC and E. I. DuPont de Nemours and Co. (DuPont), 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.

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On September 13, 2011, the Company filed an answer to the Amended Complaint in which the Company asserted counterclaims against Butamax and DuPont for infringement of U.S. Patent No. 8,017,375, entitled Yeast Organism Producing Isobutanol at a High Yield and U.S. Patent No. 8,017,376, entitled Methods of Increasing Dihydroxy Acid Dehydratase Activity to Improve Production of Fuels, Chemicals, and Amino Acids, both of which were recently awarded to the Company by the United States Patent and Trademark Office. The counterclaim seeks a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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 is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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.

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 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 has 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 appeals the denial of its motion for preliminary injunction.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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-based 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 appeals 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 July 31, 2012, Gevo 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., 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. Gevo is seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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 Gevo, as Case No. 1:12-cv-00999, seeking a judicial determination that the 089 Patent is invalid and that Butamax and DuPont do not infringe it.

On August 6, 2012, Gevo filed a motion for preliminary injunction in Case No. 1:12-cv-00301-SLR in the United States District Court for the District of Delaware with respect to the alleged infringement by Butamax and DuPont of one or more claims made in the 715 Patent.

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, alleging that Gevo 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 August 14, 2012, Gevo 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 Gevo does not infringe it.

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, alleging that Gevo 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, Gevo filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01202, 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. Gevo 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 Gevo, as Case No. 1:12-cv-01201, 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, alleging that Gevo 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, alleging that Gevo 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 Gevo, as Case No. 1:12-cv-01301, 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.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

Due to the very early 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.

Guarantees and Indemnifications In the ordinary course of its business, the Company makes certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. The Company believes the fair value of these indemnification agreements is minimal and, as such, has not recorded any liability for these indemnities in the consolidated balance sheets.

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.

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.

The carrying value of cash and cash equivalents, receivables, and accounts payable approximate their respective fair values due to the short-term nature of these instruments.

The fair value of the Company s forward contract derivative instruments are derived based upon a market approach using Level 2 inputs. The fair value of forward purchase contracts for corn was not material to the Company at September 30, 2012 and December 31, 2011. The fair value of exchange-traded derivative instruments was $0.2 million and $(0.2) million at September 30, 2012 and December 31, 2011, respectively, and is based on Level 1 inputs using quoted market prices.

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GEVO, INC.

Notes to Unaudited Consolidated Financial Statements (Continued)

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. At December 31, 2011, the carrying values of the Company s debt obligations approximated their estimated fair value. The Company s estimate of the fair value of its secured debt obligations at September 30, 2012 are as follows (in thousands):

Issuance	Carrying Value	Fair Value
TriplePoint Matures September 2014	$ 12,965	$ 12,137
TriplePoint Matures October 2015	9,125	8,486
TriplePoint Matures January 2016	4,772	4,206

In July 2012, the Company issued $42.3 million in Convertible Notes, net of $2.7 million in debt discounts. The Company has estimated the fair value of the Convertible Notes to be $30.0 million at September 30, 2012 based upon Level 2 inputs, including the market price of the Convertible Notes derived from actual trades of the Convertible Notes.

At September 30, 2012 and December 31, 2011, there were no transactions measured at fair value on a nonrecurring basis.

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.

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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 is currently responsible for the production of ethanol and related products and will be responsible for the production of isobutanol and related products.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Gevo	$ 562	$ 188	$ 2,553	$ 572
Gevo Development / Agri-Energy		17,318	19,908	46,748
Consolidated	$ 562	$ 17,506	$ 22,461	$ 47,320
Operating income (loss):				
Gevo	$ (18,025)	$ (12,406)	$ (47,848)	$ (31,850)
Gevo Development / Agri-Energy	(6,401)	882	(10,544)	281
Consolidated	$ (24,426)	$ (11,524)	$ (58,392)	$ (31,569)
Interest expense:				
Gevo	$ 1,447	$ 334	$ 2,004	$ 1,070
Gevo Development / Agri-Energy	1,177	464	2,157	1,471
Consolidated	$ 2,624	$ 798	$ 4,161	$ 2,541
Depreciation expense:				
Gevo	$ 367	$ 679	$ 956	$ 1,829
Gevo Development / Agri-Energy	531	517	1,581	1,543
Consolidated	$ 898	$ 1,196	$ 2,537	$ 3,372
Acquisitons of plant, property and equipment:				
Gevo	$ 584	$ 358	$ 1,936	$ 1,151
Gevo Development / Agri-Energy	15,850	967	49,000	2,429
Consolidated	$ 16,434	$ 1,325	$ 50,936	$ 3,580

	September 30, 2012	December 31, 2011
Total assets:		
Gevo	$ 149,009	104,843
Gevo Development / Agri-Energy	132,207	66,304
Intercompany eliminations	(102,854)	(38,117)
Consolidated	$ 178,362	$ 133,030

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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 to identify forward-looking statements. These statements relat 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 achievement 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 statements are subject to certain risks and uncertainties including 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 and in subsequent reports on Form 10-Q. 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 indirect 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 our Annual Report on Form 10-K for the year ended December 31, 2011, as amended (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 isobutanol-based intermediate products without modification to their equipment or production processes. The final products produced from our 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 because the infrastructure and applications for such products already exist. In addition, we believe that products made from bio-based isobutanol will be subject to less cost volatility than the petroleum-based products in use today.

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

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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 and 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, tolling arrangements or direct acquisition.

For financial reporting purposes, we have determined that we have two operating segments. Our Gevo, Inc. segment is responsible for all research and development activities related to the future production of isobutanol, maintaining and protecting our intellectual property portfolio, developing future markets for our isobutanol and providing corporate oversight services. Our second segment is comprised of Gevo Development and Agri-Energy, LLC (Agri-Energy) which is currently responsible for the production of isobutanol, ethanol and related products.

At September 30, 2012, we are considered to be in the development stage as our primary activities, since incorporation, have been conducting research and development, business development, business and financial planning, establishing our facilities including retrofitting the Agri-Energy Facility (as defined below), initial start-up 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 our development activities resulting in sales of isobutanol or isobutanol-derived products and/or technology, obtaining adequate financing to complete our 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 our products and services, and attracting and retaining qualified personnel.

Agri-Energy

In September 2010, we acquired a 22 million gallon per year (MGPY) ethanol production facility in Luverne, Minnesota (the Agri-Energy Facility). In partnership with ICM, Inc. (ICM), we commenced the retrofit of the Agri-Energy Facility in 2011, and commenced initial start-up operations for the production of isobutanol at this facility in May 2012. From commencement of initial start-up operations through October 31, 2012 we have produced approximately 100,000 gallons of bio-based isobutanol for future sale and customer testing. We expect to conclude initial start-up operations in the second half of 2012. These initial start-up 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. During the 2012 third quarter, and as a result of a lower than planned production rate of isobutanol, we made the strategic decision to pause isobutanol production at the Agri-Energy Facility for a period of time during which we plan to produce ethanol at the Agri-Energy Facility, based on our assessment of then current economic conditions for ethanol production while we focus on optimizing specific parts of our technology to further enhance isobutanol production rates. Factors which contributed to this strategic decision included, among others: (i) producing isobutanol at the current rates while working to improve production rates would result in operating the Agri-Energy Facility at significantly below break-even level; (ii) we believe we had the necessary information required from the isobutanol production to enhance production rates at our testing laboratory in Colorado; (iii) we believe we can produce positive cash flows at the Agri-Energy Facility through the production and sale of ethanol versus maintaining the facility at idle until we resume the production of isobutanol; and (iv) we believe that it is important to demonstrate to future potential production partners our ability to switch between the production of isobutanol and ethanol. We believe that the ability to switch between isobutanol and ethanol production mitigates, depending on market conditions, certain significant risks associated with start-up operations for isobutanol production. While we believe we will have the ability to switch between isobutanol and ethanol production at the Agri-Energy Facility, there is no guarantee that this will be the case. We intend to resume isobutanol production at the Agri-Energy Facility in support of future commercial operations once this work has been completed. Based on our progress to date we anticipate resuming isobutanol production at the Agri-Energy Facility in 2013.

The Agri-Energy Facility is a traditional dry-mill facility, which means that it uses corn as a feedstock. The retrofit of the Agri-Energy Facility includes a number of additional capital costs that are unique to the design of the facility, including additional equipment necessary 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

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yeast at the Agri-Energy Facility and at future plants. Further, total capital expenditures at the Agri-Energy Facility include upfront design and engineering expenses, plant modifications identified as necessary during initial start-up operations for the production of isobutanol as well as sales tax on equipment and capitalized interest. The enhanced yeast seed train will allow us to maintain direct oversight over our yeast material and provide on-site yeast production in the future.

We incurred approximately $21.2 million associated with design features for expanded capacity and the enhanced yeast seed train plus approximately $3.8 million for sales tax and capitalized interest. We do not anticipate installing an advanced yeast seed train at each future retrofit site. As of September 30, 2012, we have incurred total capital costs of approximately $55.6 million on the retrofit of the Agri-Energy Facility.

Until May 24, 2012, when we commenced initial start-up 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 this facility. Similarly, we expect to derive revenue from the sale of ethanol and distiller s grains during any period in which the Agri-Energy Facility is temporarily reverted to ethanol production, including the current reversion during which we will focus on optimizing specific parts of our technology to further enhance isobutanol production rates. However, the production of ethanol is not our intended business and our future profitability depends on our ability to produce and market isobutanol, not on continued production and sales of ethanol. Accordingly, the historical operating results of Agri-Energy and the operating results reported during the retrofit to isobutanol production will not be indicative of future operating results for Agri-Energy or Gevo once full-scale commercial isobutanol production commences at this facility.

Revenues, Cost of Goods Sold and Operating Expenses

Revenues

During the nine months ended September 30, 2012 and 2011, we derived revenue primarily from the sale of ethanol. Substantially all ethanol sold through Agri-Energy from the date of acquisition through September 30, 2012 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 other third parties.

We also derived revenue from our grant and research and development programs. Our grant and research and development program revenue consists of the following: (i) revenues relating to government research grants and cooperative agreements; (ii) research services; and (iii) the procurement of our products for purposes of certification and testing.

Cost of Goods Sold and Gross Margin

Our cost of goods sold includes costs incurred in conjunction with the initial start-up operations for the production of isobutanol at the Agri-Energy Facility and costs directly associated with our ethanol production process such as costs for direct materials, direct labor and certain plant overhead costs. Direct materials consist of corn feedstock, denaturant and process chemicals. Direct labor includes compensation of personnel directly involved in the operation of the Agri-Energy Facility. Plant overhead costs primarily consist of plant utilities and plant depreciation. Cost of goods sold is mainly affected by the cost of corn and natural gas. Corn is the most significant raw material cost. We purchase natural gas to power steam generation in the ethanol production process and to dry the distiller s grains. We 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. See the discussion of accounting for derivatives below under the heading Critical Accounting Policies and Estimates.

Our gross margin 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.

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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, labor, 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 (U.S. 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) stock-based compensation; (ii) revenue recognition; (iii) cost of goods sold and derivatives; (iv) impairment of long-lived assets; and (v) accounting for convertible debt and embedded derivatives. Except as noted below, 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.

Accounting for Convertible Debt and Embedded Derivatives

In July 2012, we sold $45.0 million in aggregate principal amount of 7.5% convertible senior notes due 2022 (the Convertible Notes). Terms of the Convertible Notes, include, among others: (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. We have determined that these specific terms are considered to be embedded derivatives in accordance with U.S. GAAP. U.S. GAAP requires embedded derivatives be 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. We have 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.

For purposes of accounting and financial reporting, we combine the two embedded derivatives and value them together as one unit of accounting. At each reporting period, we record this embedded derivative at fair value which is included as a component of convertible notes on the consolidated balance sheets.

We have used a binomial lattice model in order to estimate the fair value of the embedded derivative 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 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 holder will maximize their value by finding the optimal decision between (1) redeeming at the Redemption Price or (2) converting the Convertible Notes.

Using this lattice, we valued the embedded derivative using with-and-without method, where the value of the Convertible Notes including the embedded derivative is defined as the with , and the value of the Convertible Notes excluding the embedded derivative is defined as the without . This method estimates the value of the embedded derivative by looking at the difference in the values between the Convertible Notes with the

embedded derivative and the value of the Convertible Notes without the embedded derivative.

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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) stock volatility; and (vii) estimated credit spread for the Company.

The following table sets for the inputs to the lattice model used to value the embedded derivative.

	Issuance Date	September 30, 2012
Stock price	$ 4.95	$ 2.14
Conversion Rate	175.6697	175.6697
Conversion Price	$ 5.69	$ 5.69
Maturity date	July 1, 2022	July 1, 2022
Risk-free interest rate	1.62%	1.65%
Estimated stock volatility	72%	80%
Estimated credit spread	30%	33%

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 the issuance date and September 30, 2012 (in thousands).

	Issuance Date	September 30, 2012
Fair value of Convertible Notes:		
With the embedded derivative	$ 45,000	$ 30,000
Without the embedded derivative	17,000	17,000
Estimated fair value of the embedded derivative	$ 28,000	$ 13,000

Changes in certain inputs into the lattice model can have a significant impact on changes in the estimated fair value of the embedded derivative. For example, a decrease in the estimated credit spread for Gevo results in an increase in the estimated value of the embedded derivative. Conversely, a decrease in the price of Gevo common stock results in a decrease in the estimated fair value of the embedded derivative. From the date the Convertible Notes were issued through September 30, 2012, we observed a significant decline in the market price of our common stock which resulted in the $15.0 million decline in the estimated fair value of our embedded derivative from issuance through September 30, 2012.

Cost of Goods Sold and Derivatives (forward purchase contract and exchange-traded contract derivatives)

Our activities expose us to a variety of market risks, including the effects of changes in commodity prices. These financial exposures are monitored and managed by our management as an integral part of our overall risk-management program. Our 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 our cost of goods sold and operating results.

We enter into forward purchase contracts for corn to be used in the production of ethanol. During 2011 we used the normal purchases and normal sales scope exception guidance of US GAAP for our forward purchase contracts and, as a result, they were not marked to market during 2011. To qualify for the normal purchases and normal sales scope exception, a contract must provide for the purchase or sale of commodities in quantities that are expected to be used or sold over a reasonable period of time in the normal course of operations. For new contracts entered into beginning January 1, 2012, we did not apply the normal purchases and normal sale scope exception to our forward purchase contracts and, as a result, we began to record forward purchase contracts at fair value. The changes in fair value associated with our forward purchase contracts which have been included as a component of cost of goods sold in our consolidated statements of operations, were not material during the three and nine months ended September 30, 2012.

We also enter into exchange-traded futures contracts for corn as a means of managing exposure to changes in corn prices. These contracts are recorded as a derivative asset or liability on our consolidated balance sheets at fair value. Changes in the fair value during a reporting period are recognized as cost of goods sold in our consolidated statements of operations.

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Both our forward purchase and exchange-traded futures contracts are considered to be derivatives and they do not include any credit risk related contingent features. We have not entered into these derivative financial instruments for trading or speculative purposes, and we have not designated any of our derivatives as hedges for financial accounting purposes.

Result of Operations

Comparison of the three months ended September 30, 2012 and 2011 (in thousands)

	Three Months Ended September 30,		Change	
	2012	2011	Amount	Percent
Revenue and cost of goods sold				
Ethanol sales and related products, net	$	$ 17,318	$ (17,318)	N/M
Grant and research and development program revenue	562	188	374	199%
Total revenues	562	17,506	(16,944)	(97%)
Cost of goods sold	6,079	16,232	(10,153)	(63%)
Gross margin	(5,517)	1,274	(6,791)	(533%)
Operating expenses				
Research and development	5,401	5,211	190	4%
Selling, general and administrative	13,508	7,587	5,921	78%
Total operating expenses	18,909	12,798	6,111	48%
Loss from operations	(24,426)	(11,524)	(12,902)	(112%)
Other income (expense)				
Interest expense	(2,624)	(798)	(1,826)	(229%)
Change in fair value of embedded derivative	15,000		15,000	N/M
Interest and other income	(1)	17	(18)	(106%)
Total other income (expense)	12,375	(781)	13,156	N/M
Net loss	$ (12,051)	$ (12,305)	$ 254	2%

N/M Not meaningful

Revenues 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. As a result, we did not have any shipments of or report sales of ethanol during the three months ended September 30, 2012. We engaged in initial start-up operations for the production of isobutanol and did not make commercial shipments of isobutanol to customers during the three months ended September 30, 2012. During the three months ended September 30, 2011, we generated $14.4 million of revenue from the sale of 5.4 million gallons ethanol. Additionally, we recorded revenue of $2.8 million from the sale of distiller s grains

The increase in grant and research and development program revenue primarily resulted from agreements with the following entities which were entered into subsequent to September 30, 2011: (i) The Coca-Cola Company; and (ii) United States Department of Agriculture (the USDA).

Cost of goods sold Our cost of goods sold during the three months ended September 30, 2012 related to costs incurred in connection with our initial start-up operations for the production of isobutanol. These costs included corn feedstock, yeast, enzymes and chemicals, direct labor and disposal fees incurred as part of the initial start-up operations. During the three months ended September 30, 2011, we incurred costs associated with the production of ethanol and related products.

Research and development The increase in research and development expenses during the three months ended September 30, 2012 primarily resulted from the following: (i) $0.9 million in salary and compensation-related expenses; and (ii) $0.4 million in stock-based compensation. These costs increased during the three months ended September 30, 2012 primarily due to increased headcount in support of testing activities as part of initial start-up operations for the production of isobutanol at our Agri-Energy

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Facility, development related activities and severance related costs incurred during the quarter. These items were partially offset by decreases of (a) $0.8 million primarily associated with consulting fees, laboratory expenses and costs of constructing a hydrocarbon demonstration facility at the South Hampton Resources, Inc. site during the three months ended September 30, 2011, which were not repeated in the three months ended September 30, 2012, and (b) $0.3 million in depreciation expense.

Selling, general and administrative The increase in selling, general and administrative expenses during the three months ended September 30, 2012 primarily resulted from the following: (i) $5.4 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); (ii) $0.6 million in salary and compensation-related expenses; and (iii) $0.5 million in other general and administrative costs. These items were partially offset by a $0.7 million decrease in stock-based compensation expense.

Interest expense Interest expense increased during the three months ended September 30, 2012 primarily resulting from the following: (i) $1.4 million in accrued interest and amortization of debt discounts and issue costs related to our offering of Convertible Notes in July 2012; and (ii) $0.4 million of interest related to our debt with TriplePoint Capital LLC (TriplePoint).

Change in fair value of embedded derivative During the three months ended September 30, 2012, we reported a $15.0 million gain associated with the decrease in the fair value of derivatives embedded in our Convertible Notes. As more fully described above under the heading Critical Accounting Policies and Estimates Accounting for Convertible Debt and Embedded Derivatives, the decrease in the fair value of the embedded derivatives primarily resulted from a decline in the price of our common stock between the date that the Convertible Notes were issued and September 30, 2012.

Comparison of the nine months ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30,		Change	
	2012	2011	Amount	Percent
Revenue and cost of goods sold				
Ethanol sales and related products, net	$ 19,908	$ 46,748	$ (26,840)	(57%)
Grant and research and development program revenue	2,553	572	1,981	346%
Total revenues	22,461	47,320	(24,859)	(53%)
Cost of goods sold	29,599	45,062	(15,463)	(34%)
Gross margin	(7,138)	2,258	(9,396)	(416%)
Operating expenses				
Research and development	15,079	13,815	1,264	9%
Selling, general and administrative	36,175	20,012	16,163	81%
Total operating expenses	51,254	33,827	17,427	52%
Loss from operations	(58,392)	(31,569)	(26,823)	85%
Other income (expense)				
Interest expense	(4,161)	(2,541)	(1,620)	(64%)
Change in fair value of embedded derivative	15,000		15,000	N/M
Interest and other income	18	56	(38)	(68%)
Total other income (expense)	10,857	(2,485)	13,342	N/M
Net loss	(47,535)	(34,054)	(13,481)	(40%)
Deemed dividend - amortization of beneficial conversion feature on Series D-1 preferred stock		(1,094)	1,094	N/M

Net loss attributable to Gevo, Inc. common stockholders	$ (47,535)	$ (35,148)	$ (12,387)	(35%)

N/M Not meaningful

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Revenues During the nine months ended September 30, 2012, we generated revenue of $16.0 million from the sale of 7.5 million gallons of ethanol. Our revenue during this period related to the period from January 2012 through May 2012, as we commenced initial start-up production of isobutanol at our Agri-Energy Facility in May 2012. We also generated $4.1 million of revenue from the sale of distiller s grains. During the nine months ended September 30, 2011, we generated revenue of $38.4 million from the sale of 15.6 million gallons of ethanol. We also generated $8.3 million of revenue from the sale of distiller s grains.

The increase in grant and research and development program revenue primarily resulted from agreements with the following entities which were entered into subsequent to September 30, 2011: (i) the U.S. Air Force; (ii) The Coca-Cola Company; and (iii) the USDA.

Cost of goods sold Our cost of goods sold during the nine months ended September 30, 2012 primarily resulted from $22.0 million of costs related to the production of 7.5 million gallons of ethanol and distiller s grains. We also incurred $7.6 million of start-up costs related to isobutanol production at our Agri-Energy Facility. During the nine months ended September 30, 2011, our cost of goods sold related to the production of 15.6 million gallons of ethanol and distiller s grains.

Research and development The increase in research and development expenses during the nine months ended September 30, 2012 primarily resulted from a $2.9 million increase in salary and compensation-related expenses, including stock-based compensation, and $0.5 million in travel-related expenses. These increases primarily resulted from our increased headcount in support of initial start-up operations for the production of isobutanol and testing activities at our Agri-Energy Facility. This was partially offset by (i) a $1.3 million decrease in laboratory costs and other costs associated with the construction of a hydrocarbon demonstration facility on the South Hampton Resources, Inc. site in the nine months ended September 30, 2011, costs which were not repeated in the nine months ended September 30, 2012, and (ii) $0.9 million in depreciation expense.

Selling, general and administrative The increase in selling, general and administrative expenses during the nine months ended September 30, 2012 primarily resulted from the following: (i) $9.9 million in legal-related expenses primarily attributable to our ongoing litigation with Butamax; (ii) $3.0 million in salary and compensation-related expenses primarily resulting from severance related expenses due to the departure of three of our Executive Vice Presidents; and (iii) $2.6 million in stock-based compensation expenses primarily due to the accelerated vesting of certain equity awards upon the departure of three of our Executive Vice Presidents in accordance with the terms of their respective employment agreements.

Interest expense Interest expense increased during the nine months ended September 30, 2012 primarily as a result of the following: (i) $1.4 million in accrued interest and amortization of debt discounts and issue costs associated with our offering of Convertible Notes in July 2012; and (ii) $0.3 million of interest related to our debt with TriplePoint.

Change in fair value of embedded derivative During the nine months ended September 30, 2012, we reported a $15.0 million gain associated with the decrease in the fair value of derivatives embedded in our Convertible Notes. As more fully described above under the heading Critical Accounting Policies and Estimates Accounting for Convertible Debt and Embedded Derivatives, the decrease in the fair value of the embedded derivatives primarily resulted from a decline in the price of our common stock between the date that the Convertible Notes were issued and September 30, 2012.

Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock We incurred a deemed dividend amortization of beneficial conversion feature on our Series D-1 preferred stock of $1.1 million during the nine months ended September 30, 2011 related to the issuances of our Series D-1 preferred stock between March and May of 2010. Upon the closing of our initial public offering on February 14, 2011, all outstanding shares of our preferred stock, including our Series D-1 preferred stock, were automatically converted into shares of common stock. Following the closing of our initial public offering, no additional amortization of the beneficial conversion feature relating to our Series D-1 preferred stock has been recorded.

Liquidity and Capital Resources

From inception to September 30, 2012, we have funded our operations primarily through equity offerings, issuances of debt, borrowings under our secured debt financing arrangements and revenues earned primarily from the sale of ethanol. Based on our current level of operations and anticipated growth, we believe that our existing cash and cash equivalents on hand at September 30, 2012, will provide funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months.

As of September 30, 2012, our cash and cash equivalents totaled $92.0 million. In July 2012, we issued: (i) 12.5 million shares of common stock at an offering price of $4.95 per share; and (ii) $45.0 million aggregate principal amount of Convertible Notes, in

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each case in a firm commitment underwritten public offering (the Equity Offering and the Note Offering, respectively, and together, the Offerings). We received proceeds from the Offerings of $98.4 million, net of expenses and fees to underwriters. We used $5.4 million of the proceeds from the Note Offering to pay in full all amounts outstanding under the Gevo Loan Agreement (as defined below).

On February 14, 2011, we completed our initial public offering issuing 8,222,500 shares of common stock at an offering price of $15.00 per share, resulting in net proceeds of $110.4 million, after deducting underwriting discounts and commissions and other offering costs.

We will require additional funding to achieve our goal of producing and selling approximately 350 million gallons of isobutanol in 2015. Additionally, possible future joint ventures, tolling arrangements or acquisitions involving ethanol plant assets for retrofit to isobutanol production are subject to our raising additional capital through future public and private equity offerings, debt financings or through other alternative financing arrangements. Successful completion of our research and development program and the attainment of profitable operations are dependent upon future events, including completion of our development activities resulting in sales of isobutanol or isobutanol-derived products and/or technology, achieving market acceptance and demand for our products and services and attracting and retaining qualified personnel.

Additionally, our future results of operations and cash flows will be impacted as a result of our ongoing litigation with Butamax. Our ongoing involvement in litigation with Butamax, could cause us to spend significant amounts of money and negative decisions by courts associated with pending litigation could also negatively impact our future results of operations and cash flows. Specifically, negative decisions by the courts could force us to do one or more of the following:

- stop selling, incorporating, manufacturing or using our products that use the subject intellectual property;
- obtain from a third party asserting its intellectual property rights, a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all;
- redesign those products or processes, such as our process for producing isobutanol, that use any allegedly infringing or misappropriated technology, which may result in significant cost or delay to us, or which redesign could be technically infeasible; or
- pay damages, including the possibility of treble damages in a patent case if a court finds us to have willfully infringed certain intellectual property rights.

The trial for the earliest-filed claim in the Butamax litigation is currently scheduled for April 2013 and additional trials are currently scheduled for July 2014. We expect to continue to incur significant costs through the foregoing trial dates. For a summary of our ongoing litigation with Butamax, see the disclosure under the heading Legal Matters in Part II, Item 1 of this Report, and for additional risks we face as a result of the litigation with Butamax, see the disclosure under the heading Risk Factors in Part II, Item 1A of this Report.

The following table sets forth the major sources and uses of cash for each of the periods set forth below (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Net cash used in operating activities	$ (47,312)	$ (25,760)
Net cash used in investing activities	(51,543)	(3,540)
Net cash provided by financing activities	96,627	111,631

Operating Activities

Our primary uses of cash from operating activities are personnel-related expenses and research and development-related expenses including costs incurred under development agreements for licensing of technology, legal-related costs, expenses for start-up operations for the production of isobutanol at the Agri-Energy Facility and for the operation of our demonstration production facilities.

During the nine months ended September 30, 2012, we used $47.3 million in cash from operating activities primarily resulting from a net loss of $51.7 million, excluding the impact of $4.2 million in gains from non-cash transactions, partially offset by a decrease in accounts receivable. The decline in our accounts receivable from December 31, 2011 resulted in an increase in cash of $2.2 million due mainly to the suspension of ethanol production at our Agri-Energy Facility in May 2012. Our accounts receivable balance as of September 30, 2012 primarily relates to balances due under our grant and research and development programs.

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Cash used in operating activities of $25.8 million for the nine months ended September 30, 2011 reflected our net loss of $26.5 million before non-cash expenses of $7.5 million and changes in operating assets and liabilities of $0.7 million.

Investing Activities

During the nine months ended September 30, 2012, we used $51.5 million in cash from investing activities primarily due to the following: (i) $48.3 million associated with the retrofit of the Agri-Energy Facility to isobutanol production; (ii) $2.6 million for the acquisition of property and laboratory equipment; and (iii) $0.6 million for the purchase of patents and planning work associated with the planned retrofit of the Redfield Facility (as defined below).

During the nine months ended September 30, 2011, we used cash from investing activities of $3.5 million for capital expenditures, including $2.1 million related to the retrofit of the Agri-Energy Facility to isobutanol production.

Financing Activities

During the nine months ended September 30, 2012, we generated $96.6 million in cash from financing activities primarily resulting from the following: (i) $98.4 million associated with the Offerings, net,; (ii) $4.9 million borrowed under the amended and restated loan and security agreement, dated October 20, 2011, by and between Agri-Energy and TriplePoint (the Amended Agri-Energy Loan Agreement), net of issue costs; and (iii) $0.7 million from the exercise of stock options. Partially offsetting these sources of cash was $7.3 million in principal payments on our secured debt with TriplePoint and Lighthouse Capital Partners V, L.P. (Lighthouse). During the nine months ended September 30, 2012, we paid Lighthouse $1.0 million as payment in full of all amounts outstanding to Lighthouse and we paid TriplePoint $5.4 million from the proceeds from the Note Offering to pay in full all amounts outstanding under the Gevo Loan Agreement.

During the nine months ended September 30, 2011, cash provided by financing activities was $111.6 million, primarily due to the net proceeds from our initial public offering, after deducting underwriting discounts and commissions and other offering expenses paid during the period, less principal repayments of $1.4 million on our debt with Lighthouse.

Agri-Energy Retrofit

In September 2010, we acquired the Agri-Energy Facility that we are currently retrofitting to produce isobutanol. As of September 30, 2012, we have incurred total capital costs of approximately $55.6 million on the retrofit of the Agri-Energy Facility. The retrofit of the Agri-Energy Facility includes a number of additional capital costs that are unique to the design of the facility, including additional equipment necessary in order 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 at the Agri-Energy Facility and at future plants. Further, total capital expenditures at the Agri-Energy Facility include upfront design and engineering costs, plant modifications identified as necessary during initial start-up operations for the production of isobutanol as well as sales tax on equipment and capitalized interest. In May 2012, the Company commenced initial start-up operations for the production of isobutanol at the Agri-Energy Facility. From commencement of initial start-up operations through September 30, 2012 we have produced approximately 100,000 gallons of bio-based isobutanol for sale and future customer testing. We expect to conclude initial start-up operations in the second half of 2012. During the 2012 third quarter, we made the strategic decision to pause isobutanol production at the Agri-Energy Facility for a period of time during which we plan to produce ethanol at the Agri-Energy Facility, based on our assessment of then current economic conditions for ethanol production while we focus on optimizing specific parts of our technology to further enhance isobutanol production rates. We intend to resume isobutanol production at the Agri-Energy Facility in support of future commercial operations once this work has been completed. Based on our progress to date we anticipate resuming isobutanol production at the Agri-Energy Facility in 2013.

Redfield Energy, LLC

On June 15, 2011, we 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, the Joint Venture Documents). Under the terms of the Joint Venture Documents, we have agreed to work with Redfield to retrofit Redfield s approximately 50 MGPY 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 our wholly-owned subsidiary, 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

we anticipate consolidating Redfield s operations because we anticipate we will control the activities that are most significant to the entity.

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We 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. We anticipate 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, we 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). We have also agreed to maintain an escrow fund during the Performance Testing Phase as security for our 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) we 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.

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 at the Redfield Facility has begun. Additionally, we 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, we will forfeit the Class G Units and lose the value of our 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.

We have begun the project engineering and permitting process of the retrofit of the Redfield Facility. As of September 30, 2012, we have incurred $0.4 million in planning-related costs for the retrofit of the Redfield Facility, which have been recorded on our balance sheets in deposits and other assets.

Cargill, Incorporated

During February 2009, we entered into a license agreement with Cargill, Incorporated (Cargill) to obtain certain biological materials and license patent rights to use a yeast biocatalyst owned by Cargill. Under the agreement, Cargill has granted us an exclusive, royalty-bearing license, with limited rights to sublicense, to use the patent rights in a certain field, as defined in the agreement. The agreement contains five milestone payments totaling approximately $4.3 million that are payable after each milestone is completed.

During 2009, two milestones were completed and we recorded the related milestone amounts, along with an up-front signing fee, totaling $0.9 million to research and development expense. During March 2010, we 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 is being paid over a period greater than twelve months from the date that it was incurred. Milestones number four and five included in the license agreement representing potential payments of up to $1.5 million have not been met as of September 30, 2012 and no amount has been recorded as a liability for these milestones. Upon commercialization of a product which uses Cargill s biological material or is otherwise covered by the patent rights under this agreement, a royalty based on net sales is payable by us, subject to a minimum royalty amount per year, as defined in the agreement, and up to a maximum amount per year. We may terminate this agreement at any time upon 90 days written notice. Unless terminated earlier, the agreement remains in effect until the later of December 31, 2025 and the date that no licensed patent rights remain.

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Sasol Chemical Industries Limited

On July 29, 2011, we entered into an international off-take and distribution agreement with Sasol Chemical Industries Limited (Sasol) 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 our first commercial sale of high-purity isobutanol, if Sasol desires to maintain its exclusive distribution rights, Sasol is obligated to either purchase certain minimum quantities of high-purity isobutanol or pay us applicable shortfall fees and we are 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 September 30, 2012.

Toray Industries, Inc.

In June 2011, we announced that we had successfully produced fully renewable and recyclable polyethylene terephthalate (PET) in cooperation with Toray Industries, Inc. (Toray Industries). Working directly with Toray Industries, we employed prototypes of commercial operations from the petrochemical and refining industries to make para-xylene (PX) from isobutanol. Toray Industries used our bio-PX and commercially available renewable mono ethylene glycol to produce fully renewable PET films and fibers. Additionally, on June 1, 2012, we entered into a definitive agreement with Toray 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, we received $1.0 million which we will use for the design, construction and/or operation of a pilot plant in Silsbee, Texas (the Pilot Plant). We anticipate producing bio-based PX (the Product) at the Pilot Plant, some of which will be sold to Toray Industries. Toray Industries is obligated to purchase initial volumes of Product. Any excess Product that is produced can be sold to other third parties. In the event we are unable to produce and deliver a minimum amount of the Product to Toray Industries by December 31, 2013, we will be required to refund the $1.0 million by January 31, 2014.

Convertible Notes

In July 2012, we 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.

The Convertible Notes are convertible at an initial Conversion Rate of 175.6697 shares of Gevo, Inc. 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 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: (i) eight semi-annual interest payments; or (ii) 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, to but excluding July 1, 2017, computed using a discount rate of 2%. We may pay any Coupon Make-Whole Payment either in cash or in shares of Gevo, Inc. common stock at our election. If we elect to pay in common stock, the stock will be valued at 90% of the average of the daily volume weighted average prices of our common stock for the 10 trading days preceding the date of conversion.

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 us 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 through the repurchase date. Additionally, on July 1, 2017, each holder will have the right to require us 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 Convertible Notes plus any accrued and unpaid interest through the repurchase date.

We have a provisional redemption right (Provisional Redemption), at our option, to redeem, 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 our 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 redemption notice exceeds

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150% of the Conversion Price in effect on such trading day. On or after July 1, 2017, we have an optional redemption right (Optional Redemption), at our option to redeem, 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 plus any accrued and unpaid interest through 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 us and the trustee may, and the trustee at the request of such holders shall,declare the principal of all the Outstanding Notes and accrued and unpaid interest to be due and payable immediately.

Secured Long-Term Debt

Lighthouse Loan and Security Agreement. On December 18, 2006, we entered into a loan and security agreement, as amended, with Lighthouse. As of September 30, 2012, we have repaid all outstanding amounts under our loan and security agreement with Lighthouse.

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 we 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, we are prohibited from granting a security interest in our intellectual property assets to any other entity until both TriplePoint loans are paid in full. In July 2012, we used $5.4 million of the proceeds from the Note Offering that was completed in July 2012 to pay in full, all amounts outstanding under the Gevo Loan Agreement.

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 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 will be 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 Existing Loan matures on September 1, 2014. The aggregate amount outstanding under the Existing Loan 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 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. Any borrowings under the New Loan that are in excess of 50% of the amount incurred for the retrofit the Agri-Energy Facility must be immediately repaid to TriplePoint.

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 (the October Loan). The October Loan matures on October 31, 2015 with the last monthly amortization payment due on the date of such advance. On January 6, 2012, Agri-Energy borrowed an additional $5.0 million (the January Loan) under the Amended Agri-Energy Loan Agreement, bringing the total borrowed under the New Loan at September 30, 2012 to $15.0 million. The January Loan matures on December 31, 2015 with the last monthly amortization payment due on the date of such advance. Upon our request and the additional approval of TriplePoint, we may borrow an additional $5.0 million under the Amended Agri-Energy Loan Agreement increasing the maximum size of the New Loan to $20.0 million. The New Loan is in addition to the Existing Loan. At September 30, 2012, we were 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

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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.

Additionally, concurrent with the execution of the Amended Agri-Energy Loan Agreement, we entered into a warrant agreement with TriplePoint pursuant to which TriplePoint is entitled to purchase up to 188,442 shares of our common stock on the terms and subject to the conditions set forth in the warrant agreement, at a price per share of $7.96, subject to adjustment. The warrants may be exercised until October 20, 2018.

As of September 30, 2012, we have made $0.7 million in principal payments due under the foregoing loan agreements with TriplePoint pursuant to which payments of outstanding principal began during the third quarter of 2012.

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 Company s 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; 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 in full under the Amended Agri-Energy Loan Agreement.

Contractual Obligations and Commitments

The following table sets forth our future commitments arising from our contractual obligations as of September 30, 2012 (in thousands).

	Less than 1 year	1 - 3 years	3 - 5 years	5+ Years	Total
Principal debt payments (1)	$ 9,853	$ 17,153	$ 1,731	$ 45,000	$ 73,737
Interest payments on debt (2)	6,080	8,570	6,766	16,875	38,291
Software license agreement (3)	148	310	329		787
Operating leases (4)	1,547	2,830	2,434	2,027	8,838
Payments due under Cargill license agreement (5)	250				250
Base fee due to South Hampton Resources, Inc. (6)	138				138
Total	$ 18,016	$ 28,863	$ 11,260	$ 63,902	$ 122,041

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(1) Principal debt payments include amounts due to TriplePoint under the Amended Agri-Energy Loan Agreement and $45.0 million of Convertible Notes issued in July 2012.
(2) Interest payments due to TriplePoint under the Amended Agri-Energy Loan Agreement and to holders of the Convertible Notes.
(3) Amounts due under a software license agreement with a nine year term.
(4) Commitments for operating leases primarily relate to our leased facility in Englewood, Colorado and our lease for rail cars for ethanol and isobutanol shipments.
(5) During March 2010, we completed milestone number three under our license agreement with Cargill and the resulting $2.0 million milestone payment is being paid over eight quarters beginning January 1, 2011.
(6) In accordance with our pilot plant processing agreement with South Hampton Resources, Inc. we are obligated to pay $12,500 per month for the remainder of the initial term of the agreement which ends in July 2013.

The table above reflects only payment obligations that are fixed and determinable. The above amounts exclude potential payments to be made under our license and other agreements that are based on the achievement of future milestones or royalties on product sales.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any relationships with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three months ended September 30, 2012, there were no material changes in our market risk exposure. For a discussion of our market risk associated with interest rates and commodity prices as of December 31, 2011, see Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report.

Item 4. Controls and Procedures.

(a) *Conclusion regarding the effectiveness of disclosure controls and procedures* An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures has been performed under the supervision of, and with the participation of, our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that our disclosure controls and procedures were effective at September 30, 2012.

(b) *Changes in internal control over financial reporting* There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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 we are 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, we 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 we are 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

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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. We believe that the Amended Complaint is without merit and will continue to aggressively defend its freedom to operate.

On September 13, 2011, we filed an answer to the Amended Complaint in which we asserted counterclaims against Butamax and DuPont for infringement of U.S. Patent No. 8,017,375, entitled Yeast Organism Producing Isobutanol at a High Yield and U.S. Patent No. 8,017,376, entitled Methods of Increasing Dihydroxy Acid Dehydratase Activity to Improve Production of Fuels, Chemicals, and Amino Acids, both of which were recently awarded to us by the United States Patent and Trademark Office. The counterclaim seeks a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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

On January 24, 2012, we 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. We are seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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 we are 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. We believe that it has meritorious defenses to these claims and intends to vigorously defend this lawsuit.

On March 13, 2012, we 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. We are seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On April 10, 2012, we 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. We are seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

On April 17, 2012, we 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. We are seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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 we are 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. We believe 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 us 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 has also filed a motion with the United States District Court for the District of Delaware seeking a temporary order to limit our activities with respect to the automotive fuel blending market while Butamax appeals the denial of its motion for preliminary injunction.

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On July 6, 2012, the United States District Court for the District of Delaware issued a temporary order which stated, in part, that we could not deliver, provide, distribute, ship, release or transfer in any way bio-based 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 appeals the denial of its motion for preliminary injunction. We filed an appeal of the temporary order. Under the temporary order, we 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 July 31, 2012, we 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., 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. We are seeking a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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 us, as Case No. 1:12-cv-00999, seeking a judicial determination that the 089 Patent is invalid and that Butamax and DuPont do not infringe it.

On August 6, 2012, we filed a motion for preliminary injunction in Case No. 1:12-cv-00301-SLR in the United States District Court for the District of Delaware with respect to the alleged infringement by Butamax and DuPont of one or more claims made in the 715 Patent.

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, alleging that we are 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 August 14, 2012, we 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 Gevo does not infringe it.

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, alleging that we are 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, we filed a complaint in the United States District Court for the District of Delaware, as Case No. 1:12-cv-01202, 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. We are 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 us, as Case No. 1:12-cv-01201, 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, alleging that we are 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, alleging that we are 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, 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.

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Due to the very early stage of this litigation, we have determined that the possible loss or range of loss related to this litigation cannot be reasonably estimated at this time.

Item 1A. Risk Factors.

You should carefully consider the risks described below before investing in our publicly-traded securities. The risks described below are not the only ones facing us. Our business is also subject to the risks that affect many other companies, such as competition, technological obsolescence, labor relations, general economic conditions, geopolitical changes and international operations. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations and our liquidity. The risks described below could cause our actual results to differ materially from those contained in the forward-looking statements we have made in this Report, the information incorporated herein by reference and those forward-looking statements we may make from time to time.

Certain Risks Related to Our Business and Strategy.

We are a development stage company with a history of net losses, and we may not achieve or maintain profitability.

We have incurred net losses since our inception, including losses of $47.5 million, $48.2 million, $40.1 million and $19.9 million in the nine months ended September 30, 2012 and fiscal years ended December 31, 2011, 2010 and 2009, respectively. As of September 30, 2012, we had an accumulated deficit of $182.2 million. We expect to incur losses and negative cash flow from operating activities for the foreseeable future. We are a development stage company and, to date, our revenues have been extremely limited and we have not generated revenues from the sale of isobutanol. Prior to September 2010, our revenues were primarily derived from government grants and cooperative agreements. From the completion of our acquisition of Agri-Energy in September 2010 until the commencement of our initial start-up operations in May 2012, we had generated revenue from the sale of ethanol and related products. Similarly, we expect to derive revenue from the sale of ethanol and distiller s grains during any period in which the Agri-Energy Facility is temporarily reverted to ethanol production, including the current planned reversion during which we will focus on optimizing 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 future revenues from the sale of ethanol at the Agri-Energy Facility. If our existing grants and cooperative agreements are canceled prior to the expected end dates or we are unable to obtain new grants and cooperative agreements, our revenues could be adversely affected. Furthermore, we expect to spend significant amounts on further development of our technology, acquiring or otherwise gaining access to ethanol plants and retrofitting them for isobutanol production, marketing, general and administrative expenses associated with our planned growth and management of operations as a public company. In addition, the cost of preparing, filing, prosecuting, maintaining and enforcing patent, trademark and other intellectual property rights and defending ourselves against claims by others that we may be violating their intellectual property rights may be significant.

In particular, over time, the costs of our litigation with Butamax has been and may continue to be significant (as described further in our Annual Report on Form 10-K, as amended, and other reports that we have filed with the SEC). As a result, even if our revenues increase substantially, we expect that our expenses will exceed revenues for the foreseeable future. We do not expect to achieve profitability during the foreseeable future, and may never achieve it. If we fail to achieve profitability, or if the time required to achieve profitability is longer than we anticipate, we may not be able to continue our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our retrofits of the Agri-Energy Facility and the Redfield Facility will be our first commercial retrofits and, as a result, our production of isobutanol could be delayed or we could experience significant cost overruns in comparison to our current estimates.

In September 2010, we acquired ownership of an ethanol production facility, the Agri-Energy Facility in Luverne, Minnesota, and in June 2011, we acquired access to a second ethanol production facility, the Redfield Facility in Redfield, South Dakota, pursuant to our joint venture with Redfield. We intend to retrofit both facilities to produce isobutanol. Cost overruns or other unexpected difficulties could cause the retrofits to cost more than we anticipate which could increase our need for funding. Such funds may not be available when we need them, on terms that are acceptable to us or at all, which could delay our initial commercial production of isobutanol. If additional funding is not available to us, or not available on terms acceptable to us, our ability to optimize the isobutanol production technology currently in place at the Agri-Energy Facility, complete the retrofit of the Redfield Facility, which is not yet underway, or acquire access to or retrofit additional ethanol plants may be limited. Such a result could reduce the scope of our business plan and have an adverse effect on our results of operations.

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Our ability to compete may be adversely affected if we are unsuccessful in defending against any claims by competitors or others that we are infringing upon their intellectual property rights, such as if Butamax is successful in its lawsuits alleging that we are infringing its patents for the production of isobutanol using certain microbial host cells.

The various bioindustrial markets in which we plan to operate are subject to frequent and extensive litigation regarding patents and other intellectual property rights. In addition, many companies in intellectual property-dependent industries, including the renewable energy industry, have employed intellectual property litigation as a means to gain an advantage over their competitors. As a result, we may be required to defend against claims of intellectual property infringement that may be asserted by our competitors against us and, if the outcome of any such litigation is adverse to us, it may affect our ability to compete effectively. Currently, we are defending against eight lawsuits filed by Butamax alleging that we have infringed patents for certain recombinant microbial host cells that produce isobutanol and methods for the production of isobutanol using such host cells, a patent covering a modified Pseudomonas KARI enzyme, a patent covering a modified E. coli KARI enzyme, and a patent covering the use of L. lactis and S. mutans dihydroxy acid dehydratase enzymes in yeast. The litigation with Butamax is dynamic. We have filed complaints alleging infringement of certain of our patents by Butamax and we anticipate that additional patents involving the isobutanol production process that are issued to Butamax, its members or us will be involved in litigation. The trial for the earliest-filed Butamax litigation is currently scheduled for April 2013 and additional trials are currently scheduled for July 2014.

Our involvement in litigation, interferences, opposition proceedings or other intellectual property proceedings inside and outside of the U.S. may divert management time from focusing on business operations, could cause us to spend significant amounts of money and may have no guarantee of success. Any current and future intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating, manufacturing or using our products that use the subject intellectual property;
- obtain from a third party asserting its intellectual property rights, a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all;
- redesign those products or processes, such as our process for producing isobutanol, that use any allegedly infringing or misappropriated technology, which may result in significant cost or delay to us, or which redesign could be technically infeasible; or
- pay damages, including the possibility of treble damages in a patent case if a court finds us to have willfully infringed certain intellectual property rights.

We are aware of a significant number of patents and patent applications relating to aspects of our technologies filed by, and issued to, third parties, including, but not limited to Butamax. We cannot assure you that we will ultimately prevail if any of this third-party intellectual property is asserted against us or that we will ultimately prevail in the patent infringement litigation with Butamax.

Following completion of its retrofit to isobutanol production, the Agri-Energy Facility will be our first commercial isobutanol production facility, and, as a result, our production of isobutanol could be delayed or we could experience significant cost overruns in comparison to our current estimates of production costs or be unable to produce planned quantities of isobutanol.

In May 2012, we announced that we had commenced initial start-up operations for the retrofit of the Agri-Energy Facility to isobutanol production. In September 2012, we updated our initial production expectations for the Agri-Energy Facility noting that we had decided to optimize certain specific parts of our isobutanol production technology to further enhance isobutanol production rates at the Agri-Energy Facility. Technical completion of the retrofit is not expected until 2013. Even with technical completion of the Agri-Energy Facility, we expect that initial production volumes will be lower than the projected nameplate capacity for isobutanol production at the facility. We project that the Agri-Energy Facility will be able to produce isobutanol at a run rate of approximately one million gallons per month by the end of 2013 and will reach full production capacity run rates in 2014. However, we may encounter further unexpected production challenges during the completion of the retrofit and the projected ramp up in production rates. Any such production challenges may prevent us from producing significant quantities of isobutanol or may significantly increase our cost to produce isobutanol which could have a material adverse effect on our business, financial condition and results of operations.

Some of our retrofits, including the retrofit of the Agri-Energy Facility, will include additional equipment necessary to switch between ethanol and isobutanol production but we cannot guarantee that we will be successful in switching between isobutanol and ethanol production in a timely or efficient manner at these facilities.

While we have designed the retrofit of the Agri-Energy Facility to allow the capability to switch between isobutanol and ethanol production, which may, subject to regulatory factors and depending on market conditions, mitigate certain significant risks associated with start-up operations for isobutanol production, there can be no assurance that we will be able to revert to ethanol production. In

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September 2012, when we updated our initial production expectations for the Agri-Energy Facility, we announced that we had made the strategic decision to temporarily pause isobutanol production at the Agri-Energy Facility for a period of time during which we plan to produce ethanol at the Agri-Energy Facility while we focus on optimizing specific parts of our technology to further enhance isobutanol production rates. Even if we are able to revert to ethanol production, the facility may produce ethanol less efficiently or in lower volumes than it did prior to the retrofit and such ethanol production may not generate positive economic returns. If we are unable to produce isobutanol at the volumes, rates and costs that we expect and are unable to revert back to ethanol production at full capacity, we would be unable to match the facility s historical economic performance and our business, financial condition and results of operations would be materially adversely affected.

We may not be successful in the development of individual steps in, or an integrated process for, the production of commercial quantities of isobutanol from plant feedstocks in a timely or economic manner, or at all.

As of the date of this Report, we have produced limited commercial quantities of isobutanol and we may not be successful increasing our production from these limited startup production levels to full-scale commercial production levels. The production of isobutanol requires multiple integrated steps, including:

- obtaining the plant feedstocks;
- treatment with enzymes to produce fermentable sugars;
- fermentation by organisms to produce isobutanol from the fermentable sugars;
- distillation of the isobutanol to concentrate and separate it from other materials;
- purification of the isobutanol; and
- storage and distribution of the isobutanol.

Our future success depends on our ability to produce commercial quantities of isobutanol in a timely and economic manner. Our biocatalysts have not yet produced full-scale commercial volumes of isobutanol. While we have produced isobutanol using our biocatalysts at our laboratories in Colorado, at the demonstration facility and at the Agri-Energy Facility, such production was not at full commercial rate and scale and in September 2012, we announced our plan to temporarily revert the Agri-Energy Facility to ethanol production, depending on our assessment of then current ethanol economic conditions for ethanol production, while we focus on optimizing specific parts of our technology to further enhance isobutanol production rates. To date, we have focused the majority of our research and development efforts on producing isobutanol from dextrose and challenges remain in achieving substantial production volumes with other sugars, like corn mash. The risk of contamination and other problems rise as we increase the scale of our isobutanol production. If we are unable to successfully manage these risks, we may encounter difficulties in achieving our target isobutanol production yield, rate, concentration or purity at a commercial scale, which could delay or increase the costs involved in commercializing our isobutanol production. In addition, we have limited experience sourcing large quantities of feedstocks and in storing and/or distributing significant volumes of isobutanol. The technological and logistical challenges associated with each of the processes involved in production, sale and distribution of isobutanol are extraordinary, and we may not be able to resolve any difficulties that arise in a timely or cost effective manner, or at all. Even if we are successful in developing an economical process for converting plant feedstocks into commercial quantities of isobutanol, we may not be able to adapt such process to other biomass raw materials, including cellulosic biomass.

Prior to the Agri-Energy Facility retrofit, neither we nor ICM had ever built (through retrofit or otherwise) or operated a commercial isobutanol facility. We assume that we understand how the engineering and process characteristics of the one MGPY demonstration facility will scale up to larger facilities, but these assumptions may prove to be incorrect. Accordingly, we cannot be certain that we can manufacture isobutanol in an economical manner in commercial quantities. If our costs to build large-scale commercial isobutanol facilities are significantly higher than we expect or if we fail to manufacture isobutanol economically on a commercial scale or in commercial volumes, our commercialization of isobutanol and our business, financial condition and results of operations will be materially adversely affected.

We may not be able to successfully identify and acquire access to additional ethanol production facilities suitable for efficient retrofitting, or acquire access to sufficient capacity to be commercially viable or meet customer demand.

Our strategy currently includes accessing and retrofitting, either independently or with potential development partners, existing ethanol facilities for the production of large quantities of isobutanol for commercial distribution and sale. We have acquired one 22 MGPY ethanol production facility and we have acquired access to one 50 MGPY ethanol production facility pursuant to our joint venture with Redfield. We plan to acquire access to additional production capacity to enable us to produce and sell approximately 350 MGPY of isobutanol in 2015. However, we may not find development partners with whom we can implement this growth strategy, and we may not be able to identify facilities suitable for joint venture, acquisition, lease or license.

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Even if we successfully identify a facility suitable for efficient retrofitting, we may not be able to acquire access to such facility in a timely manner, if at all. The owners of the ethanol facility may reach an agreement with another party, refuse to consider a joint venture, acquisition, lease or license, or demand more or different consideration than we are willing to provide. In particular, if the profitability of ethanol production increases, plant owners may be less likely to consider modifying their production, and thus may be less willing to negotiate with us or agree to allow us to retrofit their facilities for isobutanol production. We may also find that it is necessary to offer special terms, incentives and/or rebates to owners of ethanol facilities that allow us to access and retrofit their facilities before our production technology has been proven on a commercial scale. Even if the owners of a facility are interested in reaching an agreement that grants us access to the plant, negotiations may take longer or cost more than we expect, and we may never achieve a final agreement. Further, we may not be able to raise capital on acceptable terms, or at all, to finance our joint venture, acquisition, participation or lease of facilities.

Even if we are able to access and retrofit several facilities, we may fail to access enough capacity to be commercially viable or meet the volume demands or minimum requirements of our customers, including pursuant to definitive supply or distribution agreements that we may enter into, which may subject us to monetary damages. For example, under the terms of our international off-take and distribution agreement with Sasol, we are required to pay certain shortfall fees if we are not able to supply Sasol with certain minimum quantities of product. Failure to acquire access to sufficient capacity in a timely manner and on favorable terms may slow or stop our commercialization process, which could have a material adverse effect on our business, financial condition and results of operations.

Once we acquire access to ethanol facilities, we may be unable to successfully retrofit them to produce isobutanol, or we may not be able to retrofit them in a timely and cost-effective manner.

For each ethanol production facility to which we acquire access, we will be required to obtain numerous regulatory approvals and permits to retrofit and operate the facility. These include such items as a modification to the air permit, fuel registration with the U.S. Environmental Protection Agency (EPA), ethanol excise tax registration and others. These requirements may not be satisfied in a timely manner, or at all. Later-enacted federal and state governmental requirements may also substantially increase our costs or delay or prevent the completion of a retrofit, which could have a material adverse effect on our business, financial condition and results of operations.

No two ethanol facilities are exactly alike, and each retrofit will require individualized engineering and design work. There is no guarantee that we or any contractor we retain will be able to successfully design a commercially viable retrofit, or properly complete the retrofit once the engineering plans are completed. Prior to the Agri-Energy Facility retrofit, neither we nor ICM had ever built, via retrofit or otherwise, a full-scale commercial isobutanol facility. Despite our experience with the retrofit of the Agri-Energy Facility, our estimates of the capital costs that we will need to incur to retrofit a commercial-scale ethanol facility may prove to be inaccurate, and each retrofit may cost materially more to engineer and build than we currently anticipate. For example, our estimates assume that each plant we retrofit will be performing at full production capacity, and we may need to expend substantial sums to repair underperforming facilities prior to retrofit.

Our retrofit design was developed in cooperation with ICM and is based on ICM technology. There is no guarantee that our retrofit design will be compatible with existing ethanol facilities that do not utilize ICM technology. Before we can retrofit such facilities, we may need to modify them to be compatible with our retrofit design. This may require significant additional expenditure of time and money, and there is no guarantee such modification will be successful.

Furthermore, the retrofit of acquired facilities will be subject to the risks inherent in the build-out of any manufacturing facility, including risks of delays and cost overruns as a result of factors that may be out of our control, such as delays in the delivery of equipment and subsystems or the failure of such equipment to perform as expected once delivered. In addition, we will depend on third-party relationships in expanding our isobutanol production capacity and such third parties may not fulfill their obligations to us under our arrangements with them. Delays, cost-overruns or failures in the retrofit process will slow our commercial production of isobutanol and harm our performance.

Though our retrofit design for the Agri-Energy Facility includes the capability to switch between isobutanol and ethanol production, we may be unable to successfully revert to ethanol production after we begin retrofit of an ethanol facility, or the facility may produce ethanol less efficiently or in lower volumes than it did before the retrofit. In addition, we may be unable to secure the necessary regulatory approvals and permits to switch between isobutanol and ethanol production in a timely manner, or at all. Thus, if we fail to achieve commercial levels of isobutanol production at a retrofitted facility, we may be unable to rely on ethanol production as an alternative revenue source, which could have a material adverse effect on our prospects.

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Our facilities and process may fail to produce isobutanol at the volumes, rates and costs we expect.

Some or all of the facilities we choose to retrofit may be in locations distant from corn or other feedstock sources, which could increase our feedstock costs or prevent us from acquiring sufficient feedstock volumes for commercial production. General market conditions might also cause increases in feedstock prices, which could likewise increase our production costs.

Even if we secure access to sufficient volumes of feedstock, the facilities we retrofit for isobutanol production may fail to perform as expected. The equipment and subsystems installed during the retrofit may never operate as planned. Our systems may prove incompatible with the original facility, or require additional modification after installation. Our biocatalyst may perform less efficiently than it did in testing, if at all. Contamination of plant equipment may require us to replace our biocatalyst more often than expected, or cause our fermentation process to yield undesired or harmful by-products. Likewise, our feedstock may contain contaminants like wild yeast, which naturally ferments feedstock into ethanol. The presence of contaminants, such as wild yeast, in our feedstock could reduce the purity of the isobutanol that we produce and require us to invest in more costly isobutanol separation processes or equipment. Unexpected problems may force us to cease or delay production and the time and costs involved with such delays may prove prohibitive. Any or all of these risks could prevent us from achieving the production throughput and yields necessary to achieve our target annualized production run rates and/or to meet the volume demands or minimum requirements of our customers, including pursuant to definitive supply or distribution agreements that we may enter into, which may subject us to monetary damages. For example, under the terms of our international off-take and distribution agreement with Sasol, we are required to pay certain shortfall fees if we are not able to supply Sasol with certain minimum quantities of product. Failure to achieve these rates or meet these minimum requirements, or achieving them only after significant additional expenditures, could substantially harm our commercial performance.

We may be unable to produce isobutanol in accordance with customer specifications.

Even if we produce isobutanol at our targeted rates, we may be unable to produce isobutanol that meets customer specifications. If we fail to meet specific product or volume specifications contained in a supply agreement, the customer may have the right to seek an alternate supply of isobutanol and/or terminate the agreement completely, and we could be required to pay shortfall fees or otherwise be subject to damages. For example, under the terms of our international off-take and distribution agreement with Sasol, we are required to meet defined high-purity isobutanol product standards. A failure to successfully meet the specifications of our potential customers could decrease demand, and significantly hinder market adoption of our products.

We lack significant experience operating commercial-scale ethanol and isobutanol facilities, and may encounter substantial difficulties operating commercial plants or expanding our business.

We have very limited experience operating commercial-scale ethanol and isobutanol facilities. Accordingly, we may encounter significant difficulties operating at a commercial scale. We believe that our future facilities will, like the Agri-Energy Facility, be able to continue producing ethanol during much of the retrofit process. We will need to successfully administer and manage this production. Though ICM and the employees of Agri-Energy and Redfield are experienced in the operation of ethanol facilities, and our future development partners or the entities that we acquire may likewise have such experience, we may be unable to manage ethanol-producing operations, especially given the possible complications associated with a simultaneous retrofit. Once we complete a commercial retrofit, operational difficulties may increase, because neither we nor anyone else has significant experience operating a pure isobutanol fermentation facility at a commercial scale. The skills and knowledge gained in operating commercial ethanol facilities or small-scale isobutanol plants may prove insufficient for successful operation of a large-scale isobutanol facility, and we may be required to expend significant time and money to develop our capabilities in isobutanol facility operation. We may also need to hire new employees or contract with third parties to help manage our operations, and our performance will suffer if we are unable to hire qualified parties or if they perform poorly.

We may face additional operational difficulties as we further expand our production capacity. Integrating new facilities with our existing operations may prove difficult. Rapid growth, resulting from our operation of, or other involvement with, isobutanol facilities or otherwise, may impose a significant burden on our administrative and operational resources. To effectively manage our growth and execute our expansion plans, we will need to expand our administrative and operational resources substantially and attract, train, manage and retain qualified management, technicians and other personnel. We may be unable to do so. Failure to meet the operational challenges of developing and managing increased isobutanol production, or failure to otherwise manage our growth, may have a material adverse effect on our business, financial condition and results of operations.

We may have difficulty adapting our technology to commercial-scale fermentation, which could delay or prevent our commercialization of isobutanol.

While we have succeeded in reaching our commercial fermentation performance targets for isobutanol concentration, fermentation productivity and isobutanol yield in laboratory tests, and we have demonstrated the ability to produce isobutanol under the

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demonstration plant operating conditions and under commercial scale operating conditions at the Agri-Energy Facility, we have not yet accomplished these targets in a commercial plant environment. We are currently optimizing certain specific parts of our isobutanol production technology to further enhance our isobutanol production rates at our Agri-Energy Facility. This process, if it succeeds, may take longer or cost more than expected. Our yeast biocatalyst may not be able to meet the commercial performance targets at a commercial-scale retrofitted plant in a timely manner, or ever. In addition, the risk of contamination and other problems may increase at commercial-scale isobutanol production facilities, which could negatively impact our cost of production. If we encounter difficulties in optimizing our production, our commercialization of isobutanol and our business, financial condition and results of operations will be materially adversely affected.

We may have difficulties gaining market acceptance and successfully marketing our isobutanol to customers, including chemical producers and refiners.

A key component of our business strategy is to market our isobutanol to chemical producers and refiners. We have no experience marketing isobutanol on a commercial scale and we may fail to successfully negotiate marketing agreements in a timely manner or on favorable terms. If we fail to successfully market our isobutanol to refiners and chemical producers, our business, financial condition and results of operations will be materially adversely affected.

We also intend to market our isobutanol to chemical producers for use in making various chemicals such as isobutylene, a type of butene that can be produced through the dehydration of isobutanol. Although a significant market currently exists for isobutylene produced from petroleum, which is widely used in the production of plastics, specialty chemicals, alkylate for gasoline blending and high octane aviation fuel, no one has successfully created isobutylene on a commercial scale from bio-based isobutanol. Therefore, to gain market acceptance and successfully market our isobutanol to chemical producers, we must show that our isobutanol can be converted into isobutylene at a commercial scale. As no company currently dehydrates commercial volumes of isobutanol into isobutylene, we must demonstrate the large-scale feasibility of the process and reach agreements with companies that are willing to invest in the necessary dehydration infrastructure. Failure to reach favorable agreements with these companies, or the inability of their plants to convert isobutanol into isobutylene at sufficient scale, will slow our development in the chemicals market and could significantly affect our profitability.

Obtaining market acceptance in the chemicals industry is complicated by the fact that many potential chemicals industry customers have invested substantial amounts of time and money in developing petroleum-based production channels. These potential customers generally have well-developed manufacturing processes and arrangements with suppliers of chemical components, and may display substantial resistance to changing these processes. Pre-existing contractual commitments, unwillingness to invest in new infrastructure, distrust of new production methods and lengthy relationships with current suppliers may all slow market acceptance of isobutanol.

No market currently exists for isobutanol as a fuel or fuel blendstock. Therefore, to gain market acceptance and successfully market our isobutanol to refiners, we must effectively demonstrate the commercial advantages of using isobutanol over other biofuels and blendstocks, as well as our ability to produce isobutanol reliably on a commercial scale at a sufficiently low cost. We must show that isobutanol is compatible with existing infrastructure and does not damage pipes, engines, storage facilities or pumps. We must also overcome marketing and lobbying efforts by producers of other biofuels and blendstocks, including ethanol, many of whom may have greater resources than we do. If the markets for isobutanol as a fuel or fuel blendstock do not develop as we currently anticipate, or if we are unable to penetrate these markets successfully, our revenue and revenue growth rate, if any, could be materially and adversely affected.

We believe that consumer demand for environmentally sensitive products will drive demand among large brand owners for renewable hydrocarbon sources. One of our marketing strategies is to leverage this demand to obtain commitments from large brand owners to purchase products made from our isobutanol by third parties. We believe these commitments will, in turn, promote chemicals industry demand for our isobutanol. If consumer demand for environmentally sensitive products fails to develop at sufficient scale or if such demand fails to drive large brand owners to seek sources of renewable hydrocarbons, our revenue and growth rate could be materially and adversely affected.

We may face substantial delay in getting regulatory approvals for use of our isobutanol in the fuels and chemicals markets, which could substantially hinder our ability to commercialize our products.

Commercialization of our isobutanol will require approvals from state and federal agencies. Before we can sell isobutanol as a fuel or fuel blendstock directly to large petroleum refiners, we must receive EPA fuel certification. We are currently conducting Tier 1 EPA testing, and the approval process may require significant time. Approval can be delayed for years, and there is no guarantee of receiving it. Additionally, California requires that fuels meet both its fuel certification requirements and a separate state low-carbon fuel standard. Any delay in receiving approval will slow or prevent the commercialization of our isobutanol for fuel markets, which could have a material adverse effect on our business, financial condition and results of operations.

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Before any biofuel we produce receives a renewable identification number (RIN), we must register it with the EPA and receive approval that it meets specified regulatory requirements. Delay or failure in developing a fuel that meets the standards for advanced and cellulosic biofuels, or delays in receiving the desired RIN, will make our fuel less attractive to refiners, blenders, and other purchasers, which could harm our competitiveness.

With respect to the chemicals markets, we plan to focus on isobutanol production and sell to companies that can convert our isobutanol into other chemicals, such as isobutylene. However, should we later decide to produce these other chemicals ourselves, we may face similar requirements for EPA and other regulatory approvals. Approval, if ever granted, could be delayed for substantial amounts of time, which could significantly harm the development of our business and prevent the achievement of our goals.

Our isobutanol fermentation process utilizes a genetically modified organism which, when used in an industrial process, is considered a new chemical under the EPA s Toxic Substances Control Act (TSCA). The TSCA requires us to comply with the EPA s Microbial Commercial Activity Notice process to operate plants producing isobutanol using our biocatalysts. The TSCA s new chemicals submission policies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of our isobutanol production.

There are various third-party certification organizations, such as ASTM International (ASTM) and Underwriters Laboratories, Inc., involved in standard-setting regarding the transportation, dispensing and use of liquid fuel in the U.S. and abroad. These organizations may change the current standards and additional requirements may be enacted that could prevent or delay approval of our products. The process of seeking required approvals and the continuing need for compliance with applicable standards may require the expenditure of substantial resources, and there is no guarantee that we will satisfy these standards in a timely manner, if ever.

In addition, to retrofit ethanol facilities and operate the retrofitted plants to produce isobutanol, we will need to obtain and comply with a number of permit requirements. As a condition to granting necessary permits, regulators may make demands that could increase our retrofit or operations costs, and permit conditions could also restrict or limit the extent of our operations, which could delay or prevent our commercial production of isobutanol. We cannot guarantee that we will be able to meet all regulatory requirements or obtain and comply with all necessary permits to complete our planned ethanol plant retrofits, and failure to satisfy these requirements in a timely manner, or at all, could have a substantial negative effect on our performance.

We are in negotiations, facilitated by the Air Transport Association of America (ATA) with several major passenger and cargo airlines for potential commitments by several ATA member airlines to purchase jet fuel manufactured by third parties from our isobutanol. Jet fuels must meet various statutory and regulatory requirements before they may be used in commercial aviation. In the U.S., the use of specific jet fuels is regulated by the Federal Aviation Administration (FAA). Rather than directly approving specific fuels, the FAA certifies individual aircraft for flight. This certification includes authorization for an aircraft to use the types of fuels specified in its flight manual. To be included in an aircraft s flight manual, the fuel must meet standards set by ASTM. The current ASTM requirements do not permit the use of jet fuel derived from isobutanol, and we will need to give ASTM sufficient data to justify creating a new standard applicable to alcohol-to-jet (ATJ). Though our work testing isobutanol-based ATJ with the U.S. Air Force Research Laboratory has provided us with data we believe ASTM will take into consideration, the process of seeking required approvals and the continuing need for compliance with applicable statutes and regulations will require the expenditure of substantial resources. Failure to obtain regulatory approval in a timely manner, or at all, could have a significant negative effect on our operations.

We may be unable to successfully negotiate final, binding terms related to our current non-binding isobutanol supply and distribution agreements, which could harm our commercial prospects.

We have engaged in negotiations with a number of companies, and have agreed to preliminary terms regarding supplying isobutanol or the products derived from it to various companies for their use or further distribution, including LANXESS Inc., Toray Industries, United Airlines and TOTAL PETROCHEMICALS USA, Inc. However, as of September 30, 2012, we are not party to any final, definitive supply or distribution agreements for our isobutanol, other than our exclusive supply agreement with LANXESS Inc., our international off-take and distribution agreement with Sasol, our commercial off-take agreement with Mansfield, our joint development agreement with Toray Industries and our contracts from the Defense Logistics Agency. We may be unable to negotiate final terms with other companies in a timely manner, or at all, and there is no guarantee that the terms of any final agreement will be the same or similar to those currently contemplated in our preliminary agreements. Final terms may include less favorable pricing structures or volume commitments, more expensive delivery or purity requirements, reduced contract durations and other adverse changes. Delays in negotiating final contracts could slow our initial isobutanol commercialization, and failure to agree to definitive

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terms for sales of sufficient volumes of isobutanol could prevent us from growing our business. To the extent that terms in our initial supply and distribution contracts may influence negotiations regarding future contracts, the failure to negotiate favorable final terms related to our current preliminary agreements could have an especially negative impact on our growth and profitability. Additionally, as we have yet to produce or supply commercial volumes of isobutanol to any customer, we have not demonstrated that we can meet the production levels contemplated in our current non-binding supply agreements. If our production scale-up proceeds more slowly than we expect, or if we encounter difficulties in successfully completing plant retrofits, potential customers, including those with whom we have current letters of intent, may be less willing to negotiate definitive supply agreements, or demand terms less favorable to us, and our performance may suffer.

Even if we are successful in producing isobutanol on a commercial scale, we may not be successful in negotiating sufficient supply agreements for our production.

We expect that many of our customers will be large companies with extensive experience operating in the fuels or chemicals markets. As a development stage company, we lack commercial operating experience, and may face difficulties in developing marketing expertise in these fields. Our business model relies upon our ability to successfully negotiate and structure long-term supply agreements for the isobutanol we produce. Many of our potential customers may be more experienced in these matters than we are, and we may fail to successfully negotiate these agreements in a timely manner or on favorable terms which, in turn, may force us to slow our production, delay our acquiring and retrofitting of additional plants, dedicate additional resources to increasing our storage capacity and/or dedicate resources to sales in spot markets. Furthermore, should we become more dependent on spot market sales, our profitability will become increasingly vulnerable to short-term fluctuations in the price and demand for petroleum-based fuels and competing substitutes.

Our isobutanol may encounter physical or regulatory issues, which could limit its usefulness as a fuel blendstock.

In the fuel blendstock market, isobutanol can be used in conjunction with, or as a substitute for, ethanol and other widely-used fuel oxygenates, and we believe our isobutanol will be physically compatible with typical gasoline engines. However, there is a risk that under actual engine conditions, isobutanol will face significant limitations, making it unsuitable for use in high percentage gasoline blends. Additionally, current regulations limit fuel blends to low percentages of isobutanol, and also limit combination isobutanol-ethanol blends. Government agencies may maintain or even increase the restrictions on isobutanol fuel blends. As we believe that the potential to use isobutanol in higher percentage blends than is feasible for ethanol will be an important factor in successfully marketing isobutanol to refiners, a low blend wall could significantly limit commercialization of isobutanol as a fuel blendstock.

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Our isobutanol may be less compatible with existing refining and transportation infrastructure than we believe, which may hinder our ability to market our product on a large scale.

We developed our business model based on our belief that our isobutanol is fully compatible with existing refinery infrastructure. For example, when making isobutanol blends, we believe that gasoline refineries will be able to pump our isobutanol through their pipes and blend it in their existing facilities without damaging their equipment. If our isobutanol proves unsuitable for such handling, it will be more expensive for refiners to use our isobutanol than we anticipate, and they may be less willing to adopt it as a fuel blendstock, forcing us to seek alternative purchasers.

Likewise, our plans for marketing our isobutanol are based upon our belief that it will be compatible with the pipes, tanks and other infrastructure currently used for transporting, storing and distributing gasoline. If our isobutanol or products incorporating our isobutanol cannot be transported with this equipment, we will be forced to seek alternative transportation arrangements, which will make our isobutanol and products produced from our isobutanol more expensive to transport and less appealing to potential customers. Reduced compatibility with either refinery or transportation infrastructure may slow or prevent market adoption of our isobutanol, which could substantially harm our performance.

Most of the ethanol plants we initially plan to retrofit use dry-milled corn as a feedstock. Once we have optimized our full-scale commercial isobutanol production process, we plan to sell, as animal feed, the isobutanol distiller s grains (iDGs) left as a co-product of fermenting isobutanol from dry-milled corn. We believe that this will enable us to offset a significant portion of the expense of purchasing corn for fermentation. We are currently approved to sell iDGs into animal feed through a self-assessed Generally Regarded as Safe process via third party scientific review. In order to improve the value of our iDGs , we are also in the process of obtaining U.S. Food and Drug Administration (FDA) approval for the marketing of our iDGs . We believe obtaining FDA approval will increase the value of our iDGs by offering customers of our iDGs further assurance of the safety of our iDGs . FDA testing and approval can take a significant amount of time, and there is no guarantee that we will ever receive such approval. If FDA approval is delayed or never obtained, or if we are unable to secure market acceptance for our iDGs , our net cost of production will increase, which may hurt our operating results.

Our development strategy relies heavily on our relationship with ICM.

We rely heavily upon our relationship with ICM. In October 2008, we entered into a development agreement and a commercialization agreement with ICM, each of which has since been amended. Pursuant to the terms of the development agreement, ICM engineers helped us install the equipment necessary to test and develop our isobutanol fermentation process at ICM s one MGPY ethanol demonstration facility, and ICM agreed to assist us in running and maintaining the converted plant. We have used the demonstration plant to improve our biocatalysts and to develop processes for commercial-scale production of isobutanol. Under the commercialization agreement, as amended, ICM serves as our exclusive engineering, procurement and construction (EPC) contractor for the retrofit of ethanol plants, and we serve as ICM s exclusive technology partner for the production of butanols, pentanols and propanols from the fermentation of sugars. In August 2011, we entered into a work agreement with ICM. Pursuant to the terms of the work agreement, ICM provides EPC services for the retrofit of ethanol plants.

Because ICM has designed a significant number of the current operating ethanol production facilities in the U.S., we believe that our exclusive alliance with ICM will provide us with a competitive advantage and allow us to more quickly achieve commercial-scale production of isobutanol. However, ICM may fail to fulfill its obligations to us under our agreements and under certain circumstances, such as a breach of confidentiality by us, can terminate the agreements. In addition, ICM may assign the agreements without our consent in connection with a change of control. Since adapting our technology to commercial-scale production of isobutanol and then retrofitting ethanol plants to use our technology is a major part of our commercialization strategy, losing our exclusive alliance with ICM would slow our technological and commercial development. It could also force us to find a new contractor with less experience than ICM in designing and building ethanol plants, or to invest the time and resources necessary to retrofit plants on our own. Such retrofits may be less successful than if performed by ICM engineers, and retrofitted plants might operate less efficiently than expected. This could substantially hinder our ability to expand our production capacity, and could severely impact our performance. If ICM fails to fulfill its obligations to us under our agreements and our competitors obtain access to ICM s expertise, our ability to realize continued development and commercial benefits from our alliance could be affected. Accordingly, if we lose our exclusive alliance with ICM, if ICM terminates or breaches its agreements with us, or if ICM assigns its agreements with us to a competitor of ours or to a third party that is not willing to work with us on the same terms or commit the same resources, our business and prospects could be harmed.

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We may require substantial additional financing to achieve our goals, and a failure to obtain this capital when needed or on acceptable terms could force us to delay, limit, reduce or terminate our development and commercialization efforts.

Since our inception, most of our resources have been dedicated to research and development, as well as demonstrating the effectiveness of our technology. We believe that we will continue to expend substantial resources for the foreseeable future on further developing our technologies, developing future markets for our isobutanol and accessing facilities necessary for the production of isobutanol on a commercial scale. These expenditures will include costs associated with research and development, accessing existing ethanol plants, retrofitting the plants to produce isobutanol, obtaining government and regulatory approvals, acquiring or constructing storage facilities and negotiating supply agreements for the isobutanol we produce. In addition, other unanticipated costs may arise. Because the costs of developing our technology at a commercial scale are highly uncertain, we cannot reasonably estimate the amounts necessary to successfully commercialize our production.

To date, we have funded our operations primarily through equity offerings, issuances of debt, borrowing under our secured debt financing arrangements and revenues earned primarily from the sale of ethanol. Based on our current plans and expectations, we will require additional funding to achieve our goal of producing and selling approximately 350 million gallons of isobutanol in 2015. In addition, the cost of preparing, filing, prosecuting, maintaining and enforcing patent, trademark and other intellectual property rights and defending against claims by others that we may be violating their intellectual property rights, including the current litigation with Butamax, will be significant. Moreover, our plans and expectations may change as a result of factors currently unknown to us, and we may need additional funds sooner than planned. We may also choose to seek additional capital sooner than required due to favorable market conditions or strategic considerations.

Our future capital requirements will depend on many factors, including:

- the timing of, and costs involved in developing and optimizing our technologies for commercial-scale production of isobutanol;
- the timing of, and costs involved in accessing existing ethanol plants;
- the timing of, and costs involved in retrofitting the plants we access with our technologies;
- the costs involved in establishing an enhanced yeast seed train;
- the cost of operating, maintaining and increasing production capacity of the retrofitted plants;
- our ability to negotiate agreements supplying suitable biomass to our plants, and the timing and terms of those agreements;
- the timing of, and the costs involved in developing adequate storage facilities for the isobutanol we produce;
- our ability to gain market acceptance for isobutanol as a specialty chemical, gasoline blendstock and as a raw material for the production of hydrocarbons;
- our ability to negotiate supply agreements for the isobutanol we produce, and the timing and terms of those agreements;
- our ability to negotiate sales of our isobutanol for commercial-scale production of butenes and other industrially useful chemicals and fuels, and the timing and terms of those sales;

our ability to sell the iDGs left as a co-product of fermenting isobutanol from corn as animal feedstock;

our ability to establish and maintain strategic partnerships, licensing or other arrangements and the timing and terms of those arrangements; and

the cost of preparing, filing, prosecuting, maintaining, defending and enforcing patent, trademark and other intellectual property claims, including litigation costs and the outcome of such litigation.

Additional funds may not be available when we need them, on terms that are acceptable to us, or at all. If needed funds are not available to us on a timely basis, we may be required to delay, limit, reduce or terminate:

our research and development activities;

our plans to access and/or retrofit existing ethanol facilities;

our production of isobutanol at retrofitted plants; and/or

our activities in developing storage capacity and negotiating supply agreements that may be necessary for the commercialization of our isobutanol production.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies.

We may seek additional capital through a combination of public and private equity offerings, debt financings, strategic partnerships and licensing arrangements. To the extent that we raise additional capital through the sale or issuance of equity, warrants or convertible debt securities, your ownership interest will be diluted, and the terms of such securities may include liquidation or other preferences that adversely affect your rights as a stockholder. If we raise capital through debt financing, it may involve agreements

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that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through strategic partnerships or licensing agreements with third parties, we may have to relinquish valuable rights to our technologies, or grant licenses on terms that are not favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate our development and commercialization efforts.

We may pay vendors in stock as consideration for their services; this may result in additional costs and may cause dilution to our existing stockholders.

In order for us to preserve our cash resources, we may in the future pay vendors, including technology partners, in shares, warrants or options to purchase shares of our common stock rather than cash. Payments for services in stock may materially and adversely affect our stockholders by diluting the value of outstanding shares of our common stock. In addition, in situations where we agree to register the shares issued to a vendor, this will generally cause us to incur additional expenses associated with such registration.

Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of investment research analysts or investors, which could cause our stock price to decline.

Our financial condition and operating results have varied significantly in the past and may continue to fluctuate from quarter to quarter and year to year in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations are described in our Annual Report on Form 10-K, as amended, and other reports that we have filed with the SEC. Accordingly, the results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance.

Fluctuations in the price of corn and other feedstocks may affect our cost structure.

Our approach to the biofuels and chemicals markets will be dependent on the price of corn and other feedstocks that will be used to produce isobutanol. A decrease in the availability of plant feedstocks or an increase in the price may have a material adverse effect on our financial condition and operating results. At certain levels, prices may make these products uneconomical to use and produce, as we may be unable to pass the full amount of feedstock cost increases on to our customers.

The price and availability of corn and other plant feedstocks may be influenced by general economic, market and regulatory factors. These factors include weather conditions, farming decisions, government policies and subsidies with respect to agriculture and international trade, and global demand and supply. The significance and relative impact of these factors on the price of plant feedstocks is difficult to predict, especially without knowing what types of plant feedstock materials we may need to use.

Fluctuations in the price and availability of natural gas may harm our performance.

The ethanol facilities that we have retrofitted or plan to retrofit to produce isobutanol, including the Agri-Energy Facility in Luverne, Minnesota, and the Redfield Facility in Redfield, South Dakota, use significant amounts of natural gas to produce ethanol. After retrofit with our GIFT® technology, these facilities will continue to require natural gas to produce isobutanol. Accordingly, our business is dependent upon natural gas supplied by third parties. Should the price of natural gas increase, our performance could suffer. Likewise, disruptions in the supply of natural gas could have a material impact on our business and results of operations.

Fluctuations in petroleum prices and customer demand patterns may reduce demand for biofuels and bio-based chemicals.

We anticipate marketing our biofuel as an alternative to petroleum-based fuels. Therefore, if the price of oil falls, any revenues that we generate from biofuel products could decline, and we may be unable to produce products that are a commercially viable alternative to petroleum-based fuels. Additionally, demand for liquid transportation fuels, including biofuels, may decrease due to economic conditions or otherwise. We will encounter similar risks in the chemicals industry, where declines in the price of oil may make petroleum-based hydrocarbons less expensive, which could reduce the competitiveness of our bio-based alternatives.

Changes in the prices of distiller s grains and iDGs could have a material adverse effect on our financial condition.

From September 2010 through May 2012, we sold distiller s grains as a co-product from the production of ethanol at the Agri-Energy Facility in Luverne, Minnesota. Additionally, as a result of our strategic decision to pause isobutanol production for a period of time during which we plan to produce ethanol while we focus on optimizing specific parts of our technology, we may continue to sell distiller s grains as a co-product from the temporary production of ethanol at the Agri-Energy Facility. We may also sell distiller s grains produced by other ethanol facilities that we acquire, enter into a joint venture or tolling arrangement with, or license to in the future. We also plan to sell the iDGs that will be produced as a

co-product of our commercial isobutanol production. Distiller s grains and iDGs compete with other animal

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