Gevo, Inc.
Form 10-Q
November 02, 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 September 30, 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 x No ¨

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

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

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

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

As of October 25, 2011, 26,066,636 shares of the registrant s common stock were outstanding.

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GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GEVO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 97,605,000	$ 15,274,000
Accounts receivable	2,749,000	2,830,000
Inventories	4,974,000	3,765,000
Prepaid expenses and other current assets	1,287,000	1,040,000
Derivative asset	1,370,000	361,000
Margin deposit		624,000
Total current assets	107,985,000	23,894,000
PROPERTY, PLANT AND EQUIPMENT Net	24,372,000	23,465,000
DEFERRED OFFERING COSTS		3,152,000
DEBT ISSUE COSTS	692,000	929,000
DEPOSITS AND OTHER ASSETS	130,000	169,000
TOTAL	$ 133,179,000	$ 51,609,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 10,219,000	$ 7,903,000
Current portion of secured long-term debt Net of $174,000 and $113,000 discount at September 30, 2011 and December 31, 2010, respectively	1,747,000	1,785,000
Derivative liability		405,000
Fair value of warrant liabilities		2,034,000
Total current liabilities(*)	11,966,000	12,127,000
SECURED LONG-TERM DEBT Net of $1,045,000 and $1,493,000 discount, less current portion, at September 30, 2011 and December 31, 2010, respectively	17,671,000	18,647,000
OTHER LIABILITIES	247,000	876,000
Total liabilities	29,884,000	31,650,000
COMMITMENTS AND CONTINGENCIES (Note 17)		
STOCKHOLDERS EQUITY:		
Convertible preferred stock, $0.01 par value per share; none and 15,246,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; none and 14,613,602 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively; aggregate liquidation preference of $0 and $90,660,000 at September 30, 2011 and December 31, 2010, respectively		146,000
Preferred stock, $0.01 par value per share; 5,000,000 and no shares authorized at September 30, 2011 and December 31, 2010, respectively; none issued and outstanding at September 30, 2011 and December 31, 2010, respectively		

Common stock, $0.01 par value per share; 100,000,000 and 30,000,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; 25,986,237 and 1,160,657 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	260,000	12,000
Additional paid-in capital	223,510,000	105,128,000
Deficit accumulated during development stage	(120,475,000)	(85,327,000)
Total stockholders equity	103,295,000	19,959,000
TOTAL	$ 133,179,000	$ 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 $2,796,000 and $4,785,000 at September 30, 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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	From June 9, 2005 (Date of Inception) To September 30, 2011
REVENUES:					
Ethanol sales and related products, net	$ 17,318,000	$ 975,000	$ 46,748,000	$ 975,000	$ 61,513,000
Licensing revenue		138,000		138,000	138,000
Grant revenue	188,000	383,000	572,000	1,175,000	3,308,000
Total revenues	17,506,000	1,496,000	47,320,000	2,288,000	64,959,000
COST OF GOODS SOLD	(16,232,000)	(856,000)	(45,062,000)	(856,000)	(58,508,000)
GROSS MARGIN	1,274,000	640,000	2,258,000	1,432,000	6,451,000
OPERATING EXPENSES:					
Research and development	(5,211,000)	(3,554,000)	(13,815,000)	(11,432,000)	(51,281,000)
Selling, general and administrative	(7,587,000)	(11,601,000)	(20,001,000)	(19,114,000)	(61,436,000)
Lease termination costs					(894,000)
Loss on abandonment or disposal of assets			(11,000)		(354,000)
Total operating expenses	(12,798,000)	(15,155,000)	(33,827,000)	(30,546,000)	(113,965,000)
LOSS FROM OPERATIONS	(11,524,000)	(14,515,000)	(31,569,000)	(29,114,000)	(107,514,000)
OTHER (EXPENSE) INCOME:					
Interest and other expense	(798,000)	(779,000)	(2,541,000)	(1,448,000)	(7,543,000)
Interest and other income	17,000	38,000	85,000	96,000	721,000
Loss from change in fair value of warrant liabilities		(2,052,000)	(29,000)	(3,302,000)	(2,852,000)
Other expense net	(781,000)	(2,793,000)	(2,485,000)	(4,654,000)	(9,674,000)
NET LOSS	(12,305,000)	(17,308,000)	(34,054,000)	(33,768,000)	(117,188,000)
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock		(989,000)	(1,094,000)	(1,789,000)	(3,872,000)
NET LOSS ATTRIBUTABLE TO GEVO, INC. COMMON STOCKHOLDERS	$ (12,305,000)	$ (18,297,000)	$ (35,148,000)	$ (35,557,000)	$ (121,060,000)
Net loss per share attributable to Gevo, Inc. common stockholders basic and diluted	$ (0.48)	$ (15.87)	$ (1.61)	$ (31.12)	

Weighted-average number of common shares outstanding basic and diluted	25,870,060	1,152,839	21,866,633	1,142,498

See notes to condensed consolidated financial statements

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GEVO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Cumulative Amounts From June 9, 2005 (Date of Inception) to September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (34,054,000)	$ (33,768,000)	$ (117,188,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,372,000	2,173,000	9,064,000
Stock-based compensation	4,897,000	9,250,000	16,617,000
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	625,000	573,000	2,778,000
Loss from change in fair value of warrant liabilities	29,000	3,302,000	2,852,000
Loss (gain) from change in derivative	(1,414,000)	(70,000)	(1,975,000)
Loss on abandonment or disposal of fixed assets	11,000		354,000
Changes in operating assets and liabilities (net of effects of acquisition):			
Accounts receivable	81,000	(219,000)	(750,000)
Prepaid expenses and other current assets	(535,000)	146,000	(652,000)
Inventories	(1,209,000)	522,000	(1,404,000)
Margin deposit	624,000	(13,000)	892,000
Deposits and other assets		1,000	(90,000)
Accounts payable, accrued expenses, and long-term liabilities	1,813,000	2,233,000	7,975,000
Net cash used in operating activities	(25,760,000)	(15,870,000)	(81,517,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of property, plant and equipment	(3,580,000)	(472,000)	(11,820,000)
Acquisition of Agri-Energy, net of cash acquired		(24,378,000)	(24,936,000)
Proceeds from the sale of property and equipment			5,000
Restricted certificate of deposit	40,000	40,000	(79,000)
Net cash used in investing activities	(3,540,000)	(24,810,000)	(36,830,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock (excluding our initial public offering)	21,000	16,000	43,000
Proceeds from issuance of convertible preferred stock		31,564,000	86,025,000
Proceeds from issuance of convertible promissory notes with warrant			3,000,000
Proceeds from issuance of secured long-term debt		17,500,000	26,578,000
Proceeds from issuance of warrants			1,000
Proceeds from exercise of warrants		592,000	592,000
Payments on secured long-term debt	(1,402,000)	(5,250,000)	(7,795,000)
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	(1,692,000)	(1,351,000)	(4,296,000)
Debt issue costs		(962,000)	(1,033,000)
Payment of stock issuance costs		(153,000)	(1,867,000)
Net cash provided by financing activities	111,631,000	41,956,000	215,952,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	82,331,000	1,276,000	97,605,000
CASH AND CASH EQUIVALENTS:			
Beginning of period	15,274,000	21,240,000	
Ending of period	$ 97,605,000	$ 22,516,000	$ 97,605,000

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	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Cumulative Amounts From June 9, 2005 (Date of Inception) to September 30, 2011
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	$	$ 177,000	$ 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	$ 1,458,000
Issuance of Series D-1 preferred stock to ICM, Inc. in exchange for a credit against future services	$	$ 1,000,000	$ 1,000,000
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock	$ 1,094,000	$ 1,789,000	$ 3,872,000
Reclassified deferred offering costs to additional paid-in capital upon initial public offering	$ 4,296,000	$	$ 4,296,000
Accrued Agri-Energy acquisition payments	$	$ 642,000	$
Capital asset additions in accounts payable and accrued expenses	$ 648,000	$ 313,000	$ 648,000
Capital asset additions acquired using prepaid credit with ICM, Inc.	$ 288,000	$ 78,000	$ 726,000
Accrued debt issue costs	$	$ 71,000	$
Accrued deferred offering costs	$	$ 1,229,000	$
SUPPLEMENTAL CASH FLOW DISCLOSURE Cash paid for interest, net of amounts capitalized	$ 1,766,000	$ 771,000	$ 4,456,000

See notes to condensed consolidated financial statements

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) on September 18, 2009 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 retrofit of the Luverne, Minnesota facility to the production of isobutanol is currently underway and is expected to be completed in the first half of 2012.

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 of $110,408,000, after deducting underwriting discounts and commissions of $8,634,000 and other offering costs of $4,296,000. 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 September 30, 2011, the Company is considered to be in the development stage as its primary activities, since incorporation, have been conducting research and development, business development, business and financial planning, establishing its facilities, recruiting personnel 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. Because the production of ethanol is not the Company s intended business, the Company will continue to report as a development stage company until it begins to generate revenue from the sale of isobutanol or other products that are or will 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 nine months ended September 30, 2011, the Company incurred a consolidated net loss of $34,054,000 and had an accumulated deficit of $120,475,000. 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. 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 September 30, 2011 totaled $97,605,000. 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 additional 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.

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 considered necessary to present fairly the Company s interim financial information. The interim results presented 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 a remaining maturity of three months or less at the date of acquisition 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 are charged against the proceeds of the offering.

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 stated 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 and are recorded on the condensed 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 September 30, 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 Agri-Energy from the date of acquisition through September 30, 2011 was sold to C&N Ethanol Marketing (C&N). Accounts receivable from C&N made up 54% and 56% of the Company s total accounts receivable balance at September 30, 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. 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 September 30, 2011.

Patents All costs related to filing and pursuing patent applications are expensed as incurred as recoverability of such expenditures is uncertain. Patent-related legal expenses incurred and recorded as selling, general and administrative expense during the three months ended September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, were $563,000, $244,000 and $4,017,000, respectively. Patent-related legal expenses incurred and recorded as selling, general and administrative expense during the nine months ended September 30, 2011 and 2010 were $1,053,000 and $638,000, 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 10). 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.

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Research and Development Research and development costs are expensed as incurred and are recorded as research and development expense in the condensed 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 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 14). At September 30, 2011 and December 31, 2010, the Company had no material unrecognized tax benefits and had 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 condensed 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 provisions 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. 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 Agri-Energy from the date of acquisition through September 30, 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.

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As of September 30, 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 September 30, 2011 and December 31, 2010, and the input categories associated with those assets and liabilities.

		Fair Value as of September 30, 2011	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
Assets	Exchange-traded derivatives	$ 1,370,000	$ 1,370,000	$	$

		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 and nine months ended September 30, 2011 and 2010 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 (February 14, 2011)	(2,063,000)
Balance June 30, 2011	$
Change in fair value of warrants	
Balance September 30, 2011	$

	Fair Value of Warrant Liabilities
Liabilities:	
Balance December 31, 2009	$ 982,000
Change in fair value of warrants	1,250,000
Balance June 30, 2010	$ 2,232,000
Change in fair value of warrants	2,052,000
Initial measurement of warrants issued during the period	177,000
Warrants exercised during the period and liability reclassified to additional paid-in-capital	(1,458,000)
Balance September 30, 2010	$ 3,003,000

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

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Prior to its initial public offering, the Company had derivative liabilities relating to its preferred stock warrants. These derivative instruments were not originally entered into as hedging activities. 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 condensed consolidated statements of operations (Note 11).

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 September 30, 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 potentially dilutive common shares were anti-dilutive. Such potentially dilutive shares are excluded from the computation of diluted net loss per share when the effect would be to reduce net loss per share. Therefore, in periods when a loss is reported, the calculation of basic and dilutive loss per share results in the same value.

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:

	September 30, 2011	September 30, 2010
Convertible preferred stock upon conversion to common stock (on an as-converted basis)(1)		16,329,665
Warrants to purchase convertible preferred stock (on an as-converted basis)(1)		303,173
Warrants to purchase common stock (at period-end)	1,086,785	858,000
Outstanding stock options to purchase common stock (at period-end)	3,407,096	2,894,265
Outstanding common stock purchase rights under Employee Stock Purchase Plan (at period-end)	22,843	
Unvested restricted common stock (at period-end)	95,671	7,292
Total	4,612,395	20,392,395

(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 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 May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This update amends ASC Topic 820, *Fair Value Measurement and Disclosure.* ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for annual and interim reporting periods beginning on or after December 15, 2011. The new guidance is to be adopted prospectively and early adoption is not permitted. The Company does not expect that adoption of ASU 2011-04 will have a significant impact on its financial position, results of operations or cash flows.

In January 2010, the FASB issued 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,

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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 of the Company.

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 acquired Agri-Energy and its ethanol production facility located in Luverne, Minnesota, which the Company is retrofitting 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 September 30, 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.

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. Upon completion of the acquisition, 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	September 30, 2011	December 31, 2010

Computer, office equipment, and software	3 years	$ 580,000	$ 581,000
Lab equipment, furniture & fixtures and vehicles	5 years	3,846,000	3,432,000
Leasehold improvements	5 years(1)	452,000	380,000
Pilot plant	3 years	721,000	721,000
Demonstration plant	2 years(2)	3,597,000	2,948,000
Construction in progress		3,172,000	442,000
Land		410,000	410,000
Buildings, site improvements, plant machinery and equipment	10 years	20,276,000	20,093,000
Tools and support equipment	5 years	91,000	87,000
Total property, plant and equipment		33,145,000	29,094,000
Less accumulated depreciation and amortization		(8,773,000)	(5,629,000)

	Estimated Useful Lives	September 30, 2011	December 31, 2010
Property, plant and equipment net		$ 24,372,000	$ 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 September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, were $1,196,000, $634,000, and $9,064,000, respectively. Depreciation and amortization expense for the nine months ended September 30, 2011 and 2010 were $3,372,000 and $2,173,000, respectively.

During the three months ended September 30, 2011 and 2010, the Company capitalized $81,000 and $0, respectively, of interest expense to construction in progress. During the nine months ended September 30, 2011 and 2010, the Company capitalized $152,000 and $0, respectively, of interest expense to construction in progress.

4. Inventories

Inventory balances consisted of the following:

	September 30, 2011	December 31, 2010
Raw materials:		
Corn	$ 3,631,000	$ 2,516,000
Enzymes and other inputs	126,000	167,000
Finished goods:		
Ethanol	247,000	385,000
Distiller s grains	33,000	48,000
Work in process	511,000	301,000
Spare parts	426,000	348,000
Total inventory	$ 4,974,000	$ 3,765,000

Included in cost of goods sold is depreciation of $517,000 and $38,000 for the three months ended September 30, 2011 and 2010, respectively. Included in cost of goods sold is depreciation of $1,543,000 and $38,000 for the nine months ended September 30, 2011 and 2010, respectively.

5. Significant Agreements

Off-Take, Distribution and Marketing Agreements

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

Exclusive Supply Agreement with LANXESS 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

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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 September 30, 2011.

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

Ethanol Marketing Agreement with C&N, a subsidiary of Mansfield Oil Company Substantially all ethanol sold through Agri-Energy from the date of acquisition through September 30, 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.

Jet Fuel Supply Contract with the Defense Logistics Agency (U.S. Air Force) During September 2011, the Company was awarded a solicitation for the procurement of up to 11,000 gallons of alcohol-to-jet fuel for the purposes of certification and testing by the U.S. Air Force. The total contract value may be up to $649,000. The term of the agreement is through December 30, 2012. Revenue will be recognized upon risk of loss and title transfer to the U.S. Air Force. No revenue under this award has been recognized as of September 30, 2011.

Commercialization and Development Agreements

Development and Commercialization Agreements with 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, project fees and various operating expenses. 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 nine months ended September 30, 2011 and 2010, the Company incurred $649,000 and $300,000, 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 also 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 commercialization agreement, as amended, is effective through October 15, 2018, and outlines the terms and fees under which ICM acts as the Company s exclusive provider of certain engineering and construction services. Also, under the commercialization agreement, the Company is ICM s exclusive technology partner for the production of butanols, pentanols and propanols from the fermentation of sugars.

In addition to amounts recorded under the development and commercialization agreements noted above, the Company has also engaged ICM to perform engineering studies, plant evaluations and other services. In August 2011, the Company entered into a work agreement with ICM. Pursuant to the terms of the work agreement, ICM will provide engineering, procurement and construction services for the retrofit of ethanol plants.

During the three and nine months ended September 30, 2011, the Company incurred $994,000 and $2,005,000, respectively, 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 sheets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Amounts From June 9, 2005 (Date of Inception) to September 30, 2011
	2011	2010	2011	2010	
Research and development	$ 513,000	$ 628,000	$ 1,901,000	$ 1,885,000	$ 5,553,000
Selling, general and administrative	20,000	20,000	20,000	80,000	112,000
Total expenses	$ 533,000	$ 648,000	$ 1,921,000	$ 1,965,000	$ 5,665,000

License Agreements

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

The license agreement contains five milestone payments totaling approximately $4,300,000 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 September 30, 2011, the present value of the liability, $1,137,000, was recorded as $924,000 in accounts payable and accrued expenses and $213,000 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 the later of December 31, 2025 and the date that no licensed patent rights remain.

License Agreement with The Regents of the University of California 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 the license agreement is abandoned.

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 September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, the Company incurred costs of $22,000, $9,000 and $516,000, respectively, under the license agreement. During the nine months ended September 30, 2011 and 2010, the Company incurred costs of $51,000 and $39,000, respectively, under the license agreement.

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License Agreement with California Institute of Technology 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 nine months ended September 30, 2011 and 2010. For the period from June 9, 2005 (date of inception) to September 30, 2011, the Company incurred costs of $219,000 under the license agreement.

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 September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, were $188,000, $383,000 and $3,308,000, respectively. Revenues recorded related to these grants and cooperative agreements for the nine months ended September 30, 2011 and 2010, were $572,000 and $1,175,000, respectively.

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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, of which $996,000 has been paid as of September 30, 2011 and the remainder of which is payable through January 1, 2012, subject to the terms and conditions set forth in the agreement.

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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 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 were not dependent on counterparty performance. During the three and nine months ended September 30, 2011, the Company recorded stock compensation of $74,000 and $222,000, respectively, for the amount paid during the period. The Company will record the remaining amount, which is dependent on the continued employment of the two co-managing directors of Gevo Development, when it is paid.

For the nine months ended September 30, 2011 and 2010, and for the period from September 18, 2009 (formation date of Gevo Development) to September 30, 2011, Gevo, Inc. made capital contributions of $3,795,000, $15,978,000 and $23,152,000 (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 September 30, 2011 and 2010, and for the period from September 18, 2009 (formation date of Gevo Development) to September 30, 2011, Gevo Development (including Agri-Energy after September 22, 2010, the closing date of the acquisition) incurred a net loss (gain) of $(434,000), $1,218,000 and $4,205,000, 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 after September 22, 2010). For the nine months ended September 30, 2011 and 2010, Gevo Development incurred a net loss of $1,147,000 and $2,684,000, respectively, which has been fully allocated to Gevo, Inc. s capital contribution account. 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 Gevo Development 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.

Since its formation, Gevo Development has been and continues to be considered a variable interest entity. Gevo, Inc., the primary beneficiary of Gevo Development, has both (i) the power to direct the activities of Gevo Development that most significantly impact Gevo Development s economic performance and (ii) the obligation to absorb losses of Gevo Development that could potentially be significant to Gevo Development or the right to receive benefits from Gevo Development that could potentially be significant to Gevo Development. As such, Gevo Development is consolidated. The accounts of Agri-Energy are consolidated within Gevo Development as a wholly owned subsidiary. As of September 30, 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 Agri-Energy s 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 September 30, 2011 and December 31, 2010, the creditors of Gevo Development have recourse to the general credit of Gevo, Inc. with the exception of $2,796,000 and $4,785,000, respectively, which are recorded within current liabilities, which includes the liabilities of Agri-Energy. No gain or loss was recognized by the Company upon the initial consolidation of Gevo Development.

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7. Redfield Energy, LLC

On June 15, 2011, Gevo Development entered into an Isobutanol Joint Venture Agreement (the Joint Venture Agreement) with Redfield Energy, LLC, a South Dakota limited liability company (Redfield), and executed the Second Amended and Restated Operating Agreement of Redfield (together, the Joint Venture Documents). Under the terms of the Joint Venture Documents, Gevo Development and Redfield have agreed to work together to retrofit Redfield s approximately 50 million gallon per year ethanol production facility located near Redfield, South Dakota for the commercial production of isobutanol (the Redfield Retrofit). Under the terms of the Joint Venture Agreement, Redfield has issued 100 Class G membership units in Redfield (the Class G Units) to Gevo Development in exchange for a payment of $1,000, which has been recorded on the Company s balance sheet in other assets. Gevo Development is the sole holder of Class G units which entitle Gevo Development to certain information and governance rights with respect to Redfield, including the right to appoint two members of Redfield s 11-member board of managers. The Class G units currently carry no interest in the allocation of profits, losses or other distributions of Redfield and no voting rights. Such rights will vest upon the commencement of commercial isobutanol production at the Redfield facility, at which time Gevo Development anticipates consolidating Redfield s operations because Gevo anticipates it will control the activities that are most significant to the entity.

Gevo Development will be responsible for all costs associated with the Redfield Retrofit. Redfield will remain responsible for certain expenses incurred by the facility including certain repair and maintenance expenses and any costs necessary to ensure that the facility is in compliance with applicable environmental laws. The Company anticipates that the Redfield facility will continue its current ethanol production activities during much of the Redfield Retrofit. Once the retrofit assets have been installed, the ethanol production operations will be suspended to enable testing of the isobutanol production capabilities of the facility (the Performance Testing Phase). During the Performance Testing Phase, Gevo Development will be entitled to receive all revenue generated by the Redfield facility and will make payments to Redfield to cover the costs incurred by Redfield to operate the facility plus the profits, if any, that Redfield would have received if the facility had been producing ethanol during that period (the Facility Payments). Gevo Development has also agreed to maintain an escrow fund during the Performance Testing Phase as security for its obligation to make the Facility Payments.

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

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

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

As of September 30, 2011, the Company has not incurred any significant costs for the Redfield Retrofit.

8. Secured Long-Term Debt

The carrying value of the secured long-term debt included in the Company s condensed consolidated balance sheets at September 30, 2011 and December 31, 2010 consists of the following:

	September 30, 2011	December 31, 2010
Long-term debt, unpaid principal plus final/end-of-term payments	$ 20,637,000	$ 22,038,000
Less unamortized debt discounts for final/end-of-term payments and original fair value of warrants issued with debt	(1,219,000)	(1,606,000)

	19,418,000	20,432,000
Less current portion	(1,747,000)	(1,785,000)
Long-term portion of the long-term debt	$ 17,671,000	$ 18,647,000

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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. As of September 30, 2011, the Company s outstanding principal balance on its loan with Lighthouse was $1,533,000. 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 and security 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 September 30, 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 Gevo Loan Agreement). The Gevo Loan 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 Gevo Loan 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 Gevo Loan Agreement and (ii) Gevo, Inc. s guarantee of Agri-Energy s obligations under the Original Agri-Energy Loan 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 of 6 months may be elected in the event that Gevo, Inc. begins producing isobutanol at its Agri-Energy facility by June 30, 2012. Gevo, Inc. used the funds from this loan to repay a portion of its existing indebtedness with Lighthouse. At September 30, 2011, the Company was in compliance with the debt covenants under the Gevo Loan Agreement.

TriplePoint Loan and Security Agreement 2. In August 2010, Gevo Development borrowed $12.5 million from TriplePoint to finance its acquisition of Agri-Energy and in September 2010, upon completion of the acquisition, the loan and security agreement was amended to make Agri-Energy, LLC the borrower under the facility. This loan and security agreement (the Original Agri-Energy Loan Agreement) includes customary affirmative and negative covenants for agreements of this type and events of default. The aggregate amount outstanding under the Original Agri-Energy Loan Agreement bears interest at a rate equal to 13% and is subject to an end-of-term payment equal to 8% of the amount borrowed. The loan is secured by the equity interests of Agri-Energy, 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 of 6 months may be elected in the event that Gevo, Inc. begins producing isobutanol at its Agri-Energy facility by June 30, 2012. 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 September 30, 2011, the Company was in compliance with the debt covenants under the Original Agri-Energy Loan Agreement.

Interest expense, net of amounts capitalized to construction in progress, related to the long-term debt for the three months ended September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, was $754,000, $726,000 and $6,173,000, respectively, of which $203,000, $435,000 and $1,725,000, 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. Interest expense, net of amounts capitalized to construction in progress, related to the long-term debt for the nine months ended September 30, 2011 and 2010, was $2,391,000 and $1,344,000, respectively, of which $625,000 and $573,000, 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 $81,000 and $152,000 of interest expense to construction in progress during the three and nine months ended September 30, 2011, respectively. No interest expense was capitalized to construction in progress prior to January 1, 2011.

During the nine months ended September 30, 2011 and 2010, the Company made principal and final payments of $1,402,000 and $5,250,000, respectively.

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The following is a summary of principal maturities of long-term debt and the final/end-of-term payments as of September 30, 2011, assuming the extended interest-only periods are not elected:

	Principal	Final Payment	Total
2011 (3 months)	$ 496,000	$	$ 496,000
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
	$ 19,033,000	$ 1,604,000	$ 20,637,000

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 was recorded as a debt discount against the debt (debt discount) and amortized to interest expense over the terms of the loans. The warrants that were issued prior to our initial public offering were, while they were exercisable for preferred stock, considered to be derivative instruments (Note 11).

From December 2006 through December 31, 2009, the Company issued to Lighthouse warrants to purchase an aggregate of 169,247 shares of the 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 on February 14, 2011. 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.

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.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses in the consolidated balance sheets at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Accounts payable trade	$ 3,855,000	$ 4,818,000
Accrued expenses Cargill license agreement	924,000	924,000
Accrued employee compensation and related expenses	2,428,000	586,000
Accrued expenses ICM	1,253,000	163,000
Accrued deferred offering costs		548,000
Other accrued expenses	1,759,000	864,000
	$ 10,219,000	$ 7,903,000

10. 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 of $110,408,000, after deducting underwriting discounts and commissions and other offering costs. 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.

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In connection with the closing of the initial public offering, 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 written consent. 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 the approval of either a majority of the directors then in office or 66 2/3% of the voting power of all then outstanding capital stock for the adoption, amendment or repeal of any provision of the Company s amended and restated bylaws. In addition, the amendment or repeal of certain provisions of the Company s amended and restated certificate of incorporation requires a 66 2/3% stockholder vote.

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.

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. The Company had used the full amount of its prepaid credit with ICM prior to March 31, 2011, which had been recorded in prepaid expenses and other current assets on the Company s balance sheet.

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 was being amortized as a debit to retained earnings and a credit to additional paid-in capital.

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 In September 2010, a holder of Series C preferred stock warrants exercised its warrants 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 of $592,000. Upon exercise of the warrant, the Company reclassified $1,458,000 from preferred stock warrant liability to equity.

As of December 31, 2010, the Company had issued and outstanding 858,000 warrants to CDP (Note 6) that were exercisable into common stock and 303,173 warrants to TriplePoint, Lighthouse and investors that were 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 September 30, 2011, the Company has issued and outstanding an aggregate of 1,086,785 warrants that are exercisable into common stock at a weighted-average exercise price of $3.93.

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11. 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 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 September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, was $0, $2,052,000 and $2,852,000, respectively. The non-cash charge recorded related to the change in fair value of preferred stock warrants for the nine months ended September 30, 2011 and 2010, was $29,000 and $3,302,000, respectively.

12. 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.

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 September 30, 2011, the Company had a negative balance in its margin deposit account of $294,000, which is included in current liabilities. At December 31, 2010, the Company recorded a margin deposit of $624,000. 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 11. The fair value of the Company s derivatives which are marked to market each period, as well as the location within its balance sheets, by major category, is summarized as follows:

	September 30, 2011	December 31, 2010
Balance Sheet Line Item		
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	$ 1,370,000	$

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Changes in the value of derivative instruments are recorded in the condensed 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 (gains) of $310,000, $51,000 and $1,893,000 on its exchange-traded futures contracts for the three months ended September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, respectively, which have been recorded within cost of goods sold. For the nine months ended September 30, 2011 and 2010, the Company incurred realized losses of $795,000 and $51,000, respectively, on its exchange-traded futures contracts.

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Statement of Operations Location				
Exchange-traded commodity derivatives cost of goods sold unrealized (gains)/losses	$ (1,020,000)	$ (125,000)	$ (1,775,000)	$ (125,000)
Forward purchase corn derivatives cost of goods sold unrealized (gains)/losses	$	$ 48,000	$ 361,000	$ 48,000
Forward purchase natural gas derivatives cost of goods sold unrealized (gains)/losses	$	$ 7,000	$	$ 7,000

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. The Company did not have any outstanding forward purchase contracts for natural gas as of September 30, 2011 and December 31, 2010.

Year of Expiration	September 30, 2011 Corn Net Long (Short) Position Bushels	December 31, 2010 Corn Net Long (Short) Position Bushels
2011	(532,000)	(309,000)
2012	7,000	

13. 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 granted 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 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 (ESPP). The initial offering period for the ESPP commenced July 1, 2011 and will end December 31, 2011. The Company has reserved 1,285,643 shares of common stock for issuance under the ESPP. The purchase price of the common stock under the ESPP 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. The Company received $54,000 and $54,000 in contributions from participants during the three and nine months ended September 30, 2011, respectively. Stock-based compensation expense related to the ESPP of $26,000 and $26,000 was recognized for the three and nine months ended September 30, 2011, respectively. As of September 30, 2011, no shares have been issued and 1,285,643 shares were available for future purchase under the ESPP. The fair value of the employee stock purchase rights was estimated using the Black-Scholes option pricing model using the following weighted-average assumptions, with expected forfeiture rates of 0% to 5%:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010

Risk-free interest rate	0.10%	0.10%
Expected dividend yield		
Expected volatility factor	81.27%	81.27%
Expected option life (in years)	0.50	0.50

2010 Stock Incentive Plan In February 2011, the Company s stockholders approved the 2010 Plan. The Company has reserved 2,571,286 shares of common stock for issuance under the 2010 Plan. At September 30, 2011, there were 1,907,502 shares available for grant under the 2010 Plan.

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Stock Options A summary of stock option activity for grants to employees and nonemployees is presented below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding December 31, 2010	2,894,265	$ 2.83	7.90	$ 34,936,000
Granted	564,982	$ 16.53		
Canceled or forfeited	(13,518)	16.08		
Exercised	(38,633)	0.55		
Options outstanding September 30, 2011	3,407,096	$ 5.07	7.57	$ 9,912,000
Options exercisable September 30, 2011	2,434,430	$ 2.89	7.12	$ 8,576,000
Options vested and expected to vest September 30, 2011	3,355,386	$ 5.05	7.56	$ 9,797,000

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Additional information related to the Company s stock options is summarized below:

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010	Cumulative Amounts From June 9, 2005 (Date of Inception) to September 30, 2011
Weighted-average grant-date fair value of option awards granted	$ 10.22	$ 8.58	$ 11.22	$ 7.09	$ 3.41
Intrinsic value of options exercised (determined as of the date of option exercise)	$ 193,000	$	$ 474,000	$ 69,000	$ 563,000
Proceeds received from the exercise of stock options	$ 12,000	$	$ 21,000	$ 16,000	$ 43,000

As of September 30, 2011, the Company had $6,427,000 of total unrecognized compensation expense, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.07 years.

The Company settles stock option exercises with newly issued common shares. No tax benefits were realized by the Company in connection with these exercises as the Company maintains net operating loss carryforwards and has established a valuation allowance against the entire tax benefit.

Information about stock options outstanding and exercisable at September 30, 2011 is as follows:

	Options Outstanding		Options Exercisable		
Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life in Years	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years
$ 0.17	33,300	4.42	33,300	$ 0.17	4.42
$ 0.46	586,268	5.59	539,177	$ 0.46	5.59
$ 0.47	26,700	5.55	26,700	$ 0.47	5.55
$ 0.49	239,987	6.10	232,436	$ 0.49	6.09
$ 1.16	659,459	6.87	532,813	$ 1.16	6.86
$ 2.70	861,780	8.13	688,052	$ 2.70	8.13
$ 8.73	10,828	9.96		$	
$ 10.07	381,830	8.68	323,022	$ 10.07	8.68
$ 11.42	4,500	9.88		$	
$ 12.67	64,950	8.95	18,005	$ 12.67	8.95
$ 14.81	101,500	9.72	125	$ 14.81	9.72
$ 16.19	105,500	9.71	8.791	$ 16.19	9.71
$ 16.50	41,250	9.71		$	
$ 16.55	50,700	9.78		$	
$ 17.47	5,000	9.80		$	

$ 17.53	192,044	9.48	32,009	$ 17.53	9.48
$ 19.10	26,500	9.42		$	
$ 19.14	15,000	9.60		$	

The fair values of stock options granted during the three and nine months ended September 30, 2011 and 2010 were estimated using the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Risk-free interest rate	1.65%	1.93%	2.04%	2.17%
Expected dividend yield	None	None	None	None
Expected volatility factor	78.93%	77.2%	78.99%	78.5%
Expected option life (in years)	5.84	6.04	5.80	5.36

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The risk-free interest rate was based on the U.S. Treasury yield curve in effect during the year of grant for instruments with a term similar to the expected life of the related option. The volatility factor was determined based upon management s estimate using inputs from comparable public companies. Due to the Company s limited history of grant activity, the expected life of options granted was estimated using the simplified method in accordance with Staff Accounting Bulletin 110, where the expected life equals the arithmetic average of the vesting term and the original contractual term of the options. No dividends are expected to be paid. Forfeitures have been estimated by the Company based upon historical and expected forfeiture experience. Expected forfeiture rates used for the periods presented were 0% to 5%.

Stock-based compensation included in the Company s condensed consolidated statements of operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Amounts From June 9, 2005 (Date of Inception) to September 30,
	2011	**2010**	**2011**	**2010**	**2011**
Stock options issued to nonemployees:					
Research and development	$ 13,000	$ 60,000	$ 147,000	$ 74,000	$ 328,000
Selling, general and administrative				106,000	164,000
Stock options issued to employees and board members:					
Research and development	175,000	77,000	433,000	396,000	1,150,000
Selling, general and administrative	552,000	224,000	1,273,000	1,649,000	3,880,000
Restricted stock issued to nonemployees:					
Research and development	23,000	20,000	79,000	47,000	279,000
Restricted stock issued to employees and board members:					
Research and development	29,000		60,000		60,000
Selling, general and administrative	125,000		263,000		263,000
Employee stock purchase plan:					
Research and development	11,000		11,000		11,000
Selling, general and administrative	15,000		15,000		15,000
Warrant issued to CDP:					
Selling, general and administrative	872,000	6,978,000	2,616,000	6,978,00	10,467,000
Purchase of class B interests of Gevo Development from CDP for cash:					
Selling, general and administrative	74,000	774,000	222,000	774,000	996,000
Total stock-based compensation	$ 1,889,000	$ 8,133,000	$ 5,119,000	$ 10,024,000	$ 17,613,000

Stock Option Grants to Nonemployees Since January 1, 2011, the Company has not granted any options to nonemployees. Options granted to nonemployees are periodically revalued as services are performed and the options vest.

Restricted Stock The Company has stock-based compensation plans under which it has awarded restricted common stock with no exercise price to employees (including board members) and nonemployee consultants. The vesting period of each restricted share is determined at the date of grant. The shares are subject to forfeiture if certain vesting requirements are not met. The Company records stock-based compensation on restricted stock grants over the vesting period. In accordance with applicable standards, stock-based awards granted to nonemployees are periodically revalued as services are performed and the awards vest.

Activity and related information for the Company s restricted common stock awards is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested December 31, 2010	5,729	$ 0.49
Granted	119,252	17.00
Vested	(22,378)	13.96
Canceled or forfeited	(6,932)	17.53

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	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested September 30, 2011	95,671	$ 16.69

The shares of restricted stock generally vest over periods from three to six years. As of September 30, 2011, the total unrecognized compensation expense, net of estimated forfeitures, relating to restricted stock awards was $1,594,000, which is expected to be recognized over a weighted-average period of 2.49 years.

14. Income Taxes

No provision for U.S. income taxes has been made, net of the valuation allowance, due to cumulative losses since June 9, 2005 (date of inception).

15. Employee Benefit Plan

The Company s employees participate in the Gevo, Inc. 401(k) Plan (the 401(k) Plan). Subject to certain eligibility requirements, the 401(k) Plan covers substantially all employees after three months of service with quarterly entry dates. Employee contributions are deposited by the Company into the 401(k) Plan and may not exceed the maximum statutory contribution amount. The Company may make matching and/or discretionary contributions to the 401(k) Plan. Effective January 1, 2008, the Company began providing an employer match of 100% up to a maximum of 5% of compensation per employee, which vests over a period of approximately two years. During the three months ended September 30, 2011 and 2010, and for the period from June 9, 2005 (date of inception) to September 30, 2011, the Company recorded $110,000, $62,000 and $896,000, respectively, in matching contributions. During the nine months ended September 30, 2011 and 2010, the Company recorded $310,000 and $201,000, respectively, in matching contributions.

16. Related-Party Transactions

A founder, consultant and former director of the Company is also a professor at Caltech, which is a party to a license agreement (Note 5) and research agreements with the Company. This founder, consultant and former director is also a common stockholder and option holder of the Company.

The co-managing directors of Gevo Development beneficially own 100% of the equity interests of CDP. CDP holds a warrant for common stock of Gevo, Inc. (Note 6). The co-managing directors also entered into employment agreements with Gevo, Inc., which became effective on September 22, 2010.

17. Commitments and Contingencies

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

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

On September 13, 2011, the Company filed an answer to the amended Complaint in which the Company asserted counterclaims against Butamax and DuPont for infringement of U.S. Patent No. 8,017,375, entitled Yeast Organism Producing Isobutanol at a High Yield and U.S. Patent No. 8,017,376, entitled Methods of Increasing Dihydroxy Acid Dehydratase Activity to Improve Production of Fuels, Chemicals, and

Amino Acids, both of which were recently awarded to the Company by the USPTO. The counterclaim seeks a declaratory judgment, injunctive relief, damages and costs, including attorney s fees and expenses.

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Due to the very early stage of this lawsuit, the Company has determined that the possible loss or range of loss related to this lawsuit cannot be reasonably estimated at this time.

Leases In November 2007, the Company signed an operating lease for its office, research, and production facility in Englewood, Colorado (the Colorado facility) with a term expiring July 31, 2013. The Company also maintains a corporate apartment in Colorado, which has a lease term expiring during the next 12 months.

Rent expense for the three months ended September 30, 2011 and 2010, and the period from June 9, 2005 (date of inception) to September 30, 2011, was $139,000, $143,000 and $2,534,000, respectively. Rent expense for the nine months ended September 30, 2011 and 2010, was $413,000 and $426,000, respectively. The Company recognizes rent expense on its facility operating leases on a straight-line basis.

As of September 30, 2011, future minimum lease payments required under the Company s operating leases for the Colorado facility and corporate apartment are as follows:

Years Ending December 31	
2011 (3 months)	$ 130,000
2012	505,000
2013	292,000
2014	
2015	
	$ 927,000

Guarantees and Indemnifications In the ordinary course of its business, the Company makes certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. The Company, as permitted under Delaware law and in accordance with its amended and restated certificate of incorporation and amended and restated bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company s request in such capacity. The duration of these indemnifications, commitments, and guarantees varies and, in certain cases, is indefinite. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. The Company has not recorded any liability for these indemnities in the accompanying balance sheets. However, the Company accrues for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. No such losses have been recorded to date.

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18. Segments

Segment Information The Company s chief operating decision maker is provided with and reviews the financial results of each of the Company s consolidated legal entities, Gevo, Inc., Gevo Development, LLC, and Agri-Energy, LLC. All revenue is earned, and all assets are held, in the U.S. Prior to the acquisition of Agri-Energy, the financials of Gevo Development were aggregated with Gevo, Inc. due to its size compared to Gevo, Inc. and were not reported separately. For purposes of the table below, the Company has broken out the historical information of Gevo Development. The financial results of Gevo Development and Agri-Energy have been aggregated in the following table:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Gevo, Inc.	$ 188,000	$ 521,000	$ 572,000	$ 1,313,000
Gevo Development, LLC/Agri-Energy, LLC	17,318,000	975,000	46,748,000	975,000
Intercompany eliminations				
	$ 17,506,000	$ 1,496,000	$ 47,320,000	$ 2,288,000
Operating income (loss):				
Gevo, Inc.	$ (12,406,000)	$ (13,376,000)	$ (31,850,000)	$ (26,510,000)
Gevo Development, LLC/Agri-Energy, LLC	882,000	(1,139,000)	281,000)	(2,604,000)
Intercompany eliminations				
	$ (11,524,000)	$ (14,515,000)	$ (31,569,000)	$ (29,114,000)
Interest and other expense:				
Gevo, Inc.	$ 334,000	$ 700,000	$ 1,070,000	$ 1,369,000
Gevo Development, LLC/Agri-Energy, LLC	464,000	79,000	1,471,000	79,000
Intercompany eliminations				
	$ 798,000	$ 779,000	$ 2,541,000	$ 1,448,000
Depreciation expense:				
Gevo, Inc.	$ 679,000	$ 596,000	$ 1,829,000	$ 2,135,000
Gevo Development, LLC/Agri-Energy, LLC	517,000	38,000	1,543,000	38,000
Intercompany eliminations				
	$ 1,196,000	$ 634,000	$ 3,372,000	$ 2,173,000
Total assets:				
Gevo, Inc.	$ 117,173,000	$ 42,277,000	$ 117,173,000	$ 42,277,000
Gevo Development, LLC/Agri-Energy, LLC	53,884,000	43,096,000	53,884,000	43,096,000
Intercompany eliminations	(37,878,000)	(27,523,000)	(37,878,000)	(27,523,000)
	$ 133,179,000	$ 57,850,000	$ 133,179,000	$ 57,850,000
Acquisitions of plant, property and equipment:				
Gevo, Inc.	$ 358,000	$ 143,000	$ 1,151,000	$ 472,000
Gevo Development, LLC/Agri-Energy, LLC (1)	967,000		2,429,000	
Intercompany eliminations				
	$ 1,325,000	$ 143,000	$ 3,580,000	$ 472,000

(1) Excludes property, plant and equipment acquired in the Agri-Energy acquisition.

19. Subsequent Events

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In October 2011, Agri-Energy entered into an amended and restated loan and security agreement (the Amended Agri-Energy Loan Agreement) with TriplePoint. The Amended Agri-Energy Loan Agreement amends and restates the Original Agri-Energy Loan Agreement. The Amended Agri-Energy Loan Agreement includes customary affirmative and negative covenants for agreements of this type and events of default. The Amended Agri-Energy Loan Agreement provides Agri-Energy with additional term loan facilities of up to $15,000,000 (the New Loan) (which amount is in addition to the existing $12,500,000 term loan provided under the Original Agri-Energy Loan Agreement, which term loan remains in place under the Amended Agri-Energy Loan Agreement), the proceeds of which will be used to pay a portion of the costs, expenses, and other amounts associated with the retrofit of Agri-Energy s ethanol plant in Luverne, Minnesota to produce isobutanol. The loan matures on October 31, 2015 with the last monthly amortization payment due on the date of such advance. The interest rate is the prime rate, as published by the Wall Street Journal on the day before each advance, plus 7.75% and in no event will the prime rate be less than 3.25%, and is subject to an end-of-term payment equal to 5.75% of the amount borrowed. The New Loan provides for interest only payments through July 1, 2012 and an additional interest-only period of 6 months on the New Loan may be elected in the event that the Company has received net offering proceeds of at least $75 million from one or more secondary equity offerings by June 30, 2012. On October 20, 2011, Agri-Energy borrowed $10 million under the Amended Agri-Energy Loan Agreement. Upon the request of the Company and the additional approval of TriplePoint, the Company may borrow an additional $5,000,000 under the Amended Agri-Energy Loan Agreement increasing the maximum size of the New Loan to $20,000,000.

The Amended Agri-Energy Loan Agreement provides that Agri-Energy will secure all of its obligations under the Amended Agri-Energy Loan Agreement and any other loan documents by granting to TriplePoint a security interest in and lien upon all or substantially all of its assets. Gevo, Inc. has guaranteed Agri-Energy s obligations under the Amended Agri-Energy Loan Agreement. As additional security, concurrently with the execution of the Amended Agri-Energy Loan Agreement, (i) Gevo Development entered into a limited recourse continuing guaranty in favor of TriplePoint, (ii) Gevo Development entered into an amended and restated limited recourse membership interest pledge agreement in favor of TriplePoint, pursuant to which it pledged the membership interests of Agri-Energy as collateral to secure the obligations under its guaranty and (iii) Gevo, Inc. entered into an amendment to its security agreement with TriplePoint, which secures its guarantee of Agri-Energy s obligations (including up to $32,500,000 in term loans) under the Amended Agri-Energy Loan Agreement.

Additionally, concurrent with the execution of the Amended Agri-Energy Loan Agreement, Gevo, Inc. and TriplePoint entered into a warrant agreement pursuant to which TriplePoint is entitled to purchase up to 188,442 shares of Gevo, Inc. s common stock, par value $0.01, on the terms and subject to the conditions set forth in the warrant agreement, at a price per share of $7.96, subject to adjustment, exercisable for a period of seven years from the effective date of the warrant agreement.

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

Forward-Looking Statements

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes and other financial information appearing elsewhere in this Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation our Annual Report on Form 10-K for the year ended December 31, 2010, including the disclosures made in Item 1A Risk Factors and the audited consolidated financial statements and related notes included therein, and the disclosures made in Part II, Item 1A Risk Factors of this Report.

Overview

We are a renewable chemicals and advanced biofuels company focused on the development and commercialization of alternatives to petroleum-based products. Our initial commercialization and development efforts are focused on isobutanol, a four carbon alcohol produced from renewable sources. Without any modification, our isobutanol has applications as a specialty chemical and a fuel blendstock. Our isobutanol can also be converted by our customers into a wide variety of hydrocarbons which form the basis for the production of many products, including rubber, plastics, fibers, and other polymers and hydrocarbon fuels, including jet and diesel fuel.

At September 30, 2011, we are considered to be in the development stage as our primary activities, since incorporation, have been conducting research and development, establishing our facilities, recruiting personnel, business development, business and financial planning and raising capital. Successful completion of our research and development program, and ultimately, the attainment of profitable operations are dependent upon future events, including completion of our development activities resulting in sales of isobutanol or isobutanol-derived products and/or technology, obtaining adequate financing to complete our development activities, obtaining adequate financing to acquire access to and complete the retrofit of ethanol plants to isobutanol production, market acceptance and demand for our products and services, and attracting and retaining qualified personnel.

Initial Public Offering

On February 14, 2011, we completed our initial public offering issuing 8,222,500 shares of common stock at an offering price of $15.00 per share, resulting in net proceeds of $110,408,000, after deducting underwriting discounts and commissions and other offering costs. Upon the closing of the initial public offering, our outstanding shares of convertible preferred stock were automatically converted into 16,329,703 shares of common stock and our outstanding convertible preferred stock warrants were automatically converted into common stock warrants to purchase a total of 398,032 shares of common stock.

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Agri-Energy Acquisition

In September 2010, we acquired a 22 million gallon per year (MGPY) ethanol production facility in Luverne, Minnesota (the Agri-Energy facility) that we are retrofitting to produce isobutanol. We paid a purchase price of $20.6 million for property, plant and equipment and, in addition, we acquired and paid $4.9 million for working capital. We paid the aggregate purchase price with available cash reserves and by borrowing $12.5 million from TriplePoint Capital LLC (TriplePoint) (as described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Secured long-term debt). We have begun the retrofit of the Agri-Energy facility. We intend to increase the potential production capacity of the Agri-Energy facility in anticipation of future improvements from our yeast biocatalyst. We project capital costs for the retrofit of the Agri-Energy facility to be $22 million, including the ability to switch between ethanol and isobutanol production, plus additional capital to allow for the anticipated increased future production capacity. In addition to the retrofit to isobutanol production at the Agri-Energy facility, in July 2011 we made the strategic decision to invest in an enhanced yeast seed train at the Agri-Energy facility to maintain direct oversight over our current yeast material and future yeast development and to provide on-site yeast production. We estimate capital costs for the enhanced yeast seed train to be approximately $10 million. We expect to begin commercial production of isobutanol at the Agri-Energy facility in the first half of 2012.

We derive revenue from the sale of ethanol, distiller s grains and other related products produced as part of the ethanol production process and we expect that we will continue to record revenue from these sources during the period of the retrofit of the Agri-Energy facility to isobutanol production. Continued ethanol production during the retrofit will allow us to retain local staff for the future operation of the plant, maintain the equipment and generate cash flow. As the production of ethanol is not our intended business, we will continue reporting our operating results as a development stage company during the retrofit process and only intend to report revenue from the sale of ethanol on an interim basis until we begin to generate revenue from sales of isobutanol. Accordingly, the historical operating results of Agri-Energy, LLC (Agri-Energy) and the operating results reported during the retrofit to isobutanol production will not be indicative of future operating results for Agri-Energy or Gevo, Inc. once isobutanol production commences.

Ethanol plant operations are highly dependent on commodity prices, especially prices for corn, ethanol, distiller s grains and natural gas. Because the market prices of these commodities are not always correlated, at times ethanol production may be unprofitable. As commodity price volatility poses a significant threat to our margin structure, we have implemented a risk management strategy focused on securing favorable operating margins. We monitor market prices of corn, natural gas and other input costs relative to the prices for ethanol and distiller s grains in Luverne, Minnesota, the location of the Agri-Energy facility. We also seek to create offsetting positions by using derivative instruments, fixed-price purchases and sales contracts or a combination of strategies. Our primary focus is not to manage general price movements, such as seeking to minimize the cost of corn consumed, but rather to seek to acquire corn, net of exchange-traded contracted amounts, at prices that reflect the then-current pricing for ethanol sold. By using a variety of risk management tools and hedging strategies we believe we will be able to maintain a disciplined approach to risk.

Revenues, Cost of Goods Sold and Operating Expenses

Revenues

We derive revenue from the sale of ethanol, distiller s grains and other products produced as part of the ethanol production process and we expect that we will continue to record revenue from these sources during the period of the retrofit of the Agri-Energy facility to isobutanol production. Revenue from the sale of ethanol and related products is recorded 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 of the revenue is reasonably assured.

Revenues relating to government research grants and cooperative agreements are 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.

Cost of Goods Sold and Gross Margin

Our gross margin is derived from our total revenues less our cost of goods sold. Cost of goods sold includes costs for materials, direct labor and certain plant overhead costs.

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Research and Development

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

Selling, General and Administrative

Selling, general and administrative expense consists of personnel costs (including stock-based compensation), consulting and service provider expenses (including patent counsel-related costs), legal fees, marketing costs, corporate insurance costs, occupancy-related costs, depreciation and amortization expenses on property, plant and equipment not used in our product development programs or recorded in cost of goods sold, travel and relocation and hiring expenses. Following completion of our initial public offering in February 2011, we began incurring a significant increase in selling, general and administrative expense as we incur additional compliance costs as a public company. We expect to incur significant costs to comply with the corporate governance, internal controls and similar requirements applicable to public companies, as well as increased costs for insurance, costs related to the hiring of additional personnel and payment to outside consultants, attorneys and accountants.

We also record selling, general and administrative expenses for the operations of the Agri-Energy facility that include administrative and oversight, labor, insurance and other operating expenses.

Critical Accounting Policies and Estimates

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

While our significant accounting policies are more fully described in Note 1 to our condensed consolidated financial statements included in this Report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and reflect the more significant judgments and estimates that we use in the preparation of our condensed consolidated financial statements.

Stock-Based Compensation

We account for stock-based compensation for awards to employees in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, *Compensation-Stock Compensation*. Under the provisions 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. We estimate the fair value of stock options issued to employees using the Black-Scholes option-pricing model.

We account 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*. We determine the estimated fair value of stock options issued to nonemployees using the Black-Scholes option-pricing model. 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.

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The following table summarizes the stock options granted from January 1, 2008 through September 30, 2011 with their exercise prices, the fair value of the underlying common stock and the intrinsic value per share, if any:

Date of issuance	Number of options	Exercise price and fair value per share of common stock
January 7, 2008 to February 25, 2008	64,500	$ 0.49
June 12, 2008 to December 4, 2008	803,459	$ 1.16
November 16, 2009 to December 1, 2009	863,720	$ 2.70
June 3, 2010 to June 24, 2010	381,930	$ 10.07
September 10, 2010 to September 13, 2010	64,950	$ 12.67
March 3, 2011	28,000	$ 19.10
March 23, 2011	202,504	$ 17.53
May 6, 2011	15,000	$ 19.14
June 14, 2011	41,250	$ 16.50
June 16, 2011	105,600	$ 16.19
June 20, 2011	101,500	$ 14.81
July 11, 2011	50,800	$ 16.55
July 18, 2011	5,000	$ 17.47
August 17, 2011	4,500	$ 11.42
September 15, 2011	10,828	$ 8.73

During the three and nine months ended September 30, 2011, we also granted 7,159 and 119,252, respectively, shares of restricted common stock to board members and certain officers of the company that vest over a 36 month period from the date of grant. We did not grant any shares of restricted common stock during the three and nine months ended September 30, 2010.

Significant Factors, Assumptions and Methodologies used in Determining Fair Value

We have estimated the fair value of our stock option grants using the Black-Scholes option-pricing method. We calculate the estimated volatility rate based on selected comparable public companies, due to a lack of historical information regarding the volatility of our stock price. We will continue to analyze the historical stock price volatility assumption as more historical data for our common stock becomes available. Due to our limited history of grant activity, we calculate the expected life of options granted using the simplified method permitted by the SEC as the arithmetic average of the total contractual term of the option and its vesting period. The risk-free interest rate assumption was based on the U.S. Treasury yield curve in effect during the year of grant for instruments with a term similar to the expected life of the related option. No dividends are expected to be paid. Forfeitures have been estimated based upon our historical and expected forfeiture experience.

During the three and nine months ended September 30, 2011 and 2010, we recognized a total of $1,889,000, $5,119,000, $8,133,000 and $10,024,000, respectively, in stock-based compensation expense relating to equity awards of stock options and restricted common stock, as well as a warrant issued to CDP Gevo, LLC (CDP) and the purchase of the 10% minority interest in Gevo Development held by CDP pursuant to an equity purchase agreement. Each of the owners of CDP is employed by us as an Executive Vice President, Upstream Business Development and a co-managing director of Gevo Development.

Common Stock Valuations

Prior to the closing of our initial public offering on February 14, 2011, we were a private company. In the absence of a public trading market, we determined a reasonable estimate of the then-current fair value of our common stock for purposes of granting stock-based compensation based on multiple criteria. We determined the fair value of our common stock utilizing methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (AICPA Practice Aid). In addition, we exercised judgment in evaluating and assessing the foregoing based on several factors including:

the nature and history of our business;

our historical operating and financial results;

the market value of companies that are engaged in a similar business to ours;

the lack of marketability of our common stock;

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- the price at which shares of our preferred stock have been sold;
- the liquidation preference and other rights, privileges and preferences associated with our preferred stock;
- our progress in developing our isobutanol production technology;
- our progress towards achieving commercial performance targets for our bacteria and yeast based biocatalysts;
- our progress towards producing isobutanol at the one MGPY demonstration plant scale;
- the risks associated with transferring our isobutanol production technology to full commercial scale settings;
- the overall inherent risks associated with our business at the time stock option grants were approved; and
- the overall equity market conditions and general economic trends.

We considered the factors outlined above, as well as the results of independent outside valuations performed as of the dates listed in the table below, in determining the underlying fair value of our common stock. We used an option-pricing method, as well as other factors outlined above, to estimate the fair value of our common stock as follows:

Valuation date	Fair value per share	
March 31, 2010	$	10.07
August 31, 2010	$	12.67
September 30, 2010	$	18.97
December 31, 2010	$	14.90

In May 2010, we completed a valuation to estimate the fair market value of a share of our common stock as of March 31, 2010 using the option-pricing method. We first estimated our enterprise value and then allocated this value to the underlying classes of equity using the option-pricing method as outlined in the AICPA Practice Aid. In estimating the enterprise value, we used a scenario analysis incorporating probabilities of future events for existing stockholders of an initial public offering, merger/acquisition (M&A), or an orderly liquidation to calculate an overall estimated enterprise value of the company. To calculate the enterprise value in the initial public offering and M&A scenarios, we used an income approach which incorporated a discounted cash flow valuation. This approach requires a projection of the cash flows that the business expects to generate over a forecast period and an estimate of the present value of cash flows beyond that period, which is referred to as terminal value. These cash flows are converted to present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risks inherent in the business. The orderly liquidation scenario considered the total preferences of the preferred stockholders assuming no further rounds of financing after Series D-1. To allocate the enterprise value to the underlying classes of equity, we used the option-pricing method. Within the allocation model, we estimated a time until liquidity event of six months, a risk-free discount rate of 0.24% and a volatility input of 59.79% based upon 6 months of data from a set of comparable public company stocks. We estimated a fair market value at March 31, 2010 of $10.07 per common share.

In September 2010, we completed a valuation to estimate the fair market value of a share of our common stock as of August 31, 2010 using the same methodology that we used for our valuation as of March 31, 2010. We estimated a fair value at August 31, 2010 of $12.67 per common share.

In October 2010, we completed a valuation to estimate the fair market value of a share of our common stock as of September 30, 2010 using the same methodology that we used for our valuations as of March 31, 2010 and August 31, 2010. We estimated a fair value at September 30, 2010 of $18.97 per common share. For the August 31, 2010 and September 30, 2010 valuations, we used the following assumptions: risk free interest rate of 0.15%, expected volatility of between 49.14% and 61.90%, and an expected time to a liquidity event of 0.17 years.

In February 2011, we completed a valuation to estimate the fair market value of a share of our common stock as of December 31, 2010 using the same methodology that we used for our valuations performed in 2010. We estimated a fair value at December 31, 2010 of $14.90 per common share. For the December 31, 2010 valuation, we used the following assumptions: risk free interest rate of 0.07%, expected volatility of 49.14%, and an expected time to a liquidity event of 0.08 years.

No single event caused the valuation of our common stock to increase from January 2008 to December 2010; rather, it was a combination of the following factors that led to the changes in the fair value of the underlying common stock:

- We completed our Series C financing in March 2008. The value of the company negotiated during this financing, led by two new investors, took into account our license agreement signed with The Regents of the University of California during the fall of 2007.

- We completed our Series D financing between April and August 2009. The value of the company negotiated during this financing, led by a new investor, took into account the operation of our pilot plant located at our facility in Colorado

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during 2008, our partnership with ICM that was entered into in 2008, improvements in our first-generation biocatalyst and construction of our demonstration plant in St. Joseph, Missouri.

We completed our Series D-1 financing between March and May 2010. The value of the company negotiated during this financing took into account several recent developments including commissioning our demonstration plant in St. Joseph, Missouri during September 2009, the establishment of Gevo Development in September 2009 in order to focus on accessing, financing and developing ethanol facilities for future retrofit to isobutanol production, significant improvements in the isobutanol yield of our second-generation biocatalyst and our entering into a number of letters of interest with potential future customers.

We completed the acquisition of Agri-Energy in September 2010 gaining access to our first commercial facility for future retrofit to isobutanol production.

As of October 2010, our second-generation biocatalyst had achieved a fermentation time of 52 hours and achieved approximately 94% of the theoretical maximum yield of isobutanol from feedstock, meeting our targeted fermentation performance criteria well in advance of our planned commercial launch of isobutanol production in the first half of 2012.

There is inherent uncertainty in these estimates and if we had made different assumptions than those described above, the amount of our stock-based compensation expense, net loss and net loss per share amounts could have been significantly different.

After the closing of our initial public offering on February 14, 2011, we use the closing price of our stock on the NASDAQ exchange as the input for the fair value of our common stock for Black-Scholes option-pricing model calculations.

Estimation of Fair Value of Warrants to Purchase Preferred Stock

Effective January 1, 2009 upon the adoption of FASB ASC 815, *Derivatives and Hedging*, all warrants issued by us that were exercisable into preferred stock were accounted for as derivatives and recognized in our consolidated balance sheets as fair value of warrant liabilities at their estimated fair value. As such, effective January 1, 2009, we reclassified the fair value of these preferred stock warrants from equity to liability status as if these warrants had been recorded as a derivative liability since their dates of issuance. We determined that this treatment was appropriate because the preferred stock underlying the warrants had down-round protection.

Upon the closing of our initial public offering on February 14, 2011 and the conversion of the underlying preferred stock to common stock, all outstanding warrants to purchase shares of preferred stock converted into warrants to purchase shares of our common stock. The then-current aggregate fair value of these warrants of $2,063,000 was reclassified from liabilities to additional paid-in capital, a component of stockholders equity, and these warrants are no longer subject to periodic fair value adjustments. The 303,173 preferred stock warrants that were outstanding at December 31, 2010 became exercisable for 398,032 shares of our common stock upon completion of our initial public offering on February 14, 2011.

As of December 31, 2010, the fair value of preferred stock warrants was estimated to be $2,034,000 using an option-pricing model. During the three months ended September 30, 2011 and 2010, we recorded $0 and $2,052,000, respectively, in non-cash charges related to the change in fair value of preferred stock warrants. During the nine months ended September 30, 2011 and 2010, we recorded $29,000 and $3,302,000, respectively, in non-cash charges related to the change in fair value of preferred stock warrants.

Preferred stock warrants were initially issued by us in connection with the issuance of secured long-term debt and convertible promissory notes. The preferred stock warrants were not issued with the intent of effectively hedging any exposures to cash flow, market or foreign currency risks. The warrants do not qualify for hedge accounting, and as such, the changes in the fair value of these warrants were recognized in earnings until the warrants were converted to common stock warrants upon the completion of our initial public offering on February 14, 2011. The warrants do not trade in an active market and due to the nature of these derivative instruments, the instruments contain no credit-risk-related contingent features.

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To value our preferred stock warrants prior to the conversion of these warrants to common stock warrants upon our initial public offering in February 2011, we first estimated our enterprise value and then allocated this value to the underlying classes of equity using the option-pricing method as outlined in the AICPA Practice Aid. In estimating the enterprise value, we used a scenario analysis incorporating probabilities of future events for existing stockholders of an initial public offering, M&A transaction, or liquidation to calculate an overall estimated enterprise value of the company using the option-pricing method. To calculate the enterprise value in the initial public offering and M&A scenarios, we used an income approach which incorporated a discounted cash flow valuation. This approach requires a projection of the cash flows that the business expects to generate over a forecasted period and an estimate of the present value of cash flows beyond that period, which is referred to as terminal value. These cash flows are converted to present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risks inherent in the business. The orderly liquidation scenario considered the total preferences of the preferred stockholders assuming no further rounds of financing after our Series D-1. To allocate the enterprise value to the underlying classes of equity, we used the option-pricing method.

There is inherent uncertainty in these estimates and if we had made different assumptions than those described above, the amount of our loss on change in fair value of preferred stock warrants, net loss and net loss per share amounts could have been significantly different.

Beneficial Conversion Feature of Series D-1 Preferred Stock Financing

Gevo, Inc. issued a total of 1,902,087 shares of Series D-1 preferred stock between March and May 2010 and recorded a beneficial conversion feature at its aggregate intrinsic value of approximately $5,744,000 as a discount on the Series D-1 preferred stock with a corresponding credit to additional paid-in capital.

For the period from January 1, 2011 to the closing of our initial public offering on February 14, 2011, we recorded a deemed dividend amortization of beneficial conversion feature on our Series D-1 preferred stock of $495,000. Upon the closing of our initial public offering on February 14, 2011 and the automatic conversion of our Series D-1 preferred stock to common stock, we 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 on February 14, 2011. Other than the entries recorded through, and upon, the closing of our initial public offering, no additional amortization of the beneficial conversion feature relating to our Series D-1 preferred stock will be recorded.

Revenue Recognition

Following consummation of the Agri-Energy acquisition on September 22, 2010, we record revenue from the sale of ethanol and related products. We recognize 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 us and our customers. In accordance with our 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. Ethanol and related products sales are recorded net of commissions.

Revenue related to our 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. Intercompany revenues, if any, are eliminated on a consolidated basis for reporting purposes.

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. We purchase natural gas to power steam generation in the ethanol production process and to dry the distiller s grains.

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We enter 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, we designate all of our 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. We also enter 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 each derivative s fair value. Changes in the fair value of the derivative contracts are recognized currently in income, as a component of cost of goods sold, unless specific hedge accounting criteria are met. We have not designated any of our derivatives as hedges for financial reporting purposes.

Inventory

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.

Derivatives and Hedging

Our activities expose us to a variety of market risks, including the effects of changes in commodity prices. These financial exposures are monitored and managed by our management as an integral part of our overall risk-management program. Our risk management program focuses on the unpredictability of financial and commodities markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results.

We periodically enter into forward purchase contracts for corn and natural gas to ensure supply and manage the prices of these commodities. These contracts are considered to be derivative transactions. Effective January 1, 2011, we designate all of our forward purchase contracts for corn and natural gas under the normal purchases and normal sales scope exception and therefore they are no longer marked to market.

We generally follow a policy of using exchange-traded futures contracts to reduce our 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 on the consolidated balance sheet and changes in market price are recorded in cost of goods sold.

Our derivatives do not include any credit risk related contingent features. For the exchange-traded contracts, we maintain a margin deposit. We have not entered into these derivative financial instruments for trading or speculative purposes, and we have not designated any of our derivatives as hedges for financial accounting purposes.

Impairment of Long-lived Assets

In accordance with FASB ASC 360, *Property, Plant, and Equipment*, we assess impairment of long-lived assets, which include property, plant and equipment, for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to, significant decreases in the market price of the asset; significant adverse changes in the business climate, legal or regulatory factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; or expectations that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

Upon our acquisition of Agri-Energy on September 22, 2010, we recorded the acquired property, plant and equipment at their fair values. The Agri-Energy acquired property, plant and equipment constitute a majority of our total property, plant and equipment.

We have 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, we may make changes to our 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.

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We make estimates and judgments about future undiscounted cash flows. Although our cash flow forecasts are based on assumptions that are consistent with our plans, there is significant exercise of judgment involved in determining the cash flow attributable to a long-lived asset over its estimated remaining useful life. As a result, the carrying amounts of our long-lived assets could be reduced through impairment charges in the future.

Result of Operations

Comparison of the three months ended September 30, 2011 and 2010

	Three months ended September 30, 2011	Three months ended September 30, 2010	$ Increase (decrease)	% Change
Revenue:				
Ethanol sales and related products, net	$ 17,318,000	$ 975,000	$ 16,343,000	1,676%
Licensing revenue		138,000	(138,000)	(100%)
Grant revenue	188,000	383,000	(195,000)	(51%)
Total revenues	17,506,000	1,496,000	16,010,000	1,070%
Cost of goods sold	(16,232,000)	(856,000)	15,376,000	1,796%
Gross margin	1,274,000	640,000	634,000	99%
Operating expenses:				
Research and development	(5,211,000)	(3,554,000)	1,657,000	47%
Selling, general and administrative	(7,587,000)	(11,601,000)	(4,014,000)	(35%)
Loss on abandonment or disposal of assets				N/A
Total operating expenses	(12,798,000)	(15,155,000)	(2,357,000)	(16%)
Loss from operations	(11,524,000)	(14,515,000)	(2,991,000)	(21%)
Other (expense) income:				
Interest and other expense	(798,000)	(779,000)	19,000	2%
Interest and other income	17,000	38,000	(21,000)	(55%)
Loss from change in fair value of warrant liabilities		(2,052,000)	(2,052,000)	(100%)
Other expense net	(781,000)	(2,793,000)	(2,012,000)	(72%)
Net loss	(12,305,000)	(17,308,000)	(5,003,000)	(29%)
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock		(989,000)	(989,000)	(100%)
Net loss attributable to Gevo, Inc. common stockholders	$ (12,305,000)	$ (18,297,000)	$ (5,992,000)	(33%)

Revenues: The increase in ethanol sales and related products of $16,343,000, or 1,676%, is due to our acquisition of Agri-Energy on September 22, 2010. The decrease in grant revenue of $195,000, or 51%, primarily relates to a grant award from the U.S. Department of Energy that ended in August 2010.

Cost of goods sold and gross margin: The increase in cost of goods sold of $15,376,000, or 1,796%, relates to our acquisition of Agri-Energy on September 22, 2010. Prior to our acquisition of Agri-Energy, we did not incur or report cost of goods sold.

Research and development: The increase in research and development expense of $1,657,000, or 47%, was primarily driven by increased payroll and related expenses, including stock-based compensation, of $761,000 and increased operating expenses at our demonstration plants and laboratory supplies and services used in our development efforts of $259,000. We also had increases in consulting, contractor and outside service provider expenses of $374,000. Research and development expense includes stock-based compensation expense of $251,000 and $157,000 for the three months ended September 30, 2011 and 2010, respectively.

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Selling, general and administrative: The decrease in selling, general and administrative expense of $4,014,000, or 35%, was primarily driven by decreased stock-based compensation of $6,338,000 and a decrease of $239,000 in management fees paid to CDP, partially offset by increased payroll and related expenses, including relocation and recruiting expenses, of $921,000, increased legal, accounting, tax and public company filing and related fees of $1,105,000, increased public relations and corporate development costs of $264,000, increased business development consultants costs of $208,000 and increased administrative costs for Agri-Energy of $115,000. Selling, general and administrative expense included stock-based compensation expense of $1,638,000 and $7,976,000 for the three months ended September 30, 2011 and 2010, respectively. Included in the $1,638,000 of stock-based compensation in selling, general and administrative expense for the three months ended September 30, 2011 is $872,000 related to the warrant issued to CDP. Included in the $7,976,000 of stock-based compensation in selling, general and administrative expense for the three months ended September 30, 2010 is $6,978,000 related to the warrant issued to CDP.

Interest and other expense: Interest and other expense increased by $19,000, or 2%, due to the incurrence of additional debt, higher interest rates on our secured long-term debt facility and higher amortization of debt discounts and debt issue costs related to our debt with Lighthouse Capital Partners V, L.P. (Lighthouse) and TriplePoint.

Loss from change in fair value of warrant liabilities: The decrease in loss from change in fair value of warrant liabilities of $2,052,000 related to the change in the fair value of our preferred stock warrants, which were recorded as derivatives and recognized in our consolidated balance sheet as a liability through the closing date of our initial public offering. Upon the closing of our initial public offering on February 14, 2011 and the conversion of the underlying preferred stock to common stock, all outstanding warrants to purchase shares of preferred stock converted into warrants to purchase shares of our common stock and are no longer considered to be derivatives.

Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock: The decrease in deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock of $989,000 related to our issuance of Series D-1 preferred stock between March and May 2010. Upon closing of our initial public offering on February 14, 2011, no additional amortization of the beneficial conversion feature relating to our Series D-1 preferred stock will be recorded.

Comparison of the nine months ended September 30, 2011 and 2010

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	$ Increase (decrease)	% Change
Revenue:				
Ethanol sales and related products, net	$ 46,748,000	$ 975,000	$ 45,773,000	4,695%
Licensing revenue		138,000	(138,000)	(100%)
Grant revenue	572,000	1,175,000	(603,000)	(51%)
Total revenues	47,320,000	2,288,000	45,032,000	1,968%
Cost of goods sold	(45,062,000)	(856,000)	44,206,000	5,164%
Gross margin	2,258,000	1,432,000	826,000	58%
Operating expenses:				
Research and development	(13,815,000)	(11,432,000)	2,383,000	21%
Selling, general and administrative	(20,001,000)	(19,114,000)	887,000	5%
Loss on abandonment or disposal	(11,000)		11,000	N/A
Total operating expenses	(33,827,000)	(30,546,000)	3,281,000	11%
Loss from operations	(31,569,000)	(29,114,000)	2,455,000	8%
Other (expense) income:				
Interest and other expense	(2,541,000)	(1,448,000)	1,093,000	75%
Interest and other income	85,000	96,000	(11,000)	(11%)

Loss from change in fair value of warrant liabilities		(29,000)		(3,302,000)	(3,273,000)	(99%)
Other expense net		(2,485,000)		(4,654,000)	(2,169,000)	(47%)
Net loss		(34,054,000)		(33,768,000)	286,000	1%
Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock		(1,094,000)		(1,789,000)	(695,000)	(39%)
Net loss attributable to Gevo, Inc. common stockholders	$	(35,148,000)	$	(35,557,000)	$ (409,000)	(1%)

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Revenues: The increase in ethanol sales and related products of $45,773,000, or 4,695%, is due to our acquisition of Agri-Energy on September 22, 2010. The decrease in grant revenue of $603,000, or 51%, primarily relates to a grant award from the U.S. Department of Energy that ended in August 2010.

Cost of goods sold and gross margin: The increase in cost of goods sold of $44,206,000 relates to our acquisition of Agri-Energy on September 22, 2010. Prior to our acquisition of Agri-Energy, we did not incur or report cost of goods sold.

Research and development: The increase in research and development expense of $2,383,000, or 21%, was primarily driven by increased operating expenses at our demonstration plants and laboratory supplies and services used in our development efforts of $2,143,000 and increased payroll and related expenses, including stock-based compensation, of $1,484,000, partially offset by achievement of a research milestone under our licensing agreement with Cargill, Incorporated (Cargill), for which we recorded $1,578,000 in expense during the nine months ended September 30, 2010, and decreased depreciation of $308,000. We also incurred increases in consulting, contractor and outside service provider expenses of $428,000. Research and development expense includes stock-based compensation expense of $730,000 and $517,000 for the nine months ended September 30, 2011 and 2010, respectively.

Selling, general and administrative: The increase in selling, general and administrative expense of $887,000, or 5%, was primarily driven by increased payroll and related expenses, including relocation and recruiting, of $2,284,000, increased legal, accounting, tax and public company filing and related fees of $2,744,000, increased public relations and corporate development costs of $932,000, increased business development consultants of $376,000 and increased administrative costs for Agri-Energy of $341,000, partially offset by a decrease in stock-based compensation of $5,118,000 and a decrease of $716,000 in management fees paid to CDP. Selling, general and administrative expense included stock-based compensation expense of $4,389,000 and $9,507,000 for the nine months ended September 30, 2011 and 2010, respectively. Included in the $4,389,000 of stock-based compensation in selling, general and administrative expense for the nine months ended September 30, 2011 is $2,616,000 related to the warrant issued to CDP. Included in the $9,507,000 of stock-based compensation in selling, general and administrative expense for the nine months ended September 30, 2010 is $6,978,000 related to the warrant issued to CDP.

Interest and other expense: Interest and other expense increased by $1,093,000, or 75%, due to the incurrence of additional debt, higher interest rates on our secured long-term debt facility and higher amortization of debt discounts and debt issue costs related to our debt with Lighthouse and TriplePoint.

Loss from change in fair value of warrant liabilities: The decrease in loss from change in fair value of warrant liabilities of $3,273,000, or 99%, related to the change in the fair value of our preferred stock warrants, which were recorded as derivatives and recognized in our consolidated balance sheet as a liability through the closing date of our initial public offering. Upon the closing of our initial public offering on February 14, 2011 and the conversion of the underlying preferred stock to common stock, all outstanding warrants to purchase shares of preferred stock converted into warrants to purchase shares of our common stock and are no longer considered to be derivatives.

Deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock: The increase in deemed dividend amortization of beneficial conversion feature on Series D-1 preferred stock of $695,000 related to our issuance of Series D-1 preferred stock between March and May 2010. Upon closing of our initial public offering on February 14, 2011, no additional amortization of the beneficial conversion feature relating to our Series D-1 preferred stock will be recorded.

Liquidity and Capital Resources

On February 14, 2011, we completed our initial public offering issuing 8,222,500 shares of common stock at an offering price of $15.00 per share, resulting in net proceeds of $110,408,000, after deducting underwriting discounts and commissions and other offering costs.

From inception to September 30, 2011, we have funded our operations primarily through the sale of preferred equity securities, borrowings under our secured debt financing arrangements, revenues earned and the net proceeds from our initial public offering. To date, we have not generated any revenues from the sale of isobutanol.

As of September 30, 2011, our cash and cash equivalents totaled $97,605,000. Based on our current level of operations and anticipated growth, we believe that our existing cash and cash equivalents on hand will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months. Possible future joint

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ventures or acquisitions involving ethanol plant assets for retrofit to isobutanol production may be subject to our raising additional capital through future equity or debt issuances. Successful completion of our research and development program and the attainment of profitable operations are dependent upon future events, including completion of our development activities resulting in sales of isobutanol or isobutanol-derived products and/or technology, achieving market acceptance and demand for our products and services and attracting and retaining qualified personnel.

We will require additional funding to achieve our goal of producing and selling over 350 million gallons of isobutanol in 2015.

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

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net cash used in operating activities	$ (25,760,000)	$ (15,870,000)
Net cash used in investing activities	$ (3,540,000)	$ (24,810,000)
Net cash provided by financing activities	$ 111,631,000	$ 41,956,000

Operating Activities

Our primary uses for cash from operating activities are personnel-related expenses and research and development-related expenses including costs incurred under development agreements, for licensing of technology and for the operation of our demonstration production facility.

Cash used in operating activities of $25,760,000 for the nine months ended September 30, 2011 reflected our net loss of $34,054,000, partially offset by changes in operating assets and liabilities of $774,000 and non-cash charges totaling $7,520,000. Non-cash charges included depreciation and amortization of $3,372,000, stock-based compensation of $4,897,000, loss from change in fair value of warrant liabilities of $29,000 and non-cash interest expense and amortization of debt discounts of $625,000, which were offset by a gain in derivative assets of $1,414,000. The net source of cash from our operating assets and liabilities of $774,000 primarily reflected an increase in accounts payable and accrued expenses.

Cash used in operating activities of $15,870,000 during the nine months ended September 30, 2010 reflected our net loss of $33,768,000 offset by non-cash charges totaling $15,228,000 and changes in operating assets and liabilities of $2,670,000. Non-cash charges included stock-based compensation of $9,250,000, loss from change in fair value of warrant liabilities of $3,302,000, depreciation and amortization of $2,173,000 and non-cash interest expense and amortization of debt discounts of $573,000, which were offset by a gain in derivative assets of $70,000. The net source of cash from our operating assets and liabilities of $2,670,000 primarily reflected accrued milestone payments under our Cargill license agreement that are payable in 2011 and 2012 and amounts accrued for work performed by ICM.

Investing Activities

During the nine months ended September 30, 2011, cash used in investing activities included $3,580,000 for capital expenditures, including $2,120,000 relating to our retrofit of the Agri-Energy facility to isobutanol production which is recorded as construction in progress.

During the nine months ended September 30, 2010, cash used in investing activities included $472,000 for capital expenditures and $24,378,000 related to the purchase and acquisition of Agri-Energy (aggregate cash purchase price of $24,963,000 less cash acquired of $585,000).

Financing Activities

During the nine months ended September 30, 2011, cash provided by financing activities was $111,631,000, primarily due to the net proceeds from our initial public offering, after deducting underwriting discounts and commissions and other offering expenses paid during the period, less principal repayments of $1,402,000 on our debt with Lighthouse.

During the nine months ended September 30, 2010, cash provided by financing activities was $41,956,000, primarily due to the net proceeds of $31,411,000 from our sale of Series D-1 preferred stock, debt borrowings from TriplePoint of $17,500,000, proceeds from the exercise of a preferred stock warrant of $592,000, repayment of $5,000,000 of principal and $250,000 of final payment under our debt with Lighthouse, payment of deferred offering costs relating to our initial public offering of $1,351,000 and payment of debt issue costs relating to our TriplePoint debt of $962,000.

Agri-Energy Acquisition

In September 2010, we acquired the Agri-Energy facility that we are retrofitting to produce isobutanol. We paid a purchase price of approximately $20.6 million. In addition, we acquired and paid $4.9 million for working capital. We paid the aggregate purchase price with available cash reserves and by borrowing $12.5 million under our loan and security agreement with TriplePoint (as described below). We have begun the retrofit of the Agri-Energy facility. We intend to increase the potential production capacity of the Agri-Energy facility in anticipation of future improvements from our yeast biocatalyst. We project capital costs for the retrofit of the Agri-Energy facility to be $22 million, including the ability to switch between ethanol and isobutanol production, plus additional capital to allow for the anticipated increased future production capacity. In addition to the retrofit to isobutanol production at the Agri-Energy facility, in July 2011 we made the strategic decision to invest in an enhanced yeast seed train at the Agri-Energy facility to maintain direct oversight over our current yeast material and future yeast development and to provide on-site yeast production. We estimate capital costs for the enhanced yeast seed train to be approximately $10 million. We expect to begin commercial production of isobutanol at the Agri-Energy facility in the first half of 2012. While we believe we will have the ability to reverse the retrofit and switch between ethanol and isobutanol production, there is no guarantee that this will be the case and it is not our intent to do so.

Redfield Energy, LLC

On June 15, 2011, we entered into an Isobutanol Joint Venture Agreement (the Joint Venture Agreement) with Redfield Energy, LLC, a South Dakota limited liability company (Redfield), and executed the Second Amended and Restated Operating Agreement of Redfield (together, the Joint Venture Documents). Under the terms of the Joint Venture Documents, Gevo Development and Redfield have agreed to work together to retrofit Redfield s approximately 50 million gallon per year ethanol production facility located near Redfield, South Dakota for the commercial production of isobutanol (the Redfield Retrofit). Under the terms of the Joint Venture Agreement, Redfield has issued 100 Class G membership units in Redfield (the Class G Units) to Gevo Development in exchange for a payment of $1,000, which has been recorded on our balance sheet in other assets. Gevo Development is the sole holder of Class G units which entitle Gevo Development to certain information and governance rights with respect to Redfield, including the right to appoint two members of Redfield s 11-member board of managers. The Class G units currently carry no interest in the allocation of profits, losses or other distributions of Redfield and no voting rights. Such rights will vest upon the commencement of commercial isobutanol production at the Redfield facility, at which time Gevo Development anticipates consolidating Redfield s operations because Gevo anticipates it will control the activities that are most significant to the entity.

Gevo Development will be responsible for all costs associated with the Redfield Retrofit. Redfield will remain responsible for certain expenses incurred by the facility including certain repair and maintenance expenses and any costs necessary to ensure that the facility is in compliance with applicable environmental laws. We anticipate that the Redfield facility will continue its current ethanol production activities during much of the Redfield Retrofit. Once the retrofit assets have been installed, the ethanol production operations will be suspended to enable testing of the isobutanol production capabilities of the facility (the Performance Testing Phase). During the Performance Testing Phase, Gevo Development will be entitled to receive all revenue generated by the Redfield facility and will make payments to Redfield to cover the costs incurred by Redfield to operate the facility plus the profits, if any, that Redfield would have received if the facility had been producing ethanol during that period (the Facility Payments). Gevo Development has also agreed to maintain an escrow fund during the Performance Testing Phase as security for its obligation to make the Facility Payments.

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

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

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

As of September 30, 2011, we have not incurred any costs for the Redfield Retrofit.

Gevo Development, LLC and CDP Gevo, LLC

In September 2010, Gevo, Inc. acquired 100% of the class B interests in Gevo Development, which comprise 10% of the outstanding equity interests of Gevo Development, from CDP pursuant to an equity purchase agreement. Gevo, Inc. currently owns 100% of the outstanding equity interests of Gevo Development as a wholly owned subsidiary. In exchange for the class B interests, CDP will receive aggregate consideration of up to approximately $1,143,000, of which $996,000 has been paid as of September 30,

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2011 and the remainder of which is payable through January 1, 2012, subject to the terms and conditions set forth in the agreement. As of September 22, 2010, each of the owners of CDP is employed by Gevo, Inc.

Cargill, Incorporated

During February 2009, we entered into a license agreement with Cargill to obtain certain biological materials and license patent rights to use a yeast biocatalyst owned by Cargill. Under the agreement, Cargill has granted us an exclusive, royalty-bearing license, with limited rights to sublicense, to use the patent rights in a certain field, as defined in the agreement. The agreement contains five milestone payments totaling approximately $4,300,000 that are payable after each milestone is completed.

During 2009, two milestones were completed and we recorded the related milestone amounts, along with an up-front signing fee, totaling $875,000 to research and development expense. During March 2010, we 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 twelve months from the date it was incurred. At September 30, 2011, the present value of the liability, $1,137,000, was recorded as $924,000 in accounts payable and accrued expenses and $213,000 in non-current liabilities. Milestones number four and five representing potential payments of up to $1,500,000 have not been met as of September 30, 2011. Upon commercialization of a product which uses the Cargill biological material or is otherwise covered by the patent rights under this agreement, a royalty based on net sales is payable by us, subject to a minimum royalty amount per year, as defined in the agreement, and up to a maximum amount per year. We may terminate this agreement at any time upon 90 days written notice. Unless terminated earlier, the agreement remains in effect until the later of December 31, 2025 and the date that no licensed patent rights remain. The accretion of the liability was recorded to interest expense.

Secured Long-Term Debt

Lighthouse Loan and Security Agreement. On December 18, 2006, we entered into a loan and security agreement, as amended, with Lighthouse. On August 6, 2010, we 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 September 30, 2011, our outstanding principal balance on our loan with Lighthouse was $1,533,000. 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, we are prohibited from granting a security interest in our 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 us from paying any dividends or distributions or creating any liens against the collateral as defined in the agreement, as amended. We cannot borrow any further amounts under our agreement with Lighthouse. At September 30, 2011, we were 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 we borrowed $5,000,000 (the Gevo Loan Agreement). The Gevo Loan 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 we receive the prior approval of TriplePoint. The aggregate amount outstanding under the Gevo Loan 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 our intellectual property. This loan is also secured by substantially all of the assets of Agri-Energy, LLC. Additionally, under the terms of each of (i) the Gevo Loan Agreement and (ii) Gevo, Inc. s guarantee of Agri-Energy s obligations under the Original Agri-Energy Loan Agreement described below, 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 of 6 months may be elected in the event that Gevo, Inc. begins producing isobutanol at its Agri-Energy facility by June 30, 2012. We used the funds from this loan to repay a portion of our existing indebtedness with Lighthouse. At September 30, 2011, we were in compliance with the debt covenants under the Gevo Loan Agreement.

TriplePoint Loan and Security Agreement 2- Part 1. In August 2010, Gevo Development borrowed $12,500,000 from TriplePoint to finance its acquisition of Agri-Energy and in September 2010, upon completion of the acquisition, the loan and security agreement was amended to make Agri-Energy the borrower under the facility. This loan and security agreement (the Original Agri-Energy Loan Agreement), includes customary affirmative and negative covenants for agreements of this type and events of default. The aggregate amount outstanding under the Original

Agri-Energy Loan Agreement bears interest at a rate equal to

13% and is subject to an end-of-term payment equal to 8% of the amount borrowed. The loan is secured by the equity interests of Agri-Energy held by Gevo Development and substantially all the assets of Agri-Energy. The loan matures on September 1, 2014, and provides for interest-only payments during the first 24 months. An additional interest-only period of 6 months may be elected in the event that Gevo, Inc. begins producing isobutanol at its Agri-Energy facility by June 30, 2012. 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 September 30, 2011, we were in compliance with the debt covenants under the Original Agri-Energy Loan Agreement.

TriplePoint Loan and Security Agreement 2- Part 2. In October 2011, Agri-Energy entered into an amended and restated loan and security agreement (the Amended Agri-Energy Loan Agreement) with TriplePoint. The Amended Agri-Energy Loan Agreement amends and restates the Original Agri-Energy Loan Agreement. The Amended Agri-Energy Loan Agreement includes customary affirmative and negative covenants for agreements of this type and events of default. The Amended Agri-Energy Loan Agreement provides Agri-Energy with additional term loan facilities of up to $15,000,000 (the New Loan) (which amount is in addition to the existing $12,500,000 term loan provided under the Original Agri-Energy Loan Agreement, which term loan remains in place under the Amended Agri-Energy Loan Agreement), the proceeds of which will be used to pay a portion of the costs, expenses, and other amounts associated with the retrofit of Agri-Energy s ethanol plant in Luverne, Minnesota to produce isobutanol. The loan matures on October 31, 2015 with the last monthly amortization payment due on the date of such advance. The interest rate is the prime rate, as published by the Wall Street Journal on the day before each advance, plus 7.75% and in no event will the prime rate be less than 3.25%, and is subject to an end-of-term payment equal to 5.75% of the amount borrowed. The New Loan provides for interest only payments through July 1, 2012 and an additional interest-only period of 6 months on the New Loan may be elected in the event that the Company has received net offering proceeds of at least $75 million from one or more secondary equity offerings by June 30, 2012. On October 20, 2011, Agri-Energy borrowed $10 million under the Amended Agri-Energy Loan Agreement. Upon our request and the additional approval of TriplePoint, we may borrow an additional $5,000,000 under the Amended Agri-Energy Loan Agreement increasing the maximum size of the New Loan to $20,000,000.

The Amended Agri-Energy Loan Agreement provides that Agri-Energy will secure all of its obligations under the Amended Agri-Energy Loan Agreement and any other loan documents by granting to TriplePoint a security interest in and lien upon all or substantially all of its assets. Gevo, Inc. has guaranteed Agri-Energy s obligations under the Amended Agri-Energy Loan Agreement. As additional security, concurrently with the execution of the Amended Agri-Energy Loan Agreement, (i) Gevo Development entered into a limited recourse continuing guaranty in favor of TriplePoint, (ii) Gevo Development entered into an amended and restated limited recourse membership interest pledge agreement in favor of TriplePoint, pursuant to which it pledged the membership interests of Agri-Energy as collateral to secure the obligations under its guaranty and (iii) Gevo, Inc. entered into an amendment to its security agreement with TriplePoint, which secures its guarantee of Agri-Energy s obligations (including up to $32,500,000 in term loans) under the Amended Agri-Energy Loan Agreement.

Additionally, concurrent with the execution of the Amended Agri-Energy Loan Agreement, we entered into a warrant agreement with TriplePoint pursuant to which TriplePoint is entitled to purchase up to 188,442 shares of our common stock, par value $0.01, on the terms and subject to the conditions set forth in the warrant agreement, at a price per share of $7.96, subject to adjustment, exercisable for a period of seven years from the effective date of the warrant agreement.

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Contractual Obligations and Commitments

The following summarizes the future commitments arising from our contractual obligations at December 31, 2010:

	Total	2011	2012	2013	2014	2015 and Thereafter
Secured long-term debt, including current portion (before debt discounts)(1)	$ 22,038,000	$ 1,897,000	$ 3,371,000	$ 8,478,000	$ 8,292,000	$
Cash interest payments on long-term debt(1)	6,742,000	2,536,000	2,312,000	1,523,000	371,000	
Operating leases(2)	1,288,000	499,000	497,000	292,000		
Payments to CDP for purchase of Class B interest(3)	369,000	295,000	74,000			
Payments due under Cargill license agreement (4)	2,000,000	1,000,000	1,000,000			
Total	$ 32,437,000	$ 6,227,000	$ 7,254,000	$ 10,293,000	$ 8,663,000	$

(1) Includes principal and final payments on our long-term debt as of December 31, 2010. With respect to each of the TriplePoint loans outstanding at December 31, 2010, an additional interest-only period of 6 months may be elected in the event that Gevo, Inc. is producing isobutanol at its Agri-Energy facility by June 30, 2012. If the additional interest-only period is elected, the amounts shown during the years ended December 31, 2012 through 2014 will be different. In October 2011, we borrowed an additional $10 million from TriplePoint, see Secured long-term debt above.

(2) Our commitments for operating leases primarily relate to our leased facility in Englewood, Colorado.

(3) In September 2010, Gevo, Inc. purchased all of the outstanding 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, of which $774,000 was paid in 2010, and the remainder of which is payable through January 1, 2012, subject to the terms and conditions set forth in the equity purchase agreement.

(4) During March 2010, we completed milestone number three under our license agreement with Cargill which is being paid as $2,000,000 over eight quarters beginning January 1, 2011.

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

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Refer to Note 1 in the accompanying notes to our condensed consolidated financial statements for a discussion of recent accounting pronouncements, if any.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our market risk profile has not changed significantly during the first nine months of 2011.

Interest Rate Risk

We had unrestricted cash and cash equivalents totaling $97,605,000 at September 30, 2011. These amounts were invested primarily in demand deposit checking and savings accounts and are held for working capital purposes. The primary objective of our investment activities is to preserve our capital for the purpose of funding our operations. We do not enter into investments for trading or speculative purposes. We believe we do not have material exposure to changes in fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% during the three months

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ended September 30, 2011 and 2010, our interest income would have declined by approximately $0 and $4,000, respectively, assuming consistent investment levels.

The terms of our Lighthouse and TriplePoint long-term debt facilities provide for a fixed rate of interest, and therefore are not subject to fluctuations in market interest rates.

Commodity Price Risk

We produce ethanol and distiller s grains from corn and our business is sensitive to changes in the price of corn. The price of corn is subject to fluctuations due to unpredictable factors such as weather, corn planted and harvested acreage, changes in national and global supply and demand and government programs and policies. We use natural gas in the ethanol production process and, as a result, our business is also sensitive to changes in the price of natural gas. The price of natural gas is influenced by such weather factors as extreme heat or cold in the summer and winter, or other natural events like hurricanes in the spring, summer and fall. Other natural gas price factors include North American exploration and production, and the amount of natural gas in underground storage during both the injection and withdrawal seasons. Ethanol prices are sensitive to world crude oil supply and demand, crude oil refining capacity and utilization, government regulation and consumer demand for alternative fuels. Distiller s grains prices are sensitive to various demand factors such as numbers of livestock on feed, prices for feed alternatives and supply factors, primarily production by ethanol plants and other sources. We attempt to reduce the market risk associated with fluctuations in the price of corn and natural gas by employing a variety of risk management and economic hedging strategies. Strategies include the use of forward purchase contracts and exchange-traded futures contracts.

Item 4. Controls and Procedures.

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures.

As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the three months ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

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

Except as described above, there have been no material developments in our legal proceedings since December 31, 2010.

Item 1A. Risk Factors.

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

Certain Risks Relating to our Business and Strategy

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

We have incurred net losses since our inception, including losses of $14.5 million, $19.9 million and $40.1 million in 2008, 2009 and 2010, respectively. We incurred a net loss of $34.1 million for the nine months ended September 30, 2011. As of September 30, 2011, we had an accumulated deficit of $120.5 million. We expect to incur losses and negative cash flow from operating activities for the foreseeable future. We are a development stage company and, to date, our revenues have been extremely limited and we have not generated any revenues from the sale of isobutanol. Prior to September 2010, our revenues were primarily derived from government grants and cooperative agreements. Since the completion of the Agri-Energy acquisition in September 2010, we have generated revenue from the sale of ethanol and related products, and we expect to continue to generate revenue from the sale of all such products that are produced prior to the completion of the retrofit of the Agri-Energy facility. If our existing grants and cooperative agreements are canceled prior to the expected end dates or we are unable to obtain new grants and cooperative agreements, our revenues could be adversely affected. Furthermore, we expect to spend significant amounts on further development of our technology, acquiring or otherwise gaining access to ethanol plants and retrofitting them for isobutanol production, marketing and general and administrative expenses associated with our planned growth and management of operations as a public company. In addition, the cost of preparing, filing, prosecuting, maintaining and enforcing patent, trademark and other intellectual property rights and defending ourselves against claims by others that we may be violating their intellectual property rights may be significant.

In particular, over time, the costs of the lawsuit with Butamax and our counterclaim, alleging patent infringement relating to the production of isobutanol, may become significant. As a result, even if our revenues increase substantially, we expect that our

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expenses will exceed revenues for the foreseeable future. We do not expect to achieve profitability during this period, and may never achieve it. If we fail to achieve profitability, or if the time required to achieve profitability is longer than we anticipate, we may not be able to continue our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

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Our planned retrofits of the ethanol production facilities in Luverne, Minnesota and Redfield, South Dakota will be our first commercial retrofits, and, as a result, our production of isobutanol could be delayed or we could experience significant cost overruns in comparison to our current estimates.

In September 2010, we acquired ownership of an ethanol production facility in Luverne, Minnesota and in June 2011, we acquired access to a second ethanol production facility in Redfield, South Dakota pursuant to our joint venture with Redfield. We intend to retrofit both facilities to produce isobutanol. While we have received additional debt and anticipate that additional funding for the retrofits may be available from TriplePoint, cost overruns or other unexpected difficulties could cause the retrofits to cost more than we anticipate, which could increase our need for such funding. Such funds may not be available when we need them, on terms that are acceptable to us or at all, which could delay our initial commercial production of isobutanol. If additional funding is not available to us, or not available on terms acceptable to us, it could force us to use significantly more of our own funds than planned, limiting our ability to acquire access to or retrofit additional ethanol plants. Such a result could reduce the scope of our business plan and have an adverse effect on our results of operations.

There is no guarantee we will be able to maintain Agri-Energy s historical revenues and results from operations, and Agri-Energy s historical financial statements will not be a strong indicator of our future earnings potential.

While we remain a development stage company, Agri-Energy operates a commercial ethanol facility in Luverne, Minnesota, which generates revenues from sales of ethanol. There is no guarantee that we will be able to maintain Agri-Energy s historical levels of revenue or results from operations. We plan to retrofit the Agri-Energy facility to produce isobutanol, and our future profitability depends on our ability to produce and market isobutanol, not on continued production and sales of ethanol. Because the risks involved in our isobutanol production are different from those involved with operating an ethanol production facility, Agri-Energy s financial results prior to the completion of the planned retrofit to isobutanol production will not be a reliable indicator of our future earnings potential. Furthermore, our planned retrofit will require a significant amount of time. While we believe the facility will be able to continue ethanol production during most of the modification and retrofit process, there is no guarantee that this will be the case and we may need to significantly reduce or halt ethanol production during the modification and/or retrofit. In addition, the retrofit of the Agri-Energy facility will be subject to the risks inherent in the build-out of any manufacturing facility, and we may not be able to produce isobutanol at the volumes, rates and costs we expect following the retrofit. While we believe we will have the ability to reverse the retrofit and switch between ethanol and isobutanol production, the Agri-Energy facility may fail to perform as expected following completion of the retrofit. If we are unable to continue ethanol production during the modification and/or retrofit process or if we are unable to produce isobutanol at the volumes, rates and costs we expect and are unable to switch back to ethanol production, we would be unable to match the facility s historical economic performance and our business, financial condition and results of operations would be materially adversely affected.

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

As of the date of this Report, we have not produced commercial quantities of isobutanol and we may not be successful in doing so. The production of isobutanol requires multiple integrated steps, including:

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

storage and distribution of the isobutanol.

Our future success depends on our ability to produce commercial quantities of isobutanol in a timely and economic manner. Our biocatalysts have not yet produced commercial volumes of isobutanol. While we have produced isobutanol using our first- and second- generation biocatalysts at the demonstration facility, such production was not at full scale. We have focused the majority of our research and development efforts on producing isobutanol from dextrose, and challenges remain in achieving substantial production volumes with other sugars, like corn mash. The risk of contamination and other problems rise as we increase the scale of our isobutanol production. If we are unable to successfully manage these risks, we may encounter difficulties in achieving our target isobutanol production yield, rate, concentration or purity at a commercial scale, which could delay or increase the costs involved in commercializing our isobutanol production. In addition, we have never sourced large quantities of feedstocks and we have no experience storing and/or distributing significant volumes of isobutanol. The technological and logistical challenges associated with each of the processes involved in production, sale and distribution of isobutanol are extraordinary, and we may not be able to resolve any difficulties that arise in a timely or cost effective manner, or at all. Even if we are successful in developing an economical process for converting plant feedstocks into commercial quantities of isobutanol, we may not be able to adapt such process to other biomass raw materials, including cellulosic biomass.

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

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

Our strategy currently includes accessing and retrofitting, either independently or with potential development partners, existing ethanol facilities for the production of large quantities of isobutanol for commercial distribution and sale. We have acquired one 22 MGPY ethanol production facility and acquired access to one 50 MGPY ethanol production facility pursuant to our joint venture with Redfield. We plan to acquire additional production capacity to enable us to produce and sell over 350 MGPY of isobutanol in 2015. We may not find development partners with whom we can implement this growth strategy, and we may not be able to identify facilities suitable for joint venture, acquisition or lease. Even if we successfully identify a facility suitable for efficient retrofitting, we may not be able to acquire access to such facility in a timely manner, if at all. The owners of the ethanol facility may reach an agreement with another party, refuse to consider a joint venture, acquisition or lease, or demand more or different consideration than we are willing to provide. In particular, if the profitability of ethanol production increases, plant owners may be less likely to consider modifying their production, and thus may be less willing to negotiate with us or agree to allow us to retrofit their facilities for isobutanol production. Even if the owners of the facility are interested in reaching an agreement that grants us access to the plant, negotiations may take longer, or cost more, than we expect, and we may never achieve a final agreement. Further we may not be able to raise capital on acceptable terms, or at all, to finance our joint venture, acquisition, participation or lease of facilities. Even if we are able to access and retrofit several facilities, we may fail to access enough capacity to be commercially viable or meet the volume demands or minimum requirements of our customers, including pursuant to definitive supply or distribution agreements that we may enter into, which may subject us to monetary damages. For example, under the terms of our off-take and distribution agreement with Sasol Chemical Industries Limited (Sasol), we are required to pay certain shortfall fees if we are not able to supply Sasol with certain minimum quantities of product. Failure to acquire access to sufficient capacity in a timely manner, if at all, may slow or stop our commercialization process and cause our business performance to suffer.

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

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

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

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

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

Though our initial retrofit design includes the capability to switch between isobutanol and ethanol production, we may be unable to successfully revert to ethanol production after we begin retrofit of an ethanol facility, or the facility may produce ethanol less

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efficiently or in lower volumes than it did before the retrofit. Thus, if we fail to achieve commercial levels of isobutanol production at a retrofitted facility, we may be unable to rely on ethanol production as an alternative revenue source, which could have a material adverse effect on our prospects.

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

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

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

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

Even if we produce isobutanol at our targeted rates, we may be unable to produce isobutanol that meets customer specifications. If we fail to meet specific product or volume specifications contained in a supply agreement, the customer may have the right to seek an alternate supply of isobutanol and/or terminate the agreement completely, and we could be required to pay shortfall fees or otherwise be subject to damages. A failure to successfully meet the specifications of our potential customers could decrease demand, and significantly hinder market adoption of our products.

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

We have very limited experience operating a commercial ethanol facility and no experience operating a commercial isobutanol facility. Accordingly, we may encounter significant difficulties operating at a commercial scale. We believe that our facilities will be able to continue producing ethanol during much of the retrofit process. We will need to successfully administer and manage this production. Though ICM and the employees of Agri-Energy and Redfield are experienced in the operation of ethanol facilities, and our future development partners or the entities that we acquire may likewise have such experience, we may be unable to manage ethanol producing operations, especially given the possible complications associated with a simultaneous retrofit. Once we complete a commercial retrofit, operational difficulties may increase, because neither we nor anyone else has experience operating a pure isobutanol fermentation facility at a commercial scale. The skills and knowledge gained in operating commercial ethanol facilities or small-scale isobutanol plants may prove insufficient for successful operation of a large-scale isobutanol facility, and we may be required to expend significant time and money to develop our capabilities in isobutanol facility operation. We may also need to hire new employees or contract with third parties to help manage our operations, and our performance will suffer if we are unable to hire qualified parties or if they perform poorly.

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

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

While we have succeeded, at the demonstration plant, in reaching our commercial fermentation performance targets for isobutanol concentration, fermentation productivity and isobutanol yield, we have not accomplished this in a commercial plant environment. We have successfully achieved our commercial performance targets using our second-generation biocatalyst at our mini-plant, but have not yet done so at the demonstration or commercial plant scale. We are currently optimizing our second-generation biocatalyst in anticipation of its integration into the commercial facility, but this process, if it succeeds at all, may take longer or cost more than expected. Our yeast biocatalyst may not be able to meet the commercial performance targets at a commercial-scale retrofitted plant in a timely manner, or ever. In addition, the risk of contamination and other problems exists at commercial-scale isobutanol production which could negatively impact our cost of production. If we encounter difficulties in scaling up our production, our commercialization of isobutanol and our business, financial condition and results of operations will be materially adversely affected.

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

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

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

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

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

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

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

Commercialization of our isobutanol will require approvals from state and federal agencies. Before we can sell isobutanol as a fuel or fuel blendstock directly to large petroleum refiners, we must receive EPA fuel certification. We are currently conducting Tier 1

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EPA testing, and the approval process may require significant time. Approval can be delayed for years, and there is no guarantee of receiving it. Additionally, California requires that fuels meet both its fuel certification requirements and a separate state low-carbon fuel standard. Any delay in receiving approval will slow or prevent the commercialization of our isobutanol for fuel markets, which could have a material adverse effect on our business, financial condition and results of operations.

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

With respect to the chemicals markets, we plan to focus on isobutanol production and sell to companies th