Gevo, Inc.
Form 10-Q
May 06, 2011
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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 March 31, 2011

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 ¨ No x

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	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 May 2, 2011, 25,963,377 shares of the registrant s common stock were outstanding.

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GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GEVO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 116,483,000	$ 15,274,000
Accounts receivable	2,982,000	2,830,000
Inventories	5,233,000	3,765,000
Prepaid expenses and other current assets	798,000	1,040,000
Derivative asset	65,000	361,000
Margin deposit	1,008,000	624,000
Total current assets	126,569,000	23,894,000
PROPERTY, PLANT AND EQUIPMENT Net	23,569,000	23,465,000
DEFERRED OFFERING COSTS		3,152,000
DEBT ISSUE COSTS	851,000	929,000
DEPOSITS AND OTHER ASSETS	168,000	169,000
TOTAL	$ 151,157,000	$ 51,609,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,896,000	$ 7,903,000
Current portion of secured long-term debt Net of $100,000 and $113,000 discount at March 31, 2011 and December 31, 2010, respectively	1,855,000	1,785,000
Derivative liability		405,000
Fair value of warrant liabilities		2,034,000
Total current liabilities(*)	7,751,000	12,127,000
SECURED LONG-TERM DEBT Net of $1,372,000 and $1,493,000 discount, less current portion, at March 31, 2011 and December 31, 2010, respectively	18,258,000	18,647,000
OTHER LIABILITIES	672,000	876,000
Total liabilities	26,681,000	31,650,000
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDERS EQUITY		
Gevo, Inc. stockholders equity:		
Convertible preferred stock, $0.01 par value per share; none and 15,246,000 shares authorized at March 31, 2011 and December 31, 2010, respectively; none and 14,613,602 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively; aggregate liquidation preference of $0 and $90,660,000 at March 31, 2011 and December 31, 2010, respectively		146,000

Preferred stock, $0.01 par value per share; 5,000,000 and none shares authorized at March 31, 2011 and December 31, 2010, respectively; none issued and outstanding		
Common stock, $0.01 par value per share; 100,000,000 and 30,000,000 shares authorized at March 31, 2011 and December 31, 2010, respectively; 25,963,377 and 1,160,657 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	260,000	12,000
Additional paid-in capital	219,920,000	105,128,000
Deficit accumulated during development stage	(95,704,000)	(85,327,000)
Total stockholders equity	124,476,000	19,959,000
TOTAL	$ 151,157,000	$ 51,609,000

* Liabilities of Gevo, Inc. s consolidated subsidiaries for which creditors do not have recourse to the general credit of Gevo, Inc. were $1,952,000 and $4,785,000 at March 31, 2011 and December 31, 2010, respectively, and are recorded within current liabilities.

See notes to condensed consolidated financial statements

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GEVO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	From June 9, 2005 (Date of Inception) to March 31, 2011
REVENUES:			
Grant revenue	$ 172,000	$ 330,000	$ 2,908,000
Licensing revenue			138,000
Ethanol sales and related products	15,109,000		29,874,000
Total revenues	15,281,000	330,000	32,920,000
COST OF GOODS SOLD	(15,193,000)		(28,639,000)
GROSS MARGIN	88,000	330,000	4,281,000
OPERATING EXPENSES:			
Research and development	(3,266,000)	(4,668,000)	(40,732,000)
Selling, general and administrative	(5,234,000)	(2,642,000)	(46,669,000)
Lease termination costs			(894,000)
Loss on abandonment or disposal of assets			(343,000)
Total operating expenses	(8,500,000)	(7,310,000)	(88,638,000)
LOSS FROM OPERATIONS	(8,412,000)	(6,980,000)	(84,357,000)
OTHER (EXPENSE) INCOME:			
Interest expense	(892,000)	(308,000)	(5,894,000)
Interest and other income	50,000	19,000	686,000
Loss from change in fair value of warrant liabilities	(29,000)	(590,000)	(2,852,000)
Other expense net	(871,000)	(879,000)	(8,060,000)
NET LOSS	(9,283,000)	(7,859,000)	(92,417,000)
Deemed dividend amortization of beneficial conversion feature on Series D-1 convertible preferred stock	(1,094,000)	(21,000)	(3,872,000)
NET LOSS ATTRIBUTABLE TO GEVO, INC. COMMON STOCKHOLDERS	$ (10,377,000)	$ (7,880,000)	$ (96,289,000)
Net loss per share attributable to Gevo, Inc. common stockholders basic and diluted	$ (0.76)	$ (7.02)	
Weighted-average number of common shares outstanding basic and diluted	13,744,337	1,123,045	

See notes to condensed consolidated financial statements

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GEVO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Cumulative Amounts From June 9, 2005 (Date of Inception) to March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (9,283,000)	$ (7,859,000)	$ (92,417,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,013,000	809,000	6,705,000
Stock-based compensation	1,321,000	184,000	13,041,000
Stock expense for shares issued pursuant to license agreements			10,000
Noncash interest expense and amortization of debt discounts and debt issue costs to noncash interest expense	213,000	69,000	2,366,000
Loss from change in fair value of warrant liabilities	29,000	590,000	2,852,000
Gain from change in derivative	(109,000)		(670,000)
Loss on abandonment or disposal of fixed assets			343,000
Changes in operating assets and liabilities (net of effects of acquisition):			
Accounts receivable	(152,000)	(88,000)	(982,000)
Prepaid expenses and other current assets	(46,000)	13,000	(163,000)
Inventories	(1,468,000)		(1,663,000)
Margin deposit	(384,000)		(116,000)
Deposits and other assets	1,000		(88,000)
Accounts payable, accrued expenses, and long-term liabilities	(1,739,000)	1,573,000	4,421,000
Net cash used in operating activities	(10,604,000)	(4,709,000)	(66,361,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of property, plant and equipment	(805,000)	(141,000)	(9,045,000)
Acquisition of Agri-Energy, net of cash acquired			(24,936,000)
Proceeds from the sale of property and equipment			5,000
Restricted certificate of deposit			(119,000)
Net cash used in investing activities	(805,000)	(141,000)	(34,095,000)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Cumulative Amounts From June 9, 2005 (Date of Inception) to March 31, 2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	8,000	16,000	30,000
Proceeds from issuance of convertible preferred stock		16,150,000	86,025,000
Proceeds from issuance of convertible promissory notes with warrant			3,000,000
Proceeds from issuance of secured long-term debt			26,578,000
Proceeds from issuance of warrants			1,000
Proceeds from exercise of warrants			592,000
Payments on secured long-term debt	(453,000)		(6,846,000)
Proceeds from issuance of common stock in initial public offering, net of underwriting discounts and commissions	114,704,000		114,704,000
Deferred offering costs	(1,641,000)	(47,000)	(4,245,000)
Debt issue costs			(1,033,000)
Payment of stock issuance costs		(81,000)	(1,867,000)
Net cash provided by financing activities	112,618,000	16,038,000	216,939,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	101,209,000	11,188,000	116,483,000
CASH AND CASH EQUIVALENTS:			
Beginning of period	15,274,000	21,240,000	
Ending of period	$ 116,483,000	$ 32,428,000	$ 116,483,000
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS Investing and financing:			
Conversion of preferred stock warrants to common stock warrants upon initial public offering and reclassification of related liability to additional paid-in-capital	$ 2,063,000	$	$ 2,063,000
Warrants issued with secured long-term debt	$	$	$ 749,000
Warrants issued with convertible promissory notes	$	$	$ 505,000
Promissory notes and accrued interest converted to Series C preferred stock	$	$	$ 3,043,000
Issuance of common stock pursuant to license agreements	$	$	$ 10,000
Issuance of Series C preferred stock upon exercise of warrant (amount reclassified from liability to equity)	$	$	$ 1,458,000
	$	$	$ 1,000,000

Issuance of Series D-1 preferred stock to ICM, Inc. in exchange for a credit against future services			
Deemed dividend amortization of beneficial conversion feature on Series D-1 convertible preferred stock	$ 1,094,000	$ 21,000	$ 3,872,000
Reclass deferred offering costs to additional paid-in-capital upon initial public offering	$ 4,296,000	$	$ 4,296,000
Capital asset additions in accounts payable and accrued expenses	$ 251,000	$ 106,000	$ 251,000
Capital asset additions acquired using prepaid credit with ICM, Inc.	$ 288,000	$	$ 726,000
Accrued deferred offering costs	$ 51,000	$ 427,000	$ 51,000
SUPPLEMENTAL CASH FLOW DISCLOSURE Cash paid for interest, net of amounts capitalized	$ 623,000	$ 239,000	$ 3,313,000

See notes to condensed consolidated financial statements

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GEVO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Business and Significant Accounting Policies

Nature of Business Gevo, Inc. (together with its subsidiaries, the Company) is a renewable chemicals and advanced 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. Gevo, Inc. formed Gevo Development, LLC (Gevo Development) to finance and develop biorefineries through joint venture or direct acquisition (Note 6). Gevo Development became a wholly owned subsidiary of the Company on September 22, 2010. Gevo Development purchased all of the membership interests of Agri-Energy, LLC and certain assets of Agri-Energy Limited Partnership (collectively referred to as Agri-Energy) on September 22, 2010 (Note 2). Agri-Energy, a wholly owned subsidiary of Gevo Development, is currently engaged in the business of producing and selling ethanol and related products produced at its ethanol plant located in Luverne, Minnesota. The Company intends to retrofit its Luverne, Minnesota facility to produce isobutanol.

On February 14, 2011, the Company completed its initial public offering issuing 8,222,500 shares of common stock at an offering price of $15.00 per share, resulting in net proceeds to the Company of $114,704,000, after deducting underwriting discounts and commissions of $8,634,000. Additionally, the Company incurred offering costs of $4,296,000 related to the initial public offering. Upon the closing of the initial public offering, the Company s outstanding shares of convertible preferred stock were automatically converted into 16,329,703 shares of common stock and the outstanding convertible preferred stock warrants were automatically converted into common stock warrants to purchase a total of 398,032 shares of common stock.

At March 31, 2011, the Company is considered to be in the development stage as its primary activities, since incorporation, have been conducting research and development, establishing its facilities, recruiting personnel, business development, business and financial planning and raising capital. Successful completion of the Company s research and development program, and 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, market acceptance and demand for its products and services, and attracting and retaining qualified personnel.

Following the Company s acquisition of Agri-Energy on September 22, 2010, the Company began recording revenue from the sale of ethanol and related products. Since 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 revenue from the sale of isobutanol or other products that are or become the Company s intended business.

Financial Condition The Company s condensed 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 months ended March 31, 2011, the Company incurred a consolidated net loss of $9,283,000 and had an accumulated deficit of $95,704,000. The Company expects to incur future net losses as it continues to fund the development and commercialization of its product candidates.

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 initial public offering in February 2011. The Company expects to obtain funding through additional equity offerings and issuance of debt until it achieves positive cash flow from operations. The Company s cash and cash equivalents at March 31, 2011 totaled $116,483,000. Management expects that cash on hand 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 adequate funds, or achieve or sustain profitability or positive cash flow from operations. The accompanying condensed consolidated financial statements do not include any adjustments that may result from the Company s inability to raise sufficient funds or achieve profitability.

A summary of the Company s significant accounting policies is as follows:

Basis of Presentation The accompanying interim condensed consolidated financial statements are unaudited. These interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and the applicable rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s annual report on Form 10-K for the year ended December 31, 2010 filed with the SEC. The December 31, 2010 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP for complete financial statements.

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The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to present fairly the Company s interim financial information. The interim results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year or for any future year or interim period.

Principles of Consolidation The condensed consolidated financial statements include the accounts of Gevo, Inc., Gevo Development and Agri-Energy. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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 reporting period. Actual results could differ materially from those estimates.

Risks and Uncertainties The Company s operations are subject to certain risks and uncertainties, including those associated with the ability to meet obligations, continuing losses, negative cash flow from operations, fluctuations in operating results, fluctuations in prices of corn, distiller s grains, natural gas liquids and ethanol, funding expansion, strategic alliances, managing growth and expansion, acquiring access to or ownership of production assets, financing arrangement terms that may restrict operations, government regulations and regulatory requirements, development by the Company s competitors of new technological innovations, protection of proprietary technology, the economy, technology trends, completion of its development activities resulting in commercial products and/or technology, and evolving industry standards.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposits that at times exceed federally insured limits.

Deferred Offering Costs Deferred offering costs include costs directly attributable to the Company s offering of its equity securities. These costs are deferred and capitalized and were charged against the proceeds of our initial public offering in February 2011.

Debt Issue Costs and Debt Discount Debt issue costs are costs incurred in connection with the Company obtaining financing that have been capitalized and are being amortized over the expected maturity period of the related debt, using the effective interest method. Debt discounts incurred with the issuance of long-term debt are amortized to interest expense over the terms of the debt using the effective interest method. These discounts are recorded on the consolidated balance sheets as a reduction to long-term debt.

Accounts Receivable The Company records receivables for products shipped but for which payment has not yet been received. As of March 31, 2011 and December 31, 2010, no allowance for doubtful accounts has been recorded, based upon the expected full collection of the accounts receivable. Substantially all ethanol sold through the Company s Agri-Energy subsidiary from the date of the acquisition through March 31, 2011 was sold to C&N Ethanol Marketing (C&N). Accounts receivables from C&N made up 59% and 56% of the Company s total accounts receivable balance at March 31, 2011 and December 31, 2010, respectively.

Inventories Corn, ethanol, distiller s grains, enzymes and other inventory items are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method. Ethanol inventory cost consists of the applicable share of raw material, direct labor and manufacturing overhead costs.

Revenue Recognition The Company records revenue from the sale of ethanol and related products. The Company recognizes revenue when all of the following criteria are satisfied: persuasive evidence of an arrangement exists; risk of loss and title transfer to the customer; the price is fixed or determinable; and collectability is reasonably assured. Ethanol and related products are generally shipped free on board shipping point. Collectability of revenue is reasonably assured based on historical evidence of collectability between the Company and its customers.

In accordance with the Company s agreements for the marketing and sale of ethanol and related products, commissions due to marketers are deducted from the gross sales price at the time payment is remitted to the Company. Ethanol and related products sales are recorded net of commissions.

Revenue related to government research grants and cooperative agreements is recognized in the period during which the related costs are incurred, provided that the conditions under the awards have been met and only perfunctory obligations are outstanding.

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Cost of Goods Sold Cost of goods sold includes costs for materials, direct labor and certain plant overhead costs. Direct materials consist of the costs of corn feedstock, denaturant and process chemicals. Direct labor includes compensation of non-management personnel involved in the operation of the ethanol plant. 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. The Company purchases natural gas to power steam generation in the ethanol production process and to dry the distiller s grains. Cost of goods sold also includes net gains or losses from derivatives relating to corn and natural gas which do not qualify for the normal purchases and normal sales scope exception to fair value accounting.

Investment in Commodities Contracts, Derivative Instruments and Hedging Activities The Company enters into forward purchase contracts for corn and natural gas as a means of securing corn and natural gas used in ethanol production. These transactions are considered to be derivatives and prior to January 1, 2011 were recorded on the balance sheet as assets and liabilities based on each derivative s fair value. The changes in the fair value of these derivative contracts were recognized in income as a component of cost of goods sold. Effective January 1, 2011, the Company designates all of its forward purchase contracts for corn and natural gas under the normal purchases and normal sales scope exception and therefore they will no longer be marked to market. 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. The Company also enters into exchange-traded futures contracts for corn as a means of managing exposure to changes in corn prices. These transactions are considered to be derivatives and are recorded on the balance sheet as assets and liabilities based on the derivative s fair value. Changes in the fair value of the derivative contracts are recognized currently in income unless specific hedge accounting criteria are met. The Company has not designated any of its derivatives as hedges for financial reporting purposes.

Property, Plant and Equipment Property, plant and equipment are recorded at cost less accumulated depreciation. Provisions for depreciation and amortization are computed using the straight-line method over the assets estimated useful lives, except for the Company s demonstration plant equipment and capitalized costs, which are depreciated over the remaining contractual term of the development agreement, as amended, with ICM, Inc. (ICM) which ends December 31, 2011 (Note 5). Leasehold improvements are amortized over the term of the lease agreement or the service lives of the improvements, whichever is shorter. Assets under construction are depreciated when they are placed into service. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. When assets are retired or otherwise disposed of, the property accounts are relieved of costs and accumulated depreciation and any resulting gain or loss is credited or charged to operations. Periodically, the plant or a portion of the plant s equipment will be shut down to perform certain maintenance projects that are expected to improve the operating efficiency of the plant. These costs are expensed or capitalized based upon the nature of the costs. Capitalized interest on construction in progress is included in property, plant and equipment.

Impairment of Long-Lived Assets The Company periodically evaluates the recoverability of its long-lived assets in accordance with FASB ASC 360, *Property, Plant, and Equipment*, and, if appropriate, reduces the carrying value whenever events or changes in business conditions indicate the carrying amount of the assets may not be fully recoverable. Recognition of impairment of long-lived assets is made in the event the carrying value of such assets exceeds the fair value. The carrying amount may not be recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. The Company considered various factors when determining if these assets should be evaluated for impairment. The Company has not yet generated positive cash flows from operations, and such cash flows may not materialize for a significant period in the future, if ever. Additionally, the Company may make changes to its business plan that will result in changes to the expected cash flows from long-lived assets. As a result, it is possible that future evaluations of long-lived assets may result in impairment. No impairment charges have been recorded during the period from June 9, 2005 (date of inception) to March 31, 2011.

Patents All costs related to filing and pursuing patent applications are expensed as incurred as recoverability of such expenditures is uncertain and the underlying technologies are under development. Patent-related legal expenses incurred and recorded as selling, general and administrative expense during the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, were $286,000, $200,000, and $3,250,000, respectively.

Beneficial Conversion Feature The Company had recorded a beneficial conversion feature relating to the issuance of Series D-1 preferred stock between March and May 2010 (Note 9). The beneficial conversion feature was recorded as a discount to the Series D-1 preferred stock and was being amortized to retained earnings through September 30, 2011, unless converted earlier. On February 14, 2011, upon completion of the Company s initial public offering, the shares of Series D-1 preferred stock automatically converted to common stock at a rate of 1.9022 shares of common stock for each share of Series D-1 preferred stock.

Research and Development Research and development costs are expensed as incurred and are recorded as research and development expense in the consolidated statements of operations. The Company s research and development costs consist of expenses incurred to identify, develop, and test its technologies for the production of isobutanol and the development of

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downstream applications thereof. Research and development expense includes personnel costs, consultants and related contract research, facility costs, supplies, depreciation on property, plant and equipment used in development, license fees and milestone payments paid to third parties for use of their intellectual property and patent rights, and other direct and allocated expenses incurred to support the Company s overall research and development programs.

Income Taxes The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, as well as operating loss carryforwards. Deferred tax assets are reduced by a valuation allowance if current evidence indicates that it is considered more likely than not that these benefits will not be realized (Note 13). At March 31, 2011 and December 31, 2010, the Company has no material unrecognized tax benefits and has no accrued interest or penalties related to uncertain tax positions. The Company classifies interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations as income tax expense.

Stock-Based Compensation The Company accounts for stock-based compensation for awards to employees in accordance with FASB ASC 718, *Compensation-Stock Compensation*. Under the provision of FASB ASC 718, stock-based compensation for awards to employees is measured at the grant date based on the fair value of the awards and is recognized as expense over the required service period of the award. The Company estimates the fair value of stock options issued to employees using the Black Scholes option-pricing model.

The Company accounts for stock-based awards to nonemployees using a fair value method in accordance with FASB ASC 718 and FASB ASC 505-50, *Equity-Equity-Based Payments to Non-Employees*. The Company determines the estimated fair value of stock options issued to nonemployees using the Black Scholes option-pricing model. Restricted common stock grants issued to nonemployees are accounted for at the estimated fair value of the underlying common stock. The fair values of the stock options and stock-based awards granted to nonemployees are remeasured as the services are performed and the awards vest, and the resulting change in value, if any, is recognized as expense during the period the related services are rendered.

Concentrations of Credit Risk The Company s financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents in excess of the federally insured limits. The Company s cash and cash equivalents are deposited with high credit quality financial institutions and are primarily in demand deposit accounts. Substantially all ethanol sold through the Company s Agri-Energy subsidiary from the date of acquisition through March 31, 2011 was sold to C&N.

Fair Value Measurements and Fair Value of Financial Instruments 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.

As of March 31, 2011 and December 31, 2010, there were no transactions measured at fair value on a nonrecurring basis. The following table shows assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, and the input categories associated with those assets and liabilities.

	Fair Value as of March 31, 2011	**Fair Value Measurement Using**		
		Level 1	**Level 2**	**Level 3**
Assets Exchange-traded derivatives	$ 65,000	$ 65,000	$	$

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	Fair Value as of December 31, 2010	Fair Value Measurement Using Level 1	Level 2	Level 3
Liabilities Fair value of warrant liabilities	$ (2,034,000)	$	$	$ (2,034,000)
Liabilities Exchange-traded derivatives	$ (405,000)	$ (405,000)	$	$
Assets Forward purchase contracts for corn	$ 361,000	$	$ 361,000	$

The changes in Level 3 liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 are as follows:

	Fair Value of Warrant Liabilities
Liabilities:	
Balance December 31, 2010	$ 2,034,000
Change in fair value of warrants	29,000
Conversion of preferred stock warrants to common stock warrants and reclassification of related liability to additional paid-in-capital	(2,063,000)
Balance March 31, 2011	$

The carrying value of cash and cash equivalents, restricted cash, receivables, and accounts payable approximate their respective fair values due to the short-term nature of these instruments. Based on borrowing rates which management believes would currently be available to the Company for similar issues of debt, taking into account the current credit risk of the Company and other market factors, the carrying value of the Company s debt obligations approximate their fair value.

The fair value of exchange-traded derivative instruments is based on quoted market prices. The fair value of forward purchase contracts for corn is based upon the price at the delivery location adjusted for basis differentials, counterparty credit quality, the effect of the Company s own credit worthiness, the time value of money and/or the liquidity of the market. Contracts which qualify for the normal purchases and normal sales scope exception to fair value accounting are not marked to market in the financial statements. Effective January 1, 2011, the Company designates all of its forward purchase contracts for corn and natural gas under the normal purchases and normal sales scope exception and therefore they will no longer be marked to market.

Prior to its initial public offering, the Company had current derivative liabilities relating to its preferred stock warrants. The derivative instruments were not originally entered into as hedging activities, and the change in fair value of warrant liabilities was recorded in the consolidated statements of operations. The estimated fair value of the preferred stock warrant liabilities were revalued at each balance sheet date, with changes in value recorded as other income or expense in the consolidated statements of operations (Note 10).

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.

Environmental Liabilities The Company s operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of materials at its locations. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health and the production, handling, storage and use of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities are recorded when the Company s liability is probable and the costs can be reasonably estimated. No environmental liabilities have been recorded as of March 31, 2011 and December 31, 2010.

Net Loss 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 potential 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 loss per share results in the same value.

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The following table summarizes the Company s calculation of historical net loss per common share attributable to Gevo, Inc. stockholders:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net loss attributable to Gevo, Inc. common stockholders	$ (10,377,000)	$ (7,880,000)
Weighted-average common shares used in computing net loss per share of common stock-basic and diluted	13,744,337	1,123,045
Net loss per share of common stock attributable to Gevo, Inc. stockholders basic and diluted	$ (0.76)	$ (7.02)

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share during each period as the effect was anti-dilutive:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Convertible preferred stock upon conversion to common stock (as converted basis)(1)		14,397,868
Warrants to purchase convertible preferred stock (as converted basis)(1)		306,109
Warrants to purchase common stock	1,086,785	858,000
Outstanding stock options to purchase common stock	3,107,619	2,473,005
Unvested restricted common stock	116,260	23,698
Total	4,310,664	18,058,680

(1) The convertible preferred stock and convertible preferred stock warrants were computed on an as-converted basis using a one-to-one conversion rate for all series of preferred stock, except for the Series D-1 preferred stock where the Company has used a conversion rate of 1.9022, which was the conversion rate applicable at the closing of the Company s initial public offering on February 14, 2011.

Recent Accounting Pronouncements In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures Improving Disclosures above Fair Value Measurements,* that requires entities to make new disclosures about recurring or nonrecurring fair-value measurements and provides clarification of existing disclosure requirements. This amendment requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This amendment is effective for fiscal years beginning after December 15, 2010. The adoption did not have a material impact on the condensed consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations,* to clarify the acquisition date that should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings. The amendments in this ASU are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not expect the provisions of ASU 2010-29 to have a material effect on the financial position, results of operations or cash flows of the Company, however the Company may have additional disclosure requirements if the Company completes a business combination in the future.

2. Acquisition of Agri-Energy

In September 2010, Gevo Development purchased all of the membership interests of Agri-Energy, LLC, a Minnesota limited liability company, and certain assets of Agri-Energy Limited Partnership, a Minnesota limited partnership, and acquired ownership of a 22 million gallon per year ethanol production facility located in Luverne, Minnesota, which it plans to retrofit for isobutanol production. The Company paid a purchase price of approximately $20,602,000. In addition, the Company acquired and paid $4,919,000 for working capital, resulting in a total amount paid of $25,521,000. As of March 31, 2011, $1,660,000 remained in escrow as security for seller indemnification obligations and, subject to any claims that are made, will be released in December 2011.

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The acquisition of Agri-Energy was completed as part of the Company s strategy of acquiring access to ethanol production facilities for future retrofit to produce isobutanol. The acquisition was completed and Gevo Development acquired effective control of Agri-Energy on September 22, 2010. The acquisition was accounted for under the acquisition method of accounting which requires, among other things, that all assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date.

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the acquisition date (September 22, 2010):

Assets acquired:	
Cash	$ 585,000
Receivables	1,999,000
Inventory	3,570,000
Other current assets	1,256,000
Property, plant and equipment	20,602,000
Total assets acquired	$ 28,012,000
Liabilities assumed:	
Accounts payable and accrued expenses	$ 1,843,000
Other current liabilities	648,000
Total liabilities assumed	$ 2,491,000
Net assets acquired	$ 25,521,000

3. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

	Estimated Useful Lives	March 31, 2011	December 31, 2010
Computer, office equipment, and software	3 years	$ 634,000	$ 581,000
Lab equipment, furniture & fixtures and vehicles	5 years	3,616,000	3,432,000
Leasehold improvements	5 years(1)	380,000	380,000
Pilot plant	3 years	721,000	721,000
Demonstration plant	2 years(2)	3,231,000	2,948,000
Construction in progress		1,039,000	442,000
Land		410,000	410,000
Buildings, site improvements, plant machinery and equipment	10 years	20,093,000	20,093,000
Tools and support equipment	5 years	87,000	87,000
Total property, plant and equipment		30,211,000	29,094,000
Less accumulated depreciation and amortization		(6,642,000)	(5,629,000)
Property, plant and equipment net		$ 23,569,000	$ 23,465,000

(1) Leasehold improvements are amortized over the term of the lease agreement or the service lives of the improvements, whichever is shorter.
(2)

Depreciation related to the demonstration plant begins in the period such assets are placed in service. The demonstration plant was placed in service in September 2009. The demonstration plant is being depreciated over the remaining contractual term of the development agreement, as amended, with ICM, which ends December 31, 2011 (Note 5).

Depreciation and amortization expense for the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, were $1,013,000, $809,000, and $6,705,000, respectively.

During the three months ended March 31, 2011 and 2010, the Company capitalized $24,000 and $0, respectively, of interest expense to construction in progress.

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4. Inventories

Inventory balances consisted of the following:

	March 31, 2011	December 31, 2010
Raw materials:		
Corn	$ 3,987,000	$ 2,516,000
Enzymes and other inputs	80,000	167,000
Finished goods:		
Ethanol	288,000	385,000
Distiller s grains	63,000	48,000
Work in process	463,000	301,000
Spare parts	352,000	348,000
Total inventory	$ 5,233,000	$ 3,765,000

Included in cost of goods sold is depreciation of $512,000 for the three months ended March 31, 2011.

5. Significant License, Research, and Other Agreements

ICM In October 2008, the Company signed development and commercialization agreements with 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, and project fees. The development agreement was originally effective through December 31, 2010, and was amended in July 2010 to extend the effective date through December 31, 2011. The development agreement can be terminated by the Company with 30 days written notice. During the three months ended March 31, 2011 and 2010, the Company incurred $283,000 and $48,000, respectively, in capital expenditures with ICM relating to the demonstration plant that are recorded as property, plant and equipment in the Company s balance sheets. The Company incurred operating expenses paid to ICM for production trials at the demonstration plant and depreciation expense relating to the demonstration plant, which are recorded as research and development expenses.

The term of the commercialization agreement is through October 16, 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 agreement noted above, the Company has also engaged ICM to perform engineering studies, plant evaluations and other services.

During the three months ended March 31, 2011, the Company incurred $278,000 in capital expenditures with ICM relating to the retrofit of the Agri-Energy facility to future isobutanol production, which amounts are recorded within construction in progress on the Company s balance sheet.

Expenses incurred by the Company under its development, commercialization and other agreements with ICM are as follows:

	Three Months Ended,	Cumulative Amounts From June 9, 2005 (Date of

	March 31, 2011	March 31, 2010	Inception) to March 31, 2011
Research and development	$ 220,000	$ 736,000	$ 3,872,000
Selling, general and administrative		32,000	92,000
Total expenses	$ 220,000	$ 768,000	$ 3,964,000

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Cargill, Incorporated (February 2009, License Agreement) 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 $4,300,000 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 $875,000, to research and development expense. During March 2010, the Company completed milestone number three and recorded the related milestone amount of $2,000,000 to research and development expense at its present value amount of $1,578,000 because the milestone payment will be paid over a period greater than 12 months from the date it was incurred. At March 31, 2011, the present value of the liability, $1,543,000, was recorded as $924,000 in accounts payable and accrued expenses and $619,000 in non-current liabilities. At December 31, 2010, the present value of the liability, $1,737,000, was recorded as $924,000 in accounts payable and accrued expenses and $813,000 in non-current liabilities. The accretion of the liability was recorded to interest expense.

Upon commercialization of a product which uses the Cargill 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 no licensed patent rights remain, but in no case before December 31, 2025.

The Regents of the University of California (September 2007, License Agreement) In September 2007, the Company entered into an exclusive license agreement, as amended, with The Regents of the University of California (The Regents) to obtain certain patent rights to inventions made in the course of research at the University of California. The license agreement requires the Company to pay for all costs related to obtaining and maintaining patents on the technology. Under the terms of the license agreement, the Company is required to pay annual license maintenance fees, cash payments upon achievement of certain milestones, and royalties based on revenue from products utilizing the licensed technology. The Company has the right to issue sublicenses to third parties, subject to the payment of a percentage of sublicensing fees and royalty fees to The Regents. The Company can terminate the license agreement at any time with 90 days notice. The Regents can terminate the license agreement if the Company fails to demonstrate performance of certain due diligence items as defined in the license agreement. Unless terminated earlier in accordance with the license agreement, the license agreement remains in effect for the life of the last-to-expire patent in the licensed patent rights or until the last patent application licensed under this license agreement is abandoned or no patent in the included patent rights ever issues.

Costs incurred by the Company are recorded as research and development expenses except for legal-related fees that pertain to obtaining and maintaining patents on the technology, which are recorded as selling, general and administrative expenses.

During the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, the Company incurred costs of $16,000, $26,000 and $481,000, respectively, under the license agreement.

California Institute of Technology (July 2005, License Agreement) In July 2005, the Company entered into a license agreement, as amended, with the California Institute of Technology (Caltech) to obtain certain patent rights and improvement rights in exchange for the issuance of 200,000 shares of the Company s common stock. The term of the license agreement shall continue until the expiration, revocation, invalidation, or unenforceability of the licensed patent rights and improvements licensed to the Company. The license agreement has been amended to expand the field of the licensed products and improvements and to extend the right to improvements through July 12, 2013.

No costs were incurred under this license agreement during the three months ended March 31, 2011 and 2010. For the period from June 9, 2005 (date of inception) to March 31, 2011, the Company incurred costs of $219,000 under the license agreement.

The Regents of the University of California (July 2008, Research Agreement) In July 2008, the Company entered into a research agreement with The Regents. The research agreement was terminated effective February 14, 2010. During the three months ended March 31, 2011 and 2010, the Company recorded $0 and $225,000, respectively, as research and development expenses under this research agreement. For the period from June 9, 2005 (date of inception) to March 31, 2011, the Company recorded $1,425,000 as research and development expense under this agreement.

VIB (May 2009, Research Agreement) Effective May 1, 2009, the Company entered into an agreement with VIB to engage in research related to modifying yeast to improve the production of isobutanol. The term of the research agreement ends April 30, 2011. During the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, the Company incurred $106,000, $132,000 and $964,000, respectively, of research and development expenses under this research agreement. The Company may have to pay future milestone payments of up to approximately $300,000 depending on the completion of four defined contract milestones. No milestones have been met or paid under this research agreement as of March 31, 2011.

Cargill, Incorporated (January 2010, Subcontractor Agreement) During January 2010, the Company entered into a subcontractor agreement with Cargill to engage Cargill to provide research and development services to develop biological material that has been licensed by the Company. The subcontractor agreement may require payment of up to $1,500,000 through the term of the agreement, which ends August 31, 2011. Either party may cancel the subcontractor agreement upon 30 days written notice.

Other 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 for the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, were $172,000, $330,000 and $2,908,000, respectively.

C&N Ethanol Marketing (April 2009, Ethanol Purchase and Marketing Agreement) Substantially all ethanol sold through the Company s Agri-Energy subsidiary from the date of the acquisition through March 31, 2011 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 Luverne, Minnesota facility and will pay to Agri-Energy the gross sales price paid by the end customer less expenses and a marketing fee.

LANXESS (January 2011, Exclusive Supply Agreement) On January 14, 2011, the Company entered into an exclusive supply agreement 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, (i) an exclusive first right to acquire its biobased isobutanol to produce isobutylene and butenes for use and sale in the field of chemicals, (ii) an exclusive right to use the Company s isobutanol to produce butadiene and isobutylene for use in the production of polybutadiene and butyl rubber, and (iii) an exclusive right to use its isobutanol to produce isobutylene for use in the production of polyisobutylene. The initial term of the mutual exclusivity is ten years, subject to mutual extension. No costs have been incurred under this agreement as of March 31, 2011.

6. Gevo Development

Gevo, Inc. formed Gevo Development on September 18, 2009 to finance and develop biorefineries through joint venture 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), which is beneficially owned by the two co-managing directors of Gevo Development, 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 will receive aggregate consideration of up to approximately $1,143,000, $500,000 of which was paid on September 22, 2010, $274,000 of which was paid on December 30, 2010, $74,000 of which was paid on January 1, 2011, and the remainder of which is payable through January 1, 2012, subject to the terms and conditions set forth in the agreement.

The original issuance of the class B interests was considered to be a grant of nonemployee stock 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

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was zero. Upon the purchase of the class B interests on September 22, 2010, the Company recorded stock compensation of $774,000, which reflected the amount paid during the year ended December 31, 2010 for the class B interests that was not dependent on counterparty performance. During the three months ended March 31, 2011, the Company recorded stock compensation of $74,000 for the amount paid during the period. The Company will record the remaining amount, which is dependent on continued employment, when it is paid.

For the three months ended March 31, 2011 and 2010, and for the period from September 18, 2009 (formation date of Gevo Development) to March 31, 2011, Gevo, Inc. made capital contributions of $1,891,000, $500,000 and $21,248,000 (which includes $13,259,000 of cash used in the purchase of Agri-Energy), respectively, to Gevo Development. No capital contributions had been made by CDP through September 21, 2010. For the three months ended March 31, 2011 and 2010, and for the period from September 18, 2009 (formation date of Gevo Development) to March 31, 2011, Gevo Development (including Agri-Energy after September 22, 2010, the closing date of the acquisition) incurred a net loss of $916,000, $400,000 and $3,974,000, respectively, 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 from September 22, 2010 through December 31, 2010). For financial reporting purposes prior to September 22, 2010, the income or loss allocated to the members of Gevo Development was determined using the hypothetical liquidation at book value method. Under this method, net income or loss is allocated between members by determining the difference between the amount of equity at the beginning of the reporting period and equity at the end of the reporting period, which would be distributed to each member if the entity were to be liquidated as of those dates. Distributions, when and if declared by the board of managers, were allocated, first, to each member for their estimated tax amount, then, for their unreturned capital contributions, and lastly, according to their distribution percentages. Allocation, distribution and voting percentages are determined in accordance with the First Amended and Restated Limited Liability Company Agreement of Gevo Development.

Amended and Restated Warrant Agreement The warrant agreement details the terms upon which Gevo, Inc. has granted a warrant, as amended, to CDP to purchase 858,000 shares of the common stock of Gevo, Inc. at an exercise price of $2.70 per share, the estimated fair value of a share of Gevo, Inc. s common stock at the time of entering into the warrant agreement. 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. No amounts had been recorded for these warrants in the Company s consolidated statements of operations through September 21, 2010, as none of the counterparty performance milestones had been met; therefore, the lowest aggregate fair value of the award was zero.

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 vest over a two-year period beginning on September 22, 2010, subject to acceleration and termination in certain circumstances, such as the occurrence of a change of control event. The Company valued the warrant at approximately $13,956,000 on September 22, 2010, and recognized 50% of this amount as stock-based compensation on September 22, 2010. The Company is and will recognize the remaining 50% over the 24 month vesting period that began on September 22, 2010.

When Gevo Development was formed in September 2009, Gevo, Inc., Gevo Development and CDP also entered into the following related agreements: a commercialization agreement, a guaranty agreement and an exchange agreement. In August and September 2010, the commercialization agreement, the guaranty agreement and the exchange agreement were all terminated.

Commercialization Agreement The commercialization agreement was terminated on September 22, 2010. The commercialization agreement set forth the services that Gevo, Inc. and CDP were to provide to Gevo Development. Gevo Development compensated CDP for its services through a quarterly management fee and the payment of bonuses upon achievement of established milestones. CDP was also granted a warrant as described above under the heading *Amended and Restated Warrant Agreement*. During the three months ended March 31, 2010, Gevo Development recorded $239,000 in fees and bonuses to CDP, which amounts were recorded as selling, general and administrative costs on the statements of operations.

Guaranty Agreement The guaranty agreement was terminated on September 22, 2010. In September 2009, in connection with the formation of Gevo Development and the execution of the commercialization agreement, Gevo, Inc. entered into a guaranty agreement pursuant to which Gevo, Inc. agreed to guarantee the financial obligations of Gevo Development to CDP under the commercialization agreement through the earlier of the termination of the commercialization agreement or December 31, 2011.

Exchange Agreement The exchange agreement was terminated on August 5, 2010. As described in the exchange agreement, if, upon a termination event, none of the parties owned a production facility, the class B interests would be immediately forfeited without consideration. Upon a fundamental event, as described in the exchange agreement and including a change in

control, initial public offering, sale, or transfer of substantially all assets of Gevo, Inc., and other defined events, CDP s class B interests would convert into shares of Gevo, Inc. s common stock based on their relative values, as defined, as of the closing of the fundamental event.

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 the entity s economic performance and (ii) the obligation to absorb losses of Gevo Development that could potentially be significant to the entity or the right to receive benefits from Gevo Development that could potentially be significant to the entity. As such, Gevo Development is consolidated. The accounts of Agri-Energy are consolidated within Gevo Development as a wholly owned subsidiary. As of March 31, 2011 and December 31, 2010, Gevo Development does not have any assets that can be used only to settle obligations of Gevo Development. However, under the terms of the $12.5 million loan and security agreement with TriplePoint Capital LLC (TriplePoint), as amended, subject to certain limited exceptions, Agri-Energy is only permitted to pay dividends if certain conditions are satisfied. As of March 31, 2011 and December 31, 2010, the creditors of Gevo Development have recourse to the general credit of Gevo, Inc. with the exception of $1,952,000 and $4,785,000, respectively, that is 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.

7. Secured Long-Term Debt

The carrying value of the secured long-term debt included in the Company s consolidated balance sheets at March 31, 2011 and December 31, 2010 consists of the following:

	March 31, 2011	December 31, 2010
Long-term debt, unpaid principal plus final/end-of-term payments	$ 21,585,000	$ 22,038,000
Less unamortized debt discounts for final/end-of-term payments and original fair value of warrants issued with debt	(1,472,000)	(1,606,000)
	20,113,000	20,432,000
Less current portion	(1,855,000)	(1,785,000)
Long-term portion of the long-term debt	$ 18,258,000	$ 18,647,000

Lighthouse Loan and Security Agreement. On December 18, 2006, Gevo, Inc. entered into a loan and security agreement, as amended, with Lighthouse Capital Partners V, L.P. (Lighthouse). On August 6, 2010, the Company repaid $5,000,000 in outstanding principal, as well as $250,000 of the final payment, under the promissory note issued in connection with the loan and security agreement, using amounts borrowed pursuant to a loan and security agreement with TriplePoint, as well as available cash reserves. As of March 31, 2011, the Company s outstanding principal balance on its loan with Lighthouse was $2,481,000. The promissory note bears interest at a rate of 12% per annum, required interest only payments during the year ended December 31, 2010, and requires principal plus interest repayments of equal amounts over the 18 months commencing January 1, 2011 and a final payment of $204,000 due on July 1, 2012.

Under the terms of the loan agreement, the Company is prohibited from granting a security interest in its intellectual property assets to any other entity until Lighthouse is paid in full, and Lighthouse maintains a security interest in the assets, including equipment and fixtures, financed by the proceeds of each original loan advance made under the loan agreement until such time as the loan is paid in full. The Lighthouse agreement does not contain financial ratio covenants, but does impose certain affirmative and negative covenants, which include prohibiting the Company from paying any dividends or distributions or creating any liens against the collateral as defined in the agreement, as amended. The Company cannot borrow any further amounts under its agreement with Lighthouse. At March 31, 2011, the Company was in compliance with the Lighthouse debt covenants.

TriplePoint Loan and Security Agreement 1. In August 2010, concurrently with the execution of the acquisition agreement with Agri-Energy, Gevo, Inc. entered into a loan and security agreement with TriplePoint, pursuant to which it borrowed $5,000,000. The loan and security agreement includes customary affirmative and negative covenants for agreements of this type and events of default, including disposing of certain assets, granting or otherwise allowing the imposition of a lien against certain assets, incurring certain amounts of additional indebtedness, or acquiring or merging with another entity, excluding Agri-Energy, unless the Company receives the prior approval of TriplePoint. The aggregate amount outstanding under the loan and security agreement bears interest at a rate equal to 13%, is subject to an end-of-term payment equal to 8% of the amount borrowed and is secured by substantially all of the assets of Gevo, Inc., other than its intellectual property. The loan is also secured by substantially all of the assets of Agri-Energy, LLC. Additionally, under the terms of each of (i) the loan and security agreement and (ii) Gevo, Inc. s guarantee of Gevo Development s and Agri-Energy s obligations under the

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loan and security agreement described below, Gevo, Inc. is prohibited from granting a security interest in its intellectual property assets to any other entity until both TriplePoint loans are paid in full. The loan matures on August 31, 2014, and provides for interest only payments during the first 24 months. An additional interest-only period may be elected now that Gevo, Inc. has completed an initial public offering and a subsequent interest-only period will become available in the event that Gevo, Inc. is producing isobutanol at its Agri-Energy facility by June 30, 2012. Each such additional interest-only period may be for a maximum of 6 months, for a total possible interest-only extension period of 12 months. Gevo, Inc. used the funds from this loan to repay a portion of its existing indebtedness with Lighthouse. At March 31, 2011, the Company was in compliance with the debt covenants under this loan and security agreement.

TriplePoint Loan and Security Agreement 2. In August 2010, Gevo Development also entered into a loan and security agreement with TriplePoint under which, upon the satisfaction of certain conditions, Gevo Development could borrow up to $12.5 million to finance the transactions contemplated by the acquisition agreement with Agri-Energy. In September 2010, Gevo Development borrowed the $12.5 million and closed the transactions contemplated by the acquisition agreement, at which time the loan and security agreement was amended and Agri-Energy, LLC became a borrower under the loan and security agreement. The loan and security agreement includes customary affirmative and negative covenants for agreements of this type and events of default. The aggregate amount outstanding under the loan and security 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, LLC held by Gevo Development and substantially all the assets of Agri-Energy, LLC. The loan matures on September 1, 2014, and provides for interest only payments during the first 24 months. An additional interest-only period may be elected now that Gevo, Inc. has completed an initial public offering and a subsequent interest-only period will become available in the event that Gevo, Inc. is producing isobutanol at its Agri-Energy facility by June 30, 2012. Each such additional interest-only period may be for a maximum of 6 months, for a total possible interest-only extension period of 12 months. 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. At March 31, 2011, the Company was in compliance with the debt covenants under this loan and security agreement.

Interest expense, net of amounts capitalized to construction in progress, related to the long-term debt for the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, was $836,000, $308,000 and $4,618,000, respectively, of which $213,000, $69,000 and $1,314,000, respectively, was for the accretion of debt discounts relating to the final/end-of-term payments, amortization of debt issue costs and the accretion of debt discounts relating to the grant date value of the warrants issued in connection with the debt. The Company capitalized $24,000 of interest expense to construction in progress during the three months ended March 31, 2011. No interest expense was capitalized to construction in progress prior to January 1, 2011.

During the three months ended March 31, 2011, the Company made principal repayments of $453,000. The Company repaid $5,000,000 in outstanding principal, as well as $250,000 of the final payment, on the Lighthouse debt during the year ended December 31, 2010.

The following is a summary of principal maturities of long-term debt and the non-principal final/end-of-term payments as of March 31, 2011:

	Principal	Final Payment	Total
2011 (9 months)	$ 1,444,000	$	$ 1,444,000
2012	3,167,000	204,000	3,371,000
2013	8,478,000		8,478,000
2014	6,892,000	1,400,000	8,292,000
	$ 19,981,000	$ 1,604,000	$ 21,585,000

In connection with signing and borrowing under the loans with Lighthouse and TriplePoint, the Company issued warrants to purchase shares of the Company s preferred stock. The issuance date fair value of these warrants have been recorded as a debt discount against the debt (debt discount) and amortized to interest expense over the terms of the loans. These warrants, while they were exercisable for preferred stock, were considered to be derivative instruments (Note 10).

From December 2006 through December 31, 2009, the Company issued to Lighthouse warrants to purchase an aggregate of 169,247 shares of Company s convertible preferred stock at a weighted-average exercise price of $5.38. These warrants converted to warrants exercisable for 169,247 shares of the Company s common stock upon completion of its initial public offering. In March 2011, Lighthouse completed a cashless net exercise of the warrants that had been issued to them which resulted in the Company issuing 122,424 shares of its common stock to Lighthouse.

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In connection with signing and borrowing on the loans with TriplePoint in August and September 2010, the Company issued warrants to TriplePoint to purchase an aggregate of 105,140 shares of Series D-1 convertible preferred stock at an exercise price of $17.12. The warrants became exercisable for 199,999 shares of the Company s common stock upon completion of its initial public offering on February 14, 2011. The warrants may be exercised until August 5, 2017.

The warrants issued to TriplePoint during August and September 2010, were valued on the issuance dates using an option-pricing model using a risk-free interest rate of 0.15%, expected volatility between 49.14% and 61.90% and a term of 0.17 years.

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses in the consolidated balance sheets at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
Accounts payable trade	$ 2,518,000	$ 4,818,000
Accrued expenses Cargill license agreement	924,000	924,000
Accrued employee compensation and related expenses	1,227,000	586,000
Accrued expenses ICM	175,000	163,000
Accrued deferred offering costs	51,000	548,000
Other accrued expenses	1,001,000	864,000
	$ 5,896,000	$ 7,903,000

9. Capital Stock

Initial Public Offering On February 14, 2011, the Company completed its initial public offering issuing 8,222,500 shares of common stock at an offering price of $15.00 per share, resulting in net proceeds, after deducting underwriting discounts and commissions but before expenses, to the Company of approximately $114,704,000. Additionally, the Company incurred offering costs of $4,296,000 related to the initial public offering. Upon the closing of the initial public offering, the Company s outstanding shares of convertible preferred stock were automatically converted into 16,329,703 shares of common stock and the outstanding convertible preferred stock warrants were automatically converted into common stock warrants to purchase a total of 398,032 shares of common stock. The net proceeds from the initial public offering, after deducting underwriting discounts and commissions and offering expenses, have been recorded in stockholders equity.

In connection with the closing of the initial public offering, on February 11, 2011, the Company amended and restated its certificate of incorporation to increase its authorized number of shares of common stock to 100,000,000 and to authorize the issuance of 5,000,000 shares of preferred stock. The holder of each share of common stock is entitled to one vote. The board of directors has the authority, without action by its stockholders, to designate and issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The Company s amended and restated certificate of incorporation provides that the Company s board of directors will be divided into three classes, with staggered three-year terms and provides that all stockholder actions must be effected at a duly called meeting of the stockholders and not by a consent in writing. The amended and restated certificate of incorporation also provides that only the board of directors may call a special meeting of the stockholders and requires a 66 2/3% stockholder vote for the adoption, amendment or repeal of any provision of the Company s amended and restated bylaws and for the amendment or repeal of certain provisions of the Company s amended and restated certificate of incorporation.

Convertible Preferred Stock All shares of the Company s convertible preferred stock automatically converted into shares of common stock upon the Company s initial public offering in February 2011.

Series D-1 Between March and May 2010, the Company issued 1,843,675 shares of Series D-1 preferred stock at a price of $17.12 per share for gross cash proceeds of approximately $31,564,000 and issued 58,412 shares of Series D-1 preferred stock at $17.12 per share in exchange for $1,000,000 of future services to be provided by ICM. The 58,412 shares issued to ICM in exchange for the credit against future services are fully vested, non-forfeitable and non-cancellable. In addition, ICM must pay a penalty of $250,000 if future services are not provided according to the terms of the agreement. In aggregate, the Company issued a total of 1,902,087 shares of Series D-1 preferred stock at $17.12 per share for $32,564,000. As of March 31, 2011, the Company had used the full amount of its prepaid credit with ICM which had been recorded in prepaid expenses and other current assets on the Company s balance sheet.

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The Series D-1 preferred stock was considered to have a beneficial conversion feature because the conversion ratio would adjust from the initial conversion rate of one common share for each preferred share to two common shares for each preferred share if an initial public offering or qualified financing had not occurred on or before September 30, 2011. At the issuance dates of the Series D-1 between March and May 2010, the Company recorded the beneficial conversion feature at its aggregate intrinsic value of approximately $5,744,000 as a discount on the preferred stock with a corresponding credit to additional paid-in-capital. This discount was recorded as a deemed dividend and amortized as a debit to retained earnings and a credit to additional paid-in-capital during the period from March 26, 2010 to September 30, 2011.

For the period from January 1, 2011 to the closing of the Company s initial public offering on February 14, 2011, the Company recorded a deemed dividend amortization of beneficial conversion feature on the Series D-1 convertible preferred stock of $495,000 relating to the issuance of Series D-1 convertible preferred stock. Upon closing of the initial public offering on February 14, 2011 and the automatic conversion of the Company s Series D-1 preferred stock to common stock, the Company recalculated the intrinsic value of the beneficial conversion feature using the adjusted conversion ratio applied against the original commitment date estimated fair value of the underlying common stock. The amount of the recalculated intrinsic value of the beneficial conversion feature exceeded the previously amortized amount of the beneficial conversion feature by $599,000, which amount was immediately amortized to retained earnings and additional paid-in-capital contemporaneously with the closing of the initial public offering. After the entries recorded through, and upon, the closing of the Company s initial public offering, no additional amortization of the beneficial conversion feature relating to the Series D-1 preferred stock will be recorded.

Warrants As of December 31, 2010, the Company has issued and outstanding 858,000 warrants to CDP (Note 6) that are exercisable into common stock and 303,173 warrants to TriplePoint, Lighthouse and investors that are exercisable into preferred stock. These 303,173 preferred stock warrants became exercisable for 398,032 shares of the Company s common stock upon completion of the Company s initial public offering on February 14, 2011.

In March 2011, Lighthouse completed a cashless net exercise of the 169,247 warrants that had been issued to them which resulted in the Company issuing 122,424 shares of its common stock to Lighthouse.

As of March 31, 2011, the Company has issued and outstanding an aggregate of 1,086,785 warrants that are exercisable into common stock.

In September 2010, a holder of Series C preferred stock warrants exercised its warrant to purchase 108,076 shares of Series C preferred stock at an exercise price of $5.48 per share resulting in total proceeds to the Company in the amount of $592,000. Upon exercise of the warrant, the Company reclassified $1,458,000 from preferred stock warrant liability to equity.

10. Preferred Stock Warrant Liabilities

Upon the closing of the Company s initial public offering on February 14, 2011, the preferred stock warrants that were previously recorded as liabilities on the Company s balance sheet were automatically converted to common stock warrants. Upon this conversion, the related preferred stock warrant liability of $2,063,000 was reclassified to additional paid-in capital and will no longer be marked to fair value.

The preferred stock warrants were marked to fair value from January 1, 2009 through February 14, 2011, and the change in fair value was recognized in the Company s condensed consolidated statements of operations as gain or loss from change in fair value of warrant liabilities. The non-cash charge recorded related to the change in fair value of preferred stock warrants for the three months ended March 31, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, was $29,000, $590,000 and $2,852,000, respectively.

11. Derivatives and Hedging

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 and natural gas to ensure supply and manage the prices of these commodities. These transactions are considered to be derivatives and prior to January 1, 2011 were recorded on the balance sheet as assets and liabilities based on each derivative s fair value. The changes in the fair value of these derivative contracts were recognized in income, as a component of cost of goods sold. Effective January 1, 2011, the Company designates all of its forward purchase contracts for corn and natural gas under the normal purchases and normal sales scope exception and therefore they will no longer be marked to market.

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

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The Company s derivatives do not include any credit risk related contingent features. For the exchange-traded contracts, the Company maintains a margin deposit. At March 31, 2011 and December 31, 2010, the Company recorded a margin deposit of $1,008,000 and $624,000, respectively. The Company has not designated any of its derivatives as hedges for financial accounting purposes. The Company did not have any derivative assets or liabilities prior to September 22, 2010 other than the preferred stock warrants described in Note 10. The fair value of its derivatives, which are marked to market each period, as well as the location within its combined balance sheet, by major category, is summarized as follows:

Balance Sheet Line Item	March 31, 2011	December 31, 2010
Derivative liabilities not qualifying for normal purchases and normal sales scope exception:		
Exchange-traded commodity derivatives derivative liability current	$	$ (405,000)
Derivative assets not qualifying for normal purchases and normal sales scope exception:		
Forward purchase corn contracts derivative asset current	$	$ 361,000
Exchange-traded commodity derivatives derivative asset current	$ 65,000	$

Changes in the value of derivative instruments are recorded in the consolidated statements of operations unless they qualify for the normal purchases and normal sales scope exception. The following table summarizes these amounts and the location within the consolidated statements of operations where such amounts are reflected. In addition to the unrealized gains and losses noted below, the Company incurred realized losses of $827,000, $1,098,000 and $1,925,000 on its exchange-traded futures contracts for the three months ended March 31, 2011, for the year ended December 31, 2010, and for the period from June 9, 2005 (date of inception) to March 31, 2011, respectively, which have been recorded within cost of goods sold.

Statement of Operations Location	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Exchange-traded commodity derivative cost of goods sold unrealized (gains)/losses	$ (470,000)	$
Forward purchase corn derivative cost of goods sold unrealized (gains)/losses	$ 361,000	$

The following table represents the Company s net long and short positions regardless of whether the derivative instruments qualify for the normal purchase and normal sales scope exception. All of these positions are expected to settle within the next year. The Company did not have any outstanding forward purchase contracts for natural gas as of March 31, 2011 and December 31, 2010.

Year of Expiration	March 31, 2011 Corn Net Long (Short) Position Bushels	December 31, 2010 Corn Net Long (Short) Position Bushels
2011	(493,000)	(309,000)

12. Stock-Based Compensation

2006 Omnibus Securities and Incentive Plan During 2006, the Company established the Gevo, Inc. 2006 Omnibus Securities and Incentive Plan (the 2006 Incentive Plan). Pursuant to the 2006 Incentive Plan, the Company may grant stock awards to employees, directors, and consultants of the Company. Upon adoption of the Gevo, Inc. 2010 Stock Incentive Plan (the 2010 Plan), no further

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grants can be made under the 2006 Incentive Plan. To the extent outstanding awards under the 2006 Incentive Plan expire, or are forfeited, cancelled, settled, or become unexercisable without the issuance of shares, the shares of common stock subject to such awards will be available for future issuance under the 2010 Plan.

Employee Stock Purchase Plan In February 2011, the Company s stockholders approved the Gevo, Inc. Employee Stock Purchase Plan. The Company initially reserved 1,285,643 shares of common stock for issuance under the Gevo, Inc. Employee StockPurchase Plan. The purchase price of the common stock under the Employee Stock Purchase Plan is 85% of the lower of the fair market value of a share of common stock on the first or last day of the purchase period. No shares have been issued under the Gevo, Inc. Employee Stock Purchase Plan as of March 31, 2011.

2010 Stock Incentive Plan In February 2011, the Company s stockholders approved the 2010 Plan. The Company initially reserved 2,571,286 shares of common stock for issuance under the 2010 Plan. At Mar