AMYRIS, INC.
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2013
OR

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

For the Transition Period from to
Commission File Number: 001-34885

AMYRIS, INC.
(Exact name of registrant as specified in its charter)

Delaware	55-0856151
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Amyris, Inc.
5885 Hollis Street, Suite 100
Emeryville, CA 94608
(510) 450-0761
(Address and telephone number of 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 pursuance to Rule 405 of Regulation S-T (§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, or a non-accelerated filer.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 26, 2013
Common Stock, $0.0001 par value per share	75,760,456 shares

AMYRIS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarterly Period Ended March 31, 2013

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PART I

ITEM 1. FINANCIAL STATEMENTS

Amyris, Inc.
Condensed Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$23,250	$30,592
Short-term investments	1,605	97
Accounts receivable, net of allowance of $481 and $481, respectively	7,541	3,846
Inventories, net	6,527	6,034
Prepaid expenses and other current assets	9,078	8,925
Total current assets	48,001	49,494
Property, plant and equipment, net	162,253	163,121
Restricted cash	956	955
Other assets	20,778	20,112
Goodwill and intangible assets	9,120	9,152
Total assets	$241,108	$242,834
Liabilities and Equity		
Current liabilities:		
Accounts payable	$14,161	$15,392
Deferred revenue	10,433	1,333
Accrued and other current liabilities	21,428	24,410
Capital lease obligation, current portion	998	1,366
Debt, current portion	7,082	3,325
Total current liabilities	54,102	45,826
Capital lease obligation, net of current portion	988	1,244
Long-term debt, net of current portion	60,322	61,806
Related party debt	39,528	39,033
Deferred rent, net of current portion	8,129	8,508
Deferred revenue, net of current portion	5,000	4,255
Other liabilities	14,262	15,933
Total liabilities	182,331	176,605
Commitments and contingencies (Note 5)		
Stockholders’ equity:		
Preferred stock - $0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock - $0.0001 par value, 100,000,000 shares authorized as of March 31, 2013 and December 31, 2012; 75,410,031 and 68,709,660 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	8	7
Additional paid-in capital	690,385	666,233
Accumulated other comprehensive loss	(12,088)	(12,807)
Accumulated deficit	(618,941)	(586,327)
Total Amyris, Inc. stockholders’ equity	59,364	67,106

Noncontrolling interest	(587)	(877)
Total stockholders' equity	58,777	66,229
Total liabilities and stockholders' equity	$241,108	$242,834

See the accompanying notes to the unaudited condensed consolidated financial statements.

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Amyris, Inc.
Condensed Consolidated Statements of Operations
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Revenues		
Product sales	$2,983	$26,307
Grants and collaborations revenue	4,886	3,162
Total revenues	7,869	29,469
Cost and operating expenses		
Cost of products sold	8,960	43,811
Loss on purchase commitments and write off of production assets	—	36,652
Research and development	15,754	21,344
Sales, general and administrative	14,827	21,715
Total cost and operating expenses	39,541	123,522
Loss from operations	(31,672)	(94,053)
Other income (expense):		
Interest income	36	606
Interest expense	(1,562)	(1,054)
Other income (expense), net	1,119	(151)
Total other expense	(407)	(599)
Loss before income taxes	(32,079)	(94,652)
Provision for income taxes	(236)	(244)
Net loss	$(32,315)	$(94,896)
Net loss attributable to noncontrolling interest	(299)	348
Net loss attributable to Amyris, Inc. common stockholders	$(32,614)	$(94,548)
Net loss per share attributable to common stockholders, basic and diluted	$(0.44)	$(1.88)
Weighted-average shares of common stock outstanding used in computing net loss per share of common stock, basic and diluted	73,306,860	50,214,192

See the accompanying notes to the unaudited condensed consolidated financial statements.

Amyris, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Comprehensive loss:		
Net loss	$(32,315)	$(94,896)
Foreign currency translation adjustment, net of tax	710	1,471
Total comprehensive loss	(31,605)	(93,425)
Loss attributable to noncontrolling interest	(299)	348
Foreign currency translation adjustment attributable to noncontrolling interest	9	(87)
Comprehensive loss attributable to Amyris, Inc.	$(31,895)	$(93,164)

See the accompanying notes to the unaudited condensed consolidated financial statements.

Amyris, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(In Thousands, Except Share and Per Share Amounts)	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity (Deficit)
	Shares	Amount					
December 31, 2012	68,709,660	$ 7	$ 666,233	$ (586,327)	$ (12,807)	$ (877)	$ 66,229
Issuance of common stock upon exercise of stock options, net of restricted stock	76,898	—	40	—	—	—	40
Issuance of common stock in a private placement, net of issuance cost of $65	6,567,299	1	19,934				19,935
Shares issued from restricted stock unit settlement	56,174	—	(15)	—	—	—	(15)
Stock-based compensation	—	—	4,193	—	—	—	4,193
Foreign currency translation adjustment, net of tax	—	—	—	—	719	(9)	710
Net loss	—	—	—	(32,614)	—	299	(32,315)
March 31, 2013	75,410,031	$ 8	$ 690,385	$ (618,941)	$ (12,088)	$ (587)	$ 58,777

See the accompanying notes to the unaudited condensed consolidated financial statements

Amyris, Inc.
Condensed Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Operating activities		
Net loss	$(32,315)	$(94,896)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,390	3,687
Loss on disposal of property, plant and equipment	70	2
Stock-based compensation	4,193	6,521
Amortization of debt discount	495	—
Loss on purchase commitments and write-off of production assets	—	36,652
Change in fair value of derivative instruments	(1,006)	—
Other noncash expenses	—	113
Changes in assets and liabilities:		
Accounts receivable	(3,715)	2,227
Inventories, net	(426)	(65)
Prepaid expenses and other assets	(410)	(691)
Accounts payable	(1,626)	(2,417)
Accrued and other long-term liabilities and restructuring	(3,448)	(12,957)
Deferred revenue	9,845	262
Deferred rent	(337)	(294)
Net cash used in operating activities	(24,290)	(61,856)
Investing activities		
Purchase of short-term investments	(1,507)	(8,238)
Maturities of short-term investments	—	—
Sales of short-term investments	—	16,449
Change in restricted cash	(1)	—
Purchase of property, plant and equipment, net of disposals	(2,118)	(20,928)
Deposits on property, plant and equipment	—	(849)
Net cash used in investing activities	(3,626)	(13,566)
Financing activities		
Proceeds from issuance of common stock, net of repurchases	25	93
Proceeds from issuance of common stock in private placements, net of issuance costs	19,935	58,606
Principal payments on capital leases	(624)	(1,091)
Proceeds from debt issued	2,517	25,004
Principal payments on debt	(992)	(705)
Net cash provided by financing activities	20,861	81,907
Effect of exchange rate changes on cash and cash equivalents	(287)	1,229
Net increase (decrease) in cash and cash equivalents	(7,342)	7,714
Cash and cash equivalents at beginning of period	30,592	95,703
Cash and cash equivalents at end of period	$23,250	$103,417

Amyris, Inc.
Condensed Consolidated Statements of Cash Flows—(Continued)
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid for interest	$723	$755
Cash paid for income taxes, net of refunds	$—	$—
Supplemental disclosures of noncash investing and financing activities:		
Acquisitions of property, plant and equipment under accounts payable, accrued liabilities and notes payable	$(51)	$(321)
Financing of insurance premium under notes payable	$215	$—
Accrued offering cost of common stock in private placement	$65	$220
Accrued deferred offering costs	$—	$99
Transfer of long term deposits to property, plant and equipment	$—	$11,723

See the accompanying notes to the unaudited condensed consolidated financial statements.

Amyris, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company

Amyris, Inc. (the "Company") was incorporated in California on July 17, 2003 and reincorporated in Delaware on June 10, 2010 for the purpose of leveraging breakthroughs in synthetic biology to develop and provide renewable compounds for a variety of markets. The Company is currently building and applying its industrial synthetic biology platform to provide alternatives to select petroleum-sourced products used in specialty chemical and transportation fuel markets worldwide. The Company's first commercialization efforts have been focused on a renewable hydrocarbon molecule called farnesene (Biofene®), which forms the basis for a wide range of products varying from specialty chemical applications to transportation fuels, such as diesel. While the Company's platform is able to use a wide variety of feedstocks, the Company is focused initially on Brazilian sugarcane. In addition, the Company has entered into various contract manufacturing agreements to support commercial production. The Company has established two principal operating subsidiaries, Amyris Brasil Ltda. (formerly Amyris Brasil S.A., "Amyris Brasil") for production in Brazil, and Amyris Fuels, LLC ("Amyris Fuels"). Nearly all of the Company's revenues to date have come from the sale of ethanol and reformulated ethanol-blended gasoline with substantially all of the remaining revenues coming from collaborations, government grants and sales of renewable products. In the third quarter of 2012, the Company transitioned out of the ethanol and reformulated ethanol-blended gasoline business. The Company does not expect to be able to replace much of the revenue lost in the near term as a result of this transition, particularly in 2013, while it continues its efforts to establish a renewable products business.

Beginning in March 2012, the Company initiated a plan to shift a portion of its production capacity from contract manufacturing facilities to a Company-owned plant that was then under construction. As a result, the Company evaluated its contract manufacturing agreements and recorded a loss of $30.4 million related to adverse purchase commitments, $10.0 million related to the write-off of facility modification costs and $5.5 million related to Company-owned equipment at contract manufacturing facilities in the year ended December 31, 2012. The Company regularly monitors its plan related to production capacity, sales requirements and related cost structure. Changes to this plan may result in additional losses and impairment charges.

The Company's renewable products business strategy is to focus on direct commercialization of higher-value, lower-volume markets while moving lower-margin, higher-volume commodity products into joint venture arrangements with established industry partners. To commercialize its products, the Company must be successful in using its technology to manufacture its products at commercial scale and on an economically viable basis (i.e., low per unit production costs). The Company is building its experience producing renewable products at commercial scale. The Company's prospects are subject to risks, expenses and uncertainties frequently encountered by companies in this stage of development.

The Company expects to fund its operations for the foreseeable future with cash and investments currently on hand, with cash inflows from collaboration and grant funding, cash contributions from product sales, and with new debt and equity financing. The Company's planned 2013 working capital needs and its planned operating and capital expenditures for 2013 are dependent on significant inflows of cash from existing collaboration partners, as well as additional funding from new collaborations, equity or debt offerings, credit facilities or loans, or combinations of these sources. The Company will continue to need to fund its research and development and related activities and to provide working capital to fund production, storage, distribution and other aspects of its business. The Company's operating plan contemplates capital expenditures of approximately $10.0 million in 2013 and the Company expects to continue to incur costs in connection with its existing contract manufacturing arrangements. (See Note 6 - "Debt" and Note 10 - "Stockholders' Equity").

Liquidity

The Company has incurred significant losses in each year since its inception and believes that it will continue to incur losses and negative cash flow from operations into at least 2014. As of March 31, 2013, the Company had an accumulated deficit of $618.9 million and had cash, cash equivalents and short term investments of $24.9 million. The Company has significant outstanding debt and contractual obligations related to purchase commitments, as well as capital and operating leases. As of March 31, 2013, the Company's debt totaled $106.9 million, of which $7.1 million matures within the next twelve months. In addition, the Company's debt agreements contain various covenants, including restrictions on business that could cause the Company to be at risk of defaults. Please refer to Note 5 “Commitments and Contingencies” and Note 6 “Debt” for further details regarding the Company's obligations and commitments.

In March 2013, the Company signed a collaboration agreement with Firmenich that included a funding component, and obtained a commitment letter from an existing stockholder with respect to additional convertible note funding (see Note 8 - “Significant Agreements” and Note 6 - "Debt"), and the Company expects to use amounts received under these arrangements to fund its operations. Furthermore, the Company is expecting additional funding in 2013 from collaborations, equity or debt offerings, or combinations of these sources. The Company is currently in discussions with potential investors and intends to secure a portion of this additional funding in the second quarter of 2013. However, as of the date of this filing, the Company has not yet secured this additional funding. There can be no assurance that financing will be available on commercially acceptable terms or at all.

If the Company is unable to raise additional financing, or if other expected sources of funding are delayed or not received, the Company would take the following actions as early as the second quarter of 2013 to support its liquidity needs through the remainder of 2013 and into 2014:

- Effect significant headcount reductions in the U.S. and in Brazil, particularly with respect to both general and administrative employees and other employees not connected to critical or contracted activities.

- Shift its focus to existing products and customers with significantly reduced investment in new product and commercial development efforts.

- Reduce its expenditures for third party contractors, including consultants, professional advisors and other vendors.

- Suspend operations at its pilot plants and demonstration facilities.

- Reduce or delay uncommitted capital expenditures, including non-essential lab equipment and information technology projects.

If fully implemented, these actions are designed to save the Company an estimated $40 million to $45 million over the next twelve months. Implementing this plan could have a material negative impact on the Company's ability to continue its business as currently contemplated, including, without limitation, delays or failures in its ability to:

- Achieve planned production levels;

- Develop and commercialize products within planned timelines or at planned scales; and

- Continue other core activities.

Furthermore, any inability to scale-back operations as necessary, and any unexpected liquidity needs, could create pressure to implement more severe measures. Such measures could have a material adverse effect on the Company's ability to meet contractual requirements, including obligations to maintain manufacturing operations, and increase the severity of the consequences described above.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions for Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes required 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 Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 28, 2013. The unaudited condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the unaudited condensed consolidated financial statements, management must make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements and related disclosures are unaudited, have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The condensed consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period.

Recent Accounting Pronouncements

In December 2011, the International Accounting Standards Board ("IASB") and the FASB issued common disclosure requirements that are intended to enhance comparability between financial statements prepared on the basis of U.S. GAAP and those prepared in accordance with IFRS. In January 2013, the FASB issued an accounting standard update to limit the scope of the new balance sheet offsetting disclosures to derivative instruments, repurchase agreements, and securities lending transactions to the extent that they are offset in the financial statement or subject to an enforceable master netting arrangement or similar arrangement. While this guidance does not change existing offsetting criteria in U.S. GAAP or the permitted balance sheet presentation for items meeting the criteria, it requires an entity to disclose both net and gross information about assets and liabilities that have been offset and the related arrangements. Required disclosures under this new guidance should be provided retrospectively for all comparative periods presented. This new guidance is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those years, which was the Company's first quarter of fiscal 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In July 2012, the FASB issued an amended accounting standard update to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. The amended guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, then the amended guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The amended guidance is effective for fiscal years beginning after September 15, 2012; however, early adoption is permitted. This amended guidance did not have an impact on the Company's consolidated financial statements.

In February 2013, in connection with the accounting standard related to the presentation of the Statement of Comprehensive Income, the FASB issued an accounting standard update to improve the reporting of reclassifications out of accumulated other comprehensive income of various components. This guidance requires companies to present either parenthetically on the face of the financial statements or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. This standard is effective for interim periods and fiscal years beginning after December 15, 2012, which was the Company's first quarter of fiscal 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

3. Fair Value of Financial Instruments

The inputs to the valuation techniques used to measure fair value are classified into the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

As of March 31, 2013, the Company’s financial assets and financial liabilities are presented below at fair value and were classified within the fair value hierarchy as follows (in thousands):

	Level 1	Level 2	Level 3	Balance as of March 31, 2013
Financial Assets				
Money market funds	$182	$—	$—	$182
Certificates of deposit	1,565	—	—	1,565
Total financial assets	$1,747	$—	$—	$1,747
Financial Liabilities				
Notes payable	$—	$1,452	$—	$1,452
Loans payable	—	23,069	—	23,069
Credit facilities	—	10,906	—	10,906
Convertible notes	—	—	62,401	62,401
Compound embedded derivative liability	—	—	6,842	6,842
Currency interest rate swap derivative liability	—	1,432	—	1,432
Total financial liabilities	$—	$36,859	$69,243	$106,102

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. The fair values of money market funds are based on fair values of identical assets. The fair values of the loan payable, convertible notes, credit facility and currency interest rate swaps are based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company. Market risk associated with fixed and variable rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

The carrying amounts of certain financial instruments, such as cash equivalents, accounts receivable, accounts payable, accrued liabilities and notes payable, approximate fair value due to their relatively short maturities, and low market interest rates if applicable. The fair values of the loan payable, convertible notes and credit facility are based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company.

The following table provides a reconciliation of the beginning and ending balances for the compound embedded derivative liability measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	Compound Embedded Derivative Liability	
Balance at December 31, 2012	$7,894	
Total (gain) losses included in other income (expense), net	(1,052	)
Balance at March 31, 2013	$6,842	

The compound embedded derivative liability, which is included in other liabilities, represents the value of the equity conversion option and a "make-whole" provision of outstanding senior unsecured convertible promissory notes issued to Total Gas & Power USA SAS (see Note 6). There is no current observable market for this type of derivative and, as such, the Company determined the value of the embedded derivative using a Black-Scholes valuation model that combines expected cash outflows with market-based assumptions regarding risk-adjusted yields, stock price volatility, probability of a change of control and the trading information of the Company's common stock into which the notes are convertible. The Company marks the embedded derivative to market due to the conversion price not being indexed to the Company's own stock. Except for the "make-whole interest" provision included in the conversion option, which is only required to be settled in cash upon a change of control at the noteholder's option, the embedded derivative will be settled in either cash or shares. As of March 31, 2013, the Company had enough common shares to settle the conversion option in shares.

The Company's financial assets and financial liabilities as of December 31, 2012 are presented below at fair value and were classified within the fair value hierarchy as follows (in thousands):

	Level 1	Level 2	Level 3	Balance as of December 31, 2012
Financial Assets				
Money market funds	$ 15,847	$—	$—	$ 15,847
Certificates of deposit	757	—	—	757
Total financial assets	$ 16,604	$—	$—	$ 16,604
Financial Liabilities				
Notes payable	$—	$ 1,676	$—	$ 1,676
Loans payable	—	20,707	—	20,707
Credit facilities	—	11,503	—	11,503
Convertible notes	—	—	62,522	62,522
Compound embedded derivative liability	—	—	7,894	7,894
Currency interest rate swap derivative liability	—	1,367	—	1,367
Total financial liabilities	$—	$ 35,253	$ 70,416	$ 105,669

Derivative Instruments

The Company’s derivative instruments included Chicago Board of Trade (CBOT) ethanol futures and Reformulated Blendstock for Oxygenate Blending (RBOB) gasoline futures. All derivative commodity instruments were recorded at fair value on the consolidated balance sheets. None of the Company’s derivative instruments were designated as a hedging instrument. Changes in the fair value of these non-designated hedging instruments were recognized in cost of products sold in the consolidated statements of operations. As of March 31, 2013, the Company had no outstanding derivative commodity instruments resulting from the Company's transition out of of its ethanol and ethanol-blended gasoline business in the quarter ended September 30, 2012.

In June 2012, the Company entered into a loan agreement with Banco Pine S.A. under which the bank provided the Company with a short term loan of R$52.0 million (approximately US$25.4 million based on the exchange rate as of December 31, 2012) (the “Bridge Loan”). At the time of the Bridge Loan, the Company also entered into a currency interest rate swap arrangement with Banco Pine with respect to the repayment of R$22.0 million (approximately US$10.9 million based on the exchange rate of as of