Gevo, Inc.
Form 10-Q
May 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 April 30, 2016, 38,458,548 shares of the registrant's common stock were outstanding.

GEVO, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED March 31, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GEVO, INC.

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	(unaudited) March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 8,672	$ 17,031
Accounts receivable	869	1,391
Inventories	2,987	3,487
Prepaid expenses and other current assets	1,008	731
Total current assets	13,536	22,640
Property, plant and equipment, net	78,562	76,777
Restricted deposits	2,611	2,611
Deposits and other assets	803	803
Total assets	$ 95,512	$ 102,831
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,159	$ 7,476
Current portion of secured debt, net	342	330
Current portion 2017 Notes recorded at fair value	22,401	-
Derivative warrant liability	2,946	10,493
Other current liabilities	620	-
Total current liabilities	32,468	18,299
Long-term portion of secured debt, net	63	153
Long term portion 2017 Notes recorded at fair value	-	21,565
2022 Notes, net	15,392	14,341
Other long-term liabilities	146	147
Total liabilities	48,069	54,505
Commitments and Contingencies (see Note 11)		

Stockholders' Equity		
Common stock, $0.01 par value per share; 250,000,000 authorized; 28,084,277 and 21,607,048 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	281	216
Additional paid-in capital	390,259	387,602
Deficit accumulated	(343,097)	(339,492)
Total stockholders' equity	47,443	48,326
Total liabilities and stockholders' equity	$ 95,512	$ 102,831

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Operations

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended March 31, 2016	2015
Revenue and cost of goods sold		
Ethanol sales and related products, net	$ 5,757	$ 5,098
Hydrocarbon revenue	298	517
Grant and other revenue	265	284
Total revenues	6,320	5,899
Cost of goods sold	9,223	9,234
Gross loss	(2,903)	(3,335)
Operating expenses		
Research and development expense	1,044	1,722
Selling, general and administrative expense	1,919	4,479
Total operating expenses	2,963	6,201
Loss from operations	(5,866)	(9,536)
Other (expense) income		
Interest expense	(2,151)	(2,035)
Gain on conversion of debt	-	285
(Loss)/Gain from change in fair value of the 2017 Notes	(836)	3,765
Gain from change in fair value of derivative warrant liability	5,248	167
Other income	-	11
Total other income, net	2,261	2,193
Net loss	(3,605)	(7,343)
Net loss per share - basic and diluted	$ (0.16)	$ (0.88)
Weighted-average number of common shares outstanding - basic and diluted	23,016,329	8,312,398

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

See notes to unaudited consolidated financial statements.

	Three Months Ended March 31, 2016	2015
Operating Activities		
Net loss	$(3,605)	$(7,343)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from change in fair value of derivative warrant liability	(5,248)	(167)
Loss/(Gain) from change in fair value of the 2017 Notes	836	(3,765)
Gain on conversion of debt	-	(285)
Stock-based compensation	358	402
Depreciation and amortization	1,621	1,662
Non-cash interest expense	1,057	845
Other non-cash expenses	-	25
Changes in operating assets and liabilities:		
Accounts receivable	523	214
Inventories	500	(207)
Prepaid expenses and other current assets	(278)	178
Accounts payable, accrued expenses, and long-term liabilities	(1,268)	(1,048)
Net cash used in operating activities	(5,504)	(9,489)
Investing Activities		
Acquisitions of property, plant and equipment	(2,247)	(126)
Net cash used in investing activities	(2,247)	(126)

See notes to unaudited consolidated financial statements.

GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

	Three Months Ended March 31, 2016	2015
Financing Activities		
Payments on secured debt	(84)	(51)
Debt and equity offering costs	(589)	(1,165)
Proceeds from issuance of common stock and common stock units	-	6,650
Proceeds from the exercise of warrants	65	2,175
Net cash (used in) provided by financing activities	(608)	7,609
Net decrease in cash and cash equivalents	(8,359)	(2,006)
Cash and cash equivalents		
Beginning of period	17,031	6,359
End of period	$8,672	$4,353

See notes to unaudited consolidated financial statements.

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GEVO, INC.

Consolidated Statements of Cash Flows - Continued

(in thousands)

(unaudited)

Supplemental disclosures of cash and non-cash investing and financing transactions	Three Months Ended March 31, 2016	2015
Cash paid for interest, net of interest capitalized	$1,503	$1,150
Conversion of convertible debt to common stock	$-	$2,000
Series A Warrant issuance	$-	$1,437
Series B Warrant issuance	$-	$2,528

See notes to unaudited consolidated financial statements.

GEVO, INC.

Notes to Unaudited Consolidated Financial Statements

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

Nature of Business. Gevo, Inc. (“Gevo” or the “Company,” which, unless otherwise indicated, refers to Gevo, Inc. and its subsidiaries) is a renewable chemicals and next generation biofuels company focused on the development and commercialization of alternatives to petroleum-based products based primarily on isobutanol produced from renewable feedstocks. Gevo was incorporated in Delaware on June 9, 2005.

Gevo formed Gevo Development, LLC (“Gevo Development”) in September 2009 to finance and develop biorefineries either through joint venture, licensing arrangements, tolling arrangements or direct acquisition (see Note 9). Gevo Development became a wholly owned subsidiary of the Company in September 2010. Gevo Development purchased Agri-Energy, LLC (“Agri-Energy”) in September 2010.

Through May 2012, Agri-Energy, a wholly owned subsidiary of Gevo Development, was engaged in the business of producing and selling ethanol and related products produced at its plant located in Luverne, Minnesota (the “Agri-Energy Facility”). The Company commenced the retrofit of the Agri-Energy Facility in 2011 and commenced initial startup operations for the production of isobutanol at this facility in May 2012. In September 2012, the Company made the strategic decision to pause isobutanol production at the Agri-Energy Facility to focus on optimizing specific parts of the process to further enhance isobutanol production rates.

In 2013, the Company modified the Agri-Energy Facility in order to increase the isobutanol production rate. In June 2013, the Company resumed the limited production of isobutanol, operating one fermenter and one Gevo Integrated Fermentation Technology® (“GIFT®”) separation system in order to (i) verify that the modifications had significantly reduced the previously identified infections, (ii) demonstrate that its biocatalyst performs in the one million liter fermenters at the Agri-Energy Facility, and (iii) confirm GIFT® efficacy at commercial scale at the Agri-Energy Facility. In August 2013, the Company expanded production capacity at the Agri-Energy Facility by adding a second fermenter and second GIFT® system to further verify its results with a second configuration of equipment. In October 2013, the Company began commissioning the Agri-Energy Facility on corn mash to test isobutanol production run rates and to optimize biocatalyst production, fermentation separation and water management systems.

In March 2014, the Company decided to leverage the flexibility of its GIFT® technology and further modify the Agri-Energy Facility to enable the simultaneous production of isobutanol and ethanol. In July 2014, the Company began more consistent co-production of isobutanol and ethanol at the Agri-Energy Facility, with one fermenter utilized for isobutanol production and three fermenters utilized for ethanol production. In line with the Company’s strategy to maximize asset utilization and site cash flows, this configuration of the plant should allow the Company to continue to optimize its isobutanol technology at a commercial scale, while taking advantage of potentially favorable ethanol contribution margins. Also with a view to maximizing site cash flows, over certain periods of time, the Company may and has operated the plant for the sole production of ethanol across all four fermenters.

In September 2015, the Company began deploying additional capital at the Agri-Energy Facility, primarily designed to decrease the cost of isobutanol production by insourcing parts of the process that have previously been done off-site by third parties. This required the cessation of isobutanol production while this equipment was being installed. In March 2016, the Company completed these capital projects and reestablished isobutanol production in one fermenter.

As of March 31, 2016, the Company's business activities were focused on the following areas: optimizing the co-production of isobutanol, ethanol and related products at the Agri-Energy Facility; research and development; business development; business and financial planning; and raising capital. Ultimately, the Company believes that the attainment of profitable operations is dependent upon future events, including completion of its development activities resulting in commercial production and sales of isobutanol or isobutanol-derived products and/or technology, obtaining adequate financing to complete its development activities and build out further isobutanol production capacity, gaining market acceptance and demand for its products and services, and attracting and retaining qualified personnel.

The Company has primarily derived revenue from the sale of ethanol, distiller's grains and other related products produced as part of the ethanol production process at the Agri-Energy Facility. The production of ethanol alone is not the Company's intended business and its future strategy is expected to depend on its ability to produce and market isobutanol and products derived from isobutanol. Given that the production of ethanol alone is not the Company's intended business, and the Company is only beginning to achieve more consistent production and revenue from the sale of isobutanol, the historical operating results of Agri-Energy may not be indicative of future operating results for Agri-Energy or Gevo.

Financial Condition. For the three months ended March 31, 2016 and 2015, the Company incurred a consolidated net loss of $3.6 million and $7.3 million, respectively, and had an accumulated deficit of $343.1 million at March 31, 2016. The Company's cash and cash equivalents at March 31, 2016 totaled $8.7 million which will be used for the following: (i) operating activities of the Agri-Energy Facility; (ii) operating activities at the Company's corporate headquarters in Colorado, including research and development work; (iii) capital improvements primarily associated with the Agri-Energy Facility; (iv) costs associated with optimizing isobutanol production technology; and (v) debt service obligations.

The Company expects to incur future net losses as it continues to fund the development and commercialization of its product candidates. To date, the Company has financed its operations primarily with proceeds from multiple sales of equity and debt securities, borrowings under debt facilities and product sales. Based on the Company's current operating plan, existing working capital at March 31, 2016 was not sufficient to meet the cash requirements to fund planned operations through December 31, 2016 unless the Company is able to raise additional capital to fund operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's inability to continue as a going concern may potentially affect its rights and obligations under its debt obligations.

The Company's transition to profitability is dependent upon, among other things, the successful development and commercialization of its products and product candidates and the achievement of a level of revenues adequate to support the Company's existing cost structure. The Company may never achieve profitability or generate positive cash flows, and unless and until it does, the Company will continue to need to raise additional cash. Management intends to fund future operations through additional private and/or public offerings of debt or equity securities. In addition, the Company may seek additional capital through arrangements with strategic partners or from other sources, may seek to restructure its debt and it will continue to address its cost structure. Notwithstanding, there can be no assurance that the Company will be able to raise additional funds, or achieve or sustain profitability or positive cash flows from operations.

Although substantial doubts exist about the Company's ability to continue as a going concern, the accompanying financial statements have been prepared assuming that the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business.

Basis of Presentation. The unaudited consolidated financial statements of the Company (which include the accounts of its wholly-owned subsidiaries Gevo Development and Agri-Energy) have been prepared, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company at March 31, 2016 and are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included under the heading "Financial Statements and Supplementary Data" in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report").

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

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014 09"). The objective of ASU 2014-09 is to outline a new, single comprehensive model to use in accounting for revenue arising from contracts with customers. The new revenue recognition model provides a five-step analysis for determining when and how revenue is recognized, depicting the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received in exchange for those goods or services. ASU 2014 09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is not permitted. On July 9, 2015, the FASB Board voted to delay the implementation of ASU 2014-09 by one year to December 15, 2017. The Company is currently evaluating the impact of adopting ASU 2014 09.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The objective of ASU 2014-15 is to provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new GAAP guidance requires a management evaluation about whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued or available to be issued. In doing so, ASU 2014-15 should reduce

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

diversity in the timing and content of footnote disclosures. ASU 2014 15 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-15.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11") which requires an entity to measure in scope inventory at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-11 on its consolidated balance sheets.

Adoption of New Accounting Pronouncements. In April 2015, the FASB issued Accounting Standards Update No. 2015-03 Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”) intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liabilities, consistent with the presentation of debt discounts. This will result in the elimination of debt issuance costs as an asset and will reduce the carrying value of the Company’s debt liabilities. This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The Company has adopted the guidance as of January 1, 2016. The adoption of this guidance had an immaterial impact on our financial position and has resulted in the following retrospective adjustments to our consolidated balance sheet (in thousands):

	December 31, 2015	
	As reported	As adjusted
Total Assets	103,128	102,831
Current portion of secured debt, net	332	330
2022 Notes, net	14,636	14,341

2. Earnings per Share

Basic net loss per share is computed by dividing the net loss attributable to Gevo common stockholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share (“EPS”) includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Diluted EPS for the three months ended March 31, 2016 and 2015 excluded common stock equivalents because the effect of their inclusion would be anti-dilutive, or would decrease the reported loss per share.

The following table sets forth securities outstanding that could potentially dilute the calculation of diluted earnings per share.

	March 31,	
	2016	2015
Warrants to purchase common stock	14,045,117	6,212,344
2017 Notes	1,503,821	1,502,532
2022 Notes	262,333	291,612
Outstanding options to purchase common stock	475,113	223,607
Unvested restricted common stock	268,947	48,683
Total	16,555,331	8,278,778

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

3. Inventories

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

	March 31, 2016	December 31, 2015
Raw materials		
Corn	$166	$ 517
Enzymes and other inputs	379	287
Finished goods	691	699
Work in process	459	569
Spare parts	1,292	1,415
Total inventories	$2,987	$ 3,487

4. Property, Plant and Equipment

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

	Useful Life	March 31, 2016	December 31, 2015
Construction in progress	-	$847	$ 1,801
Plant machinery and equipment	10 years	14,113	14,113
Site improvements	10 years	7,039	7,039
Agri-Energy retrofit asset	20 years	69,814	65,457
Lab equipment, furniture and fixtures and vehicles	5 years	6,392	6,389
Demonstration plant	2 years		