

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

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: 001-34705

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**Codexis, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**200 Penobscot Drive, Redwood City**  
(Address of principal executive offices)

**71-0872999**  
(I.R.S. Employer  
Identification No.)

**94063**  
(Zip Code)

**650 421 8100**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (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

As of July 31, 2012, there were 37,057,772 shares of the registrant's Common Stock, par value \$0.0001 per share, outstanding.

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Codexis, Inc.  
Quarterly Report on Form 10-Q  
For The Three Months Ended June 30, 2012

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**Codexis, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**  
**(In Thousands)**

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,693	\$ 25,762
Marketable securities	34,671	27,720
Accounts receivable, net of allowances of \$17 at June 30, 2012 and December 31, 2011, respectively	8,124	18,917
Inventories	4,201	4,488
Prepaid expenses and other current assets	5,144	2,345
Total current assets	68,833	79,232
Restricted cash	1,511	1,511
Non-current marketable securities	6,062	10,348
Property and equipment, net	22,073	24,176
Intangible assets, net	14,636	16,442
Goodwill	3,241	3,241
Other non-current assets	1,316	972
Total assets	<u>\$ 117,672</u>	<u>\$ 135,922</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,313	\$ 10,364
Accrued compensation	4,189	6,785
Other accrued liabilities	7,496	7,354
Deferred revenues	3,647	3,789
Total current liabilities	19,645	28,292
Deferred revenues, net of current portion	1,393	1,485
Other long-term liabilities	4,126	3,455
Commitments and contingencies		
Stockholders' equity:		
Common stock	4	4
Additional paid-in capital	291,090	287,792
Accumulated other comprehensive loss	(878)	(407)
Accumulated deficit	(197,708)	(184,699)
Total stockholders' equity	92,508	102,690
Total liabilities and stockholders' equity	<u>\$ 117,672</u>	<u>\$ 135,922</u>

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30,	2011	June 30,	2011
Revenues:				
Product	\$ 6,783	\$ 8,397	\$ 21,949	\$21,329
Collaborative research and development	15,868	17,385	30,480	34,871
Government awards	258	273	1,616	889
Total revenues	<u>22,909</u>	<u>26,055</u>	<u>54,045</u>	<u>57,089</u>
Costs and operating expenses:				
Cost of product revenues	5,829	7,106	18,471	18,756
Research and development	15,650	14,965	31,999	28,715
Selling, general and administrative	<u>6,789</u>	<u>9,276</u>	<u>16,184</u>	<u>18,289</u>
Total costs and operating expenses	<u>28,268</u>	<u>31,347</u>	<u>66,654</u>	<u>65,760</u>
Loss from operations	(5,359)	(5,292)	(12,609)	(8,671)
Interest income	74	71	149	120
Interest expense and other, net	(157)	16	(275)	34
Loss before provision (benefit) for income taxes	(5,442)	(5,205)	(12,735)	(8,517)
Provision (benefit) for income taxes	<u>77</u>	<u>(165)</u>	<u>274</u>	<u>(6)</u>
Net loss	<u>\$ (5,519)</u>	<u>\$ (5,040)</u>	<u>\$ (13,009)</u>	<u>\$ (8,511)</u>
Net loss per share of common stock, basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.14)</u>	<u>\$ (0.36)</u>	<u>\$ (0.24)</u>
Weighted average common shares used in computing net loss per share of common stock, basic and diluted	<u>36,296</u>	<u>35,685</u>	<u>36,177</u>	<u>35,402</u>

See accompanying notes to the condensed consolidated financial statements (unaudited)

**Codexis, Inc.**

**Condensed Consolidated Statements of Comprehensive Loss  
(Unaudited)  
(In Thousands)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net loss	\$ (5,519)	\$ (5,040)	\$ (13,009)	\$ (8,511)
Other comprehensive income (loss):				
Foreign currency translation adjustments	—	8	165	44
Unrealized gain (loss) on marketable securities, net of tax	(337)	358	(636)	405
Other comprehensive income (loss)	(337)	366	(471)	449
Total comprehensive loss	<u>\$ (5,856)</u>	<u>\$ (4,674)</u>	<u>\$ (13,480)</u>	<u>\$ (8,062)</u>

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	Six Months Ended	
	June 30,	
	2012	2011
<b>Operating activities:</b>		
Net loss	\$(13,009)	\$ (8,511)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangible assets	1,806	1,858
Depreciation and amortization of property and equipment	4,544	3,760
Loss on disposal of property and equipment	109	59
Gain from extinguishment of asset retirement obligation	—	(124)
Stock-based compensation	3,077	4,856
Accretion of asset retirement obligation	15	29
Amortization of premium on marketable securities	377	51
Changes in operating assets and liabilities:		
Accounts receivable	10,793	4,027
Inventories	287	(1,370)
Prepaid expenses and other current assets	(2,799)	(735)
Other assets	(409)	(13)
Accounts payable	(6,051)	(1,493)
Accrued compensation	(2,596)	(3,088)
Other accrued liabilities	798	2,554
Deferred revenues	(234)	(2,203)
Net cash used in operating activities	<u>(3,292)</u>	<u>(343)</u>
<b>Investing activities:</b>		
Increase in restricted cash	—	(46)
Purchase of property and equipment	(2,551)	(4,187)
Purchase of marketable securities	(19,141)	(38,152)
Proceeds from sale of marketable securities	10,500	—
Proceeds from maturities of marketable securities	4,964	—
Net cash used in investing activities	<u>(6,228)</u>	<u>(42,385)</u>
<b>Financing activities:</b>		
Proceeds from exercises of stock options	287	2,390
Net cash provided by financing activities	<u>287</u>	<u>2,390</u>
Effect of exchange rate changes on cash and cash equivalents	164	24
Net decrease in cash and cash equivalents	(9,069)	(40,314)
Cash and cash equivalents at the beginning of the period	25,762	72,396
Cash and cash equivalents at the end of the period	<u>\$ 16,693</u>	<u>\$ 32,082</u>

See accompanying notes to the condensed consolidated financial statements (unaudited)

**Codexis, Inc.**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)**

**1. Description of Business**

Codexis, Inc. (together with its subsidiaries, “we,” “Codexis” or the “Company”) is a producer of custom industrial enzymes. Our products enable novel, sustainable processes for the manufacture of biofuels, chemicals, and pharmaceutical ingredients.

We are developing our flagship CodeXyme™ cellulase enzymes to convert non-food plant material, which we call cellulosic biomass, into affordable sugars, which can then be converted into renewable fuels and chemicals. We have been developing these cellulase enzymes with Equilon Enterprises LLC dba Shell Oil Products US, or Shell, since 2006 for applications in the biofuels markets. We intend to market CodeXyme™ cellulase enzymes to chemicals manufacturers worldwide. We are also developing our own novel processes to manufacture certain specialty and commodity bio-based chemicals, which we intend to commercialize with strategic partners. The first of these products is CodeXol™ detergent alcohols. Detergent alcohols are used to manufacture surfactants, which are key, active cleaning ingredients in consumer products such as shampoos, liquid soaps and laundry detergents.

We have commercialized our technology, products and services in the pharmaceuticals market. There are currently over 50 pharmaceutical firms using or evaluating our technology in their manufacturing process development, including the production of some of the world’s bestselling and fastest growing drugs.

We create our products by applying our CodeEvolver™ directed evolution technology platform which introduces genetic mutations into microorganisms, giving rise to changes in the enzymes which they produce. Once we identify potentially beneficial mutations, we test combinations of these mutations until we have created variant enzymes that exhibit marketable performance characteristics superior to competitive products. This process allows us to make continuous, efficient improvements to the performance of our enzymes.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Consolidation***

The accompanying condensed consolidated financial statements have been prepared in accordance 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 our Annual Report on Form 10-K filed with the SEC on March 5, 2012. The December 31, 2011 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 of a normal recurring nature considered necessary to present fairly our financial position as of June 30, 2012 and results of our operations for the three and six months ended June 30, 2012 and 2011, and cash flows for the six months ended June 30, 2012 and 2011. The interim results are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The unaudited interim condensed consolidated financial statements include the accounts of Codexis, Inc. and its wholly-owned subsidiaries. Codexis, Inc. has subsidiaries in the United States, Brazil, Hungary, India, Mauritius, The Netherlands and Singapore. All significant 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, disclosures of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences may be material to the condensed consolidated financial statements.

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### ***Foreign Currency Translation***

The assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated from their respective functional currencies into U.S. dollars at the exchange rates in effect at the balance sheet date, with resulting foreign currency translation adjustments recorded in the condensed consolidated statement of comprehensive loss. Revenue and expense amounts are translated at average rates for each period. Where the U.S. dollar is the functional currency, nonmonetary assets and liabilities originally acquired or assumed in other currencies are recorded in U.S. dollars at the exchange rates in effect at the date they were acquired or assumed. Monetary assets and liabilities denominated in other currencies are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Foreign currency transaction gains and losses are not material for any period presented.

### ***Fair Value of Financial Instruments***

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable, approximate fair value due to their short maturities.

Fair value is considered to be the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on or derived from observable market prices or other observable inputs. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

### ***Cash, Cash Equivalents and Marketable Securities***

We consider all highly liquid investments with maturity dates of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds. The majority of cash and cash equivalents are maintained with major financial institutions in North America. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits. Marketable securities included in current assets are comprised of corporate bonds, commercial paper, government-sponsored enterprise securities and U.S. Treasury obligations. Marketable securities included in non-current assets are comprised of corporate bonds and U.S. Treasury obligations that have a maturity date greater than 1 year. Our investment in common shares of CO<sub>2</sub> Solutions Inc. ("CO<sub>2</sub> Solutions") is included in non-current marketable securities.

We perform separate evaluations of impaired debt and equity securities to determine if the unrealized losses as of the balance sheet date are other-than-temporary impairment ("OTTI").

For our investments in equity securities, our evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and our management's ability and intent to hold the securities until fair value recovers. The assessment of the ability and intent to hold these securities to recovery focuses on our current and forecasted liquidity requirements, our capital requirements and securities portfolio objectives. Based on our evaluation, we concluded that as of June 30, 2012, the unrealized losses related to equity securities are temporary.

For our investments in debt securities, our management determines whether we intend to sell or if it is more-likely-than-not that we will be required to sell impaired securities. This determination considers our current and forecasted liquidity requirements, our capital requirements and securities portfolio objectives. For all impaired debt securities for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered. We conduct a regular assessment of our debt securities with unrealized losses to determine whether the securities have other-than-temporary impairment considering, among other factors, the nature of the securities, credit rating or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral and market conditions. Based on our evaluation, we concluded that as of June 30, 2012, the unrealized losses related to debt securities are temporary.

Our investments in debt and equity securities are classified as available-for-sale and are carried at estimated fair value. Unrealized gains and losses are reported on the condensed consolidated statement of comprehensive loss. Amortization of purchase premiums and accretion of purchase discounts, realized gains and losses of debt securities and declines in value deemed to be other than temporary, if any, are included in interest income or interest expense and other, net. The cost of securities sold is based on the specific-identification method. There were no significant realized gains or losses from sales of marketable securities during the three and six months ended June 30, 2012 and 2011.

### ***Restricted Cash***

Restricted cash consisted of amounts invested in money market accounts primarily for purposes of securing a standby letter of credit as collateral for our Redwood City, California facility lease agreement and for the purpose of securing a working capital line of credit. Restricted cash was unchanged during the three and six months ended June 30, 2012.

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### ***Revenue Recognition***

Revenues are recognized when the four basic revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) products have been delivered, transfer of technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured.

Our primary sources of revenues consist of collaborative research and development agreements, product revenues and government awards. Collaborative research and development agreements typically provide us with multiple revenue streams, including up-front fees for licensing, exclusivity and technology access, fees for full-time employee equivalent (“FTE”) services and the potential to earn milestone payments upon achievement of contractual criteria and royalty fees based on future product sales or cost savings by our customers. Our collaborative research and development revenues consist of revenues from Shell and revenues from other collaborative research and development agreements. For each source of collaborative research and development revenues, product revenues and award revenues, we apply the following revenue recognition criteria:

- Up-front fees received in connection with collaborative research and development agreements, including license fees, technology access fees, and exclusivity fees, are deferred upon receipt, are not considered a separate unit of accounting and are recognized as revenues over the relevant performance periods.
- Revenues related to FTE services are recognized as research services are performed over the related performance periods for each contract. We are required to perform research and development activities as specified in each respective agreement. The payments received are not refundable and are based on a contractual reimbursement rate per FTE working on the project. When up-front payments are combined with FTE services in a single unit of accounting, we recognize the up-front payments using the proportionate performance method of revenue recognition based upon the actual amount of research and development labor hours incurred relative to the amount of the total expected labor hours to be incurred by us, up to the amount of cash received. In cases where the planned levels of research services fluctuate substantially over the research term, we are required to make estimates of the total hours required to perform our obligations. Research and development expenses related to FTE services under the collaborative research and development agreements approximate the research funding over the term of the respective agreements.
- A payment that is contingent upon the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved. A milestone is an event (i) that can only be achieved based in whole or in part on either our performance or on the occurrence of a specific outcome resulting from our performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) results in additional payments being due to us. Milestones are considered substantive when the consideration earned from the achievement of the milestone (i) is commensurate with either our performance to achieve the milestone or the enhancement of value of the item delivered as a result of a specific outcome resulting from our performance; (ii) relates solely to past performance and (iii) is reasonable relative to all deliverable and payment terms in the arrangement.
- Other payments received for which such payments are contingent solely upon the passage of time or the result of a collaborative partner’s performance are recognized as revenue when earned in accordance with the contract terms and when such payments can be reasonably estimated and collectability is reasonably assured.
- We recognize revenues from royalties based on licensees’ sales of products using our technologies. Royalties are recognized as earned in accordance with the contract terms when royalties from licensees can be reasonably estimated and collectability is reasonably assured.

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- Product revenues are recognized once passage of title and risk of loss has occurred and contractually specified acceptance criteria have been met, provided all other revenue recognition criteria have also been met. Product revenues consist of sales of biocatalysts, intermediates, active pharmaceutical ingredients and Codex Biocatalyst Panels and Kits. Cost of product revenues includes both internal and third party fixed and variable costs including amortization of purchased technology, materials and supplies, labor, facilities and other overhead costs associated with our product revenues.
- We license mutually agreed upon third party technology for use in our research and development collaboration with Shell. We record the license payments to research and development expense and offset related reimbursements received from Shell. These payments made by Shell to us are direct reimbursements of our costs. We account for these direct reimbursable costs as a net amount, whereby no expense or revenue is recorded for the costs reimbursed by Shell. For any payments not reimbursed by Shell, we recognize these as expenses in the statement of operations. We elected to present the reimbursement from Shell as a component of our research and development expense since presenting the receipt of payment from Shell as revenues does not reflect the substance of the arrangement.
- We receive payments from government entities in the form of government awards. Government awards are agreements that generally provide us with cost reimbursement for certain types of expenditures in return for research and development activities over a contractually defined period. Revenues from government awards are recognized in the period during which the related costs are incurred, provided that the conditions under which the government awards were provided have been met and we have only perfunctory obligations outstanding.
- Shipping and handling costs charged to customers are recorded as revenues. Shipping costs are included in our cost of product revenues. Such charges were not significant in any of the periods presented.

### ***Milestone revenue***

During the three months ended June 30, 2012, we recognized in collaborative research and development revenue \$1 million of milestone revenue from one of our pharmaceutical partners related to the use of our enzymes in its manufacturing processes.

We evaluated the nature of the milestone triggering the contingent payment, and concluded that the amount can be recognized as a milestone payment based on the facts that (i) the milestone was achieved through successful performance by us, (ii) the milestone was at risk at the inception of the arrangement, (iii) the milestone was substantive in nature and is non-refundable, (iv) substantial effort was required by us to complete the milestone, (v) the amount of milestone payment is reasonable in relation to the value created in achieving the milestone, and (vi) the milestone payment relates solely to past performance. No further milestones payments are expected under this arrangement from this pharmaceutical partner.

### ***Change in accounting estimate - U.S. Government awards***

We recognize U.S. Government award revenue based on reimbursable costs incurred. Reimbursable costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards as applicable to the U.S. Government award. Costs incurred include direct labor and materials that are directly associated with the individual award plus indirect overhead and general and administrative type costs based upon our provisional indirect billing rates submitted by us to the U.S. Department of Energy ("DOE"). Our provisional indirect billing rates are subject to audit by the DOE. Changes in estimates affecting reimbursable costs are recognized in the period in which the change becomes known.

During 2011, our provisional indirect billing rates for the award from the DOE under the ARPA-E Recovery Act were audited by the DOE resulting in a revision to our provisional indirect billing rates. The revised indirect rates were subsequently approved by the DOE during the first quarter of 2012. As a result of this change in accounting estimate, we invoiced and recognized \$530,000 of additional award revenue during the three months ended March 31, 2012 for reimbursable costs incurred by us in 2010 and 2011. The impact on our condensed consolidated statement of operations for the three months ended March 31, 2012 was a \$530,000 decrease to our net loss and loss from operations and \$0.01 reduction to our basic and diluted net loss per share of common stock. Our revenue from this award for the three months ended June 30, 2012 was \$258,000 which represents the final funds available under the award. The \$530,000 would have been recognized in the second quarter of 2012 had the change in accounting estimate not occurred. The term of the award agreement ended in June 2012.

### ***Income Taxes***

We use the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss ("NOL") carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

We recognize the financial statement effects of an uncertain tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination.

### ***Stock-Based Compensation***

We recognize compensation expense related to share-based transactions, including the awarding of employee stock options, based on the estimated fair value of the awards granted. All awards granted, modified or settled after January 1, 2006 have been accounted for based on the fair value of the awards granted. We generally use the straight-line method to allocate stock-based compensation expense to the appropriate reporting periods. Some awards are accounted for using the accelerated method as appropriate for the terms of the awards.

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We account for stock options issued to non-employees based on their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of the options granted to non-employees is remeasured as they vest, and the resulting change in value, if any, is recognized as an increase or decrease in stock compensation expense during the period the related services are rendered.

### *Net Loss per Share of Common Stock*

Basic and diluted net loss per share of common stock is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Basic and diluted net loss per share of common stock was the same for each period presented, because inclusion of all potential common shares outstanding was anti-dilutive. The following table presents the securities not included in the net loss per common share calculations for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Options to purchase common stock	8,092	8,020	8,092	8,020
Unvested restricted stock units	1,007	555	1,007	555
Warrants to purchase common stock	266	266	266	266
Total	<u>9,365</u>	<u>8,841</u>	<u>9,365</u>	<u>8,841</u>

### *Reclassifications*

Certain amounts in prior period financial statements related to Shell including related party collaboration revenue (see Note 3), related party receivable, and related party deferred revenue have been reclassified to the corresponding non-related party accounts, since effective July 1, 2011, Shell is no longer considered a related party (see Note 7).

### *Recent Accounting Pronouncements*

In June 2011, the FASB issued ASU 2011-05 that eliminates the option to present items of other comprehensive income (“OCI”) as part of the statement of changes in stockholders’ equity, and instead requires either, OCI presentation and net loss in a single continuous statement in the statement of operations, or as a separate statement of comprehensive loss. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We adopted this update in the fourth quarter of 2011 and have presented a separate condensed consolidated statement of comprehensive loss. The adoption of this accounting guidance did not have a material financial impact on our financial statements.

In May 2011, the FASB issued ASU 2011-04 that clarifies and changes some fair value measurement principles and disclosure requirements. Among them is the clarification that the concepts of highest and best use and valuation premise in a fair value measurement, should only be applied when measuring the fair value of nonfinancial assets. Additionally, the new guidance requires quantitative information about unobservable inputs, and disclosure of the valuation processes used and narrative descriptions with regard to fair value measurements within the Level 3 categorization of the fair value hierarchy. We adopted this accounting standard January 1, 2012. The adoption of this new guidance did not have a material impact on our financial statements or disclosures.

## **3. Collaborative Research and Development Agreements**

### *Shell and Raízen*

In November 2006, we entered into a collaborative research agreement and a license agreement with Shell to develop biocatalysts and associated processes that use such biocatalysts.

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In November 2007, we entered into a new and expanded five-year collaborative research agreement and a license agreement with Shell. In connection with the expanded collaborative research agreement and license agreement, Shell agreed to pay us (1) research funding at specified rates per FTE working on the project during the research term, (2) milestone payments upon the achievement of milestones and (3) royalties on future product sales. The agreement also specifies certain minimum levels of FTE services that we must allocate to the collaboration efforts that increase over the term of the agreement.

The term of the agreement ends on November 1, 2012, unless extended further by the parties. During the term of the agreement, we are required to act exclusively with Shell as it relates to the rights and research described in the arrangement and may not conduct research or contract to conduct research, for another party in the field of use. Under this agreement, we also have a right of first negotiation but not an obligation to manufacture any biocatalysts developed under the collaborative research agreement if Shell decides to out-source the manufacture of such biocatalysts. Although we have not received formal notice from Shell, we do not currently expect any continued Shell FTE funding after November 1, 2012.

In March 2009, we amended our collaborative research agreement and license agreement with Shell to further expand the scope of the collaboration and allow for additional purchases of the Company's preferred stock by Shell. In connection with the amended collaborative research agreement and license agreement, Shell agreed to pay us (1) additional research funding at specified rates per FTE working on the project during the research term and (2) additional milestone payments upon the achievement of milestones. Shell has the right to reduce the number of funded FTEs, subject to certain limitations, with a required advance notice period ranging from 30 to 270 days and a subsequent period ranging from 90 to 360 days during which notices of further FTE reductions cannot be made by Shell. The length of these periods varies dependent on the number of funded FTEs reduced. Effective August 2011, Shell reduced the number of funded FTEs engaged in our research and development collaboration from 128 to 116 FTEs.

In July 2012, we signed an Exclusive Negotiation Agreement with Shell, pursuant to which Shell has agreed to negotiate exclusively with us through September 1, 2012 the terms of a new agreement under which Shell would grant us certain rights and licenses in the biofuels field to develop and sell cellulase enzymes to third parties on a worldwide basis, except Brazil. We also agreed with Shell under the Exclusive Negotiation Agreement that, beginning on August 31, 2012, Shell can elect to reduce between 13 and 48 FTEs under the collaborative research agreement with one day of notice. Previously, the required notice period for this type of FTE reduction was 90 days. We have not received any notice of FTE reduction below the current 116 FTEs as of the date of filing of this Quarterly Report on Form 10-Q; however we expect Shell to deliver notice of a reduction by 48 FTEs effective September 1, 2012.

In accordance with our revenue recognition policy, the \$20.0 million up-front exclusivity fee and the research funding fees to be received for FTE services are recognized in proportion to the actual research efforts incurred relative to the amount of total expected effort to be incurred by us over the five-year research period commencing November 2007. Milestones payments to be earned under this agreement have been determined to be at risk at the inception of the arrangement and substantive and are expected to be recognized upon achievement of the applicable milestone and when collectability of such payment is reasonably assured. We did not record any milestone revenues during the three and six months ended June 30, 2012 and 2011, respectively. For the three months ended June 30, 2012 and 2011, our collaborative research and development revenue from Shell was \$13.9 million and \$14.8 million, respectively. For the six months ended June 30, 2012 and 2011, our collaborative research and development revenue from Shell was \$27.8 million and \$29.7 million, respectively.

Under the agreements with Shell, we have the right to license technology from third parties that will assist us in meeting objectives under the collaboration. If third-party technology to be licensed is identified and mutually agreed upon by both parties, Shell is obligated to reimburse us for the licensing costs of the technology. Payments made by us to the third-party providers were recorded as research and development expenses related to our collaborative research agreement with Shell. None of the acquired licenses are expected to be used in products that will be sold within the next year and the phase of the project has not reached technological feasibility. Shell reimbursed us for licensing costs of \$39,000 and \$0 for the three months ended June 30, 2012 and 2011, respectively. Shell reimbursed us for licensing costs of \$272,000 and \$65,000 for the six months ended June 30, 2012 and 2011, respectively. We recorded these reimbursements against the costs incurred.

In June 2011, Shell completed the transfer of all of its equity interests in us, together with the associated right to appoint one member to our board of directors, to Raízen Energia Participações S.A. ("Raízen"), Shell's joint venture with Cosan S.A. Indústria e Comércio, ("Cosan") in Brazil. As a result, Shell is no longer considered a related party. Notwithstanding the above, Shell did not transfer our collaborative research agreement to Raízen and we continue to collaborate with Shell. Additionally in September 2011, we entered into a joint development agreement directly with Raízen. Under the agreement, we will deploy our CodeEvolver™ directed evolution technology platform to develop an improved process for producing first generation ethanol made from sugar. There has been no material financial activity with Raízen through June 30, 2012.

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### ***Manufacturing Collaboration***

#### *Arch*

In February 2010, we consolidated certain of the contractual terms in our then-existing agreements with Arch Pharmed Labs, Ltd. (“Arch”) by simultaneously terminating all of our existing agreements with Arch, other than the Master Services Agreement with Arch entered into as of August 1, 2006, and entering into new agreements with Arch. The new agreements, among other things, provide for biocatalyst supply from us to Arch and intermediate supply from Arch to us. We sell the biocatalysts to Arch at an agreed upon price, and Arch manufactures the intermediates on our behalf. Arch sells the intermediates to us at a formula-based or agreed upon price. We then directly market and sell the intermediates to a specified group of customers in the generic pharmaceutical industry. Under the new agreements, Arch may also sell intermediates directly to other customers, and a license royalty is owed by Arch to us based on the volume of product they sell to us and their other customers. Royalties earned from Arch under this arrangement were \$22,000 and \$37,000 for the three months ended June 30, 2012 and 2011, respectively and are reflected in collaborative research and development revenue on our condensed consolidated statement of operations. Royalties earned from Arch under this arrangement were \$70,000 and \$40,000 for the six months ended June 30, 2012 and 2011, respectively.

### **4. Joint Development Agreement with CO<sub>2</sub> Solutions**

On December 15, 2009, we entered into an exclusive joint development agreement with CQ Solutions, a company based in Quebec City, Quebec, Canada, whose shares are publicly traded in Canada on TSX Venture Exchange. The joint development agreement expired in January 2011. Under the agreement, we obtained a research license to CO<sub>2</sub> Solutions’s intellectual property and agreed to conduct research and development activities jointly with CO<sub>2</sub> Solutions with the goal of advancing the development of carbon capture technology. We also purchased 10,000,000 common shares (approximately 16.6% of the total common shares outstanding at the time of investment) of CO<sub>2</sub> Solutions in a private placement subject to a four-month statutory resale restriction. This restriction expired on April 15, 2010. In July 2012, Alan Shaw, our former Chief Executive Officer and currently an advisor to our board of directors, resigned from the board of directors of CO<sub>2</sub> Solutions and we are currently considering potential replacements to this designated board seat.

In January 2011, we extended our joint development agreement with CQ Solutions on essentially the same terms as the original agreement. The extended agreement expires six months after the expiry of any third party collaborations. We expect this agreement to expire during the first half of 2013.

We concluded that through June 30, 2012, we did not have the ability to exercise significant influence over CQ Solutions’s operating and financial policies. We consider our investment in CO<sub>2</sub> Solutions’s common shares as an investment in a marketable security that is available for sale, and carry it at fair value in non-current marketable securities, with changes in fair value recognized in the Statement of Comprehensive Income (loss). We have estimated the fair value of common shares as of June 30, 2012, as determined by trading on TSX Venture Exchange. Accordingly, we have classified our investment in CO<sub>2</sub> Solutions as a level 1 investment as discussed in Note 6.

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**5. Balance Sheets and Statements of Operations Details**

*Cash Equivalents and Marketable Securities* At June 30, 2012, cash equivalents and marketable securities consisted of the following (in thousands):

	June 30, 2012				Average Contractual Maturities (in days)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Money market funds	\$ 12,093	\$ —	\$ —	\$ 12,093	n/a
Commercial paper	3,997	—	—	3,997	8
Corporate bonds	26,148	26	(4)	26,170	193
U.S. Treasury obligations	6,521	1	—	6,522	102
Government-sponsored enterprise securities	4,001	7	—	4,008	40
Common shares of CO <sub>2</sub> Solutions	1,316	—	(778)	538	n/a
<b>Total</b>	<b>\$ 54,076</b>	<b>\$ 34</b>	<b>\$ (782)</b>	<b>\$ 53,328</b>	

The total cash and cash equivalents balance of \$16.7 million as of June 30, 2012 was comprised of money market funds of \$12.1 million, \$0.5 million of corporate bonds in settlement and \$4.1 million held as cash, primarily with major financial institutions in North America. At June 30, 2012 we had 11 marketable securities, including corporate bonds and government-sponsored enterprise securities in a loss position for less than 12 months with an aggregated unrealized loss of \$5,000 and an aggregated fair value of \$14.9 million.

At December 31, 2011, cash equivalents and marketable securities consisted of the following (in thousands):

	December 31, 2011				Average Contractual Maturities (in days)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Money market funds	\$ 18,866	\$ —	\$ —	\$ 18,866	n/a
Commercial paper	1,999	—	—	1,999	55
Corporate bonds	30,908	29	(45)	30,892	270
U.S. Treasury obligations	998	4	—	1,002	274
Government-sponsored enterprise securities	3,003	12	—	3,015	373
Common shares of CO <sub>2</sub> Solutions	1,316	—	(155)	1,161	n/a
<b>Total</b>	<b>\$ 57,090</b>	<b>\$ 45</b>	<b>\$ (200)</b>	<b>\$ 56,935</b>	

The total cash and cash equivalents balance of \$25.8 million as of December 31, 2011 was comprised of money market funds of \$18.9 million and \$6.9 million held as cash, primarily with major financial institutions in North America. At December 31, 2011, we had 14 marketable securities, including corporate bonds and government-sponsored enterprise securities in a loss position for less than 12 months with an aggregated unrealized loss of \$46,000 and an aggregated fair value of \$18.5 million.

***Inventories***

Inventories consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Raw materials	\$1,947	\$ 2,779
Work in process	48	54
Finished goods	2,206	1,655
<b>Total inventories</b>	<b>\$4,201</b>	<b>\$ 4,488</b>

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### 6. Fair Value

Assets and liabilities recorded at fair value in the condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 — Inputs that are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

For Level 2 financial investments, our investment advisor provides us with monthly account statements documenting the value of each investment based on prices received from an independent third-party valuation service provider. This third party evaluates the types of securities in our investment portfolio and calculates a fair value using a multi-dimensional pricing model that includes a variety of inputs, including quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates that are observable at commonly quoted intervals. As we are ultimately responsible for the determination of the fair value of these instruments, we perform quarterly analyses using prices obtained from another independent provider of financial instrument valuations, to validate that the prices we have used are reasonable estimates of fair value.

The following table presents our financial instruments that were measured at fair value on a recurring basis at June 30, 2012 by level within the fair value hierarchy (in thousands):

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Money market funds	\$12,093	\$ —	\$ —	\$12,093
Commercial paper	—	3,997	—	3,997
Corporate bonds	—	26,170	—	26,170
U.S. Treasury obligations	—	6,522	—	6,522
Government-sponsored enterprise securities	—	4,008	—	4,008
Common shares of CO <sub>2</sub> Solutions	538	—	—	538
Total	<u>\$12,631</u>	<u>\$40,697</u>	<u>\$ —</u>	<u>\$53,328</u>

The following table presents our financial instruments that were measured at fair value on a recurring basis at December 31, 2011 by level within the fair value hierarchy (in thousands):

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Money market funds	\$18,866	\$ —	\$ —	\$18,866
Commercial paper	—	1,999	—	1,999
Corporate bonds	—	30,892	—	30,892
U.S. Treasury obligations	—	1,002	—	1,002
Government-sponsored enterprise securities	—	3,015	—	3,015
Common shares of CO <sub>2</sub> Solutions	1,161	—	—	1,161
Total	<u>\$20,027</u>	<u>\$36,908</u>	<u>\$ —</u>	<u>\$56,935</u>

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We estimated the fair value of our investment in 10,000,000 common shares of CQ Solutions using the fair value of common shares as determined by trading on TSX Venture Exchange. Accordingly, we have classified our investment in CO<sub>2</sub> Solutions as a level 1 investment. At June 30, 2012, the estimated fair value of our investment in CQ Solutions common stock was \$538,000 and the unrealized loss was \$778,000. At December 31, 2011, the estimated fair value of our investment in CO<sub>2</sub> Solutions common stock was \$1.2 million and the unrealized loss was \$155,000.

## **7. Related Party Transactions**

### ***Maxygen***

Maxygen, Inc. (“Maxygen”) was one of our stockholders until it distributed its holdings to its stockholders in December 2010, and so transactions between us and Maxygen prior to that time were considered related party transactions. In October of 2010, we acquired Maxygen’s directed evolution technology patent portfolio for net consideration of \$20.2 million including \$20.0 million paid to Maxygen, transaction costs of \$0.7 million and a royalty payable extinguishment of \$0.5 million. We recorded an intangible asset for \$20.2 million. In conjunction with this transaction, we terminated our existing license agreement with Maxygen including terminating our obligation to pay biofuels royalties to Maxygen.

### ***Shell and Raízen***

Prior to June 2011, Shell was considered a related party due to the size of its ownership interest. As discussed in Note 3, “Collaborative Research and Development Agreements”, Shell transferred full ownership of our common stock to Raízen, Shell’s joint venture with Cosan in Brazil. Based on our analysis and effective as of July 1, 2011, Shell was no longer considered a related party. Before June 30, 2011, related party receivables, related party deferred revenue, and related party collaboration research and development revenue were primarily comprised of transactions under our five-year collaborative research agreement (currently set to expire on November 1 2012, unless extended by the parties) and a license agreement with Shell. The revenues earned from Shell are included in the collaborative research and development line on our consolidated statement of operations. Collaborative research and development revenue received from Shell accounted for 51%, 62% and 76% of our revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Collaborative research and development revenue received from Shell accounted for 61% and 57% of our revenues for the three months ended June 30, 2012 and 2011, respectively. Collaborative research and development revenue received from Shell accounted for 51% and 52% of our revenues for the six months ended June 30, 2012 and 2011, respectively.

At the time of the transfer, Raízen owned 5.6 million shares of our common stock and has the right to appoint a member to our board of directors. In September 2011, we entered into a joint development agreement with Raízen to develop an improved first generation ethanol process with enhanced economics. There has been no material financial activity with Raízen through June 30, 2012.

### ***Exela PharmaSci, Inc.***

We signed a license agreement with Exela PharmaSci, Inc. (“Exela”) in 2007. A member of our board of directors is also on the board of directors of Exela. Under the terms of the agreement, Exela would pay us a royalty based on their achievement of certain commercial goals.

During the three months ended June 30, 2012 and 2011, we recognized zero and \$105,000, respectively, of revenue related to this arrangement shown in our consolidated statement of operations as collaborative research and development revenue. During the six months ended June 30, 2012 and 2011, we recognized \$150,000 and \$330,000, respectively, of revenue related to this arrangement. We did not recognize any revenue from Exela prior to 2011. As of June 30, 2012 and December 31, 2011, we had no amounts owed from Exela.

## **8. Commitments and Contingencies**

### ***Operating Leases***

Our headquarters are located in Redwood City, California where we occupy approximately 107,000 square feet of office and laboratory space in four buildings. On March 16, 2011, we entered into a Fifth Amendment to Lease (the “Fifth Amendment”) with Metropolitan Life Insurance Company (“MetLife”) with respect to our offices located at 200 and 220 Penobscot Drive, Redwood City, California, (the “Penobscot Space”), 400 Penobscot Drive, Redwood City, California (the “Building 2 Space”) and 640 Galveston Drive, Redwood City, California (the “Galveston Space”), and with respect to approximately 29,921 square feet of additional space located at 101 Saginaw Drive, Redwood City, California (the “Saginaw Space”). Under the Fifth Amendment, the term of the lease of the Penobscot Space, the Building 2 Space and the Saginaw Space lasts until January 31, 2020, and we have options to extend for two additional five year periods. Pursuant to the Fifth Amendment, we surrendered the Galveston Space in August 2011. The Fifth Amendment provides a number of incentives to us including forgiveness of rent payments for the initial two months of the extended lease term for certain buildings, a tenant improvement allowance (“TIA”) of \$2.4 million and an additional \$0.8 million special allowances for certain HVAC costs. We applied the TIA funds toward capital improvements to the expanded facility as well as upgrades and reconfiguration of existing lab and office space. A portion of the TIA may be utilized by us to pay costs for furniture, furnishings and equipment.

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As of June 30, 2012, we had completed the capital improvements to the expanded facilities and incurred \$3.6 million of capital improvement costs related to the facilities. During 2011, we requested and received \$1.8 million of reimbursements from the landlord out of the TIA for the completed construction. We requested and received reimbursement of the remaining \$1.4 million of TIA and special HVAC allowance during the second quarter of 2012. The TIA is recorded once cash is received and is amortized on a straight-line basis over the term of the lease as a reduction in rent expense. Additionally, the Fifth Amendment waived our existing asset retirement obligations for the impacted buildings, resulting in a \$0.3 million decrease of our obligation which in turn resulted in \$0.1 million gain on extinguishment of asset retirement obligations recorded for the quarter ended March 31, 2011 in our condensed consolidated statement of operation as sales, general and administrative expenses.

We also lease space in 501 Chesapeake Drive, Redwood City, California (the "501 Chesapeake Space"). The lease for the 501 Chesapeake Space was not extended with the Fifth Amendment and will expire as per the original agreement in January 2013, with an option for an additional term of up to two years.

Rent expense is recognized on a straight-line basis over the term of the lease. In accordance with the terms of the lease agreement, we exercised our right to deliver a letter of credit in lieu of a security deposit. The letters of credit in the amounts of \$707,000 and \$707,000 as of June 30, 2012 and December 31, 2011, respectively, are collateralized by deposit balances held by the bank. These deposits are recorded as restricted cash on the consolidated balance sheets.

As of June 30, 2012 and December 31, 2011 we had asset retirement obligations of \$594,000 and \$580,000, respectively from operating leases, whereby we must restore the facilities that we are renting to their original form. We incurred \$15,000 and \$29,000 of accretion expense related to our asset retirement obligations during the six months ended June 30, 2012 and 2011, respectively. We are expensing the asset retirement obligation over the terms of the respective leases. We review the estimated obligation each period and we make adjustments if our estimates change.

Future minimum payments under noncancellable operating leases are as follows at June 30, 2012 (in thousands):

	<u>Lease payments</u>
6 months ending December 31, 2012	\$ 1,641
Years ending December 31,	
2013	2,905
2014	2,722
2015	2,799
2016	2,805
2017 and beyond	8,447
Total	<u>\$ 21,319</u>

### ***Litigation***

We have been subject to various legal proceedings related to matters that have arisen during the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, we have determined, based upon the information available, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

### ***Indemnifications***

We have certain agreements with licensors, licensees and collaborators that contain indemnification provisions. In such provisions, we typically agree to indemnify the licensor, licensee and collaborator against certain types of third party claims. The maximum amount of the indemnifications is not limited. We accrue for known indemnification issues when a loss is probable and can be reasonably estimated. There were no accruals related to indemnification issues for any periods presented.

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### *Other contingencies*

In November 2009, one of our foreign subsidiaries sold intellectual property to us. Under the local laws, the sale of intellectual property to a nonresident legal entity is deemed an export and is not subject to value added tax. However, there is uncertainty regarding whether the items sold represented intellectual property or research and development services, which would subject the sale to value added tax. We believe that the uncertainty results in an exposure to pay value added tax that is more than remote but less than likely to occur and, accordingly, have not recorded an accrual for this exposure. Should the sale be deemed a sale of research and development services, we could be obligated to pay an estimated amount of \$0.6 million.

### **9. Warrants**

No warrants were exercised during the three and six months ending June 30, 2012. At June 30, 2012, the following common stock warrants were issued and outstanding:

June 30, 2012			
Issue Date	Shares Subject to warrants	Exercise Price per Share	Expiration
October 25, 2005	6,066	\$ 1.05	October 25, 2012
May 25, 2006	184,895	\$ 5.96	May 25, 2013
July 17, 2007	2,384	\$ 12.45	February 9, 2016
September 28, 2007	72,727	\$ 8.25	September 28, 2017

### **10. Stockholders' Equity**

In 2002, we adopted the 2002 Stock Plan (the "2002 Plan"), pursuant to which our board of directors issued incentive stock options, non-statutory stock options (options that do not qualify as incentive stock options) and restricted stock to our employees, officers, directors or consultants. In March, 2010, our board of directors and stockholders approved the 2010 Equity Incentive Award Plan (the "2010 Plan"), which became effective upon the completion of our IPO in April 2010. A total of 1,100,000 shares of common stock were initially reserved for future issuance under the 2010 Plan and any shares of common stock reserved for future grant or issuance under our 2002 Plan that remained unissued at the time of completion of the IPO became available for future grant or issuance under the 2010 Plan. In addition, the shares reserved for issuance pursuant to the exercise of any outstanding awards under the 2002 Plan that expire unexercised will also become available for future issuance under the 2010 Plan. The 2010 Plan also provides for automatic annual increases in the number of shares reserved for future issuance, and during the three months ended March 31 2012 an additional 1,439,827 shares were reserved under the 2010 plan as a result of this provision. As of June 30, 2012, we had a total of 11,551,638 shares of common stock reserved for issuance under our Plans and no shares available for issuance under the 2002 Plan.

Additionally during the three months ended June 30, 2012, we granted 400,000 options and 750,000 restricted stock awards pursuant to the employment agreement with our new chief executive officer, Mr. John Nicols. The option award has a per share exercise price equal to \$3.46 per share, which was the closing price of the Company's common stock on June 13, 2012. Mr Nicols will vest 25% of the option award on June 13, 2013 with the remaining shares vesting ratably on a monthly basis over a period of 36 months thereafter, such that the option award would be fully vested and exercisable on June 13, 2016. The restricted stock award of 750,000 shares vest over four years with 25% of the awards vesting on each annual anniversary such that the restricted stock award would be fully vested on June 13, 2016.

We awarded 13,133 and 767,953 restricted stock units during the three and six months ended June 30, 2012, respectively. These stock awards vest over four years with 25% of the awards vesting on each annual anniversary. The fair value of the awards was calculated based the NASDAQ quoted stock price on the date of the grant with the expense recognized over the vesting period.

We issued 81,154 and 147,185 common shares for stock options exercised during the three and six months ended June 30, 2012, respectively.

We issued 33,750 and 98,144 common shares for restricted stock units which vested during the three and six months ended June 30, 2012, respectively.

### *Stock-Based Compensation Expense*

We estimate the fair value of stock-based awards granted to employees and directors using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions to determine the fair value of stock-based awards, including the expected life of the option and expected volatility of the underlying stock over the expected life of the related grants. Since we were not a publicly traded entity prior to April 2010, sufficient company-specific historical volatility data was not available for reporting periods prior to the three months ended June 30, 2012. As a result, for those prior periods, we estimated the expected volatility based on the historical volatility of a group of unrelated public companies within our industry. Effective for the quarter ended June 30, 2012, we determined we had sufficient company-specific historical volatility data. As a result, for the three months ended June 30, 2012, we estimate the expected volatility based on the historical volatility of our common stock.

Due to our limited history of grant activity, the expected life of options granted to employees is calculated using the "simplified method" permitted by the SEC as the average of the total contractual term of the option and its vesting period. The risk-free rate assumption was based on U.S. Treasury instruments whose terms were consistent with the terms of our stock options. The expected dividend assumption was based on our history and expectation of dividend payouts.

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The following table presents total stock-based compensation expense included in the condensed consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Research and development	\$ 779	\$ 951	\$1,433	\$1,801
Sales, general and administrative	<u>1,060</u>	<u>1,597</u>	<u>1,576</u>	<u>3,056</u>
	<u>\$ 1,839</u>	<u>\$ 2,548</u>	<u>\$3,009</u>	<u>\$4,857</u>

During the second quarter of 2012, certain members of our executive team were informed that their annual bonus for 2012 would be paid in the form of common stock awards rather than cash payments. We expect to pay the 2012 annual bonus in the first quarter of 2013. Through June 30, 2012 we have accrued \$0.5 million in bonuses to be settled in common stock awards. This amount is included in the above stock-based compensation expense table and on our balance sheet as additional paid in capital.

### 11. Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision makers are our Chief Executive Officer and our board of directors. The Chief Executive Officer and our board of directors review financial information presented on a consolidated basis, accompanied by information about revenues by geographic region, for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations, operating results beyond revenue goals or gross margins, or plans for levels or components below the consolidated unit level. Accordingly, we have a single reporting segment.

Operations outside of the United States consist principally of research and development and sales activities. Geographic revenues are identified by the location of the customer and consist of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Americas(1)	\$16,914	\$17,417	\$32,543	\$35,135
Asia	<u>3,550</u>	<u>4,917</u>	<u>13,572</u>	<u>16,598</u>
Europe	<u>2,445</u>	<u>3,721</u>	<u>7,930</u>	<u>5,356</u>
	<u>\$22,909</u>	<u>\$26,055</u>	<u>\$54,045</u>	<u>\$57,089</u>

(1) Primarily United States

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Geographic presentation of identifiable long-lived assets below shows those assets that can be directly associated with a particular geographic area and consist of the following (in thousands):

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Long-lived assets		
Americas(1)	\$31,699	\$ 34,817
Europe	4,763	4,395
Asia	1,563	2,380
	<u>\$38,025</u>	<u>\$ 41,592</u>

(1) Primarily United States

## 12. Restructuring

During the first quarter of 2012, our board of directors approved and committed to a restructuring plan ("2012 restructuring plan") to reduce our cost structure which included employee terminations in Hungary and the United States. The total estimated cost of the 2012 restructuring plan was \$567,000 comprised of employee severance and other termination benefits. As of June 30, 2012, planned costs of \$563,000 have been recognized in selling, general and administrative expenses on our condensed consolidated statements of operations. We have made cash payments of \$446,000 and recorded \$49,000 of reductions to previously recorded charges with the remaining \$68,000 recorded in other accrued liabilities on our condensed consolidated balance sheet as of June 30, 2012. We do not anticipate recording any further charges under this restructuring plan. We anticipated that all costs under the 2012 restructuring plan will be paid by December 31, 2012.

The table below summarizes the changes in our restructuring accrual:

(in thousands)	<u>Severance, benefits and</u> <u>related personal costs</u> <u>2012 Plan</u>
Restructuring charges	\$ 510
Cash payments	(24)
Balance at March 31, 2012	486
Restructuring charges	53
Adjustments to previously accrued charges	(49)
Cash payments	(422)
Balance at June 30, 2012	<u>\$ 68</u>

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2011 included in our Annual Report on Form 10-K filed with the SEC on March 5, 2012. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "should," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.*

### Overview

We are a producer of custom industrial enzymes. Our products enable novel, sustainable processes for the manufacture of biofuels, chemicals, and pharmaceutical ingredients.

We are developing our flagship CodeXyme™ cellulase enzymes to convert non-food plant material, which we call cellulosic biomass, into affordable sugars, which can then be converted into renewable fuels and chemicals. We have been developing these cellulase enzymes with Royal Dutch Shell plc, or Shell, since 2006 for applications in the biofuels markets. We intend to market CodeXyme™ cellulase enzymes to chemicals manufacturers worldwide. We are also developing our own novel processes to manufacture certain specialty and bio-based commodity chemicals, which we intend to commercialize with strategic partners. The first of these products is CodeXol™ detergent alcohols. Detergent alcohols are used to manufacture surfactants, which are key, active cleaning ingredients in consumer products such as shampoos, liquid soaps and laundry detergents.

We have commercialized our technology, products and services in the pharmaceuticals market. There are currently over 50 pharmaceutical firms using our technology, products and services in their manufacturing process development, including the production of some of the world's bestselling and fastest growing drugs.

We create our products by applying our CodeEvolver™ directed evolution technology platform which introduces genetic mutations into microorganisms, giving rise to changes in the enzymes which they produce. Once we identify potentially beneficial mutations, we test combinations of these mutations until we have created variant enzymes that exhibit marketable performance characteristics superior to competitive products. This process allows us to make continuous, efficient improvements to the performance of our enzymes.

To date, we have generated revenues primarily from collaborative research and development funding, pharmaceutical product sales and government awards. Our revenues have increased in each of the last three fiscal years, growing from \$82.9 million in 2009, to \$107.1 million in 2010 to \$123.9 million in 2011. Our revenues of \$54.0 million for the six months ended June 30, 2012 are down by \$3.1 million, or 5.4%, compared to our revenues of \$57.1 million for the six months ended June 30, 2011.

Most of our revenues since inception have been derived from collaborative research and development arrangements, which accounted for 78%, 66% and 58% of our revenues in 2009, 2010 and 2011, respectively. Collaborative research and development arrangements accounted for 61% and 57% of our revenues for the six months ended June 30, 2011 and 2012, respectively. Collaborative research and development revenues received from Shell accounted for 76%, 62% and 51% of our revenues in 2009, 2010 and 2011, respectively. Collaborative research and development revenues received from Shell accounted for the 52% and 51% of our revenues for the six months ended June 30, 2011 and 2012, respectively.

Our collaborative research agreement with Shell expires on November 1, 2012 unless extended by the parties. Unless the collaborative research agreement is extended or an alternative agreement is entered into with Shell, we would not continue to receive collaborative research and development revenue for periods beginning November 1, 2012, which would result in a significant decrease in revenues as compared to prior periods. Although we have not received formal notice from Shell we do not currently expect any continued collaborative research and development revenues from Shell after November 1, 2012.

Additionally, in July 2012, we signed an Exclusive Negotiation Agreement pursuant to which Shell has agreed to negotiate exclusively with Codexis through September 1, 2012 the terms of a new agreement under which Shell would grant to the Company

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certain rights and licenses in the biofuels field to develop and sell cellulase enzymes to third parties on a worldwide basis, except Brazil. We also agreed with Shell that, beginning on August 31, 2012, Shell can elect to reduce between 13 and 48 FTEs under the collaborative research agreement with one day of notice. Previously, the required notice period for this type of FTE reduction was 90 days. The current number of FTEs assigned by the Company to perform the Company's obligations under the Research Agreement is 116. We expect Shell to deliver notice of a reduction by 48 FTEs effective September 1, 2012. Shell has an obligation under the collaborative research agreement to fund Codexis at specified rates for each FTE, currently \$460,000 on an annual basis for each FTE in the United States and \$399,000 on an annual basis for each FTE in Hungary, so any reduction in FTEs would reduce our future revenues from Shell for FTEs under the collaborative research agreement. If Shell US were to provide Codexis with an FTE reduction notice on or after August 31, 2012, Codexis expects that it would take appropriate cost reduction measures to reduce its operating expenses.

Our product sales accounted for 22%, 31% and 39% of our revenues in 2009, 2010 and 2011, respectively. Product sales accounted for 37% and 41% of our revenues for the six months ended June 30, 2011 and 2012, respectively. Our product sales have increased in each of the last three fiscal years, from \$18.6 million in 2009 to \$32.8 million in 2010 and to \$49.0 million in 2011. Our product sales increased from \$21.3 million for the six months ended June 30, 2011 to \$21.9 million for the six months ended June 30, 2012.

Notwithstanding our revenue growth, we have continued to experience significant losses as we have invested heavily in research and development and administrative infrastructure in connection with the growth in our business. In light of the growth in market acceptance of our products and services to date, we intend to continue our investment in research and development. As of June 30, 2012, we had an accumulated deficit of \$197.7 million. We incurred net losses of \$20.3 million, \$8.5 million and \$16.6 million in the years ended December 31, 2009, 2010 and 2011, respectively and a net loss of \$13.0 million for the six months ended June 30, 2012.

Our revenue stream is diversified across various industries, which should mitigate our exposure to cyclical downturns or fluctuations in any one market. Revenues during 2009, 2010 and 2011 were derived primarily from the pharmaceuticals and biofuels markets, and consisted of collaborative research and development revenues, product sales and government awards, which are separately identified in our consolidated statements of operations.

### ***Revenues and Operating Expenses***

#### *Revenues*

Our revenues are comprised of collaborative research and development revenues, product revenues and government awards.

- Collaborative research and development revenues include license, technology access and exclusivity fees, FTE payments, milestones, royalties, and optimization and screening fees.
- Product revenues consist of sales of biocatalysts, intermediates, APIs and Codex Biocatalyst Panels and Kits.
- Government awards consist of payments from government entities. The terms of these awards generally provide us with cost reimbursement for certain types of expenditures in return for research and development activities over a contractually defined period. Historically, we have received government awards from Germany, Singapore and the United States. We expect to receive additional awards from the United States and other governments in the future.

#### *Cost of Product Revenues*

Cost of product revenues includes both internal and third-party fixed and variable costs including amortization of purchased technology, materials and supplies, labor, facilities and other overhead costs associated with our product revenues.

#### *Research and Development Expenses*

Research and development expenses consist of costs incurred for internal projects as well as partner-funded collaborative research and development activities. These costs include our direct and research-related overhead expenses, which include salaries and other personnel-related expenses (including stock-based compensation), occupancy-related costs, supplies, depreciation of facilities, and laboratory equipment and amortization of acquired technologies, as well as research consultants and are expensed as incurred. Costs to acquire technologies that are utilized in research and development and that have no alternative future use are expensed when incurred.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses consist of compensation expenses (including stock-based compensation), hiring and training costs, consulting and service provider expenses (including patent counsel related costs), marketing costs, occupancy-related costs, depreciation and amortization expenses, travel and relocation costs and restructuring expenses.

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### Critical Accounting Policies and Estimates

The interim condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States and include our accounts and the accounts of our wholly-owned subsidiaries. The preparation of our condensed consolidated financial statements requires our management 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. There have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

### Financial Operations Overview

The following table shows the amounts from our condensed consolidated statements of operations for the periods presented (in thousands).

	Three Months Ended June 30,		% of Total Revenues		Six Months Ended June 30,		% of Total Revenues	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>								
Product	\$ 6,783	\$ 8,397	30%	32%	\$ 21,949	\$21,329	41%	37%
Collaborative research and development	15,868	17,385	69%	67%	30,480	34,871	56%	61%
Government awards	258	273	1%	1%	1,616	889	3%	2%
<b>Total revenues</b>	<b>22,909</b>	<b>26,055</b>	<b>100%</b>	<b>100%</b>	<b>54,045</b>	<b>57,089</b>	<b>100%</b>	<b>100%</b>
<b>Costs and operating expenses:</b>								
Cost of product revenues	5,829	7,106	25%	27%	18,471	18,756	34%	33%
Research and development	15,650	14,965	68%	57%	31,999	28,715	59%	50%
Selling, general and administrative	6,789	9,276	30%	36%	16,184	18,289	30%	32%
<b>Total costs and operating expenses</b>	<b>28,268</b>	<b>31,347</b>	<b>123%</b>	<b>120%</b>	<b>66,654</b>	<b>65,760</b>	<b>123%</b>	<b>115%</b>
Loss from operations	(5,359)	(5,292)	nm	nm	(12,609)	(8,671)	nm	nm
Interest income	74	71	0%	0%	149	120	0%	0%
Interest expense and other, net	(157)	16	nm	0%	(275)	34	nm	0%
Loss before provision (benefit) for income taxes	(5,442)	(5,205)	nm	nm	(12,735)	(8,517)	nm	nm
Provision (benefit) for income taxes	77	(165)	0%	nm	274	(6)	1%	nm
<b>Net loss</b>	<b>\$ (5,519)</b>	<b>\$ (5,040)</b>	<b>nm</b>	<b>nm</b>	<b>\$ (13,009)</b>	<b>\$ (8,511)</b>	<b>nm</b>	<b>nm</b>

Three months ended June 30, 2012 compared to three months ended June 30, 2011

#### Revenues

(In Thousands)	Three Months Ended June 30,		Change	
	2012	2011	\$	%
Product	\$ 6,783	\$ 8,397	\$(1,614)	(19%)
Collaborative research and development	15,868	17,385	(1,517)	(9%)
Government awards	258	273	(15)	(5%)
<b>Total revenues</b>	<b>22,909</b>	<b>26,055</b>	<b>\$(3,146)</b>	<b>(12%)</b>

Revenues decreased during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to decreased revenues from product sales and collaborative research and development projects while our government award revenues were flat.

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Product revenues decreased \$1.6 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to decreased sales of our dementia and statin-family of products and decreased product sales to our generics customers.

Collaborative research and development revenues decreased \$1.5 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to a reduction of \$1.1 million subsequent to the termination of collaborations in carbon management with Alstom in December 2011, \$1.0 million reduction in our collaboration with Shell and a \$0.2 million reduction in collaborations with pharmaceuticals customers, partially offset by the recognition of a \$1.0 million milestone from one of our pharmaceutical partners related to the use of our enzymes in its manufacturing processes.

Our collaborative research and development revenues with Shell decreased \$1.0 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to the reduction in the number of funded FTEs from 128 to 116 starting August 2011, resulting in decreased revenue of approximately \$0.3 million per month. We had an average of 116 FTEs and 128 FTEs in this collaboration during the three months ended June 30, 2012 and June 30, 2011, respectively.

Government award revenues were flat during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to the recognition of \$0.3 million of the total award remained to be claimed from the U.S. Department of Energy, or DOE, under the ARPA-E Recovery Act program as the program expires June 30, 2012. Therefore, we expect no further revenue under that award.

Our top five customers accounted for 88% and 76% of our total revenues for the three months ended June 30, 2012 and 2011, respectively. Shell accounted for 61% and 57% of our total revenues for the three months ended June 30, 2012 and 2011, respectively.

### Cost of Product Revenues

(In Thousands)	Three Months Ended June 30,		Change	
	2012	2011	\$	%
Cost of revenues:				
Product	<u>\$ 5,829</u>	<u>\$ 7,106</u>	<u>\$ (1,277)</u>	(18%)
Gross profit:				
Product	<u>\$ 954</u>	<u>\$ 1,291</u>	<u>\$ (337)</u>	(26%)
Product gross margin %	<u>14%</u>	<u>15%</u>		

Our cost of product revenues decreased \$1.3 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to the \$1.6 million decrease in our product sales. Gross margins decreased from 15% to 14% during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to a change in the sales mix towards lower margin product sales in the second quarter of 2012.

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### Operating Expenses

(In Thousands)	Three Months Ended June 30,		Change	
	2012	2011	\$	%
Research and development	\$15,650	\$14,965	\$ 685	5%
Selling, general and administrative	6,789	9,276	(2,487)	(27%)
Total operating expenses	<u>\$22,439</u>	<u>\$24,241</u>	<u>\$(1,802)</u>	<u>(7%)</u>

*Research and Development.* Research and development expenses increased \$0.7 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to a \$0.5 million increase in employee compensation costs related to increased headcount. We incurred additional expenses of \$0.4 million for depreciation and amortization expense due to leasehold improvements and capital equipment acquisitions. We reduced travel cost by \$0.2 million compared to the three months ended June 30, 2011 as part of our cost control efforts. Research and development expenses included stock-based compensation expense of \$0.8 million and \$1.0 million during the three months ended June 30, 2012 and 2011, respectively.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased \$2.5 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to a \$1.0 million decrease in compensation costs as a result of restructuring actions in the first quarter of 2012. Stock compensation costs decreased \$0.4 million during the three months ended June 30, 2012, primarily due to the departure of our former Chief Executive Officer and our former Chief Financial Officer in the first quarter of 2012. We decreased spending on consultants and other outside services by \$0.8 million and outside legal cost decreased \$0.1 million. Travel costs decreased \$0.2 million. Selling, general and administrative expenses included stock-based compensation expense of \$1.1 million and \$1.6 million during the three months ended June 30, 2012 and 2011, respectively.

### Restructuring Charges

(in thousands)	Severance, benefits and related personal costs
	2012 Plan
Restructuring charges	\$ 510
Cash payments	(24)
Balance at March 31, 2012	486
Restructuring charges	53
Adjustments to previously accrued charges	(49)
Cash payments	(422)
Balance at June 30, 2012	<u>\$ 68</u>

*Restructuring Charges.* During the first quarter of 2012, our board of directors approved and committed to a restructuring plan ("2012 restructuring plan") to reduce our cost structure which included employee terminations in Hungary and the United States. The total cost of the 2012 restructuring plan is \$567,000 comprised of employee severance and other termination benefits. During the three months ended June 30, 2012 we recorded \$53,000 of restructuring expenses under the plan, made cash payments of \$422,000, recorded \$49,000 of reductions to previously recorded charges with the remaining \$68,000 recorded in other accrued liabilities on our condensed consolidated balance sheet. We do not anticipate recording any further charges under this restructuring plan. We anticipated that all costs under the 2012 restructuring plan will be paid by December 31, 2012.

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### Other Income (Expense), net

(In Thousands)	Three Months Ended		Change	
	June 30,		\$	%
	2012	2011		
Interest income	\$ 74	\$ 71	\$ 3	4%
Interest expense and other, net	(157)	16	(173)	nm
Total other income (expense), net	\$ (83)	\$ 87	\$ (170)	(195%)

*Interest Income.* Interest income was flat during the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

*Interest Expense and Other, Net.* Interest expense and other, net, went from a gain to a loss \$0.2 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily related to increased losses from foreign currency translations during the three months ended June 30, 2012.

*Provision (benefit) for Income Taxes.* The tax provision (benefit) for the three months ended June 30, 2012 and 2011 primarily consisted of income taxes attributable to foreign operations.

### Six months ended June 30, 2012 compared to six months ended June 30, 2011

#### Revenues

(In Thousands)	Six Months Ended		Change	
	June 30,		\$	%
	2012	2011		
Product	\$21,949	\$21,329	\$ 620	3%
Collaborative research and development	30,480	34,871	(4,391)	(13%)
Government awards	1,616	889	727	82%
Total revenues	\$54,045	\$57,089	\$ (3,044)	(5%)

Revenues decreased during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to decreased revenues from collaborative research and development projects partially offset by increased revenues from product sales and government awards. Product revenues increased \$0.6 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to increased sales of our dementia and statin-family of products, partially offset by decreased product sales to our generics customers.

Collaborative research and development revenues decreased \$4.4 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to a reduction of \$2.6 million subsequent to the termination of our collaborations in carbon management with Alstom in December 2011, \$1.9 million reduction in our collaboration with Shell and a \$0.8 million reduction in collaborations with pharmaceuticals customers, partially offset by a \$1.0 million milestone from one of our pharmaceutical partners related to the use of our enzymes in its manufacturing processes.

Our collaborative research and development revenues with Shell decreased \$1.9 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to the reduction in the number of funded FTEs from 128 to 116 starting August 2011, resulting in decreased revenue of approximately \$0.3 million per month. We had an average of 116 FTEs and 128 FTEs in this collaboration during the six months ended June 30, 2012 and June 30, 2011, respectively.

Government award revenues increased \$0.7 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to the recognition of a award from the U.S. Department of Energy under the ARPA-E Recovery Act program for \$1.6 million compared to \$0.9 million in the six months ended June 30, 2011. The 2012 revenue amount included \$0.5 million of revenue recognized in the first quarter of 2012 related to prior periods as a result of a change in accounting estimate related to our indirect billing rates under the award. The award from the U.S. Department of Energy expired June 30, 2012 and no further revenue is expected.

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Our top five customers accounted for 84% and 79% of our total revenues for the six months ended June 30, 2012 and 2011, respectively. Shell accounted for 51% and 52% of our total revenues for the six months ended June 30, 2012 and 2011.

### Cost of Product Revenues

(In Thousands)	Six Months Ended June 30,		Change	
	2012	2011	\$	%
Cost of revenues:				
Product	<u>\$18,471</u>	<u>\$18,756</u>	<u>\$(285)</u>	(2%)
Gross profit:				
Product	<u>\$ 3,478</u>	<u>\$ 2,573</u>	<u>\$ 905</u>	35%
Product gross margin %	<u>16%</u>	<u>12%</u>		

Our cost of product revenues decreased \$0.3 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 despite our increase in product revenue primarily due to a change in sales mix. Gross margins increased 4% to 16% during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to this change in the sales mix towards higher margin on-patent product sales in the first quarter of 2012.

### Operating Expenses

(In Thousands)	Six Months Ended June 30,		Change	
	2012	2011	\$	%
Research and development	<u>\$31,999</u>	<u>\$28,715</u>	<u>\$ 3,284</u>	11%
Selling, general and administrative	<u>16,184</u>	<u>18,289</u>	<u>(2,105)</u>	(12%)
Total operating expenses	<u>\$48,183</u>	<u>\$47,004</u>	<u>\$ 1,179</u>	3%

*Research and Development.* Research and development expenses increased \$3.3 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to a \$2.1 million increase in employee compensation costs related to increased headcount and a \$0.5 million increase in lab supplies cost due to higher usage associated with our increased research and development headcount. We incurred additional expenses of \$0.6 million for depreciation and amortization expense due to leasehold improvements and capital equipment acquisitions and \$0.1 million in increased facility costs following our facility expansion in 2011. Research and development expenses included stock-based compensation expense of \$1.4 million and \$1.8 million during the six months ended June 30, 2012 and 2011, respectively.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased \$2.1 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to a \$1.5 million decrease in stock compensation costs primarily due to the departure of our former Chief Executive Officer and Chief Financial Officer during the six months ended June 30, 2012. We decreased spending on consultants and other outside services by \$1.1 million and decreased travel costs by \$0.4 million compared to the six months ended June 30, 2011. This was partially offset by \$0.6 million increase in compensation costs consisting of \$0.5 million related to our 2012 restructuring plan and \$0.8 million in salary continuation and related benefits for executive termination costs offset by decreased compensation costs of \$0.7 million resulting from the reduced headcount. Selling, general and administrative expenses included stock-based compensation expense of \$1.6 million and \$3.1 million during the six months ended June 30, 2012 and 2011, respectively.

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### Restructuring Charges

(in thousands)	Severance, benefits and related personal costs
	2012 Plan
Restructuring charges	\$ 510
Cash payments	(24)
Balance at March 31, 2012	486
Restructuring charges	53
Adjustments to previously accrued charges	(49)
Cash payments	(422)
Balance at June 30, 2012	\$ 68

*Restructuring Charges.* During the first quarter of 2012, our board of directors approved and committed to a restructuring plan ("2012 restructuring plan") to reduce our cost structure which included employee terminations in Hungary and the United States. The total cost of the 2012 restructuring plan is \$567,000 comprised of employee severance and other termination benefits. As of June 30, 2012, planned costs of \$563,000 have been recognized in selling, general and administrative expenses on our condensed consolidated statements of operations. We have made cash payments of \$446,000 and recorded \$49,000 of reductions to previously recorded charges with the remaining \$68,000 recorded in other accrued liabilities on our condensed consolidated balance sheet. We do not anticipate recording any further charges under this restructuring plan. We anticipated that all costs under the 2012 restructuring plan will be paid by December 31, 2012.

### Other Income (Expense), net

(In Thousands)	Six Months Ended		Change	
	June 30,		\$	%
	2012	2011		
Interest income	\$ 149	\$ 120	\$ 29	24%
Interest expense and other, net	(275)	34	(309)	(909%)
Total other income (expense), net	\$ (126)	\$ 154	\$ (280)	(182%)

*Interest Income.* Interest income increased due to higher average interest on cash equivalents and marketable securities during the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

*Interest Expense and Other, Net.* Interest expense and other, net, went from a gain to a loss of \$0.3 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily related to increased losses from foreign currency translations during the six months ended June 30, 2012.

*Provision (benefit) for Income Taxes.* The tax provision (benefit) for the six months ended June 30, 2012 and 2011 primarily consisted of income taxes attributable to foreign operations.

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### *Liquidity and Capital Resources*

(In Thousands)	June 30,	December 31,
	2012	2011
Cash and cash equivalents	\$16,693	\$ 25,762
Marketable securities(1)	34,671	27,720
Accounts receivable, net	8,124	18,917
Accounts payable, accrued compensation and accrued liabilities	15,998	24,503
Working capital (1)	49,188	50,940

(1) Includes only the current portion of our marketable securities

(In Thousands)	Six Months Ended	
	June 30,	
	2012	2011
Net cash used in operating activities	\$(3,292)	\$ (343)
Net cash used in investing activities	(6,228)	(42,385)
Net cash provided by financing activities	287	2,390
Effect of foreign exchange rates on cash and cash equivalents	164	24
Net decrease in cash and cash equivalents	<u>\$(9,069)</u>	<u>\$(40,314)</u>

### *Cash Flows from Operating Activities*

Operating activities used \$3.3 million of net cash during the six months ended June 30, 2012. We incurred a net loss of \$13.0 million in the six months ended June 30, 2012, which included non-cash share-based compensation expense of \$3.1 million and depreciation and amortization of \$6.4 million. Changes in operating asset and liability accounts provided \$0.2 million of net cash during the six months ended June 30, 2012.

Operating activities used \$0.3 million of net cash during the six months ended June 30, 2011. We incurred a net loss of \$8.5 million in the six months ended June 30, 2011, which included non-cash share-based compensation expense of \$4.9 million and depreciation and amortization of \$5.6 million. Changes in operating asset and liability accounts used \$2.3 million of net cash during the six months ended June 30, 2011.

### *Cash Flows from Investing Activities*

Cash flows from investing activities primarily relate to capital expenditures to support our growth and our investments in marketable securities.

Cash used in investing activities was \$6.2 million during the six months ended June 30, 2012 and consisted of capital expenditures of \$2.6 million primarily related to the costs of facility improvements and purchases of lab equipment and \$3.7 million related to our net increase of investments in marketable securities which represents net amounts transferred out of cash and cash equivalents.

Cash used by investing activities totaled \$42.4 million during the six months ended June 30, 2011 and consisted of capital expenditures of \$4.2 million primarily due to the purchase of lab equipment, improvements to our facilities in Redwood City, California, and an increase of marketable securities of \$38.2 million, due to the investment of our cash and cash equivalents.

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### *Cash Flows from Financing Activities*

Cash provided by financing activities totaled \$0.3 million during the six months ended June 30, 2012 consisting of proceeds from the exercise of stock options.

Cash provided by financing activities totaled \$2.4 million during the six months ended June 30, 2011 consisting of proceeds from the exercise of stock options.

### *Contractual Obligations and Commitments*

Our contractual obligations relate primarily to operating leases. Our commitments for operating leases primarily relate to our leased facilities in Redwood City, California. The following table summarizes the future commitments arising from our contractual obligations at June 30, 2012 (in thousands):

	<u>Total</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 and beyond</u>
Operating leases	<u>\$21,319</u>	<u>\$1,641</u>	<u>\$2,905</u>	<u>\$2,722</u>	<u>\$2,799</u>	<u>\$2,805</u>	<u>\$ 8,447</u>
Total	<u>\$21,319</u>	<u>\$1,641</u>	<u>\$2,905</u>	<u>\$2,722</u>	<u>\$2,799</u>	<u>\$2,805</u>	<u>\$ 8,447</u>

### *Off-Balance Sheet Arrangements*

As of June 30, 2012, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K as promulgated by the SEC.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### *Market Risk Management*

Our cash flow and earnings are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and other factors. There were no significant changes in our market risk exposures during the three months ended June 30, 2012. This is discussed in further detail in our Annual Report in Form 10-K filed with the SEC on March 5, 2012.

### *Equity Price Risk*

As described in Note 4 to the condensed consolidated financial statements, we have an investment in common shares of CO<sub>2</sub> Solutions, whose shares are publicly traded in Canada on the TSX Venture Exchange. This investment is exposed to fluctuations in both the market price of CO<sub>2</sub> Solutions's common shares and changes in the exchange rates between the U.S. dollar and the Canadian dollar. The effect of a 10% adverse change in the market price of CO<sub>2</sub> Solution's common shares as of June 30, 2012 would have been an unrealized loss of approximately \$54,000, recognized as a component of our statement of comprehensive income. The effect of a 10% adverse change in the exchange rates between the U.S. dollar and the Canadian dollar as of June 30, 2012 would have been an unrealized loss of approximately \$54,000, recognized as a component of our condensed consolidated statements of comprehensive income.

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**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* We maintain disclosure controls and procedures and internal controls that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and our interim Controller (principal financial and accounting officer), as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our disclosure committee, our Chief Executive Officer and interim Controller, evaluated the effectiveness of our disclosure controls and procedures as required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on this review, our Chief Executive Officer and interim Controller concluded that these disclosure controls and procedures were effective as of June 30, 2012 at the reasonable assurance level.

*Changes in Internal Control over Financial Reporting* There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitations on Effectiveness of Controls* Our management, including our Chief Executive Officer and interim Controller, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material litigation or other material legal proceedings.

### ITEM 1A. RISK FACTORS

You should carefully consider the risks described below together with the other information set forth in this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

#### **Risks Relating to Our Business and Strategy**

*We have a limited operating history, which may make it difficult to evaluate our current business and predict our future performance.*

Our company has been in existence since January 2002. From 2002 until 2005, our operations focused on organizing and staffing our company and developing our technology platform. In 2005, we recognized our first revenues from product sales. Since 2005, we have continued to generate revenues, but because our revenue growth has occurred in recent periods, our limited operating history may make it difficult to evaluate our current business and predict our future performance. Any assessments of our current business and predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries. If we do not address these risks successfully, our business will be harmed.

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

Our financial condition and operating results have varied significantly in the past and may continue to fluctuate from quarter to quarter and year to year in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include the following factors, as well as other factors described elsewhere in this report and in our annual report on Form 10-K:

- our ability to achieve or maintain profitability;
- our ability to obtain substantial additional capital that may be necessary to expand our business;
- our relationships with and dependence on collaborators in our principal markets;
- our dependence on our collaborative research agreement with Shell for the development and commercialization of advanced biofuels, which agreement is set to expire on November 1, 2012;
- our ability to obtain rights and licenses from Shell in the biofuels field to develop and sell cellulase enzymes to third parties;
- the feasibility of commercializing biofuels and bio-based chemicals derived from cellulose;
- our dependence on, and the need to attract and retain key management and other personnel, including a Chief Financial Officer;
- our dependence on a limited number of customers;
- our dependence on a limited number of products in our pharmaceutical business;
- our dependence on one contract manufacturer for commercial scale production of substantially all of our enzymes;
- the ability of Arch to market our pharmaceutical products effectively;
- our ability to maintain internal control over financial reporting;
- our ability to manage our growth;
- the success of our customers' pharmaceutical products in the market and the ability of such customers to obtain regulatory approvals for products and processes;
- our ability to control and to improve pharmaceutical gross margins;
- our ability to develop and successfully commercialize new products for the pharmaceuticals market;
- our ability to maintain license rights for commercial scale expression systems for cellulases;
- fluctuations in the price of and demand for commodities that our enzymes and fermentation organisms can be employed to produce or for substitute commodities;

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- the availability, cost and location of cellulosic biomass sources;
- changes to existing biofuel regulations and policies;
- our potential bio-based chemical products might not be approved or accepted by our customers;
- our ability to independently develop, manufacture, market, sell and distribute commercial cellulase enzymes;
- our ability to obtain and maintain governmental awards;
- risks associated with the international aspects of our business;
- our ability to integrate any businesses we may acquire with our business;
- our ability to accurately report our financial results in a timely manner;
- our ability to obtain, protect and enforce our intellectual property rights;
- our ability to prevent the theft or misappropriation of our biocatalysts, the genes that code for our biocatalysts, know-how or technologies;
- potential advantages that our competitors and potential competitors may have in securing funding or developing products;
- business interruptions, such as earthquakes and other natural disasters;
- public concerns about the ethical, legal and social ramifications of genetically engineered products and processes;
- our ability to comply with laws and regulations;
- our ability to properly handle and dispose of hazardous materials used in our business;
- potential product liability claims;
- the existence of government subsidies or regulation with respect to carbon dioxide emissions; and
- our ability to use our net operating loss carryforwards to offset future taxable income.

Due to the various factors mentioned above, and others, the results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance.

### ***We have a history of net losses, and we may not achieve or maintain profitability.***

We have incurred net losses since our inception, including losses of \$20.3 million, \$8.5 million and \$16.6 million in 2009, 2010 and 2011, respectively. As of June 30, 2012, we had an accumulated deficit of \$197.7 million. To date, we have derived a substantial portion of our revenues from research and development agreements with our collaborators. If we are unable to extend our existing agreements or enter into new agreements upon the expiration or termination of our existing agreements, particularly with respect to our collaborative research agreement with Shell, our revenues could be adversely affected. In addition, some of our collaboration agreements provide for milestone payments and future royalty payments, which we will only receive if we and our collaborators develop and commercialize products. We also expect to spend significant amounts to fund the development of additional pharmaceutical and potential bioindustrial products, including our CodeXyme™ cellulase enzymes, CodeXol™ detergent alcohols and other products for the advanced biofuel and bio-based chemicals markets. There can be no assurance that any of these products will become commercially viable or that we will ever achieve profitability on a quarterly or annual basis. 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.

### ***We may need substantial additional capital in the future in order to expand our business.***

Our future capital requirements may be substantial, particularly as we continue to develop our business, including investing in our CodeXyme™ cellulase enzymes and CodeXol™ detergent alcohol business opportunities. Although we believe that, based on our current level of operations and anticipated growth, our existing cash, cash equivalents and marketable securities will provide adequate funds for ongoing operations, planned capital expenditures and working capital requirements for at least the next 12 months, we may need additional capital if our current plans and assumptions change. Our need for additional capital will depend on many factors, including the financial success of our pharmaceutical business, continued funding from Shell for our cellulase and ethanol programs, our spending to develop and commercialize new and existing products, the effect of any acquisitions of other businesses, technologies or facilities that we may make or develop in the future, our spending on new market opportunities, including bio-based chemicals, and the filing, prosecution, enforcement and defense of patent claims. If our capital resources are insufficient to meet our capital requirements, and we are unable to enter into or maintain collaborations with partners that are able or willing to fund our development efforts or commercialize any products that we develop or enable, we will have to raise additional funds to continue the development of our technology and products and complete the commercialization of products, if any, resulting from our technologies. If future financings involve the issuance of equity securities, our existing stockholders would suffer dilution. If we raise debt financing, we may be subject to restrictive covenants that limit our ability to conduct our business. We may not be able to raise sufficient additional funds

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on terms that are favorable to us, if at all. If we fail to raise sufficient funds and fail to generate sufficient revenues to achieve planned gross margins and to control operating costs, our ability to fund our operations, take advantage of strategic opportunities, develop products or technologies, or otherwise respond to competitive pressures could be significantly limited. If this happens, we may be forced to delay or terminate research or development programs or the commercialization of products resulting from our technologies, curtail or cease operations or obtain funds through collaborative and licensing arrangements that may require us to relinquish commercial rights, or grant licenses on terms that are not favorable to us. If adequate funds are not available, we will not be able to successfully execute our business plan or continue our business.

***We are dependent on our collaborators, and our failure to successfully manage these relationships could prevent us from developing and commercializing many of our products and achieving or sustaining profitability.***

Our ability to maintain and manage collaborations in our markets is fundamental to the success of our business. We currently have license agreements, research and development agreements, supply agreements and/or distribution agreements with various collaborators. We may have limited or no control over the amount or timing of resources that any collaborator is able or willing to devote to our partnered products or collaborative efforts. Any of our collaborators may fail to perform their obligations. These collaborators may breach or terminate their agreements with us or otherwise fail to conduct their collaborative activities successfully and in a timely manner. Further, our collaborators may not develop products arising out of our collaborative arrangements or devote sufficient resources to the development, manufacture, marketing, or sale of these products. Moreover, disagreements with a collaborator could develop and any conflict with a collaborator could reduce our ability to enter into future collaboration agreements and negatively impact our relationships with one or more existing collaborators. If any of these events occur, or if we fail to maintain our agreements with our collaborators, we may not be able to commercialize our existing and potential products, grow our business, or generate sufficient revenues to support our operations. Our collaboration opportunities could be harmed if:

- we do not achieve our research and development objectives under our collaboration agreements in a timely manner or at all;
- we develop products and processes or enter into additional collaborations that conflict with the business objectives of our other collaborators;
- we disagree with our collaborators as to rights to intellectual property that are developed during the collaboration, or their research programs or commercialization activities;
- we are unable to manage multiple simultaneous collaborations;
- our collaborators become competitors of ours or enter into agreements with our competitors;
- our collaborators become unable or less willing to expend their resources on research and development or commercialization efforts due to general market conditions, their financial condition or other circumstances beyond our control; or
- our collaborators experience business difficulties, which could eliminate or impair their ability to effectively perform under our agreements;

Additionally, our business could be negatively affected if any of our collaborators or suppliers undergoes a change of control or were to otherwise assign the rights or obligations under any of our agreements. For example, under our license agreement with Shell, Shell may assign the agreement without our consent to controlled affiliates or in connection with a change of control. If Shell or any of our other collaborators were to assign these agreements to a competitor of ours or to a third party who is not willing to work with us on the same terms or commit the same resources as the current collaborator, our business and prospects could be harmed.

***We are heavily dependent on our collaborative research agreement with Shell, which will expire on November 1, 2012 if not extended.***

Our current business plan for biofuels is heavily dependent on our collaborative research agreement with Shell, which has been central to our efforts in researching and developing biocatalysts for producing advanced biofuels. Advanced biofuels are transport fuels derived from non-petroleum and non-food based sources. In our collaboration with Shell, Shell's efforts in commercializing advanced biofuels profitably would be critical to our future success. If we are unable to successfully execute on the development of advanced biofuels for Shell, our ability to expand into other bioindustrial areas may be significantly impaired, which will materially and adversely affect our ability to grow our business.

However, we cannot guarantee that our relationship with Shell will continue. Our collaborative research agreement with Shell expires on November 1, 2012 unless extended by the parties. Shell can terminate its collaborative research agreement with us for any or no reason by providing us with nine months' notice. Each party also has the right to terminate the license agreement and the collaborative research agreement in the case of an uncured breach by the other party, and to terminate the collaborative research agreement if that party believes the other party has assigned the collaborative research agreement to a direct competitor of the terminating party. Furthermore, in June 2011 Shell transferred all of its equity interests in us, together with its right to appoint one member to our board of directors, to Raizen Energia Participações S.A., or Raizen, a Brazil-based biofuels joint venture between Shell and Cosan S.A. If

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our collaboration with Shell were to end, we may need to find other collaborators to provide the financial assistance and infrastructure necessary for us to develop and commercialize our products and execute our strategy with respect to advanced biofuels, fund this development ourselves or combine collaborator funding with our own funding. Failure to maintain this relationship would have a material adverse effect on our business, financial condition and prospects. Although we have not received formal notice from Shell, we do not currently expect any continued Shell FTE funding after November 1, 2012.

Furthermore, we cannot control the financial resources Shell devotes to our programs under the collaborative research agreement. Currently, we receive bi-monthly payments from Shell that are based on the number of full-time employee equivalents, or FTEs, that work on our research collaboration with Shell. The number of FTEs that work on the program, and the payments from Shell for these FTEs, are specified in our collaborative research agreement. Shell has the right to reduce the number of funded FTEs, with any one reduction not to exceed 98 funded FTEs, following advance written notice. The required notice period ranges from one to 270 days. Following any such reduction, Shell is subject to a standstill period of between 90 and 360 days during which period Shell cannot provide notice of any further FTE reductions. The notice and standstill periods are dependent on the number of funded FTEs reduced, with the length of notice and standstill periods increasing commensurate with the number of FTEs reduced. Effective August 2011, Shell reduced the number of funded FTEs engaged in our joint research and development collaboration from 128 to 116. In July 2012, we signed an Exclusive Negotiation Agreement with Shell pursuant to which, beginning on August 31, 2012, Shell can elect to reduce between 13 and 48 FTEs under the collaborative research agreement with one day of notice. Previously, the required notice period for this type of FTE reduction was 90 days.-We have not received any notice of FTE reduction below the current 116 FTEs as of the date of filing of this Quarterly Report on Form 10-Q; however we expect Shell to deliver notice of a reduction by 48 FTEs effective September 1, 2012.

Any further reduction could have a material adverse impact on our revenues and business plan for advanced biofuels. Moreover, disputes may arise between us and Shell, which could delay the programs on which we are working or could prevent the commercialization of products developed under our research and development collaboration. If that were to occur, we may have to use funds, personnel, equipment, facilities and other resources that we have not budgeted to undertake certain activities on our own. Disagreements with Shell could also result in expensive arbitration or litigation, which may not be resolved in our favor. Performance issues, program delays or termination or unbudgeted use of our resources may have a material adverse effect on our business and financial condition. Even if we successfully develop commercially viable technologies, our ability to derive revenues from those technologies will be dependent upon Shell's willingness and ability to commercialize them. Shell has the right, but not the obligation, to commercialize these technologies. If Shell decides to commercialize our technology, we would need to rely on Shell, or other parties selected by Shell, to design, finance and construct commercial scale advanced biofuel facilities, and operate commercial scale facilities at costs that are competitive with traditional petroleum-based fuels and other alternative fuel technologies that may be developed. Shell could merge with or be acquired by another company or experience financial or other setbacks unrelated to our research collaboration agreement that could adversely affect us.

We have agreed to work exclusively with Shell until November 1, 2012 in the field of converting cellulosic biomass into fermentable sugars that are used in the production of fuels and related products as well as the conversion of these sugars into fuels and related products. However, Shell is not required to work exclusively with us, and could develop or pursue alternative technologies that it decides to use for commercialization purposes instead of the technology developed under our collaborative research agreement with Shell. For example, Shell is currently working with Virent Energy Systems to develop a thermo-chemical approach to developing biogasoline and biodiesel. Even if Shell decides to commercialize products based on our technologies, they have no obligation to purchase their biocatalyst supply from us. Our license agreement with Shell prohibits us from licensing any technology developed under the collaboration for the patent life of such technology, which could place us at a significant competitive disadvantage in the advanced biofuels market. Pursuant to the Exclusive Negotiation Agreement we entered into with Shell in July 2012, Shell has agreed to negotiate exclusively with us through September 1, 2012 the terms of a new agreement under which Shell would grant us certain rights and licenses in the biofuels field to develop and sell cellulase enzymes to third parties on a worldwide basis, except Brazil. However, there is no guarantee that we will in fact obtain such rights and licenses on terms that are commercially favorable to us or at all.

### ***Termination of our research collaboration with Iogen may adversely impact our cellulosic ethanol program in North America.***

In connection with our research and development collaboration with Shell, we entered into a multiparty collaborative research and license agreement with Shell and Iogen in July 2009, which is focused on developing technology to convert cellulosic biomass to ethanol for commercial scale production. The primary focus of our funded advanced biofuels research with Shell since 2009 has been the development of technology that could be deployed at ethanol facilities that use Iogen and Codexis processes and technologies. On April 30, 2012, Shell and Iogen announced that they will not pursue the development of a cellulosic ethanol facility in southern Manitoba, Canada. Iogen also announced that it had significantly reduced the size of its cellulosic ethanol development program, including by significantly reducing the number of employees at Iogen. The research term of the three-way collaboration with Iogen and Shell terminated on June 30, 2012. As a result of this termination our ability to develop technology for use in the production of cellulosic ethanol at commercial scale in North America may be adversely impacted. Despite the termination of the research term, many elements of our collaborative research and license agreement with Shell and Iogen will continue. For example, the collaborative

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research and license agreement provides for certain rights, licenses and obligations of each party with respect to intellectual property and program materials that will continue after the research activities have ended. Disagreements or conflicts between and among the parties could develop even though the research program has ended. These disagreements or conflicts could result in expensive arbitration or litigation, which may not be resolved in our favor.

***We need to obtain rights and licenses from Shell in order to develop and sell cellulase enzymes to third parties and we need Shell's approval to begin collaboration with Raízen on cellulosic ethanol in Brazil.***

Under our current commercial arrangement with Shell, we have agreed to work exclusively with Shell on second generation biofuels. As a result, even if the collaborative research agreement with Shell expires on November 1, 2012, we will need to obtain rights and licenses from Shell in order to develop and sell cellulase enzymes in the biofuels field to third parties.

Pursuant to the Exclusive Negotiation Agreement we entered into with Shell in July 2012, Shell has agreed to negotiate exclusively with us through September 1, 2012 the terms of a new agreement under which Shell would grant us certain rights and licenses in the biofuels field to develop and sell cellulase enzymes to third parties on a worldwide basis, except Brazil. However, there is no guarantee that we will in fact obtain such rights and licenses on terms that are commercially favorable to us or at all. If we are unable to obtain such rights and licenses, our business plan will be significantly impaired.

We have also obtained informal approval from Shell to begin discussions with Raízen on how Codexis and Raízen can work together to develop cellulosic ethanol technology in Brazil. However, we will need formal written approval pursuant to the terms of our research agreement with Shell before we can formalize any arrangement with Raízen. We do not know when, or if, this formal written approval from Shell will be granted. Our business plan will be significantly impaired if we are not allowed to deploy our cellulosic ethanol technology in Brazil with Raízen.

***Commercialization of biofuels and bio-based chemicals derived from cellulose may not be feasible.***

We are developing CodeXyme™ cellulase enzymes for use in producing advanced biofuels and bio-based chemicals. However, production and commercialization of cellulosic biofuels and bio-based chemicals may not be feasible for a variety of reasons. For example, the development of technology for converting sugar derived from cellulosic biomass into a commercially viable biofuel or bio-based chemical is still unproven, and we do not know whether this can be done commercially and profitably. As of the date of this report, we believe that there are no commercial scale cellulosic biofuel or cellulosic bio-based chemicals production plants in operation, although several are under construction. There can be no assurance that anyone will be able or willing to develop and operate these production plants at commercial scale or that any of these facilities can be profitable. Additionally, if existing tax credits, subsidies and other incentives in the United States and foreign markets are phased out or reduced, the overall cost of commercialization of cellulosic biofuels will increase.

***If we lose key personnel, including key management personnel, or are unable to attract and retain additional personnel, including a Chief Financial Officer, it could disrupt the operation of our business, delay our product development programs, harm our research and development efforts, and we may be unable to pursue collaborations or develop our own products.***

Our business involves complex, global operations across a variety of markets and requires a management team and employee workforce that is knowledgeable in the many areas in which we operate. The loss of any key members of our management team or the failure to attract or retain other key employees who possess the requisite expertise for the conduct of our business, could prevent us from developing and commercializing our products for our target markets and entering into collaborations or licensing arrangements to execute on our business strategy. We are currently conducting a search for a Chief Financial Officer. Until we are able to hire a Chief Financial Officer, we may be unable to manage our business effectively and it may be more difficult for us to hire and retain other personnel. Even if we are able to hire and retain a Chief Financial Officer in a timely manner, we may continue to experience operational inefficiency and disruptions during the transition period.

In addition, the loss of any key scientific staff, or the failure to attract or retain other key scientific employees, could prevent us from developing and commercializing our products for our target markets and entering into collaborations or licensing arrangements to execute on our business strategy. We may not be able to attract or retain qualified employees in the future due to the intense competition for qualified personnel among biotechnology and other technology-based businesses, particularly in the areas of biofuels and bio-based chemicals, or due to the availability of personnel with the qualifications or experience necessary for our business. Additionally, certain of our government awards require us to maintain a minimum level of staffing. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience staffing constraints that will adversely affect our ability to meet the demands of our collaborators and customers in a timely fashion or to support our internal research and development programs. In particular, our product and process development programs are dependent on our ability to attract and retain highly skilled scientists and engineers. Competition for experienced scientists and other technical personnel from numerous companies and academic and other research institutions may limit our ability to do so on acceptable terms. All of our employees are at-will employees, which means that either the employee or we may terminate their employment at any time.

Our planned activities will require additional expertise in specific industries and areas applicable to the products and processes developed through our technology platform or acquired through strategic or other transactions, especially in the end markets that we seek to penetrate. These activities will require the addition of new personnel, and the development of additional expertise by existing personnel. The inability to attract personnel with appropriate skills or to develop the necessary expertise could impair our ability to grow our business. Additionally, we would be in breach of certain agreements, including our collaborative research agreement with Shell, if we fail to maintain a specified number of personnel.

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### ***We are dependent on a limited number of customers.***

Our current revenues are derived from a limited number of key customers. For the year ended December 31, 2010, our top five customers accounted for 85% of our total revenues, with Shell accounting for 62% of our total revenues. For the year ended December 31, 2011, our top five customers accounted for 77% of our total revenues, with Shell accounting for 51% of our total revenues. For the six months ended June 30, 2012, our top five customers accounted for 84% of our total revenues, with Shell accounting for 52% of our total revenues. We expect a limited number of customers to continue to account for a significant portion of our revenues for the foreseeable future. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. The loss or reduction of business from one or a combination of our significant customers could materially adversely affect our revenues, financial condition and results of operations.

### ***We are dependent on a limited number of products in our pharmaceutical business.***

Our current product revenues are derived from a limited number of pharmaceutical products. For the year ended December 31, 2011, we derived 83% of our product revenue from two pharmaceutical product families: statins and hepatitis C therapies. We expect a limited number of pharmaceutical products to continue to account for a significant portion of our pharmaceutical product revenues for the foreseeable future. This product concentration increases the risk of quarterly fluctuations in our revenues and operating results. The loss or reduction of business of one or a combination of our significant pharmaceutical products could materially adversely affect our revenues, financial condition and results of operations.

### ***We are dependent on contract manufacturers for commercial scale production of substantially all of our enzymes.***

We have limited internal capacity to manufacture enzymes. As a result, we are dependent upon the performance and capacity of third party manufacturers for the commercial scale manufacturing of the enzymes used in our pharmaceutical and cellulase businesses.

We primarily rely on one contract manufacturer for our pharmaceutical business, Lactosan GmbH & Co. KG, or Lactosan, to manufacture substantially all of the commercial enzymes used in our pharmaceutical business. Our pharmaceutical business, therefore, faces risks of difficulties with, and interruptions in, performance by Lactosan, the occurrence of which could adversely impact the availability, launch and/or sales of our enzymes in the future. We have qualified other contract manufacturers to manufacture enzymes for our pharmaceutical business, but currently have limited reliance on them for our supply requirements. The failure of any contract manufacturers that we may use to supply manufactured product on a timely basis or at all, or to manufacture our enzymes in compliance with our specifications or applicable quality requirements or in volumes sufficient to meet demand would adversely affect our ability to sell pharmaceutical products, could harm our relationships with our collaborators or customers and could negatively affect our revenues and operating results. For example, in 2008, we were required to secure an alternative source of certain enzymes when viruses infected the facilities of a contract manufacturer that we were using at the time. If this or any similar event disrupts the operations of any of our suppliers in the future, we may be forced to secure alternative sources of supply, which may be unavailable on commercially acceptable terms, cause delays in our ability to deliver products to our customers, increase our costs and decrease our profit margins.

We do not have any supply agreements in place with any enzyme contract manufacturers, other than Lactosan. In the absence of a supply agreement, a contract manufacturer will be under no obligation to manufacture our enzymes and could elect to discontinue their manufacture at any time. If we require additional manufacturing capacity and are unable to obtain it in sufficient quantity, we may not be able to increase our pharmaceutical sales, or we may be required to make substantial capital investments to build that capacity or to contract with other manufacturers on terms that may be less favorable than the terms we currently have with our suppliers. If we choose to build our own additional manufacturing facility, it could take two years or longer before our facility is able to produce commercial volumes of our enzymes. Any resources we expend on acquiring or building internal manufacturing capabilities could be at the expense of other potentially more profitable opportunities. In addition, if we contract with other manufacturers, we may experience delays of several months in qualifying them, which could harm our relationships with our collaborators or customers and could negatively affect our revenues or operating results.

We also expect to use contract manufacturers to produce our cellulase enzymes. Our cellulase business will encounter similar risks in engaging contract manufacturers as our pharmaceutical business in the event we elect to use contract manufacturers.

### ***We rely on Arch to market our products in certain regions, and Arch may not be able to effectively market our products.***

Using our enzymes, Arch manufactures certain specified APIs and intermediates used in the manufacture of APIs, that we then purchase and have the right to sell to innovator pharmaceutical companies worldwide, generic pharmaceutical companies in the United States, Canada, Europe and Israel, and certain pharmaceutical companies in India. Arch has the exclusive right to manufacture market and sell such APIs and intermediaries to generic pharmaceutical companies in countries other than the United States, Canada, Europe and Israel, and certain other pharmaceutical companies in India. We must therefore rely on Arch for their financial resources and their marketing expertise for the commercialization of such APIs and intermediates in these regions. We cannot control Arch's level of activity or expenditures relating to the marketing of such products relative to the rest of their products or marketing efforts. Arch may

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fail to effectively market our products in these regions. Conflicting priorities, competing demands or other factors that we cannot control, and of which we may not be aware, may cause Arch to deemphasize such products. If we are unable to effectively leverage Arch's marketing capabilities or Arch does not successfully promote such products in the designated territories as our sole marketing partner, this could harm our business, our revenues and operating results, and our ability to bring such products to the marketplace.

***We are required to assess our internal control over financial reporting on an annual basis and any adverse findings from such assessment could impair our ability to accurately and timely report our results of operation and result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and adverse effects on our stock price.***

Under Section 404 of the Sarbanes-Oxley Act, we are required to perform an annual evaluation of our internal control over financial reporting. Although, as of December 31, 2011, we concluded that our internal control over financial reporting was effective, we cannot make assurances that, in the future, material weaknesses or significant deficiencies will not exist or otherwise be discovered, a risk that is significantly increased in light of the complexity of our business and multinational operations. We need to maintain our processes and systems and adapt them as our business grows and changes in order to maintain compliance with Section 404, a process that is expensive, time-consuming and requires significant management attention. Furthermore, as we grow our business or acquire other businesses, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective.

If we or our independent registered public accounting firm identify internal control deficiencies in the future, our ability to accurately and timely report our financial position, results of operations or cash flows could be impaired, which could result in late filings of our annual and quarterly reports under the Securities Exchange Act of 1934, as amended, restatements of our consolidated financial statements, significant expenses to remediate any such deficiencies, a decline in our stock price, suspension or delisting of our common stock by The NASDAQ Global Market, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

***We may encounter difficulties managing our growth, which could adversely affect our business.***

Our business has grown rapidly and this growth may continue in the future. Overall, we have grown from approximately 40 employees at the end of 2002 to approximately 330 employees as of June 30, 2012. Currently, we are working simultaneously on multiple projects targeting several markets. Furthermore, we are conducting our business across several countries, including countries in North America, South America, Europe and Asia. These diversified, global operations place increased demands on our limited resources and may require us to expand the capabilities of our administrative and operational resources and to attract, train, manage and retain qualified management, technicians, scientists and other personnel which we may be unable to do effectively. As our operations expand domestically and internationally, we will need to continue to manage multiple locations and additional relationships with various customers, collaborators, suppliers and other third parties. Our ability to manage our operations, growth, and various projects effectively may require us to make additional investments in our infrastructure to continue to improve our operational, financial and management controls and our reporting systems and procedures. In addition, we may not be able to successfully improve our management information and control systems, including our internal control over financial reporting, to a level necessary to manage our growth and we may discover deficiencies in existing systems and controls that we may not be able to remediate in an efficient or timely manner.

***Our business could be adversely affected if our customers' pharmaceutical products are not received well in the market, if their pharmaceutical products, or the processes used by our customers to manufacture their final pharmaceutical products, fail to be approved, or if our customers discontinue their drug development activities for any reason.***

Our enzymes are used in the manufacture of intermediates and APIs which are then used in the manufacture of final pharmaceutical products by our existing and potential branded drug customers. Our business could be adversely affected if these final pharmaceutical products do not perform in the market as well as expected, or if our customers encounter competition from new entrants into the market with competing, and possibly superior, pharmaceutical products. Additionally, these pharmaceutical products must be approved by the FDA in the United States and similar regulatory bodies in other markets prior to commercialization. If our customers who sell branded-drugs, which we refer to as innovators, fail to receive regulatory approval for the drugs, fail to receive regulatory approval for new manufacturing processes for previously approved drugs, or decide for business or other reasons to discontinue their drug development activities, our revenues and prospects will be negatively impacted. The process of producing these drugs, and their generic equivalents, is also subject to regulation by the FDA in the United States and equivalent regulatory bodies in other markets. If any pharmaceutical process that uses our enzymes does not receive approval by the appropriate regulatory body or if customers decide not to pursue approval, our business could be adversely affected.

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### ***Our pharmaceutical product gross margins are variable and may decline from quarter to quarter.***

Our pharmaceutical product gross margins have varied significantly in the past and may continue to fluctuate from quarter to quarter and year to year in the future due to a variety of factors, including product mix, pricing pressure from our pharmaceutical customers and competition from other products or technologies. We do not expect product gross margins for our current generic products to improve in the near or long term, which may have a material adverse impact on our operating results and financial condition and cause our stock price to decline.

### ***If we are unable to develop and commercialize new products for the pharmaceutical market, our business and prospects will be harmed.***

We plan to launch new products for the pharmaceutical market. These efforts are subject to numerous risks, including the following:

- pharmaceutical companies may be reluctant to adopt new manufacturing processes that use our enzymes;
- we may be unable to successfully develop the enzymes or manufacturing processes for our products in a timely and cost-effective manner, if at all;
- we may face difficulties in transferring the developed technologies to our customers and the contract manufacturers that we may use for commercial scale production of intermediates and enzymes;
- the contract manufacturers that we may use may be unable to scale their manufacturing operations to meet the demand for these products and we may be unable to secure additional manufacturing capacity;
- customers may not be willing to purchase these products for the pharmaceutical market from us on favorable terms, if at all;
- we may face product liability litigation, unexpected safety or efficacy concerns and pharmaceutical product recalls or withdrawals;
- changes in laws or regulations relating to the pharmaceutical industry could cause us to incur increased costs of compliance or otherwise harm our business;
- our customers' pharmaceutical products may experience adverse events or face competition from new products, which would reduce demand for our products;
- we may face pressure from existing or new competitive products; and
- we may face pricing pressures from existing or new competitors, some of which may benefit from government subsidies or other incentives.

### ***If we are unable to maintain license rights to a commercial scale expression system for enzymes that convert cellulosic biomass to sugars, our business may be materially adversely affected.***

We entered into a license agreement with Dyadic International, Inc. and its affiliate, or Dyadic, in November 2008 to obtain access to an expression system and the enzymes that convert cellulosic biomass to sugars. Under the license agreement with Dyadic, we obtained a non-exclusive license under intellectual property rights of Dyadic relating to Dyadic's proprietary fungal expression technology for the production of enzymes and to the cellulase enzymes. We also obtained access to specified materials of Dyadic relating to such Dyadic technology. Our license is sublicenseable to Shell and to affiliates of Shell in the field of biofuels. Dyadic has the right to terminate our licenses under the license agreement if we challenge the validity of any of the patents licensed under the license agreement and for various other reasons. Our licenses and access to such materials of Dyadic under the license agreement will terminate as a result of any termination of the license agreement other than due to Dyadic's material breach. If we are unable to maintain these rights on commercially reasonable terms or if the license agreement is terminated for any reason, we will need to buy or license this type of expression system from another party or develop this type of expression system ourselves, which may be difficult, costly and time consuming, in part because of the broad, existing intellectual property rights owned by Novozymes and E.I. Du Pont De Nemours and Company, or DuPont, and others. If any of these events occur, our business may be materially adversely affected.

### ***Fluctuations in the price of and demand for certain commodities may reduce demand for the commercial products that use our technology, thus reducing demand for our technology.***

Biofuels and some bio-based chemicals are anticipated to be marketed as an alternative to fossil fuel-based products. Therefore, if the price of natural gas or oil falls, any revenues that we generate from biofuel or bio-based chemical products could decline, and we may be unable to produce products that are a commercially viable alternative to fossil fuel-based products. Additionally, demand for liquid transportation fuels, including biofuels, may decrease due to economic conditions or otherwise. Demand for bio-based chemicals may also decrease if the price of natural gas or oil decreases. Similarly, CodeXyme™ cellulase enzymes are used in producing fermentable sugars, which are anticipated to be marketed as an alternative to fermentable sugars from sugar and starch food sources, such as corn and sugar cane. Therefore, if the price of sugar falls, the demand for CodeXyme™ cellulase enzymes, may fall, and we may be unable to produce cellulase enzymes for use in producing fermentable sugars that are a commercially viable alternative to fermentable sugars from sugar and starch food sources.

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### ***Our biofuel and bio-based chemical business opportunities may be limited by the availability, cost or location of feedstocks.***

Our business opportunities in the biofuel and bio-based chemical markets may be dependent on the availability and price of feedstocks, including sugar, starch and cellulosic biomass. If the availability of these feedstocks decreases or their price increases, this may reduce the desirability of our biofuel and bio-based chemical products, as well as the biofuels royalties that we collect from Shell, and have a material adverse effect on our financial condition and operating results. At certain levels, prices may make these products uneconomical to use and produce.

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

Our current business plan for the biofuel and bio-based chemical markets is to leverage our primary competitive strength, which we believe is our ability to optimize the performance of CodeXyme™ cellulase enzymes rapidly for varying feedstocks and process conditions. While CodeXyme™ cellulase enzymes may perform well on specific feedstocks and under certain process conditions, it might not perform well on other feedstocks or process conditions. If CodeXyme™ cellulase enzymes do not perform as planned on our customers' feedstocks, our business may be adversely affected.

### ***Changes to existing biofuel regulations and policies may present technical, regulatory and economic barriers, all of which may significantly reduce demand for biofuels.***

The market for biofuels is heavily influenced by foreign, federal, state and local government regulations and policies concerning the petroleum industry. In 2007, the U.S. Congress passed an alternative fuels mandate that currently calls for approximately 36 billion gallons of liquid transportation fuels sold in 2022 to come from alternative sources, including biofuels. Of this amount, a minimum of 21 billion gallons must be advanced biofuels, with 16 billion gallons of that to be cellulosic derived. In the U.S. and a number of other countries, these regulations and policies have been modified in the past and may be modified again in the future. For example, the U.S. Environmental Protection Agency has the authority to adjust or reduce the gallon milestones of the alternative fuels mandate to reflect the marketplace supply availability. Any reduction in mandated requirements for fuel alternatives and additives to gasoline may cause demand for biofuels to decline and deter investment in the research and development of biofuels. Congressional and market uncertainty regarding future policies will affect our ability to develop new biofuels products or to license our technologies to third parties. Any inability to address these requirements and any regulatory or policy changes could have a material adverse effect on our biofuels business, financial condition and operating results. Our other potential bioindustrial products may be subject to additional regulations. Adoption of E15 (15% ethanol blend) in the United States may also be a significant factor in commercialization of cellulosic ethanol. The U.S. Environmental Protection Agency granted final approval for the sale of E15 on June 15, 2012. However, federal, state and local governments have yet to determine their role in providing infrastructure support to aid retailers in installing, or replacing, fuel pumps that are required for E15. Installation of such pumps is an option, not a requirement, and if it is not adopted in the coming years it may limit the future demand for both corn-based and cellulosic ethanol in the United States.

### ***Our potential bio-based chemical products may not be approved or accepted by customers.***

We have only recently entered the market for bio-based chemical products used by large consumer products or chemical companies through our collaboration with Chemtex, a subsidiary of Gruppo Mossi & Ghisolfi, and we intend to explore other opportunities in these markets. In entering these markets, we intend to sell our bio-based chemical products, like CodeXol™ detergent alcohols, as alternatives to chemicals currently in use, and in some cases the chemicals that we seek to replace have been used for many years. The potential customers for our bio-based chemical products generally have well developed manufacturing processes and arrangements with suppliers of the chemical components of their products and may resist changing these processes and components. These potential customers frequently impose lengthy and complex product qualification procedures on their suppliers. Factors that these potential customers consider during the product qualification process include consumer preference, manufacturing considerations such as process changes and capital and other costs associated with transitioning to alternative components, supplier operating history, regulatory issues, product liability and other factors, many of which are unknown to, or not well understood by, us. Satisfying these processes may take many months or years. If we are unable to convince these potential customers that our products are comparable to the chemicals that they currently use or that the use of our products produces benefits to them, we will not be successful in these markets and our business will be adversely affected. Additionally, in contrast to the tax incentives relating to biofuels, tax credits and subsidies are not currently available in the United States for consumer products or chemical companies who use our bio-based chemical products.

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### ***We have only limited experience with independently developing, manufacturing, marketing, selling and distributing commercial cellulase enzymes.***

We currently have only limited resources and capability to develop, manufacture, market, sell or distribute CodeXyme™ cellulase enzymes on a commercial scale. We will determine how to best deploy these limited resources based on various criteria, including: investment required, estimated time to market, regulatory hurdles, infrastructure requirements and industry-specific expertise necessary for successful commercialization. At any time, we may modify our strategy and pursue collaborations for the development and commercialization of CodeXyme™ cellulase enzymes that we intended to pursue independently. We may pursue opportunities that ultimately require more resources than we anticipate or which may be technically unsuccessful. In order for us to commercialize CodeXyme™ cellulase enzymes directly, we would need to establish or obtain additional capability to develop, manufacture, market, sell and distribute CodeXyme™ cellulase enzymes. If we are unable to successfully commercialize CodeXyme™ cellulase enzymes resulting from our internal product development efforts, we will continue to incur losses. Even if we successfully develop and commercialize CodeXyme™ cellulase enzymes, we may not generate significant sales and achieve profitability in our business.

### ***Our government awards are subject to uncertainty, which could harm our business and results of operations.***

We have received various government awards to complement and enhance our own resources. We may seek to obtain financial assistance in the future to offset all or a portion of the costs of building additional manufacturing facilities and research and development activities. We cannot be certain that we will be able to secure any such government assistance. Any of our existing awards or new financial assistance that we may obtain may be terminated, modified or recovered by the granting governmental body under certain conditions.

We are subject to routine audits by government agencies or other third parties as part of our government awards. The government auditor may review our performance, cost structures and compliance with applicable laws, regulations and standards. Funds available under government financial assistance must be applied by us toward the research and development programs specified by the funding agencies, rather than for all of our programs generally. If any of our costs are found to be allocated improperly, the costs may not be reimbursed and any costs already reimbursed may have to be refunded. Accordingly, an audit could result in an adjustment to our revenues and results of operations.

### ***We face risks associated with our international business.***

Significant portions of our operations are conducted outside of the United States and we expect to continue to have significant foreign operations in the foreseeable future. International business operations are subject to a variety of risks, including:

- changes in or interpretations of foreign regulations that may adversely affect our ability to sell our products, repatriate profits to the United States or operate our foreign-located facilities;
- the imposition of tariffs;
- the imposition of limitations on, or increase of, withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- the imposition of limitations on genetically-engineered products or processes and the production or sale of those products or processes in foreign countries;
- currency exchange rate fluctuations;
- uncertainties relating to foreign laws, regulations and legal proceedings including tax, import/export, anti-corruption and exchange control laws;
- the availability of government subsidies or other incentives that benefit competitors in their local markets that are not available to us;
- economic or political instability in foreign countries;
- difficulties associated with staffing and managing foreign operations; and
- the need to comply with a variety of U.S. and foreign laws applicable to the conduct of international business, including import and export control laws and anti-corruption laws.

Many of our pharmaceutical intermediates are manufactured in India, which has stringent local regulations that make it difficult for money earned in India to be taken out of the country without being subject to Indian taxes. While our Indian subsidiary can make use of some of the funds we earn in India, these regulations may limit the amount of profits we can repatriate from operations in India. Additionally, we have recently begun doing business in Brazil and we will likely need to secure licenses, permits or other governmental approvals in order to use our technology there. The failure to obtain any applicable licenses, permits or other governmental approvals could delay or prevent the deployment of our technology in Brazil.

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***If we engage in any acquisitions, we will incur a variety of costs and may potentially face numerous risks that could adversely affect our business and operations.***

We have made acquisitions in the past, and if appropriate opportunities become available, we expect to acquire additional businesses, assets, technologies, or products to enhance our business in the future. For example, in October 2010, we acquired substantially all of the patents and other intellectual property rights associated with Maxygen's directed evolution technology. In connection with any future acquisitions, we could:

- issue additional equity securities, which would dilute our current stockholders;
- incur substantial debt to fund the acquisitions;
- use our cash to fund the acquisitions; or
- assume significant liabilities including litigation risk.

Acquisitions involve numerous risks, including problems integrating the purchased operations, technologies or products, unanticipated costs and other liabilities, diversion of management's attention from our core businesses, adverse effects on existing business relationships with current and/or prospective collaborators, customers and/or suppliers, risks associated with entering markets in which we have no or limited prior experience and potential loss of key employees. We do not have extensive experience in managing the integration process and we may not be able to successfully integrate any businesses, assets, products, technologies, or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. The integration process could divert management's time from focusing on operating our business, result in a decline in employee morale and cause retention issues to arise from changes in compensation, reporting relationships, future prospects or the direction of the business. Acquisitions may also require us to record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write offs and restructuring and other related expenses, all of which could harm our operating results and financial condition. In addition, we may acquire companies that have insufficient internal financial controls, which could impair our ability to integrate the acquired company and adversely impact our financial reporting. If we fail in our integration efforts with respect to any of our acquisitions and are unable to efficiently operate as a combined organization, our business and financial condition may be adversely affected.

***We must rely on our suppliers, contract manufacturers and customers to deliver timely and accurate information in order to accurately report our financial results in the time frame and manner required by law.***

We need to receive timely, accurate and complete information from a number of third parties in order to accurately report our financial results on a timely basis. We rely on third parties that sell our pharmaceutical products that are manufactured using our biocatalysts to provide us with complete and accurate information regarding revenues, costs of revenues and payments owed to us on a timely basis. In addition, we rely on suppliers and certain contract manufacturers, including Arch, to provide us with timely and accurate information regarding our inventories and manufacturing cost information, and we rely on current and former collaborators to provide us with product sales and cost saving information in connection with royalties owed to us. Any failure to receive timely information from one or more of these third parties could require that we estimate a greater portion of our revenues and other operating performance metrics for the period, which could cause our reported financial results to be incorrect. Moreover, if the information that we receive is not accurate, our financial statements may be materially incorrect and may require restatement, and we may not receive the full amount of revenues that we are entitled to under these arrangements. Although we typically have audit rights with these parties, performing such an audit could be harmful to our collaborative relationships, expensive and time consuming and may not be sufficient to reveal any discrepancies in a timeframe consistent with our reporting requirements.

***Our ability to compete may decline if we do not adequately protect our proprietary technologies or if we lose some of our intellectual property rights.***

Our success depends in part on our ability to obtain patents and maintain adequate protection of our intellectual property for our technologies and products and potential products in the United States and other countries. We have adopted a strategy of seeking patent protection in the United States and in foreign countries with respect to certain of the technologies used in or relating to our products and processes. As such, as of June 30, 2012, we owned or controlled approximately 290 issued patents and approximately 340 pending patent applications in the United States and in various foreign jurisdictions. Some of our gene shuffling patents will expire as early as 2014. We also have license rights to a number of issued patents and pending patent applications in the United States and in various foreign jurisdictions. Our owned and licensed patents and patent applications are directed to our enabling technologies and to the methods and products that support our business in the pharmaceuticals manufacturing, biofuels and bio-based chemicals markets. We intend to continue to apply for patents relating to our technologies, methods and products as we deem appropriate.

Numerous patents in our portfolio involve complex legal and factual questions and, therefore, enforceability cannot be predicted with any certainty. Issued patents and patents issuing from pending applications may be challenged, invalidated, or circumvented. Moreover, the U.S. Leahy-Smith America Invents Act, enacted in September 2011, brings significant changes to the U.S. patent system, which include a change to a "first to file" system from a "first to invent" system and changes to the procedures for challenging issued patents and disputing patent applications during the examination process, among other things. The effects of these changes on our patent portfolio and business have yet to be determined, as the U.S. Patent and Trademark Office must still implement regulations

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relating to these changes and U.S. courts have yet to address the new provisions, but in any event, these changes could increase the costs and uncertainties surrounding the prosecution of our patent applications and the enforcement or defense of our patent rights. Additional uncertainty may result from legal precedent handed down by the United States Federal Circuit Court and Supreme Court as they determine legal issues concerning the scope and construction of patent claims and inconsistent interpretation of patent laws by the lower courts. Accordingly, we cannot ensure that any of our pending patent applications will result in issued patents, or even if issued, predict the breadth of the claims upheld in our and other companies' patents. Given that the degree of future protection for our proprietary rights is uncertain, we cannot ensure that: (i) we were the first to make the inventions covered by each of our pending applications, (ii) we were the first to file patent applications for these inventions, or (iii) the proprietary technologies we develop will be patentable. In addition, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in certain foreign countries where the local laws may not protect our proprietary rights as fully as in the United States. Moreover, third parties could practice our inventions in territories where we do not have patent protection. Such third parties may then try to import products made using our inventions into the United States or other territories. If competitors are able to use our technology, our ability to compete effectively could be harmed. Moreover, others may independently develop and obtain patents for technologies that are similar to or superior to our technologies. If that happens, we may need to license these technologies, and we may not be able to obtain licenses on reasonable terms, if at all, which could cause harm to our business.

***Third parties may claim that we are infringing their intellectual property rights or other proprietary rights, which may subject us to costly and time consuming litigation and prevent us from developing or commercializing our products.***

Our commercial success also depends in part on our ability to operate without infringing patents and proprietary rights of third parties, and without breaching any licenses or other agreements that we have entered into with regard to our technologies, products and business. We cannot ensure that patents have not been issued to third parties that could block our ability to obtain patents or to operate as we would like. There may be patents in some countries that, if valid, may block our ability to make, use or sell our products in those countries, or import our products into those countries, if we are unsuccessful in circumventing or acquiring the rights to these patents. There also may be claims in patent applications filed in some countries that, if granted and valid, may also block our ability to commercialize products or processes in these countries if we are unable to circumvent or license them.

The industries in which we operate, and the biotechnology industry in particular, are characterized by frequent and extensive litigation regarding patents and other intellectual property rights. Many biotechnology companies have employed intellectual property litigation as a way to gain a competitive advantage. Our involvement in litigation, interferences, opposition proceedings or other intellectual property proceedings inside and outside of the United States, to defend our intellectual property rights or as a result of alleged infringement of the rights of others, may divert our management's time from focusing on business operations and could cause us to spend significant amounts of money. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling or using our products or technologies that use the subject intellectual property;
- pay monetary damages or substantial royalties;
- grant cross-licenses to third parties relating to our patents or proprietary rights;
- obtain from the third party asserting its intellectual property rights a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign those products or processes that use any allegedly infringing technology, or relocate the operations relating to the allegedly infringing technology to another jurisdiction, which may result in significant cost or delay to us, could be technically infeasible or could prevent us from selling some of our products in the United States or other jurisdictions.

We are aware of a significant number of patents and patent applications relating to aspects of our technologies filed by, and issued to, third parties. We cannot assure you that if this third party intellectual property is asserted against us that we would ultimately prevail.

If any of our competitors have filed patent applications or obtained patents that claim inventions also claimed by us, we may have to participate in interference proceedings before the United States Patent and Trademark Office to determine priority of invention and, thus, the right to the patents for these inventions in the United States. These proceedings could result in substantial cost to us even if the outcome is favorable. Even if successful, any interference may result in loss of certain claims. Any litigation or proceedings could divert our management's time and efforts. Even unsuccessful claims could result in significant legal fees and other expenses, diversion of management time, and disruption in our business. Uncertainties resulting from initiation and continuation of any patent or related litigation could harm our ability to compete.

***We may not be able to enforce our intellectual property rights throughout the world.***

The laws of some foreign countries, including India, where we manufacture pharmaceutical intermediates and APIs through contract manufacturers, and Brazil, where we have recently begun to do business, do not protect intellectual property rights to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending Intellectual

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property rights in certain foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property, particularly those relating to biotechnology and/or bioindustrial technologies. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate. This could make it difficult for us to stop the infringement of our patents or misappropriation of our other intellectual property rights. Additionally, proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business.

***If our biocatalysts, or the genes that code for our biocatalysts, are stolen, misappropriated or reverse engineered, others could use these biocatalysts or genes to produce competing products.***

Third parties, including our contract manufacturers, customers and those involved in shipping our biocatalysts, often have custody or control of our biocatalysts. If our biocatalysts, or the genes that code for our biocatalysts, were stolen, misappropriated or reverse engineered, they could be used by other parties who may be able to reproduce these biocatalysts for their own commercial gain. If this were to occur, it would be difficult for us to challenge this type of use, especially in countries with limited intellectual property protection or in countries in which we do not have patents covering the misappropriated biocatalysts.

***Confidentiality agreements with employees and others may not adequately prevent disclosures of trade secrets and other proprietary information.***

We rely in part on trade secret protection to protect our confidential and proprietary information and processes. However, trade secrets are difficult to protect. We have taken measures to protect our trade secrets and proprietary information, but these measures may not be effective. We require employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements also generally provide that inventions conceived by the individual in the course of rendering services to us shall be our exclusive property. Nevertheless, our proprietary information may be disclosed, third parties could reverse engineer our biocatalysts and others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

***Competitors and potential competitors who have greater resources and experience than we do may develop products and technologies that make ours obsolete or may use their greater resources to gain market share at our expense.***

The biocatalysis industry and each of our target markets are characterized by rapid technological change. Our future success will depend on our ability to maintain a competitive position with respect to technological advances. In addition, as we enter new markets, we will face new competition and will need to adapt to competitive factors that may be different from what we face today.

We are aware that other companies, including Royal DSM N.V., or DSM, DuPont, Novozymes, and Vercipia Biofuels, an affiliate of BP p.l.c., have alternative methods for obtaining and generating genetic diversity or use mutagenesis techniques to produce genetic diversity. Academic institutions such as the California Institute of Technology, the Max Planck Institute and the Center for Fundamental and Applied Molecular Evolution (FAME), a jointly sponsored initiative between Emory University and Georgia Institute of Technology, are also working in this field. Technological development by others may result in our products and technologies, as well as products developed by our customers using our biocatalysts, becoming obsolete.

We face intense competition in the pharmaceuticals market. There are a number of companies who compete with us throughout the various stages of a pharmaceutical product's lifecycle. Many large pharmaceutical companies have internal capabilities to develop and manufacture intermediates and APIs. These companies include many of our large innovator and generic pharmaceutical customers, such as Merck, Pfizer and Teva Pharmaceutical Industries Ltd. There are also many large, well-established fine chemical manufacturing companies, such as DSM, BASF Corporation and Lonza Group Ltd, that compete to supply pharmaceutical intermediates and APIs to our customers. We also face increasing competition from generic pharmaceutical manufacturers in low cost centers such as India and China.

In addition to competition from companies manufacturing APIs and intermediates, we face competition from companies that sell biocatalysts for use in the pharmaceutical market. There is competition from large industrial enzyme companies, such as Novozymes and Amano Enzyme Inc., whose industrial enzymes (for detergents, for example) are occasionally used in pharmaceutical processes. There is also competition in this area from several small companies with product offerings comprised primarily of naturally occurring biocatalysts or that offer biocatalyst optimization services.

We expect to enter the market for cellulases, which are used to produce sugar for the manufacture of biofuels and bio-based chemicals. Our significant competitors in this market include Novozymes and DuPont, which have both been active in this market for many years. Novozymes, has partnered with a number of companies and organizations on a regional basis to develop cellulases for the production of biofuels, including partnering with M&G in Italy to be the cellulase supplier to a commercial scale cellulosic ethanol

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plant being built by Chemtex, and DuPont is marketing a line of cellulases to convert cellulosic biomass into sugar. These competitors have greater resources than we do, own or otherwise control established intellectual rights portfolios, have existing relationships with customers that we hope to sell CodeXyme™ cellulases to, have long-term supply agreements already in place with customers for their bio-based products, and have the supply chain in place to sell their cellulases on a global platform. Our ability to compete in this market may be limited by our relatively late start. Additionally, DSM has announced that it expects to participate in this market.

There are also other companies developing competing cellulosic ethanol technologies. Significant competitors include companies such as: Novozymes, which is opening a biofuel demonstration plant with Inbicon A/S of Denmark; DuPont Danisco Cellulosic Ethanol, or DDCE, which is developing facilities to produce cellulosic ethanol; DSM, which acquired C5 Yeast Company B.V. in 2011 enhancing DSM's position in the cellulosic biofuel sector, and which has recently partnered with POET LLC to form POET-DSM Advanced Biofuels to construct a facility to produce cellulosic ethanol; Mascoma Corporation, which entered into a definitive agreement with Valero Energy Corporation in December 2011 to build a commercial-scale cellulosic ethanol biorefinery; BP, which is developing a commercial scale cellulosic ethanol facility through its affiliate Vercipia Biofuels; and Coskata, Inc., which is developing a hybrid thermochemical-biocatalytic process to produce ethanol from a variety of feedstocks. With our CodeXol™ detergent alcohols, we have recently entered the bio-based chemical market. Our significant competitors in this market include companies that have been active in this marketplace for many years, namely Sasol, Shell, BASF, Kao Corporation and Liaoning Huaxing. These companies have greater resources in this market than we do and have long-term supply arrangements already in place with consumer products companies. Our ability to compete in this market may be limited by our relatively late start.

Our ability to compete successfully in any of these markets will depend on our ability to develop proprietary products that reach the market in a timely manner and are technologically superior to and/or are less expensive than other products on the market. Many of our competitors have substantially greater production, financial, research and development, personnel and marketing resources than we do. They also started developing products earlier than we did, which may allow them to establish blocking intellectual property positions or bring products to market before we can. In addition, certain of our competitors may also benefit from local government subsidies and other incentives that are not available to us. As a result, our competitors may be able to develop competing and/or superior technologies and processes, and compete more aggressively and sustain that competition over a longer period of time than we could. Our technologies and products may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by one or more of our competitors. We cannot be certain that any products we develop in the future will compare favorably to products offered by our competitors or that our existing or future products will compare favorably to any new products that are developed by our competitors. As more companies develop new intellectual property in our markets, the possibility of a competitor acquiring patent or other rights that may limit our products or potential products increases, which could lead to litigation.

In addition, various governments have recently announced a number of spending programs focused on the development of clean technology, including alternatives to petroleum-based fuels. Such spending programs could lead to increased funding for our competitors or the rapid increase in the number of competitors within those markets.

Our limited resources relative to many of our competitors may cause us to fail to anticipate or respond adequately to new developments and other competitive pressures. This failure could reduce our competitiveness and market share, adversely affect our results of operations and financial position, and prevent us from obtaining or maintaining profitability.

***Business interruptions could delay us in the process of developing our products and could disrupt our sales.***

Our headquarters is located in the San Francisco Bay Area near known earthquake fault zones and is vulnerable to significant damage from earthquakes. We are also vulnerable to other types of natural disasters and other events that could disrupt our operations, such as riot, civil disturbances, war, terrorist acts, flood, infections in our laboratory or production facilities or those of our contract manufacturers and other events beyond our control. We do not have a detailed disaster recovery plan. In addition, we do not carry insurance for earthquakes and we may not carry sufficient business interruption insurance to compensate us for losses that may occur. Any losses or damages we incur could have a material adverse effect on our cash flows and success as an overall business. Furthermore, Shell may terminate our collaborative research agreement if a force majeure event interrupts our collaboration activities for more than ninety days.

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### ***Ethical, legal and social concerns about genetically engineered products and processes could limit or prevent the use of our products, processes, and technologies and limit our revenues.***

Some of our products and processes are genetically engineered or involve the use of genetically engineered products or genetic engineering technologies. If we and/or our collaborators are not able to overcome the ethical, legal, and social concerns relating to genetic engineering, our products and processes may not be accepted. Any of the risks discussed below could result in increased expenses, delays, or other impediments to our programs or the public acceptance and commercialization of products and processes dependent on our technologies or inventions. Our ability to develop and commercialize one or more of our technologies, products, or processes could be limited by the following factors:

- public attitudes about the safety and environmental hazards of, and ethical concerns over, genetic research and genetically engineered products and processes, which could influence public acceptance of our technologies, products and processes;
- public attitudes regarding, and potential changes to laws governing ownership of genetic material, which could harm our intellectual property rights with respect to our genetic material and discourage collaborators from supporting, developing, or commercializing our products, processes and technologies; and
- governmental reaction to negative publicity concerning genetically modified organisms, which could result in greater government regulation of genetic research and derivative products. The subject of genetically modified organisms has received negative publicity, which has aroused public debate. This adverse publicity could lead to greater regulation and trade restrictions on imports of genetically altered products. The biocatalysts that we develop have significantly enhanced characteristics compared to those found in naturally occurring enzymes or microbes. While we produce our biocatalysts only for use in a controlled industrial environment, the release of such biocatalysts into uncontrolled environments could have unintended consequences. Any adverse effect resulting from such a release could have a material adverse effect on our business and financial condition, and we may have exposure to liability for any resulting harm.

### ***Compliance with stringent laws and regulations may be time consuming and costly, which could adversely affect the commercialization of our bioindustrial products.***

Our bioindustrial products, including those used in the biofuels and bio-based chemicals markets, will need to meet a significant number of regulations and standards, including regulations imposed by the U.S. Department of Transportation, the U.S. Environmental Protection Agency, various state agencies and others. In addition, our bioindustrial products will be subject to foreign regulations if we attempt to produce or sell our products outside the United States. For example, we expect that our products and technologies will be subject to import and export controls when they are shipped internationally. Any failure to comply or delays in compliance, with the various existing and evolving industry regulations and standards could prevent or delay the commercialization of any bioindustrial products developed using our technologies and subject us to fines and other penalties.

### ***We use hazardous materials in our business and we must comply with environmental laws and regulations. Any claims relating to improper handling, storage or disposal of these materials or noncompliance of applicable laws and regulations could be time consuming and costly and could adversely affect our business and results of operations.***

Our research and development and commercial processes involve the use of hazardous materials, including chemical, radioactive, and biological materials. Our operations also produce hazardous waste. We cannot eliminate entirely the risk of accidental contamination or discharge and any resultant injury from these materials. Federal, state, local and foreign laws and regulations govern the use, manufacture, storage, handling and disposal of, and human exposure to, these materials. We may be sued for any injury or contamination that results from our use or the use by third parties of these materials, and our liability may exceed our total assets. Although we believe that our activities comply in all material respects with environmental laws, there can be no assurance that violations of environmental, health and safety laws will not occur in the future as a result of human error, accident, equipment failure or other causes. Compliance with applicable environmental laws and regulations may be expensive, and the failure to comply with past, present, or future laws could result in the imposition of fines, third party property damage, product liability and personal injury claims, investigation and remediation costs, the suspension of production, or a cessation of operations, and our liability may exceed our total assets. Liability under environmental laws can be joint and several and without regard to comparative fault. Environmental laws could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could impair our research, development or production efforts and harm our business. In addition, we may have to indemnify some of our customers or suppliers for losses related to our failure to comply with environmental laws, which could expose us to significant liabilities.

### ***We may be sued for product liability.***

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims and the associated adverse publicity. For example, we may be named directly in product liability suits relating to drugs that are produced using our enzymes or that incorporate our intermediates and APIs. The biocatalysts, pharmaceutical intermediates and APIs that we produce or are produced for us by our manufacturing partners could be subject to quality control or contamination issues of which we are not aware. Claims could be brought by various parties, including customers who are purchasing products directly from us, other companies who purchase products from our customers or by the end users of the drugs. We could also be named as co-parties in product liability suits that are brought against our contract manufacturers who manufacture our enzymes, pharmaceutical intermediates

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and APIs, such as Lactosan and/or Arch. Insurance coverage is expensive and may be difficult to obtain, and may not be available in the future on acceptable terms, or at all. We cannot assure you that our contract manufacturer has adequate insurance coverage to cover against potential claims. In addition, although we currently maintain product liability insurance for our products in amounts we believe to be commercially reasonable, if the coverage limits of these insurance policies are not adequate, a claim brought against us, whether covered by insurance or not, could have a material adverse effect on our business, results of operations, financial condition and cash flows. This insurance may not provide adequate coverage against potential losses, and if claims or losses exceed our liability insurance coverage, we may go out of business. Moreover, we have agreed to indemnify some of our customers for certain claims that may arise out of the use of our products, which could expose us to significant liabilities.

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*If governmental incentives or other actions targeted at limiting carbon emissions are not adopted, a broad market for carbon management solutions may not develop.*

Our strategy with respect to carbon management, although still in the research phase, would likely require an expansion of the market for the management of carbon dioxide emissions prior to us being able to recognize significant revenues from our research and continuing expenditures of resources. The development of a significant market will likely depend on the adoption of government subsidies or other government regulation requiring companies to limit their carbon emissions. In the United States, for example, there is no current market for carbon management. The establishment of a carbon management market in the United States could take years to develop, if ever. The United States Senate, for example, failed to pass carbon regulating legislation in 2011. In the absence of such additional government subsidies or regulation in major markets, this carbon management market may not develop and we would not be able to generate significant revenues from our carbon management operations. Even if a carbon management market is established, we will not be able to commercialize our potential carbon management solutions if the price of carbon is below the cost to deploy our solutions. In addition, the development of transportation and storage infrastructure for carbon dioxide will be necessary to deploy our carbon capture technology in certain markets.

*Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations.*

In general, under Section 382 of the Internal Revenue Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating loss carryforwards, or NOLs, to offset future taxable income. If the Internal Revenue Service challenges our analysis that our existing NOLs are not subject to limitations arising from previous ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Internal Revenue Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Internal Revenue Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. For these reasons, we may not be able to utilize a material portion of the NOLs reflected in our financial statements, even if we attain profitability.

### **Risks Related to Owning our Common Stock**

*We are subject to anti-takeover provisions in our certificate of incorporation and bylaws and under Delaware law that could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders.*

Provisions in our amended and restated certificate of incorporation and our bylaws may delay or prevent an acquisition of us. Among other things, our amended and restated certificate of incorporation and bylaws provide for a board of directors which is divided into three classes, with staggered three-year terms and provide that all stockholder action must be effected at a duly called meeting of the stockholders and not by a consent in writing, and further provide that only our board of directors, the chairman of the board of directors, our chief executive officer or president may call a special meeting of the stockholders. In addition, our amended and restated certificate of incorporation allows our board of directors, without further action by our stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These provisions may also frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, who are responsible for appointing the members of our management team. Furthermore, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits, with some exceptions, stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. Finally, our charter documents establish advanced notice requirements for nominations for election to our board of directors and for proposing matters that can be acted upon at stockholder meetings. Although we believe these provisions together provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if an offer to acquire our company may be considered beneficial by some stockholders.

*Concentration of ownership among our existing officers, directors and principal stockholders may prevent other stockholders from influencing significant corporate decisions and depress our stock price.*

Based on the number of shares outstanding as of June 30, 2012, our officers, directors and stockholders who hold at least 5% of our stock together beneficially own approximately 37% of our outstanding common stock. If these officers, directors, and principal stockholders or a group of our principal stockholders act together, they will be able to exert a significant degree of influence over our management and affairs and control matters requiring stockholder approval, including the election of directors and approval of mergers or other business combination transactions. The interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders. For instance, officers, directors, and principal stockholders, acting together, could cause us to enter into transactions or agreements that we would not otherwise consider. Similarly, this concentration of ownership may have the effect of delaying or preventing a change in control of our company otherwise favored by our other stockholders. As of June 30, 2012, Raizen, Biomedical Sciences Investment Fund Pte Ltd. and CMEA Ventures beneficially owned approximately 15.1%, 8.5% and 8.1% of our common stock, respectively.

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### ***Our share price may be volatile which may cause the value of our common stock to decline and subject us to securities class action litigation.***

The market price of shares of our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- the position of our cash, cash equivalents and marketable securities;
- actual or anticipated changes in our growth rate relative to our competitors;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rate;
- announcements of technological innovations by us, our collaborators or our competitors;
- announcements by us, our collaborators or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- any changes in Shell's biofuels strategy or timelines, or in our relationship with Shell, including any decision by Shell to terminate our collaboration or reduce the number of FTEs funded by Shell under our collaborative research agreement;
- Shell's failure to extend our collaborative research agreement, which expires on November 1, 2012;
- any announcements or developments from Raizen;
- announcements or developments regarding technical progress of CodeXyme™ cellulase enzymes or CodeXol™ detergent alcohols;
- additions or losses of one or more significant pharmaceutical products;
- announcements or developments regarding pharmaceutical products manufactured using our biocatalysts, intermediates and APIs;
- the entry into, modification or termination of collaborative arrangements;
- additions or losses of customers;
- additions or departures of key management or scientific personnel;
- failure to hire a Chief Financial Officer;
- competition from existing products or new products that may emerge;
- issuance of new or updated research reports by securities or industry analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- disputes or other developments related to proprietary rights, including patent litigation and our ability to obtain patent protection for our technologies;
- changes in existing laws, regulations and policies applicable to our business and products, including the National Renewable Fuel Standard program;
- contractual disputes or litigation with our partners, customers or suppliers;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or our other stockholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- general market conditions in our industry; and
- general economic and market conditions, including the recent financial crisis.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of shares of our common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

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*If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.*

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our stock or change their opinion of our stock in a negative manner, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

*We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.*

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as related rules implemented by the Securities and Exchange Commission and The NASDAQ Stock Market, impose various requirements on public companies that require our management and other personnel to devote a substantial amount of time to compliance initiatives.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, if we are not able to maintain compliance with the requirements of Section 404, our stock price could decline, and we could face sanctions, delisting or investigations by The NASDAQ Global Market, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### *(a) Sales of Unregistered Securities*

On June 11, 2012, we issued 20,000 shares of our common stock to the California Institute of Technology, or Caltech, upon the achievement of a commercial milestone under a license agreement with Caltech, pursuant to which Caltech has granted us certain licenses to patents. The issuance of the shares was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as a transaction not involving a public offering.

#### *(b) Use of Proceeds from Public Offering of Common Stock*

On April 27, 2010, we closed our IPO, in which we sold 6,000,000 shares of common stock at a price to the public of \$13.00 per share. The aggregate offering price for shares sold in the offering was \$78.0 million. The offer and sale of all of the shares in the IPO were registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form S-1 (File No. 333-164044), which was declared effective by the SEC on April 21, 2010.

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on April 22, 2010 pursuant to Rule 424(b). We invested the funds received in registered money market fund and other marketable securities.

### **ITEM 3. Defaults Upon Senior Securities**

Not applicable

### **ITEM 4. Mine Safety Disclosures**

Not applicable

### **ITEM 5. Other Information**

Not applicable

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**ITEM 6. Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation of Codexis, Inc. filed with the Secretary of the State of Delaware on April 27, 2010 and effective as of April 27, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed on May 28, 2010).
- 3.2 Amended and Restated Bylaws of Codexis, Inc. effective as of April 27, 2010 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed on May 28, 2010).
- 4.1 Specimen Common Stock Certificate.
- 10.1 Letters of Amendment and Acknowledgment, effective as of May 22, 2012, by and between Codexis Laboratories Singapore Pte Ltd and the Economic Development Board of Singapore regarding the award from the development of the Codexis Gene Shuffling Centre of Excellence.
- 10.2 Employment Agreement by and between the Company and John Nicols effective as of May 28, 2012.
- 10.3 John Nicols Stock Option Grant Notice and Stock Option Agreement dated June 13, 2012 between John J. Nicols and the Company.
- 10.4 John Nicols Restricted Stock Grant Notice and Restricted Stock Agreement dated June 13, 2012 between John J. Nicols and the Company.
- 31.1 Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Codexis, Inc.**

Date: August 9, 2012

By: \_\_\_\_\_ /s/ JOHN NICOLS  
John Nicols  
President and Chief Executive Officer  
(principal executive officer)

Date: August 9, 2012

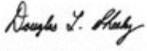
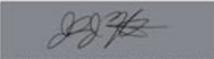
By: \_\_\_\_\_ /s/ MARK HO  
Mark Ho  
Interim Controller  
(principal financial and accounting officer)

**EXHIBIT INDEX**

Listed and indexed below are all Exhibits filed as part of this report.

**ITEM 6. Exhibits**

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NUMBER		SHARES
<b>COXS</b>	<b>CODEXIS®</b>	
<small>THIS CERTIFICATE IS TRANSFERABLE IN SOUTH SART PAUL, MN.</small>	<small>INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE</small>	<small>SEE REVERSE SIDE FOR CERTAIN DEFINITIONS</small>
		<b>CUSIP 192005 10 6</b>
<b>THIS CERTIFIES THAT</b>		
<div style="border: 1px solid black; height: 60px; width: 100%;"></div>		
<i>is the owner of</i>		
<p>FULLY PAID AND NON-ASSESSABLE COMMON SHARES, \$0.0001 PAR VALUE, OF</p> <p><b>CODEXIS, INC.</b></p>		
<small>transferable on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.</small>		
<small>IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed by facsimile signatures of its duly authorized officers.</small>		
<small>Dated:</small>		
 <small>SENIOR VICE PRESIDENT, GENERAL COUNSEL &amp; SECRETARY</small>	 <small>PRESIDENT &amp; CHIEF EXECUTIVE OFFICER</small>	<small>BY</small>  <small>TRANSFER AGENT AND REGISTRAR</small> <small>WELLS FARGO BANK, N.A.</small>
		<small>AUTHORIZED SIGNATURE</small>



COY-15-RISC/C637-1  
S07/1-46924601  
UEN : 200611510Z

11 May 2012

Mr Peter Strumph  
Interim CEO  
CODEXIS INC  
Codexis Laboratories Singapore Pte Ltd  
61 Science Park Road  
#03-15/24 The Galen  
Singapore Science Park III  
Singapore 117525

Dear Peter

**AMENDMENT TO RISC GRANT AWARDED TO CODEXIS LABORATORIES SINGAPORE PTE LTD**

- 1 Please refer to the letter of offer dated 22/10/2007 for a grant under the RISC awarded to CODEXIS INC (hereafter referred to as “the Company”).
- 2 We are pleased to inform you that the Board has agreed to amend clause 2a,vi part b of the Letter of Offer to the following:
  - Maintain at least 40 Singapore-based research staff by 30<sup>th</sup> June 2012. No further disbursements shall be made until the preceding condition is met.
- 3 All other conditions in the letter of offer dated 22/10/2007 shall remain unchanged.
- 4 Please sign the acknowledgement letter attached and return it to EDB within 30 calendar days from the date of this letter.

**Singapore Economic Development Board**

250 North Bridge Road #28-00 Raffles City Tower Singapore 179101  
Tel (65) 6832 6832 Fax (65) 6832 6565 Web [www.sedb.com](http://www.sedb.com)

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5 If you have any queries, please contact Mr Pengfei CHEN at Tel 6832 6631 For queries on claims, please call the Finance hotline at 6832 6416.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin Lai', with a long horizontal flourish extending to the left.

KEVIN LAI  
DIRECTOR  
BIOMEDICAL SCIENCES

enc

COY-15-RISC/C637-1  
S07/1-46924601  
UEN : 200611510Z

Chairman  
Economic Development Board  
250 North Bridge Road  
#28-00 Raffles City Tower  
Singapore 179101

Attention : Mr Kevin Lai

**ACKNOWLEDGEMENT OF RECEIPT OF LETTER OF APPROVAL FOR THE AMENDMENT TO RISC GRANT AWARDED TO CODEXIS LABORATORIES SINGAPORE PTE LTD**

1. We refer to your letter dated 11 May 2012 of COY-15-RISC/C637-1.
2. We confirm that our company has received the letter of approval for the amendment to RISC grant awarded to Codexis Laboratories Singapore Pte Ltd, subject to the terms and conditions set out in the above mentioned letter.

For and on behalf of CODEXIS INC.

Signature of authorised signatory :   
Name of authorised signatory : Peter Strumph  
Designation of authorised signatory : Interim President & CEO  
Date : May 22, 2012



CC: Pengfei CHEN/BMS

## **Employment Agreement**

This Employment Agreement (the "Agreement"), dated as of May 28, 2012 (the "Effective Date"), is made by and between Codexis, Inc., a Delaware corporation (the "Company"), and John Nicols (the "Executive") (collectively referred to herein as the "Parties").

### **RECITALS**

WHEREAS, the Company desires to assure itself of the services of Executive by engaging Executive to perform services under the terms hereof; and

WHEREAS, Executive desires to provide services to the Company on the terms herein provided.

### **AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, including the respective covenants and agreements set forth below, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

#### **1. Certain Definitions.**

Capitalized terms not specifically defined in the text of this Agreement shall have the following meanings:

(a) "Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, such Person where "control" shall have the meaning given such term under Rule 405 of the Securities Act of 1933, as amended from time to time.

(b) "Board" shall mean the Board of Directors of the Company.

(c) The Company shall have "Cause" to terminate Executive's employment hereunder upon: (i) the willful and continued failure to substantially perform Executive's duties with the Company (other than as a result of physical or mental disability) after a written demand for substantial performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties and that has not been cured within fifteen (15) days following receipt by Executive of the written demand; (ii) commission of a felony (other than a traffic-related offense) that in the written determination of the Board is likely to cause or has caused material injury to the Company's business; (iii) documented intentional misrepresentation or omission of material fact with respect to a significant matter relating to the Company's business; or (iv) material breach of any agreement by and between Executive and the Company, which material breach has not been cured within fifteen (15) days following receipt by Executive of written notice from the Board identifying such material breach.

(d) "Change in Control" shall mean (i) a dissolution or liquidation of the Company; (ii) a sale of all or substantially all the assets of the Company; (iii) a merger or consolidation in

which the Company is not the surviving corporation and in which beneficial ownership of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors has changed; (iv) a reverse merger in which the Company is the surviving corporation but the shares of the common stock of the Company outstanding immediately before the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, and in which beneficial ownership of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors has changed; (v) an acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or subsidiary of the Company or other entity controlled by the Company) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors; or, (vi) in the event that the individuals who are members of the Incumbent Board cease for any reason to constitute at least fifty percent (50%) of the Board. Notwithstanding the foregoing, a Change in Control shall not include any transaction effected primarily for the purpose of financing the Company with cash (as determined by the Board acting in good faith and without regard to whether such transaction is effectuated by a merger, equity financing or otherwise) or a public offering of the Company's common stock.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(f) "Date of Termination" shall mean (i) if Executive's employment is terminated due to Executive's death, the date of Executive's death; (ii) if Executive's employment is terminated due to Executive's Disability, the date determined pursuant to Section 4(a)(ii) hereof; or (iii) if Executive's employment is terminated pursuant to Section 4(a)(iii)-(viii) hereof either the date indicated in the Notice of Termination or the date specified by the Company pursuant to Section 4(b) hereof, whichever is earlier.

(g) "Disability" shall mean Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that (i) can be expected to result in death or that can be expected to last for a continuous period of not less than twelve (12) months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees or directors of the Company. Medical determination of Disability may be made by either the Social Security Administration or by the provider of an accident or health plan covering employees or directors of the Company provided that the definition of "disability" applied under such disability insurance program complies with the requirements of the preceding sentence. Upon the request of the Board, Executive must submit proof to the plan administrator of the Social Security Administration's or the provider's determination.

(h) Executive shall have "Good Reason" to terminate Executive's employment hereunder after the occurrence of any of the following without Executive's written consent: (i) a

material diminution in Executive's base compensation; (ii) a material diminution in Executive's authority, duties or responsibilities; (iii) a material change of at least thirty-five (35) miles in the geographic location at which Executive must perform Executive's services; or (iv) a material breach of this Agreement by the Company. Notwithstanding the foregoing, Executive shall not have "Good Reason" unless the condition giving rise to Executive's resignation continues more than thirty (30) days following Executive's written notice of the condition provided to the Company within ninety (90) days of the first occurrence of such condition and Executive's resignation is effective within one hundred eighty (180) days following the first occurrence of such condition.

(i) "Incumbent Board" shall mean the individuals who, as of the Effective Date, are members of the Board. If the election, or nomination for election by the Company's stockholders, of any new director is approved by a vote of at least fifty percent (50%) of the Incumbent Board, such new director shall be considered as a member of the Incumbent Board.

(j) "Person" shall mean any individual, natural person, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any company limited by shares, limited liability company or joint stock company), incorporated or unincorporated association, governmental authority, firm, society or other enterprise, organization or other entity of any nature.

(k) "Section 409A" shall mean Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date.

## **2. Employment.**

(a) General. The Company shall employ Executive and Executive shall enter the employ of the Company, for the period and in the position set forth in this Section 2, and upon the other terms and conditions herein provided.

(b) Employment Term. The term of employment under this Agreement (the "Term") shall be for the period beginning on June 13, 2012 (the actual date Executive commences employment hereunder, the "Commencement Date"), and ending on the fourth (4<sup>th</sup>) anniversary thereof, subject to earlier termination as provided in Section 4 below. The Term shall automatically renew for additional one (1) year periods unless either Party gives ninety (90) days advance written notice of non-renewal ("Notice of Non-Renewal") to the other Party, in which case Executive's employment will terminate at the end of the then-applicable Term or any other date set by the Company in accordance with Section 4 below and subject to earlier termination as provided in Section 4 below.

(c) Position and Duties. During the Term, Executive: (i) shall serve as the President and Chief Executive Officer of the Company, with responsibilities, duties and authority customary for such position, subject to direction by the Board; (ii) shall report directly to the Board; (iii) shall devote substantially all Executive's working time and efforts to the business and affairs of the Company and its subsidiaries; and (iv) agrees to observe and comply with the Company's rules and policies as adopted by the Company from time to time. The Board has

already consented to Executive's continuing service on each board of directors of which Executive is now a member as set forth on Exhibit A attached hereto, which consent shall continue until such time as the Board provides notice to Executive that, in its reasonable judgment, such company competes with the Company, such service interferes with Executive's duties as President and Chief Executive Officer of the Company or places him in a competing position, or otherwise conflicts with, the interests of the Company. Notwithstanding the foregoing, Executive may devote reasonable time to unpaid activities such as supervision of personal investments and activities involving professional, charitable, educational, religious, civic and similar types of activities, speaking engagements and membership on committees, *provided* such activities do not individually or in the aggregate interfere with the performance of Executive's duties under this Agreement, violate the Company's standards of conduct then in effect, or raise a conflict under the Company's conflict of interest policies. Executive cannot serve on the board of directors of a private or publicly traded company (other than the Company's Board) without the Board's prior written consent. In addition, as of the Effective Date, the Company shall use commercially reasonable efforts to cause Executive to be elected to the Board. During the Term, the Board shall propose Executive for re-election to the Board.

### **3. Compensation and Related Matters.**

(a) Annual Base Salary. During the Term, Executive shall receive a base salary at a rate of five hundred seventy five thousand dollars (\$575,000) per annum (the "Annual Base Salary"), which shall be paid in accordance with the customary payroll practices and procedures of the Company. Such Annual Base Salary shall be reviewed by the Board not less often than annually, and may be increased from time to time.

(b) Annual Target Bonus. Commencing in 2012, with respect to each Company fiscal year that ends during the Term, Executive will be eligible to receive an annual performance bonus, with seventy five percent (75%) of Annual Base Salary (the "Annual Target Bonus") being payable in the event the performance goals with respect thereto are achieved at target, prorated for any partial year served. The Annual Target Bonus shall be subject to upward adjustment up to one hundred twenty percent (120%) of the Annual Target Bonus amount upon the achievement of corporate level performance goals at the maximum level and of up to an one hundred fifty percent (150%) of the Annual Target Bonus amount upon the achievement of individual performance goals at the maximum level with the aggregate Annual Target Bonus payable in the event both corporate level and individual performance goals are achieved at the maximum level of one hundred thirty-five percent (135%) of Annual Base Salary. The Annual Target Bonus amount payable shall be based on the achievement of performance goals to be mutually agreed upon by the Board and Executive. The amount of any Annual Target Bonus for which Executive is eligible shall be reviewed by the Board from time to time. The Annual Target Bonus shall be payable on such date as is determined by the Board in its sole discretion as soon as reasonably practicable after the final audited financial performance information for the Company is available for the calendar year with respect to which such Annual Target Bonus relates. Notwithstanding any other provision of this Section 3, no bonus shall be payable with respect to any calendar year unless Executive remains continuously employed with the Company during the period beginning on the Commencement Date and ending December 31<sup>st</sup> of the year for which the bonus is to be paid. Any Annual Target Bonus earned by Executive pursuant to this section shall be paid to Executive, less authorized deductions and required withholding obligations, within two and a half months following the end of the calendar year to which the bonus relates.

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(c) Sign On Bonus. Executive shall be entitled to a one-time sign on bonus of \$125,000 payable in \$62,500 installments on the first payroll date following the Commencement Date and the first payroll date following the first anniversary of the Commencement Date, in each case, subject to Executive's continued employment through the payment date and less applicable withholding taxes.

(d) Relocation. The Company shall reimburse Executive up to one hundred thousand dollars (\$100,000) for reasonable expenses incurred to relocate Executive to the San Francisco Bay Area. Executive shall be required to submit documentation of expenses in accordance with Company policy prior to reimbursement, with such reimbursement taking place no later than fifteen (15) days thereafter.

(e) Benefits. During the Term, Executive may participate in such employee and executive benefit plans and programs as the Company may from time to time offer to provide to its employees and executives, pursuant to the terms and eligibility requirements of those plans, *provided*, that Executive shall be credited with five (5) years of service with respect to each such plan. Without limiting the foregoing, the Compensation Committee of the Board shall consider in good faith the establishment of a nonqualified deferred compensation plan in which, if adopted, Executive shall be entitled to participate.

(f) Flexible Time Off. During the Term, Executive shall be entitled to paid flexible time off in accordance with the Company's flexible time off policy, as it may be amended from time to time, *provided*, that for the purposes of the Company's flexible time off policy, Executive shall be credited with five (5) years of service. Any flexible time off shall be taken at the reasonable and mutual convenience of the Company and Executive. Holidays shall be provided in accordance with Company policy, as in effect from time to time.

(g) Business Expenses. During the Term, the Company shall reimburse Executive for all reasonable, documented, out-of-pocket travel and other business expenses incurred by Executive in the performance of Executive's duties to the Company in accordance with the Company's applicable expense reimbursement policies and procedures.

(h) Stock Ownership Guidelines. On or prior to the fifth anniversary of the Commencement Date, Executive shall own, or beneficially own, that number of shares of the common stock of the Company equal to the lesser of (i) that number of shares having a fair market value equal to five times Executive's Annual Base Salary or (ii) 1,333,333. Upon any increase in Executive's Annual Base Salary, Executive shall have five years from the date of such increase to meet the requirement of subclause (i) to the extent applicable. In the event Executive's ownership of Company common stock falls below the amount required under this Section 3(h), Executive will satisfy Executive's obligations under this Section 3(h) by retaining not less than fifty percent (50%) of the shares of common stock issued to Executive upon vesting or exercise of equity awards until such time as Executive's ownership of Company common stock otherwise meets the requirements of this Section 3(h).

#### 4. Termination.

(a) Circumstances. Executive's employment hereunder may be terminated by the Company or Executive, as applicable, without any breach of this Agreement under the following circumstances:

(i) Death. Executive's employment hereunder shall terminate upon Executive's death.

(ii) Disability. If Executive incurs a Disability, the Company may give Executive written notice of its intention to terminate Executive's employment. In that event, Executive's employment with the Company shall terminate, effective on the later of the thirtieth (30<sup>th</sup>) day after receipt of such notice by Executive or the date specified in such notice; *provided* that within the thirty (30) day period following receipt of such notice, Executive shall not have returned to full-time performance of Executive's duties hereunder.

(iii) Termination for Cause. The Company may terminate Executive's employment for Cause at any time.

(iv) Termination Without Cause. The Company may terminate Executive's employment without Cause at any time.

(v) Resignation for Good Reason. Executive may resign from Executive's employment for Good Reason at any time.

(vi) Resignation for Any Other Reason. Executive may resign from Executive's employment without Good Reason at any time.

(vii) Non-Renewal of Term by the Company. The Company may give Notice of Non-Renewal to Executive pursuant to Section 2 hereof.

(viii) Non-Renewal of Term by Executive. Executive may give Notice of Non-Renewal to the Company pursuant to Section 2 hereof.

(b) Notice of Termination. Any termination of Executive's employment by the Company or by Executive under this Section 4 (other than termination pursuant to paragraph (a)(i)) shall be communicated by a written notice to the other party hereto (i) indicating the specific termination provision in this Agreement relied upon, (ii) setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) specifying a Date of Termination which, if submitted by Executive, shall be at least thirty (30) days following the date such notice is received by the Company (a "Notice of Termination"); *provided, however*, that in the event that Executive delivers a Notice of Termination to the Company, the Company may, in its sole discretion, change the Date of Termination to any date that occurs following the date of Company's receipt of such Notice of Termination and is prior to the date specified in such Notice of Termination. A Notice of Termination submitted by the Company may provide for a Date of Termination on the date Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion.

(c) Deemed Resignation. Upon termination of Executive's employment for any reason, Executive shall be deemed to have resigned from all offices and directorships, if any, then held with the Company or any of its Affiliates.

#### **5. Company Obligations upon Termination of Employment**

(a) In General. Upon a termination of Executive's employment for any reason, Executive (or Executive's estate) shall be entitled to receive: (i) any portion of Executive's Annual Base Salary and Annual Target Bonus (as adjusted pursuant to Section 3(b)) earned through the Date of Termination not theretofore paid, (ii) any expenses owed to Executive under Section 3(g) above, (iii) any accrued but unused flexible time off owed to Executive pursuant to Section 3(f) above, and (iv) any amount arising from Executive's participation in, or benefits under, any employee benefit plans, programs or arrangements under Section 3(e) above, which amounts shall be payable in accordance with the terms and conditions of such employee benefit plans, programs or arrangements. Except as otherwise set forth in Sections 5(b), (c) and (d) below, the payments and benefits described in this Section 5(a) shall be the only payments and benefits payable in the event of Executive's termination of employment for any reason.

(b) Severance Payments Not In Connection With a Change in Control. In the event of Executive's termination of employment by the Company without Cause by Executive for Good Reason or because of Executive's death or Disability, in each case, that occurs other than during the twelve (12) month period commencing on the consummation of a Change in Control pursuant to Section 4(a)(i), 4(a)(ii), 4(a)(iv) or 4(a)(v) hereof, respectively, in addition to the payments and benefits described in Section 5(a) above, the Company shall, subject to Sections 12 and 5(d) hereof and subject to Executive's delivery (or delivery by Executive's estate) to the Company of a general release of claims against the Company in a form reasonably acceptable to the Company (a "Release") that becomes effective and irrevocable accordance with Section 13(d) hereof:

(i) Pay to Executive in a lump sum cash payment an amount equal to one hundred percent (100%) of Executive's Annual Base Salary as of the Date of Termination, such payment to be made on the first regular payroll date following the date the Release becomes effective and irrevocable or as otherwise provided in Section 13(d) hereof;

(ii) Pay to Executive one hundred percent (100%) of Annual Target Bonus in a lump sum cash payment, such payment to be made on the first regular payroll date following the date the Release becomes effective and irrevocable or as otherwise provided in Section 13(d) hereof;

(iii) To the extent unvested, the Option and the Restricted Stock Award (each as defined in Section 6 below) shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to one hundred percent (100%) of the then unvested shares subject to such Option

and Restricted Stock Award. Each other outstanding equity award, including, without limitation, each other stock option, restricted stock award and restricted stock unit, held by Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to that number of shares that would have vested had Executive continued employment for the twelve (12) month period immediately following the Date of Termination; and

(iv) If Executive elects to receive continued healthcare coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), the Company shall directly pay, or reimburse Executive for, the COBRA premiums for Executive and Executive’s covered dependents during the period commencing on Executive’s termination of employment and ending upon the earliest of (X) the one-year anniversary of the Date of Termination, (Y) the date that Executive and/or Executive’s covered dependents, as applicable, become no longer eligible for COBRA or (Z) the date Executive becomes eligible to receive healthcare coverage from a subsequent employer. Notwithstanding the preceding sentence, with regard to such COBRA continuation coverage, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly COBRA premium that the Executive would be required to pay to continue the Executive’s and Executive’s covered dependents’ group insurance coverage as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage).

(c) Severance Payments In Connection with a Change in Control. In the event of Executive’s termination of employment by the Company without Cause by Executive for Good Reason or because of Executive’s death or Disability, in each case, that occurs within the twelve (12) month period commencing on the consummation of a Change in Control pursuant to Section 4(a)(i), 4(a)(ii), 4(a)(iv) or 4(a)(v) hereof, respectively, in addition to the payments and benefits described in Section 5(a) above, the Company shall, subject to Sections 12 and 5(d) hereof and subject to Executive’s delivery (or delivery by Executive’s estate) to the Company of a Release that becomes effective and irrevocable accordance with Section 13(d) hereof:

(i) Pay to Executive in a lump sum cash payment an amount equal to one hundred fifty percent (150%) of Executive’s Annual Base Salary, such payment to be made on the first regular payroll date following the date the Release becomes effective and irrevocable or as otherwise provided in Section 13(d) hereof;

(ii) Pay to Executive one hundred fifty percent (150%) of Executive’s Annual Target Bonus in a lump sum cash payment, such payment to be made on the first regular payroll date following the date the Release becomes irrevocable or as otherwise provided in Section 13(d) hereof;

(iii) Each outstanding equity award, including, without limitation, each stock option, restricted stock award and restricted stock unit, held by Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to one hundred percent (100%) of the then unvested shares subject to such equity award; and

(iv) If Executive elects to receive continued healthcare coverage pursuant to the provisions of COBRA, the Company shall directly pay, or reimburse Executive for, the premium for Executive, Executive's covered dependents and Executive's spouse or domestic partner through the earlier of (i) the eighteen (18) month anniversary of the Date of Termination and (ii) the date Executive, Executive's covered dependents, if any, and Executive's spouse or domestic partner, if any, become eligible for healthcare coverage under another employer's plan(s). After the Company ceases to pay premiums pursuant to the preceding sentence, Executive may, if eligible, elect to continue healthcare coverage at Executive's expense in accordance with the provisions of COBRA. Notwithstanding the preceding sentence, with regard to such COBRA continuation coverage, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly COBRA premium that the Executive would be required to pay to continue the Executive's and Executive's covered dependents' group insurance coverage as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage).

(d) Termination in Contemplation of Change in Control. Notwithstanding anything to the contrary in Section 5(b) or 5(c), in the event Executive is terminated by the Company without Cause or resigns for Good Reason and the event giving rise to such termination or resignation occurs at the direction of a person or entity that has entered into an agreement with the Company that contemplates a transaction that, if consummated, would constitute a Change in Control, then for all purposes hereunder, including Section 5(b) and 5(c), such termination or resignation shall be deemed to have occurred within the twelve (12) month period immediately following a Change in Control and Executive shall be entitled to the benefits set forth in Section 5(c) with such benefits to be paid, or commence being paid, upon the Date of Termination, but otherwise subject to the terms and conditions of Section 5(c).

(e) No Other Severance. The provisions of this Section 5 shall supersede in their entirety any severance payment provisions in any severance plan, policy, program or other arrangement maintained by the Company.

(f) No Requirement to Mitigate; Survival. Executive shall not be required to mitigate the amount of any payment provided for under this Agreement by seeking other employment or in any other manner. Notwithstanding anything to the contrary in this Agreement, the termination of Executive's employment and the expiration or termination of the Term shall not impair the rights or obligations of any party hereto.

## **6. Equity Awards.**

(a) Stock Option. Executive shall be granted an option to purchase (the "Option") four hundred thousand (400,000) shares of Company common stock on or as soon as

administratively practicable after the Commencement Date. The per share exercise price of the Option shall be equal to the per share closing price of the Company's common stock on the date of grant. The Option shall vest and become exercisable with respect twenty-five percent (25%) of the total number of shares subject to the Option on the first anniversary of the Commencement Date and with respect to 1/48<sup>th</sup> of the total number of shares of Company common stock subject to the Option on each monthly anniversary of the Commencement Date thereafter, such that the Option shall be fully vested and exercisable on the fourth (4<sup>th</sup>) anniversary of the Commencement Date, in each case, subject to Executive's continuous service to the Company through the applicable vesting date. The Option shall otherwise be subject to the terms of the plan pursuant to which they are granted and/or an award agreement to be entered into between Executive and the Company.

(b) Restricted Stock. Executive shall be granted an award of seven hundred fifty thousand (750,000) shares of restricted stock (the "Restricted Stock Award") on or as soon as administratively practicable after the Commencement Date. The Restricted Stock Award shall vest, and the restrictions thereon lapse, with respect to twenty five percent (25%) of the total number of shares of restricted stock subject thereto on each anniversary of the Commencement Date, such that the Restricted Stock shall be fully vested, and the restrictions thereon shall have fully lapsed, on the fourth (4<sup>th</sup>) anniversary of the Commencement Date, subject to Executive's continuous service to the Company through the applicable vesting date. The Restricted Stock Award shall otherwise be subject to the terms of the plan pursuant to which they are granted and/or an award agreement to be entered into between Executive and the Company.

(c) Future Equity Grants. During the period of time commencing in 2013 and ending December 31, 2015, Executive shall be entitled to receive annual grants of equity awards (the "Target Annual Equity Awards") in accordance with the Company's policies as in effect from time to time. The Target Annual Equity Awards shall have a targeted grant date fair value that is comparable with and reflective of prior CEO grant awards and peer company comparisons, but in any event, that is not less than \$1,000,000. No less than fifty percent (50%) of the Target Annual Equity Awards shall vest and, if applicable, become exercisable based on the achievement of performance goals to be mutually agreed upon by the Board and Executive.

## **7. Restrictive Covenants.**

(a) Affiliates. As used in this Section 7, the term "Company" shall include the Company and any Affiliate of the Company.

(b) Confidential Information Agreement. Executive shall enter into and abide by the Company's standard Confidential Information, Secrecy, and Invention Agreement (the "Confidential Information Agreement").

(c) Non-Competition. Without limiting the Confidential Information Agreement, Executive hereby agrees that Executive shall not, at any time during the Term, directly or indirectly engage in, have any interest in (including, without limitation, through the investment of capital or lending of money or property), or manage, operate or otherwise render any services to, any Person (whether on his own or in association with others, as a principal, director, officer, employee, agent, representative, partner, member, security holder, consultant, advisor,

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independent contractor, owner, investor, participant or in any other capacity) that engages in (either directly or through any subsidiary or affiliate thereof) any business or activity in the United States (i) that is in direct or indirect competition with the business of the Company, or (ii) which the Company has taken active steps to engage in or acquire, but only if Executive directly or indirectly engages in, has any interest in (including, without limitation, through the investment of capital or lending of money or property), or manages, operates or otherwise renders any services in connection with, such business or activity (whether on his own or in association with others, as a principal, director, officer, employee, agent, representative, partner, member, security holder, consultant, advisor, independent contractor, owner, investor, participant or in any other capacity). Notwithstanding the foregoing, Executive shall be permitted to acquire a passive stock or equity interest in such a business; *provided* that such stock or other equity interest acquired is not more than one percent (1%) of the outstanding interest in such business.

(d) Non-Solicitation. Without limiting the Confidential Information Agreement, Executive hereby agrees that Executive shall not, at any time during the Term or, with respect to subsection (ii) below, within the one (1) year period immediately following the Term, directly or indirectly, either for himself or on behalf of any other Person, (i) recruit or otherwise solicit or induce any employee or consultant of the Company to terminate its employment or arrangement with the Company, or otherwise change its relationship with the Company, or (ii) hire, or cause to be hired, any person who was employed by the Company at any time during the twelve (12) month period immediately prior to the Date of Termination or who thereafter becomes employed by the Company. Notwithstanding the foregoing, nothing herein shall prevent Executive from directly or indirectly hiring any individual who submits a resume or otherwise applies for a position in response to a publicly posted job announcement or otherwise applies for employment with any Person with whom Executive may be associated absent any violation of Executive's obligations pursuant to clause (i) above.

(e) Non-Disclosure. Without limiting the Confidential Information Agreement, except as Executive reasonably and in good faith determines to be required in the faithful performance of Executive's duties hereunder or in accordance with Section 7(g) below, Executive shall, during the Term and after the Date of Termination, maintain in confidence and shall not directly or indirectly, use, disseminate, disclose or publish, for Executive's benefit or the benefit of any other Person, any confidential or proprietary information or trade secrets of or relating to the Company, including, without limitation, information with respect to the Company's operations, processes, protocols, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment ("Proprietary Information"), or deliver to any Person, any document, record, notebook, computer program or similar repository of or containing any such Proprietary Information. Executive's obligation to maintain and not use, disseminate, disclose or publish, or use for Executive's benefit or the benefit of any other Person, any Proprietary Information after the Date of Termination will continue so long as such Proprietary Information is not, or has not by legitimate means become, generally known and in the public domain (other than by means of Executive's direct or indirect disclosure of such Proprietary Information) and continues to be maintained as Proprietary Information by the Company. The parties hereby stipulate and agree that as between them, the Proprietary Information identified herein is important, material and affects the successful conduct of the businesses of the Company (and any successor or assignee of the Company).

(f) Return of Company Property. Upon termination of Executive's employment with the Company for any reason, Executive will promptly deliver to the Company (i) all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents that are Proprietary Information, including all physical and digital copies thereof, and (ii) all other Company property (including, without limitation, any personal computer or wireless device and related accessories, keys, credit cards and other similar items) which is in his possession, custody or control.

(g) Disclosure of Agreements. Prior to accepting other employment or any other service relationship during the Term or the one (1) year period immediately following the Term, Executive shall provide a copy of this Section 7 and the Confidential Information Agreement to any recruiter who assists Executive in obtaining other employment or any other service relationship and to any employer or other Person with which Executive discusses potential employment or any other service relationship.

(h) Revision. In the event the terms of this Section 7 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, over the maximum geographical area as to which it may be enforceable, or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action. Any breach or violation by Executive of the provisions of this Section 7 shall toll the running of any time periods set forth in this Section 7 for the duration of any such breach or violation.

#### **8. Injunctive Relief.**

It is recognized and acknowledged by Executive that a breach of the covenants contained in Section 7 above will cause irreparable damage to Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, Executive agrees that in the event of a breach of any of the covenants contained in Section 7 above, in addition to any other remedy which may be available at law or in equity, the Company will be entitled to specific performance and injunctive relief.

#### **9. Assignment and Successors.**

The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of the business or the assets of the Company (by merger or otherwise), and may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its affiliates. This Agreement shall be binding upon and inure to the benefit of the Company, Executive and their respective successors, assigns, personnel and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable. None of Executive's rights or obligations may be assigned or transferred by Executive, other than Executive's rights to payments hereunder, which may be transferred only by will or operation of law.

**10. Miscellaneous Provisions.**

(a) Defense of Claims. Executive agrees that, during the Term and for a period of twelve (12) months after the Date of Termination, upon request from the Company, Executive will cooperate with the Company and its affiliates in the defense of any claims or actions that may be made by or against the Company or any of its affiliates that affect Executive's prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or affiliates in such claim or action. The Company agrees to promptly pay or reimburse Executive upon demand for all of Executive's reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with Executive's obligations under this Section 10(a).

(b) Governing Law. This Agreement shall be governed, construed, interpreted and enforced in accordance with its express terms, and otherwise in accordance with the substantive laws of the State of California, without giving effect to any principles of conflicts of law, whether of the State of California or any other jurisdiction, and where applicable, the laws of the United States, that would result in the application of the laws of any other jurisdiction.

(c) Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(d) Notices. Any notice, request, claim, demand, document and other communication hereunder to any Party shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by facsimile or certified or registered mail, postage prepaid, as follows:

(i) If to the Company:

Codexis, Inc.  
200 Penobscot Drive  
Redwood City, CA 94063  
Attn: Board of Directors  
Facsimile: (650) 421-8108

and copies to:

Latham & Watkins LLP  
140 Scott Drive  
Menlo Park, California 94025-1008  
Attn: Patrick Pohlen, Esq.  
Facsimile: (650) 463-2600

(ii) If to Executive, at the address set forth on the signature page hereto.

or at any other address as any Party shall have specified by notice in writing to the other Party.

(e) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement. Signatures delivered by facsimile shall be deemed effective for all purposes.

(f) Entire Agreement. The terms of this Agreement are intended by the Parties to be the final expression of their agreement with respect to the employment of Executive by the Company and supersede all prior understandings and agreements, whether written or oral. The Parties further intend that this Agreement shall constitute the complete and exclusive statement of their terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding to vary the terms of this Agreement.

(g) Amendments; Waivers. This Agreement may not be modified, amended, or terminated except by an instrument in writing, signed by Executive and a duly authorized officer of Company. By an instrument in writing similarly executed, Executive or a duly authorized officer of the Company, as applicable, may waive compliance by the other Party with any specifically identified provision of this Agreement that such other Party was or is obligated to comply with or perform; *provided, however*, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure. No failure to exercise and no delay in exercising any right, remedy, or power hereunder preclude any other or further exercise of any other right, remedy, or power provided herein or by law or in equity.

(h) No Inconsistent Actions. The Parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. *Furthermore*, it is the intent of the Parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

(i) Forum. Any suit brought hereon shall be brought in the state or federal courts sitting in San Mateo County, California, and the Parties hereby waiving any claim or defense that such forum is not convenient or proper. Each Party hereby agrees that any such court shall have *in personam* jurisdiction over it and consents to service of process in any manner authorized by California law.

(j) Enforcement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a portion of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

(k) Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges which the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

**11. Legal Fees.** The Company shall promptly reimburse or pay directly on Executive's behalf all attorney's fees and costs incurred by Executive in connection with the negotiation, drafting and finalization of this Agreement, up to a maximum of five thousand dollars (\$5,000).

**12. Golden Parachute Excise Tax**

(a) **Best Pay.** Any provision of this Agreement to the contrary notwithstanding, if any payment or benefit Executive would receive from the Company pursuant to this Agreement or otherwise ("Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then such Payment will be equal to the Reduced Amount (as defined below). The **Reduced Amount** will be either (1) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (2) the entire Payment, whichever amount after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate, net of the maximum reduction in federal income taxes which could be obtained from a deduction of such state and local taxes), results in Executive's receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (1) of the preceding sentence, the reduction shall occur in the manner (the "**Reduction Method**") that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "**Pro Rata Reduction Method**"). Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for you as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A of the Code shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A of the Code.

(b) **Accounting Firm.** The accounting firm engaged by the Company for general tax purposes as of the day prior to the Change in Control will perform the calculations set forth in Section 12(a) above. If the firm so engaged by the Company is serving as accountant or auditor for the acquiring company, the Company will appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company will bear all expenses with respect to the determinations by such firm required to be made hereunder. The accounting firm engaged to make the determinations hereunder will provide its calculations, together with detailed supporting documentation, to the Company within fifteen (15) days before the consummation of a Change in Control (if requested at that time by the Company) or such other time as requested by the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it will furnish the

Company with documentation reasonably acceptable to the Company that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder will be final, binding and conclusive upon the Company and Executive.

**13. Section 409A.**

(a) General. The intent of the Parties is that the payments and benefits under this Agreement comply with or be exempt from Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. If Executive notifies the Company that Executive has received advice of tax counsel of a national reputation with expertise in Section 409A that any provision of this Agreement would cause Executive to incur any additional tax or interest under Section 409A (with specificity as to the reason therefor) or the Company independently makes such determination, the Company and Executive shall take commercially reasonable efforts to reform such provision to try to comply with or be exempt from Section 409A through good faith modifications to the minimum extent reasonably appropriate to conform with Section 409A, *provided* that any such modifications shall not increase the cost or liability to the Company. To the extent that any provision hereof is modified in order to comply with or be exempt from Section 409A, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to Executive and the Company of the applicable provision without violating the provisions of Section 409A.

(b) Separation from Service. Notwithstanding any provision to the contrary in this Agreement: (i) no amount that constitutes “deferred compensation” under Section 409A shall be payable pursuant to Sections 5(b), 5(c) and 5(d) above unless the termination of Executive’s employment constitutes a “separation from service” within the meaning of Section 1.409A-1(h) of the Department of Treasury Regulations (“Separation from Service”); and (ii) to the extent that any reimbursement of expenses or in-kind benefits constitutes “deferred compensation” under Section 409A, such reimbursement or benefit shall be provided no later than December 31<sup>st</sup> of the year following the year in which the expense was incurred. The amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year. The amount of any in-kind benefits provided in one year shall not affect the amount of in-kind benefits provided in any other year.

(c) Specified Employee. Notwithstanding anything in this Agreement to the contrary, if Executive is deemed by the Company at the time of Executive’s Separation from Service to be a “specified employee” for purposes of Section 409A, to the extent delayed commencement of any portion of the benefits to which Executive is entitled under this Agreement is required in order to avoid a prohibited distribution under Section 409A, such portion of Executive’s benefits shall not be provided to Executive prior to the earlier of (i) the expiration of the six (6)-month period measured from the date of Executive’s Separation from Service with the Company or (ii) the date of Executive’s death. Upon the first business day following the expiration of the applicable Section 409A period, all payments deferred pursuant to the preceding sentence shall be paid in a lump sum to Executive (or Executive’s estate or beneficiaries), and any remaining payments due to Executive under this Agreement shall be paid as otherwise provided herein.

(d) Release. Notwithstanding anything to the contrary in this Agreement, to the extent that any payments due under this Agreement as a result of Executive's termination of employment are subject to Executive's execution and delivery of a Release, (i) the Company shall deliver the Release to Executive within ten (10) business days following the Date of Termination, and the Company's failure to deliver a Release prior to the expiration of such ten (10) business day period shall constitute a waiver of any requirement to execute a Release, (ii) if Executive fails to execute the Release on or prior to the Release Expiration Date (as defined below) or timely revokes his acceptance of the Release thereafter, Executive shall not be entitled to any payments or benefits otherwise conditioned on the Release, and (iii) in any case where the Date of Termination and the Release Expiration Date fall in two separate taxable years, any payments required to be made to Executive that are conditioned on the Release and are treated as nonqualified deferred compensation for purposes of Section 409A shall be made in the later taxable year. For purposes of this Section 13(d), "Release Expiration Date" shall mean the date that is twenty-one (21) days following the date upon which the Company timely delivers the Release to Executive, or, in the event that Executive's termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967), the date that is forty-five (45) days following such delivery date. To the extent that any payments of nonqualified deferred compensation (within the meaning of Section 409A) due under this Agreement as a result of Executive's termination of employment are delayed pursuant to this Section 13(d), such amounts shall be paid in a lump sum on the first payroll date following the date that Executive executes and does not revoke the Release (and the applicable revocation period has expired) or, in the case of any payments subject to Section 13(d)(iii), on the first payroll period to occur in the subsequent taxable year, if later.

**14. Employee Acknowledgement.**

Executive acknowledges that Executive has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by the Company other than those contained in writing herein, and has entered into this Agreement freely based on Executive's own judgment.

*[Signature Page Follows]*

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IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date and year first above written.

**CODEXIS, INC.**

By: /s/ Thomas R. Baruch

Name: Thomas R. Baruch

Title: Chairman of the Board

**EXECUTIVE**

By: /s/ John Nicols

John Nicols

Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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**Exhibit A**

**Current Board of Director Service**

None

CODEXIS, INC.

JOHN NICOLS  
STOCK OPTION GRANT NOTICE AND  
STOCK OPTION AGREEMENT

Codexis, Inc., a Delaware corporation, (the "Company") hereby grants to the holder listed below ("Participant"), an option to purchase the number of shares of the Company's common stock ("Stock"), set forth below (the "Option"). This Option is subject to all of the terms and conditions set forth herein and the Stock Option Agreement attached hereto as Exhibit A (the "Stock Option Agreement"), which is incorporated herein by reference. Unless otherwise defined herein, the terms are defined in Article 1 of the Stock Option Agreement.

**Participant:** John J. Nicols  
**Grant Date:** June 13, 2012  
**Exercise Price per Share:** \$3.46  
**Total Exercise Price:** 1,384,000  
**Total Number of Shares Subject to the Option:** 400,000 shares  
**Expiration Date:** June 13, 2022  
**Vesting Schedule:** The shares subject to this Option shall vest and become exercisable as to 25% of the total number of shares subject to the Option on June 13, 2013, and 1/48<sup>th</sup> of the total number of shares subject to the Option shall vest and become exercisable monthly thereafter, such that the Option would be fully vested and exercisable on June 13, 2016, subject to Participant's continued service with the Company through each such vesting date.  
**Type of Option:** This Option is a Non-Qualified Stock Option

By executing this Grant Notice below, Participant agrees to be bound by the terms and conditions of the Stock Option Agreement and this Grant Notice. Participant has reviewed the Stock Option Agreement and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice and the Stock Option Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under this Grant Notice or the Stock Option Agreement.

**CODEXIS, INC.:**

By: /s/ Douglas T. Sheehy  
Print Name: Douglas T. Sheehy  
Title: SVP, General Council & Secretary  
Address: 200 Penobscot Drive  
Redwood City, CA 94063

**PARTICIPANT:**

By: /s/ John J. Nicols  
Print Name: John J. Nicols  
Address: \_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT A**

**TO JOHN NICOLS STOCK OPTION GRANT NOTICE**

**STOCK OPTION AGREEMENT**

Pursuant to the Stock Option Grant Notice (the "Grant Notice") to which this Stock Option Agreement (this "Agreement") is attached, Codexis, Inc., a Delaware corporation (the "Company"), has granted to Participant an Option to purchase the number of shares of Stock indicated in the Grant Notice.

**ARTICLE 1.**

**DEFINED TERMS**

Wherever the following terms are used in this Agreement, they shall have the meanings specified below.

1.1 "Administrator" shall mean the Committee.

1.2 "Board" shall mean the Board of Directors of the Company.

1.3 "Change in Control" shall mean and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its parents or subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 1.2(a) or Section 1.2(c)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the

Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "Successor Entity") directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(ii) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however*, that no person or group shall be treated for purposes of this Section 1.2(c)(ii) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

The Administrator shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

1.4 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 "Committee" shall mean the Compensation Committee of the Board.

1.6 "Consultant" shall mean any consultant or adviser engaged to provide services to the Company or any Subsidiary that qualifies as a consultant under the applicable rules of the Securities and Exchange Commission for registration of shares on a Form S-8 Registration Statement.

1.7 "Employee" shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code and the Treasury Regulations thereunder) of the Company or of any Subsidiary.

1.8 "Equity Restructuring" shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of shares of Stock (or other securities of the Company) or the share price of Stock (or other securities) and causes a change in the per share value of the Stock underlying the Option.

1.9 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

1.10 "Fair Market Value" shall mean, as of any given date, the value of a share of Stock determined as follows:

(a) If the Stock is listed on any established stock exchange (such as the New York Stock Exchange, the NASDAQ Global Market and the NASDAQ Global Select Market) or national market system, its Fair Market Value shall be the closing sales price for a share of Stock as quoted on such exchange or system for such date or, if there is no closing sales price for a share of Stock on the date in question, the closing sales price for a share of Stock on the last preceding date for which such quotation exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(b) If the Stock is not listed on an established stock exchange or national market system, but the Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be

the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a share of Stock on such date, the high bid and low asked prices for a share of Stock on the last preceding date for which such information exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(c) If the Stock is neither listed on an established stock exchange or a national market system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Administrator in good faith.

1.11 “Non-Employee Director” shall mean a Director of the Company who is not an Employee.

1.12 “Non-Qualified Stock Option” shall mean a stock option not described in Sections 422(b) or 423(b) of the Code.

1.13 “Subsidiary” means any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing more than 50% of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

1.14 “Termination of Service” shall mean the time when the employee-employer relationship between Participant and the Company or any Subsidiary is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where Participant simultaneously commences or remains in employment or service with the Company or any Subsidiary. The Administrator, in its sole discretion, shall determine the effect of all matters and questions relating to a Termination of Service, including, without limitation, the question of whether a Termination of Service resulted from a discharge for cause and all questions of whether particular leaves of absence constitute a Termination of Service.

## ARTICLE 2.

### GRANT OF OPTION

2.1 Grant of Option. In consideration of Participant’s agreement to commence and continue in the employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the “Grant Date”), the Company grants to Participant the Option to purchase any part or all of an aggregate of the number of shares of Stock set forth in the Grant Notice, upon the terms and conditions set forth in this Agreement, subject to adjustments as provided in Section 5.1 hereof. This Option shall be a Non-Qualified Stock Option.

2.2 Exercise Price. The exercise price of the shares of Stock subject to the Option shall be as set forth in the Grant Notice, without commission or other charge *provided, however*, that the price per share of the shares of Stock subject to the Option shall not be less than 100% of the Fair Market Value of a share of Stock on the Grant Date.

2.3 Consideration to the Company. In consideration of the grant of the Option by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in this Agreement shall confer upon Participant any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

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**ARTICLE 3.**

**PERIOD OF EXERCISABILITY**

**3.1 Commencement of Exercisability.**

(a) Subject to Sections 3.2, 3.3, 5.10 and 5.15 hereof, the Option shall become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice.

(b) No portion of the Option which has not become vested and exercisable at the date of Participant's Termination of Service shall thereafter become vested and exercisable, except as may be otherwise provided by the Administrator or as set forth in a written agreement between the Company and Participant.

(c) Notwithstanding Sections 3.1(a) hereof and the Grant Notice, but subject to Section 3.1(b) hereof, pursuant to Section 5.1 hereof, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby in the event of a Change in Control, in connection with which the successor corporation does not assume the Option or substitute an equivalent right for the Option. Should the successor corporation assume the Option or substitute an equivalent right, then no such acceleration shall apply.

**3.2 Duration of Exercisability.** The installments provided for in the vesting schedule set forth in the Grant Notice are cumulative. Each such installment which becomes vested and exercisable pursuant to the vesting schedule set forth in the Grant Notice shall remain vested and exercisable until it becomes unexercisable under Section 3.3 hereof. The vesting of the Option may be accelerated by the Administrator at such times and in such amounts as it shall determine in its sole discretion, as otherwise provided for in this Agreement or as set forth in a written agreement between the Company and Participant.

**3.3 Expiration of Option.** The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The Expiration Date set forth in the Grant Notice, which shall in no event be more than ten (10) years from the Grant Date;

(b) The expiration of three (3) months from the date of Participant's Termination of Service, unless such termination occurs by reason of Participant's death or disability or the exercise period is extended by the Administrator until a date not later than the Expiration Date of the Option; or

(c) The expiration of one (1) year from the date of Participant's Termination of Service by reason of Participant's death or disability, unless the exercise period is extended by the Administrator until a date not later than the Expiration Date of the Option.

(d) Unvested Options shall terminate immediately upon Participant's Termination of Services.

### 3.4 Tax Indemnity.

(a) The Participant agrees to indemnify and keep indemnified the Company, any Subsidiary and his/her employing company, if different, from and against any liability for or obligation to pay any Tax Liability (a "Tax Liability" being any liability for income tax, withholding tax and any other employment related taxes or social security contributions in any jurisdiction) that is attributable to (1) the grant or exercise of, or any benefit derived by the Participant from, the Option, (2) the acquisition by the Participant of the Stock on exercise of the Option, or (3) the disposal of any Stock.

(b) The Option cannot be exercised until the Participant has made such arrangements as the Company may require for the satisfaction of any Tax Liability that may arise in connection with the exercise of the Option and/or the acquisition of the Stock by the Participant. The Company shall not be required to issue, allot or transfer Stock until the Employee has satisfied this obligation.

## ARTICLE 4.

### EXERCISE OF OPTION

4.1 Person Eligible to Exercise. During the lifetime of Participant, only Participant may exercise the Option or any portion thereof. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3 hereof, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

4.2 Partial Exercise. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3 hereof.

4.3 Manner of Exercise. The Option, or any exercisable portion thereof, may be exercised prior to its expiration to the extent such Option is vested, solely by delivery to the Secretary of the Company (or any third party administrator or other person or entity designated by the Company), during regular business hours, of all of the following prior to the time when the Option or such portion thereof becomes unexercisable under Section 3.3 hereof:

(a) An exercise notice in a form specified by the Administrator, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Administrator. Such notice of exercise shall be executed and delivered by the person exercising such Options;

(b) The receipt by the Company of full payment for the shares of Stock with respect to which the Option or portion thereof is exercised, including payment of any applicable withholding tax, which shall be made by deduction from other compensation payable to Participant or in such other form of consideration permitted under Section 4.4 hereof that is acceptable to the Company;

(c) Any other written representations as may be required in the Administrator's reasonable discretion to evidence compliance with the Securities Act of 1933, as amended (the "Securities Act") or any other applicable law, rule or regulation; and

(d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.1 hereof by any person or persons other than Participant, appropriate proof (satisfactory to the Company in its sole discretion) of the right of such person or persons to exercise the Option.

Notwithstanding any of the foregoing, the Company shall have the right to specify all conditions of the manner of exercise, which conditions may vary by country and which may be subject to change from time to time.

4.4 Method of Payment Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of Participant:

(a) Cash or check;

(b) With the consent of the Administrator, surrender of shares of Stock (including, without limitation, shares of Stock otherwise issuable upon exercise of the Option) held for such period of time as may be required by the Administrator in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; or

(c) Other property acceptable to the Administrator (including, without limitation, through the delivery of a notice that Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company at such time as may be required by the Company, but in any event not later than the settlement of such sale).

4.5 Tax Withholding. Participant shall pay to the Company by one of the permitted payment methods under Section 4.4, promptly upon exercise of an Option or, if later, the date that the amount of such obligations becomes determinable, all applicable federal, state, local and foreign withholding taxes that the Administrator, in its discretion, determines to result upon exercise of an Option or from a transfer or other disposition of shares of Stock acquired upon exercise of an Option or otherwise related to an Option or shares of Stock acquired in connection with an Option. The Administrator may in its sole discretion and in satisfaction of the foregoing requirement withhold, or allow Participant to elect to have the Company withhold shares of Stock otherwise issuable under the Option (or allow the surrender of shares of Stock). Unless determined otherwise by the Administrator, the number of shares of Stock which may be so withheld or surrendered shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase no greater than the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income. The Administrator shall determine the fair market value of the Stock, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option exercise involving the sale of shares to pay the Option exercise price or any tax withholding obligation.

4.6 Conditions to Issuance of Stock. The shares of Stock deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued shares of Stock or issued shares of Stock which have then been reacquired by the Company. Such shares of Stock shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any shares of Stock purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares of Stock to listing on all stock exchanges on which such Stock is then listed;

(b) The completion of any registration or other qualification of such shares of Stock under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(d) The receipt by the Company of a properly completed and executed notice of exercise, as specified in Section 4.3(a) above, and full payment for such shares of Stock, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4 hereof; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may from time to time establish for reasons of administrative convenience.

4.7 Rights as Stockholder. The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of any shares of Stock purchasable upon the exercise of any part of the Option unless and until such shares of Stock shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the shares of Stock are issued, except as provided in Section 5.1 hereof.

## ARTICLE 5.

### OTHER PROVISIONS

#### 5.1 Changes in Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of the Company's stock or the share price of the Company's stock other than an Equity Restructuring, the Administrator may make equitable adjustments, if any, to reflect such change with respect to (i) the number and kind of shares of Stock (or other securities or property) subject to the Option; (ii) the terms and conditions of the Option; and (iii) the exercise price per share for the Option.

(b) In the event of any transaction or event described in Section 5.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations or accounting principles, the Administrator, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Option or by action taken prior to the occurrence of such transaction or event and either automatically or upon Participant's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Agreement.

(i) To provide for either (A) termination of the Option in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of the Option or realization of Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 5.1 the Administrator determines in good faith that no amount would have been attained upon the exercise of the Option or realization of Participant's rights, then the Option may be terminated by the Company without payment) or (B) the replacement of the Option with other rights or property selected by the Administrator in its sole discretion having an aggregate value not exceeding the amount that could have been attained upon the exercise of the Option or realization of Participant's rights had the Option been currently exercisable or payable or fully vested;

(ii) To provide that the Option be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of shares of the Company's stock (or other securities or property) subject to the Option and/or in the terms and conditions of (including the exercise price), and the criteria included in, the Option;

(iv) To provide that the Option shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Agreement; and

(v) To provide that the Option cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 5.1(a) and 5.1(b), the number and type of securities subject to the Option and/or the exercise price hereof, if applicable, shall be equitably adjusted. The adjustments provided under this Section 5.1(c) shall be nondiscretionary and shall be final and binding on Participant and the Company.

(d) Notwithstanding any other provision herein, but subject to Section 5.1(e), in the event of a Change in Control, the Option shall be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary of the successor corporation.

(e) In the event that the successor corporation in a Change in Control refuses to assume or substitute for the Option upon a Change in Control, the Option shall become fully vested and, if applicable, exercisable and all forfeiture restrictions on the Option shall lapse, in each case, as of immediately prior to the consummation of such Change in Control. If the Option is exercisable in lieu of assumption or substitution in the event of a Change in Control, the Administrator shall notify Participant that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, contingent upon the occurrence of the Change in Control, and the Option shall terminate upon the expiration of such period.

(f) No such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 of the Exchange Act or violate the exemptive conditions of Rule 16b-3 of the Exchange Act unless the Administrator determines that the Option is not to comply with such exemptive conditions.

(g) The existence of the Grant Notice, Agreement and the Option shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or

authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Stock or the rights thereof or which are convertible into or exchangeable for Stock, or the dissolution or liquidation of the company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(h) No action shall be taken under this Section 5.1 which shall cause the Option to fail to comply with Section 409A of the Code or the Treasury Regulations thereunder, to the extent applicable to the Option.

(i) In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Stock or the share price of the Stock including any Equity Restructuring, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of the Option during a period of up to thirty (30) days prior to the consummation of any such transaction.

5.2 Administration. The Administrator shall have the power to interpret this Agreement and to adopt such rules for the administration, interpretation and application of this Agreement as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to this Agreement or the Option.

5.3 Whole Shares. The Option may only be exercised for whole shares of Stock.

5.4 Option Not Transferable. Subject to Section 4.1 hereof, the Option may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the shares of Stock underlying the Option have been issued, and all restrictions applicable to such shares of Stock have lapsed. Neither the Option nor any interest or right therein shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

5.5 Binding Agreement. Subject to the limitation on the transferability of the Option contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

5.6 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to Participant shall be addressed to Participant at Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 5.6, either party may hereafter designate a different address for notices to be given to that party. Any notice which is required to be given to Participant shall, if Participant is then deceased, be given to the person entitled to exercise his or her Option pursuant to Section 4.1 hereof by written notice under this Section 5.6.

Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.7 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.8 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

5.9 Conformity to Securities Laws. Participant acknowledges that this Agreement is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

5.10 Amendments, Suspension and Termination. This Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator; *provided* that, except as may otherwise be provided herein, no amendment, modification, suspension or termination of this Agreement shall adversely affect the Option in any material way without the prior written consent of Participant.

5.11 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 5.4 hereof, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

5.12 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Option and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.13 Not a Contract of Employment. Nothing in this Agreement or in the Grant Notice shall confer upon the Participant any right to continue to serve as an employee or other service provider of the Company or any of its Subsidiaries.

5.14 Entire Agreement. The Grant Notice and this Agreement (including all Exhibits thereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

5.15 Section 409A. This Option is not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "Section 409A"). However,

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notwithstanding any other provision of the Grant Notice or this Agreement (or any Exhibits hereto), if at any time the Administrator determines that the Option (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Grant Notice or this Agreement (or any Exhibits hereto), or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Option to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

5.16 Limitation on Participant's Rights. The Option confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither this Agreement nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Option, and rights no greater than the right to receive the Stock as a general unsecured creditor with respect to options, as and when exercised pursuant to the terms hereof.

5.17 Signature in Counterparts. This Agreement, if provided for acceptance on a paper copy, may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

CODEXIS, INC.

JOHN NICOLS  
RESTRICTED STOCK GRANT NOTICE AND  
RESTRICTED STOCK AGREEMENT

Codexis, Inc., a Delaware corporation, (the “*Company*”), hereby grants to the individual listed below (“*Participant*”), the number of shares (the “*Shares*”) of the Company’s common stock (“*Stock*”) set forth below. These Shares are subject to all of the terms and conditions as set forth herein and in the Restricted Stock Agreement attached hereto as Exhibit A (the “*Restricted Stock Agreement*”) (including without limitation the Restrictions on the Shares set forth in the Restricted Stock Agreement), which is incorporated herein by reference. Unless otherwise defined herein, the terms are defined in Article 1 of the Restricted Stock Agreement.

**Participant’s Name:** John J. Nicols

**Grant Date:** June 13, 2012

**Total Number of Shares of Restricted Stock:** 750,000 shares

**Vesting Commencement Date:** June 13, 2012

**Vesting Schedule:** The Shares subject to this Award shall vest and be released from the Restrictions (as defined in the Restricted Stock Agreement) as to 25% of the total number of Shares on each anniversary of the Vesting Commencement Date so that 100% of the Shares shall be released from such Restrictions on the fourth (4th) anniversary of the Vesting Commencement Date, subject to Participant continuing to provide services to the Company through each such vesting date.

**Termination:** Subject to Section 2.2 of the Restricted Stock Agreement, if Participant ceases to be an Employee, Consultant or Director prior to the applicable vesting date, all Shares of Restricted Stock that have not become vested on or prior to the date of such Termination of Service (after taking into consideration any vesting that may occur in connection with such Termination of Service, if any) will thereupon be automatically forfeited by Participant without payment of any consideration therefor.

By executing this Grant Notice below, Participant agrees to be bound by the terms and conditions of the Restricted Stock Agreement and this Grant Notice. Participant has reviewed the Restricted Stock Agreement and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice and the Restricted Stock Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under this Grant Notice or the Restricted Stock Agreement. In addition, Participant agrees that the Company, in its sole discretion, may satisfy any withholding obligations in accordance with Section 2.2(d) of the Restricted Stock Agreement by (i) withholding Shares otherwise releasable to Participant upon vesting of the Shares, (ii) instructing a broker on Participant’s behalf to sell shares of Stock otherwise releasable to Participant upon vesting of the Shares and submit the proceeds of such sale to the Company or (iii) using any other method permitted by Section 2.2(d) of the Restricted Stock Agreement. If Participant is married, his or her spouse has signed the Consent of Spouse attached to this Grant Notice as Exhibit B.

**CODEXIS, INC.:**

By: /s/ Douglas T. Sheehy  
Print Name: Douglas T. Sheehy  
Title: SVP, General Council & Secretary  
Address: 200 Penobscot Drive  
Redwood City, CA 94063

**PARTICIPANT:**

By: /s/ John J. Nicols  
Print Name: John J. Nicols  
Address: \_\_\_\_\_  
\_\_\_\_\_

EXHIBIT A

TO JOHN NICOLS RESTRICTED STOCK GRANT NOTICE

RESTRICTED STOCK AGREEMENT

Pursuant to the Restricted Stock Grant Notice (the "**Grant Notice**") to which this Restricted Stock Agreement (the "**Agreement**") is attached, Codexis, Inc., a Delaware corporation, (the "**Company**"), effective as of the Grant Date set forth in the Grant Notice, has granted to Participant an award (the "**Award**") consisting of the number of shares of restricted stock set forth in the Grant Notice (the "**Shares**"), subject to the restrictions and risk of forfeiture set forth herein.

ARTICLE I.

DEFINED TERMS

Wherever the following terms are used in this Agreement, they shall have the meanings specified below.

1.1 "**Administrator**" shall mean the Committee.

1.2 "**Board**" shall mean the Board of Directors of the Company.

1.3 "**Change in Control**" shall mean and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its parents or subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 1.2(a) or Section 1.2(c)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being

converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "**Successor Entity**") directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(ii) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however*, that no person or group shall be treated for purposes of this Section 1.2(c)(ii) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

The Administrator shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

1.4 "**Code**" shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 "**Committee**" shall mean the Compensation Committee of the Board.

1.6 "**Consultant**" shall mean any consultant or adviser engaged to provide services to the Company or any Subsidiary that qualifies as a consultant under the applicable rules of the Securities and Exchange Commission for registration of shares on a Form S-8 Registration Statement.

1.7 "**Employee**" shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code and the Treasury Regulations thereunder) of the Company or of any Subsidiary.

1.8 "**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended from time to time.

1.9 "**Fair Market Value**" shall mean, as of any given date, the value of a share of Stock determined as follows:

(a) If the Stock is listed on any established stock exchange (such as the New York Stock Exchange, the NASDAQ Global Market and the NASDAQ Global Select Market) or national market system, its Fair Market Value shall be the closing sales price for a share of Stock as quoted on such exchange or system for such date or, if there is no closing sales price for a share of Stock on the date in question, the closing sales price for a share of Stock on the last preceding date for which such quotation exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(b) If the Stock is not listed on an established stock exchange or national market system, but the Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a share of Stock on such date, the high bid and low asked prices for a share of Stock on the last preceding date for which such information exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(c) If the Stock is neither listed on an established stock exchange or a national market system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Administrator in good faith.

1.10 “**Non-Employee Director**” shall mean a Director of the Company who is not an Employee.

1.11 “**Subsidiary**” means any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing more than 50% of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

1.12 “**Termination of Service**” shall mean the time when the employee-employer relationship between Participant and the Company or any Subsidiary is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where Participant simultaneously commences or remains in employment or service with the Company or any Subsidiary. The Administrator, in its sole discretion, shall determine the effect of all matters and questions relating to a Termination of Service, including, without limitation, the question of whether a Termination of Service resulted from a discharge for cause and all questions of whether particular leaves of absence constitute a Termination of Service.

## ARTICLE II.

### GRANT OF RESTRICTED STOCK

#### 2.1 Grant of Restricted Stock.

(a) Award. In consideration of Participant’s agreement to commence employment and continue in the employ of or service to the Company and for other good and valuable consideration which the Committee has determined exceeds the aggregate par value of the Shares, effective as of the Grant Date, the Company has issued to Participant the Shares. Participant is an Employee, Director or Consultant of the Company or a Subsidiary of the Company.

(b) Book Entry Form. At the sole discretion of the Company, the Shares will be evidenced by documenting the Shares in either (i) uncertificated form, with the Shares recorded in the name of Participant in the books and records of the Company’s transfer agent with appropriate notations regarding the restrictions on transfer and risk of forfeiture imposed pursuant to this Agreement; or (ii) certificate form pursuant to the terms of Sections 2.1(c) and (d) hereof.

(c) Legend. Certificates representing Shares issued pursuant to this Agreement shall, until all Restrictions (as defined below) imposed pursuant to this Agreement lapse or shall have been removed and the Shares shall thereby have become vested or the Shares represented thereby have been forfeited hereunder, bear the following legend (or such other legend as shall be determined by the Committee):

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO FORFEITURE UNDER THE TERMS OF A RESTRICTED STOCK AGREEMENT BY AND BETWEEN CODEXIS, INC. AND THE REGISTERED OWNER OF SUCH SHARES, AND SUCH SHARES MAY NOT BE, DIRECTLY OR INDIRECTLY, OFFERED,

TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES, EXCEPT PURSUANT TO THE PROVISIONS OF SUCH AGREEMENT.”

(d) Escrow. The Secretary of the Company or such other escrow holder as the Committee may appoint may retain physical custody of any certificates representing the Shares until all of the Restrictions imposed pursuant to this Agreement lapse or shall have been removed.

(e) Delivery of Certificates Upon Vesting. As soon as administratively practicable, and, in any event, within sixty (60) days, following the vesting of any Shares subject to the Award pursuant to Section 2.2(b) hereof, the Company shall, as applicable, either remove the notations on any Shares subject to the Award issued in book entry form which have vested or deliver to Participant a certificate or certificates evidencing the number of Shares subject to the Award which have vested. Participant (or the beneficiary or personal representative of Participant in the event of Participant’s death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances required by the Company. The Shares with respect to which such notations have been so removed or certificates so delivered shall no longer be subject to the Restrictions hereunder. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 2.2(e)(i), (ii) and (iii) hereof, then the Shares shall be issued pursuant to the preceding sentences as soon as administratively practicable after the Committee determines that Shares can be issued in accordance with Sections 2.2(e)(i), (ii) and (iii) hereof.

## 2.2 Restrictions.

(a) Forfeiture. Upon Participant’s Termination of Service for any or no reason, any Shares subject to the Award that have not vested in accordance with this Agreement (after giving effect to any accelerated vesting pursuant to Sections 2.2.(b) or 2.2(c) hereof or any other written agreement or plan between Participant and the Company) will thereupon be automatically forfeited, terminated and cancelled as of the applicable termination date without payment of any consideration by the Company, and Participant, or Participant’s beneficiary or personal representative, as the case may be, shall have no further rights hereunder. Subject to Sections 2.2(b) and 2.2(c) hereof or this Section 2.2(a), no portion of the Award which has not become vested as of the date on which Participant incurs a Termination of Service shall thereafter become vested. For purposes of this Agreement, “**Restrictions**” shall mean the restrictions on sale or other transfer set forth in Section 3.5 hereof and the exposure to forfeiture set forth in this Section 2.2(a).

(b) Vesting and Lapse of Restrictions. Subject to Sections 2.2(a) and 2.2(c) hereof, the Shares subject to the Award shall vest and Restrictions shall lapse in accordance with the vesting schedule set forth on the Grant Notice, contingent upon Participant’s continued employment or services through such dates. The vesting of the Shares subject to the Award may be accelerated by the Administrator at such times and in such amounts as it shall determine in its sole discretion, as otherwise provided for in this Agreement or as set forth in a written agreement between the Company and Participant.

(c) Acceleration of Vesting. Notwithstanding Sections 2.2(a) and 2.2(b) hereof, if a Change in Control occurs and the Award is not assumed or substituted by a successor corporation in accordance with Section 3.1 hereof, then immediately prior to the consummation of such Change in Control, all forfeiture restrictions on the Award shall lapse in accordance with Section 3.1 hereof.

(d) Tax Withholding. Notwithstanding any other provision of this Agreement (including without limitation Section 2.1(b) hereof), no new certificate shall be delivered to Participant or

his or her legal representative and no notation on the books and records shall be removed unless and until Participant or his or her legal representative shall have paid to the Company the full amount of all federal and state withholding or other taxes applicable to the taxable income of Participant resulting from the grant of Shares or the lapse or removal of the Restrictions. Such payment shall be made in such form of consideration acceptable to the Company which may, in the sole discretion of the Company, include:

(i) Cash or check;

(ii) Surrender of shares of Stock (including, without limitation, shares of Stock subject to the Award that would otherwise be vesting) held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate payment required; or

(iii) Other property acceptable to the Company in its sole discretion (including, without limitation, through the delivery of a notice that Participant has placed a market sell order with a broker with respect to shares of Stock for which the Restrictions are then subject to lapse, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of its withholding obligations; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale).

The Company shall not be obligated to deliver any new certificate representing Shares to Participant or Participant's legal representative or enter such Share in book entry form unless and until Participant or Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the grant of the Award or the issuance of Shares hereunder.

2.3 Conditions to Delivery of Stock. Subject to Section 2.1 hereof, the Shares issued under this Award, or any portion thereof, may be either previously authorized but unissued shares of Stock, treasury shares of Stock or issued shares of Stock which have been reacquired by the Company on the open market. Such Shares shall be fully paid and nonassessable.

2.4 Rights as Stockholder. The holder of the Award shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, any dividend rights and voting rights, in respect of any Shares unless and until such Shares shall have been actually issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 3.1 hereof.

### ARTICLE III.

#### OTHER PROVISIONS

##### 3.1 Change in Control.

(a) In the event that the successor corporation in a Change in Control refuses to assume or substitute for the Award upon a Change in Control, the Award shall become fully vested and all Restrictions on the Award shall lapse, in each case, as of immediately prior to the consummation of such Change in Control.

(b) The existence of the Grant Notice, Agreement and the Award shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Stock or the rights thereof or which are convertible into or exchangeable for Stock, or the dissolution or liquidation of the company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

3.2 Administration. The Committee shall have the power to interpret this Agreement and to adopt such rules for the administration, interpretation and application of this Agreement as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to this Agreement or the Award.

3.3 Tax Consultation. Participant understands that Participant may suffer adverse tax consequences in connection with the Shares issued pursuant to this Award (and the shares issuable with respect thereto). Participant represents that Participant has consulted with any tax consultants Participant deems advisable in connection with the Award and the issuance of Shares with respect thereto and that Participant is not relying on the Company for any tax advice.

3.4 Tax-Related Items. Participant agrees to indemnify and keep indemnified the Company, any Subsidiary and his/her employing company, if different, from and against any liability for or obligation to pay any liability for income tax, withholding tax and any other employment related taxes, employee's national insurance contributions or employer's national insurance contributions or equivalent social security contributions in any jurisdiction (collectively, "*Tax-Related Items*") that is attributable to (a) the grant, or any benefit derived by Participant from, the Award, (b) the issuance to Participant of the Shares or (c) the disposal of the Shares.

3.5 Restricted Stock Not Transferable. During the lifetime of Participant, until the Restrictions lapse, this Award and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, the Award and the rights and privileges conferred hereby immediately will become null and void. Notwithstanding anything herein to the contrary, this Section 3.5 shall not prevent transfers by will or applicable laws of descent and distribution.

3.4 Binding Agreement. Subject to the limitation on the transferability of this Award contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to Participant shall be addressed to Participant at Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed

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duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.6 Titles. Titles provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.7 Governing Law; Severability. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.8 Conformity to Securities Laws. Participant acknowledges that this Agreement is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Award is granted, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

3.9 Amendments, Suspension and Termination. This Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board, *provided*, that, except as may otherwise be provided herein, no amendment, modification, suspension or termination of this Agreement shall adversely effect the Award in any material way without the prior written consent of Participant.

3.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, Committees, successors and assigns.

3.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Award, the Shares and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.12 Tax Withholding and Section 83(b) Election. Participant understands that Section 83(a) of the Internal Revenue Code taxes as ordinary income the difference between the amount, if any, paid for the Shares and the Fair Market Value of such Shares at the time the Restrictions on such Shares lapse. Participant understands that, notwithstanding the preceding sentence, Participant may elect to be taxed at the time of the Grant Date, rather than at the time the Restrictions lapse, by filing an election under Section 83(b) of the Code (an "**83(b) Election**") with the Internal Revenue Service within thirty (30) days of the Grant Date. In the event Participant files an 83(b) Election, Participant shall provide the Company a copy thereof prior to the expiration of such thirty (30) day period. Participant understands that in the event an 83(b) Election is filed with the Internal Revenue Service within such time period, Participant will recognize ordinary income in an amount equal to the difference between the amount, if any, paid for the Shares and the Fair Market Value of such Shares as of the Grant Date. Participant further understands that an additional copy of such 83(b) Election form should be filed with his or her federal income tax return for the calendar year in which the date of this Agreement falls. Participant acknowledges that the

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foregoing is only a summary of the effect of United States federal income taxation with respect to the Award hereunder, and does not purport to be complete. PARTICIPANT FURTHER ACKNOWLEDGES THAT THE COMPANY IS NOT RESPONSIBLE FOR FILING PARTICIPANT'S 83(b) ELECTION, AND THE COMPANY HAS DIRECTED PARTICIPANT TO SEEK INDEPENDENT ADVICE REGARDING THE APPLICABLE PROVISIONS OF THE INTERNAL REVENUE CODE, THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH PARTICIPANT MAY RESIDE, AND THE TAX CONSEQUENCES OF PARTICIPANT'S DEATH.

PARTICIPANT HEREBY ASSUMES ALL RESPONSIBILITY FOR FILING PARTICIPANT'S 83(b) ELECTION AND PAYING ANY TAXES RESULTING FROM SUCH ELECTION OR FROM FAILURE TO FILE THE ELECTION AND PAYING TAXES RESULTING FROM THE LAPSE OF THE RESTRICTIONS ON THE UNVESTED SHARES.

PARTICIPANT UNDERSTANDS THAT PARTICIPANT MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PARTICIPANT'S PURCHASE OR DISPOSITION OF THE SHARES AND PARTICIPANT REPRESENTS THAT PARTICIPANT IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

3.14 Not a Contract of Employment. Nothing in this Agreement or in the Grant Notice shall confer upon Participant any right to continue to serve as an employee or other service provider of the Company or any of its Subsidiaries.

3.15 Entire Agreement. The Grant Notice and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

3.16 Limitation on Participant's Rights. This Award confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither this Agreement nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Shares issuable hereunder.

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**EXHIBIT B**

**TO JOHN NICOLS RESTRICTED STOCK GRANT NOTICE**

**CONSENT OF SPOUSE**

I, \_\_\_\_\_, spouse of John J. Nicols, have read and approve the foregoing Agreement. In consideration of issuing to my spouse the shares of the common stock of Codexis, Inc. set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of Codexis, Inc. issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: \_\_\_\_\_,

\_\_\_\_\_  
Signature of Spouse

CERTIFICATION

I, John Nicols, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Codexis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2012

/s/ John Nicols

John Nicols  
President and Chief Executive Officer  
(principal executive officer)

CERTIFICATION

I, Mark Ho, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Codexis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2012

/s/ Mark Ho

Mark Ho  
Interim Controller  
(principal financial and accounting officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Codexis, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), John Nicols, President and Chief Executive Officer of the Company and Mark Ho, Interim Controller of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2012

/s/ John Nicols

John Nicols  
President and Chief Executive Officer  
(principal executive officer)

/s/ Mark Ho

Mark Ho  
Interim Controller  
principal financial and accounting officer