CODEXIS INC
Form 10-Q
August 08, 2014

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

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

For the quarterly period ended June 30, 2014
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

_____

Codexis, Inc.
(Exact name of registrant as specified in its charter)

_____

Delaware	71-0872999
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Penobscot Drive, Redwood City	94063
(Address of principal executive offices)	(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)

_____

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 ý 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 ý 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	x
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 ý

As of July 31, 2014, there were 39,132,713 shares of the registrant's Common Stock, par value $0.0001 per share, outstanding.

Codexis, Inc.
Quarterly Report on Form 10-Q
For The Three Months Ended June 30, 2014

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$20,090	$22,130
Marketable securities, current	—	3,005
Accounts receivable, net of allowances of $548 at June 30, 2014 and $460 at December 31, 2013	2,944	5,413
Inventories	1,963	1,487
Prepaid expenses and other current assets	1,618	1,567
Assets held for sale	292	2,179
Total current assets	26,907	35,781
Restricted cash	711	711
Marketable securities, non-current	1,453	795
Property and equipment, net	4,853	8,446
Intangible assets, net	7,873	9,560
Goodwill	3,241	3,241
Other non-current assets	205	306
Total assets	$45,243	$58,840
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,329	$3,961
Accrued compensation	1,978	3,625
Other accrued liabilities	2,833	1,612
Deferred revenues	2,654	2,001
Total current liabilities	10,794	11,199
Deferred revenues, net of current portion	907	1,114
Other long-term liabilities	4,214	5,044
Total liabilities	15,915	17,357
Commitments and contingencies (note 10)		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.0001 par value; 100,000 shares authorized at June 30, 2014 and December 31, 2013; 38,860 and 38,351 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	4	4
Additional paid-in capital	300,663	298,370
Accumulated other comprehensive income (loss)	374	(32)
Accumulated deficit	(271,713)	(256,859)
Total stockholders' equity	29,328	41,483
Total liabilities and stockholders' equity	$45,243	$58,840

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Biocatalyst products	$2,776	$4,948	$5,761	$14,085
Biocatalyst research and development	1,666	1,609	3,812	2,909
Revenue sharing arrangement	2,128	417	4,071	1,461
Total revenues	6,570	6,974	13,644	18,455
Costs and operating expenses:				
Cost of biocatalyst product revenues	2,123	3,631	4,647	9,296
Research and development	7,733	8,624	12,567	15,946
Selling, general and administrative	5,625	7,169	11,737	15,293
Total costs and operating expenses	15,481	19,424	28,951	40,535
Loss from operations	(8,911)	(12,450)	(15,307)	(22,080)
Interest income	3	16	12	43
Other expenses	(8)	(183)	(126)	(268)
Loss before income taxes	(8,916)	(12,617)	(15,421)	(22,305)
Benefit from income taxes	(437)	(12)	(567)	(77)
Net loss	$(8,479)	$(12,605)	$(14,854)	$(22,228)
Net loss per share, basic and diluted	$(0.22)	$(0.33)	$(0.39)	$(0.59)
Weighted average common shares used in computing net loss per share, basic and diluted	37,980	38,060	37,862	37,951

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(8,479)	$(12,605)	$(14,854)	$(22,228)
Other comprehensive income:				
Unrealized gain on marketable securities, net of tax of $2 and $249 for the three months and six months ended June 30, 2014, respectively, and $32 and $155 for the three months and six months ended June 30, 2013, respectively.	4	50	406	242
Other comprehensive income	4	50	406	242
Total comprehensive loss	$(8,475)	$(12,555)	$(14,448)	$(21,986)

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	$(14,854)	$(22,228)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangible assets	1,687	1,687
Depreciation and amortization of property and equipment	2,078	3,541
Impairment of property and equipment	1,841	—
Change in fair value of assets held for sale	755	—
Loss on disposal of property and equipment	(78)	141
Gain on sale of Hungarian subsidiary	(760)	—
Stock-based compensation	2,575	2,735
Amortization of premium (accretion of discount) on marketable securities	2	(48)
Changes in operating assets and liabilities:		
Accounts receivable	2,513	5,954
Inventories	(476)	(30)
Prepaid expenses and other current assets	(703)	3,116
Other assets	(238)	(38)
Accounts payable	(631)	(2,108)
Accrued compensation	(1,498)	(160)
Other accrued liabilities	1,002	(3,209)
Deferred revenues	446	87
Net cash used in operating activities	(6,339)	(10,560)
Investing activities:		
Purchase of property and equipment	(111)	(641)
Proceeds from maturities of marketable securities	3,000	10,909
Proceeds from sale of Hungarian subsidiary, net of selling costs	1,500	—
Proceeds from the sale of assets held for sale	4	—
Proceeds from sale of property and equipment	187	—
Decrease in restricted cash	—	400
Net cash provided by investing activities	4,580	10,668
Financing activities:		
Proceeds from exercises of stock options	62	281
Taxes paid related to net share settlement of equity awards	(343)	—
Net cash provided by (used in) financing activities	(281)	281
Net increase (decrease) in cash and cash equivalents	(2,040)	389
Cash and cash equivalents at the beginning of the period	22,130	32,003
Cash and cash equivalents at the end of the period	$20,090	$32,392

See accompanying notes to the unaudited condensed consolidated financial statements

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Codexis, Inc. (the "Company") was incorporated in the State of Delaware in January 2002. The Company develops biocatalysts for the pharmaceutical and fine chemicals markets. Its proven technologies enable scale-up and implementation of biocatalytic solutions to meet customer needs for rapid, cost-effective and sustainable process development, from research to manufacturing.

Biocatalysts are enzymes or microbes that initiate and/or accelerate chemical reactions. Manufacturers have historically used naturally occurring biocatalysts to produce many goods used in everyday life. However, inherent limitations in naturally occurring biocatalysts have restricted their commercial use. The Company's proprietary technology platform is able to overcome many of these limitations, allowing us to evolve and optimize biocatalysts to perform specific and desired chemical reactions at commercial scale.

The Company has commercialized its technology and products in the pharmaceuticals market, which is the Company's primary business focus. The Company's pharmaceutical customers, which include several of the largest global pharmaceutical companies, use the Company's technology, products and services in their manufacturing process development, including in the production of some of the world's bestselling and fastest growing drugs.

The Company has recently begun to use its technology to develop biocatalysts for use in the fine chemicals market. The fine chemicals market is similar to the Company's pharmaceutical business and consists of several large market segments, including food, animal feed, polymers, flavors and fragrances and agricultural chemicals.

The Company creates its biocatalyst products by applying its CodeEvolver® directed evolution technology platform, which introduces genetic mutations into microorganisms, giving rise to changes in the enzymes that they produce. Once the Company identifies potentially beneficial mutations, it tests combinations of these mutations until it has created variant enzymes that exhibit marketable performance characteristics superior to competitive products. This process allows the Company to make continuous, efficient improvements to the performance of its enzymes.

In these Notes to Consolidated Financial Statements, the "Company" refers to Codexis, Inc. and its subsidiaries on a consolidated basis.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at 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 its financial position as of June 30, 2014 and results of its operations, comprehensive loss and cash flows for the three and six months ended June 30, 2014 and 2013. The interim results are not necessarily indicative of the results for any future interim period or for the entire year. Certain prior period amounts have been reclassified to conform to current period presentation.

The unaudited interim condensed consolidated financial statements include the amounts of Codexis, Inc. and its wholly-owned subsidiaries in the United States, Brazil, Hungary (through the sale date of March 13, 2014), India, Mauritius, The Netherlands and Singapore. All significant intercompany balances and transactions have been eliminated in consolidation.

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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. The Company's management regularly assesses these estimates which primarily affect revenue recognition, the valuation of marketable securities and accounts receivable, held for sale assets, intangible assets, goodwill arising out of business acquisitions, inventories, accrued liabilities, stock awards and the valuation allowances associated with deferred tax assets. Actual results could differ from those estimates and such differences may be material to the condensed consolidated financial statements.

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. The Company's chief operating decision maker is its Chief Executive Officer. The Chief Executive Officer and the Company's 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. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results beyond revenue goals or plans for levels or components below the consolidated unit level. Accordingly, the Company has a single reporting segment.

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 United States dollars at the exchange rates in effect at the balance sheet date, with resulting foreign currency translation adjustments recorded in the consolidated statement of comprehensive loss. Revenue and expense amounts are translated at average rates during the period.

Where the United States dollar is the functional currency, nonmonetary assets and liabilities originally acquired or assumed in other currencies are recorded in United States 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 United States dollars at the exchange rates in effect at the balance sheet date. Translation adjustments are recorded in interest expense and other, net in the accompanying condensed consolidated statements of operations. Gains and losses realized from transactions, including intercompany balances not considered as permanent investments, denominated in currencies other than an entity’s functional currency, are included in interest expense and other, net in the accompanying consolidated statements of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of: cash equivalents, marketable securities, accounts receivable, and restricted cash.

The Company invests cash that is not required for immediate operating needs principally in money market funds and corporate securities through banks and other financial institutions in the United States, as well as in other foreign countries.

Accounts receivable are concentrated in the pharmaceutical industry. Accordingly, the Company may be exposed to credit risk generally associated with pharmaceutical companies or specific to the collaboration arrangements with Merck and Arch. The Company does not require collateral from its customers, but does perform periodic credit evaluations of its customers’ financial condition and requires immediate payment in certain circumstances.

Credit risk with respect to accounts receivable exists to the extent of amounts presented in the condensed consolidated financial statements. The Company estimates an allowance for doubtful accounts through specific identification of potentially uncollectible accounts receivable based on an analysis of its accounts receivable aging. Uncollectible accounts receivable are written off against the allowance for doubtful accounts when all efforts to collect them have been exhausted. Recoveries are recognized when they are received. Actual collection losses may differ from its estimates and could be material to its consolidated financial position, results of operations, and cash flows.

Customers whose accounts receivable balance accounted for 10% or more of net accounts receivable were Merck of 27% and Novartis of 25% at June 30, 2013 and Novartis of 51% at December 31, 2013.

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Customer Concentration

Customers whose revenue accounted for 10% or more of total revenues were as follows:

	Three Months Ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Exela (related party)	32%	*	30%	*
Merck	28%	65%	25%	50%
Novartis	12%	—	20%	*
Arch	—	—	—	12%

* less than 10%

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's 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 and the instruments' complexity.

Cash and Cash Equivalents

The Company considers 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. Cash and cash equivalents was $20.1 million at June 30, 2014, and was comprised of cash of $4.5 million and money market funds of $15.6 million.

Marketable Securities

Marketable securities included in current assets are comprised of corporate bonds. The Company's investment in common shares of CO_2 Solutions Inc. ("CO_2 Solutions") is included in non-current marketable securities.

The Company performs 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.

For the Company's investments in equity securities, its 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 its 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 its current and forecasted liquidity requirements and capital requirements. As of June 30, 2014, there were no unrealized losses related to the Company's equity securities.

For the Company's investments in debt securities, management determines whether it intends to sell or if it is more-likely-than-not that the Company will be required to sell impaired securities. This determination considers current and forecasted liquidity requirements and capital requirements. 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. The Company conducts a regular assessment of its 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. As of June 30, 2014, there were no unrealized losses related to the Company's debt securities.

The Company's investments in debt and equity securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses are reported on the condensed consolidated statement of comprehensive loss unless considered other-than-temporary. Amortization of purchase premiums and accretion of purchase discounts, realized gains and losses of

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debt securities and declines in value deemed to be other than temporary, if any, are included in interest income or other expenses. 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 for the three and six months ended June 30, 2014 and 2013.

Impairment of Long-Lived Assets and Intangible Assets

Long-lived and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate.

The Company's intangible assets with finite lives consist of customer relationships, developed core technology, trade names, and the intellectual property (“IP”) rights associated with the acquisition of Maxygen Inc.'s ("Maxygen") directed evolution technology in 2010. Intangible assets were recorded at their fair values at the date the Company acquired the assets and, for those assets having finite useful lives, are amortized using the straight-line method over their estimated useful lives. The Company's long-lived assets include property, plant and equipment, and other non-current assets.

The Company determined that it has a single entity wide asset group (“Asset Group”). The directed evolution technology patent portfolio acquired from Maxygen (“Core IP”) is the most significant component of the Asset Group since it is the base technology for all aspects of the Company's research and development activities, and represents the basis for all of the Company's identifiable cash flow generating capacity. Consequently, the Company does not believe that identification of independent cash flows associated with its long-lived assets is currently possible at any lower level than the Asset Group.

The Core IP is the only finite-lived intangible asset on the Company's condensed consolidated balance sheet as of June 30, 2014 and is considered the primary asset within the Asset Group. There has been no significant change in the utilization or estimated life of the Core IP since the Company acquired the technology patent portfolio from Maxygen.

The carrying value of the Company's long-lived assets in the Asset Group may not be recoverable based upon the existence of one or more indicators of impairment which could include: a significant decrease in the market price of the Company's common stock; current period cash flow losses or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the assets; slower growth rates in the Company's industry; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the assets; loss of significant customers or partners; or the current expectation that the assets will more likely than not be sold or disposed of significantly before the end of their estimated useful life.

The Company evaluates recoverability of its long-lived assets and intangible assets based on the sum of the undiscounted cash flows expected to result from the use, and the eventual disposal of, the Asset Group. The Company makes estimates and judgments about the future undiscounted cash flows over the remaining useful life of the Asset Group. The Company's anticipated future cash flows include its estimates of existing or in process product revenues, production and operating costs, future capital expenditures, working capital needs, and assumptions regarding the ultimate sale of the Asset Group at the end of the life of the primary asset. The useful life of the Asset Group was based on the estimated useful life of the Core IP, the primary asset at the time of acquisition. There has been no change in the estimated useful life of the Asset Group. Although the Company's cash flow forecasts are based on assumptions that are consistent with its plans, there is significant judgment involved in determining the cash flows attributable to the Asset Group over its estimated remaining useful life.

In the fourth quarter of 2013, the Company determined that its continued annual operating losses and a decline in market price of the Company’s common stock, reduced anticipated future cash flows related to potential CodeXyme® cellulase enzyme and CodeXol® detergent alcohols transactions and reduced future revenue growth to reflect the Company’s most recent outlook were indicators of impairment. As a result, the Company undertook an impairment analysis in the fourth quarter of 2013.

The results of the Company's fourth quarter 2013 impairment analysis indicated that the undiscounted cash flows for the Asset Group were greater than the carrying value of the Asset Group by approximately 37%. Based on the results obtained, the Company determined there was no impairment of the Company's intangible assets as of December 31,

2013.

During the six months ended June 30, 2014, the Company made no changes to the underlying forecasts nor did the Company identify any additional indicators of potential impairment of intangible assets or other new information that would have a material impact on the forecast or the impairment analysis prepared as of December 31, 2013.

Valuation of Goodwill

The Company reviews goodwill impairment annually in the fourth quarter of each of its fiscal years and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable.

The Company determined that it has only one operating segment and reporting unit under the criteria in ASC 280, Segment Reporting. Accordingly, the Company's review of goodwill impairment indicators is performed at the Company level.

The goodwill impairment test consists of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not required.

The Company uses its market capitalization as an indicator of fair value. The Company believes that since its reporting unit is publicly traded, the ability of a controlling stockholder to benefit from synergies and other intangible assets that arise from control might cause the fair value of the Company's reporting unit as a whole to exceed its market capitalization. However, the Company believes that the fair value measurement need not be based solely on the quoted market price of an individual share of the Company's common stock, but also can consider the impact of a control premium in measuring the fair value of its reporting unit.

If the Company were to use an income approach it would establish a fair value by estimating the present value of its projected future cash flows expected to be generated from its business. The discount rate applied to the projected future cash flows to arrive at the present value would be intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The Company's discounted cash flow methodology would consider projections of financial performance for a period of several years combined with an estimated residual value. The most significant assumptions it would use in a discounted cash flow methodology are the discount rate, the residual value and expected future revenues, gross margins and operating costs, along with considering any implied control premium.

Should the Company's market capitalization be less than the total stockholder's equity as of the Company's annual test date or as of any interim impairment testing date, the Company would also consider market comparables, recent trends in the Company's stock price over a reasonable period and, if appropriate, use an income approach to determine whether the fair value of its reporting unit is greater than the carrying amount.

The second step, if required, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. Implied fair value is the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities. The Company bases its fair value estimates on assumptions it believes to be reasonable. Actual future results may differ from those estimates.

Goodwill was tested for impairment in the fourth quarter of 2013. The Company concluded that the fair value of the reporting unit exceeded the carrying value and no impairment existed. No impairment charges were recorded for the year ended December 31, 2013. For the six months ended June 30, 2014, the Company did not identify any indicators of impairment that would indicate that the carrying value of goodwill may not be recoverable.

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 the Company's Redwood City, California facility lease agreement.

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.

The Company's primary sources of revenues consist of biocatalyst product revenues, biocatalyst research and development agreements and revenue sharing arrangements. Biocatalyst research and development agreements typically provide the Company with multiple revenue streams, including up-front fees for licensing, exclusivity and technology access, fees for full time employee ("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 achieved by the Company's customers.

For each source of biocatalyst research and development revenues, biocatalyst product revenues and revenue sharing revenues, the Company applies the following revenue recognition criteria:

Biocatalyst product revenues are recognized once passage of title and risk of loss has occurred and contractually specified acceptance criteria, if any, have been met, provided all other revenue recognition criteria have also been met. Product revenues

consist of sales of biocatalyst 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 the Company's biocatalyst product revenues.

Revenue sharing arrangement revenues are recognized based upon sales of licensed products by the Company's revenue share partner Exela (see Note 9 "Related Party Transactions"). Revenue share amounts received are net of product and selling costs. The Company bases its estimates of earned revenue on notification from its revenue share partner of the Company’s share of net profit based on the contractual percentage from the sale of licensed product. The Company bases its estimates on notification of the sale of revenue sharing products and related costs by its revenue share partner.

Up-front fees received in connection with biocatalyst 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 related to the combined units of accounting appropriate for each customer arrangement.

Revenues related to FTE services recognized as research services are performed over the related performance periods for each contract. The Company performs biocatalyst research and development activities as specified in each respective customer 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, the Company recognizes 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 the Company, up to the amount of cash received. In cases where the planned levels of research services fluctuate substantially over the research term, the Company is required to make estimates of the total hours required to perform the Company's 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 the Company's performance or on the occurrence of a specific outcome resulting from its 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 the Company. Milestones are considered substantive when the consideration earned from the achievement of the milestone (i) is commensurate with either the Company's performance to achieve the milestone or the enhancement of value of the item delivered as a result of a specific outcome resulting from its 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.

The Company recognizes revenues from royalties based on licensees’ sales of products using the Company's 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. The Company bases its estimates on notification the sale of licensed products from licensees.

Shipping and handling costs charged to customers are recorded as revenues. Shipping costs are included in the Company's cost of biocatalyst products revenues. Such charges were not significant in any of the periods presented.

Income Taxes

The Company uses the liability method of accounting for income taxes, whereby deferred tax assets or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount that will more likely than not be realized.

The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions and in the

calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenues and expenses for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to the Company's tax provision in a subsequent period.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized on a jurisdiction by jurisdiction basis. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income in the future. The Company has recorded a deferred tax asset in jurisdictions where ultimate realization of deferred tax assets is more likely than not to occur.

The Company makes estimates and judgments about its future taxable income that are based on assumptions that are consistent with its plans and estimates. Should the actual amounts differ from its estimates, the amount of its valuation allowance could be materially impacted. Any adjustment to the deferred tax asset valuation allowance would be recorded in the income statement for the periods in which the adjustment is determined to be required. With the sale of the Hungarian subsidiary for the quarter ended March 31, 2014, the related net operating losses and other tax attributes are no longer available to the Company. The related deferred tax assets had a full valuation allowance and, as a result, their removal did not have a material impact to the financial statements.

The Company accounts for uncertainty in income taxes as required by the provisions of ASC Topic 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. The Company considers many factors when evaluating and estimating the Company's tax positions and tax benefits, which may require periodic adjustments and may not accurately anticipate actual outcomes.

The Tax Reform Act of 1986 and similar state provisions limit the use of net operating loss carryforwards in certain situations where equity transactions result in a change of ownership as defined by Internal Revenue Code Section 382. In the event the Company should experience an ownership change, as defined, utilization of the Company's federal and state net operating loss carryforwards could be limited.

Benefit from Income taxes totaled $437,000 for the three months and $567,000 for the six months ended June 30, 2014, and $12,000 for the three months and $77,000 for the six months ended June 30, 2013. The total tax benefit for the three-month and six-month period ended June 30, 2014 primarily consisted of income tax benefit attributable to foreign operations (release of previous tax provision related to a liquidated entity) offset by the tax effect on the unrecognized gain from our investment in CO_2 Solutions, as well as the recognition of previously unrecognized tax benefits. The company maintains a full valuation allowance against net deferred tax assets as the company believes that it is more likely than not that the majority of deferred tax assets will not be realized.

Stock-Based Compensation

The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of options granted under its equity incentive plans. The Black-Scholes-Merton option valuation model requires the use of assumptions, including the expected term of the award and the expected stock price volatility. The Company uses the "simplified" method as described in Staff Accounting Bulletin No. 107, "Share-Based Payment," for the expected option term because the usage of its historical option exercise data is limited due to the Company's initial public offering in 2010. The Company uses its historical volatility to estimate expected stock price volatility. The risk-free rate assumption was based on United States Treasury instruments whose terms were consistent with the terms of the Company's stock options. The expected dividend assumption was based on the Company's history and expectation of dividend payouts. Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs) are measured based on the fair market values of the underlying stock on the dates of grant.

Stock-based compensation expense was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. The estimated annual forfeiture rates for stock options, RSUs and RSAs are based on the Company's historical forfeiture experience.

The estimated fair value of stock options, RSUs and RSAs is expensed on a straight-line basis over the expected term of the grant and the estimated fair value of performance-contingent RSUs is expensed using an accelerated method over the term of the award once management has determined that it is probable that performance milestones will be

achieved. Compensation expense for RSUs that contain performance conditions is based on the grant date fair value of the award. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. Management assesses the probability of the performance milestones being met on a continuous basis.

The Company accounts for stock awards issued to non-employees based on their estimated fair value determined using the Black-Scholes-Merton option-pricing model. Compensation expense for the stock awards granted to non-employees is recognized based on the fair value of awards as they vest, during the period the related services are rendered.

The Company has not recognized, and does not expect to recognize in the near future, any income tax benefit related to employee stock-based compensation expense as a result of the full valuation allowance on our deferred tax assets including deferred tax assets related to its net operating loss carryforwards.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding, less RSAs subject to forfeiture. Diluted net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding, less RSAs subject to forfeiture, plus all additional common shares that would have been outstanding, assuming dilutive potential common shares had been issued for other dilutive securities.

For the three months and six months ended June 30, 2014 and for the three months and six months ended June 30, 2013, diluted and basic net loss per share were identical since potential common shares were excluded from the calculation, as their effect was anti-dilutive.

Anti-Dilutive Securities

The following common equivalent shares were not included in the computation of diluted net loss per share because their effect was anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Options to purchase common stock	3,888	4,996	3,888	4,996
Restricted stock units/awards	2,504	1,827	2,504	1,827
Performance stock units	722	—	722	—
Warrants to purchase common stock	75	75	75	75
Total shares excluded as anti-dilutive	7,189	6,898	7,189	6,898

Recently Issued and Adopted Accounting Guidance

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standards setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, the Company's management believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial statements upon adoption.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The main principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 provides companies with two implementation methods: (i) apply the standard retrospectively to each prior reporting period presented (full retrospective application); or (ii) apply the standard retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. The Company is currently in the process of evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements.

3. Collaborative Arrangements

Merck Research and Development Collaboration

On February 1, 2012, the Company entered into a 5 year Sitagliptin Catalyst Supply Agreement ("Sitagliptin Catalyst Supply Agreement") whereby Merck Sharp and Dohme Corp. ("Merck") may obtain commercial scale substance for their use in the manufacture of one of its products, Januvia®. Merck may extend the term of the Sitagliptin Catalyst Supply Agreement for an additional five years at its sole discretion.

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The Sitagliptin Catalyst Supply Agreement calls for Merck to pay an annual license fee for the rights to the Sitagliptin technology each year for the term of the Sitagliptin Catalyst Supply Agreement. The license fee is being recognized as collaborative research and development revenue ratably over the five year term of the Sitagliptin Catalyst Supply Agreement. As of June 30, 2014, the Company has a deferred revenue balance of $2.5 million from Merck related to the license fee. The Company recognized license fees of $0.5 million for three months ended June 30, 2014 and 2013, and $1.0 million for the six months ended June 30, 2014, and $0.5 million for the three months ended June 30, 2013 and $0.8 million for the six months ended June 30, 2013, as Biocatalyst Research and Development revenue. In addition, pursuant to the Sitagliptin Catalyst Supply Agreement, Merck may purchase supply from the Company for a fee based on contractually stated prices.

Arch Manufacturing Collaboration

From 2006 through November 2012, Arch of Mumbai, India manufactured substantially all of the Company's commercialized intermediates and active pharmaceutical ingredients ("APIs") for sale to generic and innovator pharmaceutical manufacturers. Prior to November 2012, Arch produced atorva-family API's and intermediates for the Company and it sold these directly to end customers primarily in India. In November 2012, the Company entered into a new commercial arrangement with Arch (the "New Arch Enzyme Supply Agreement") whereby the Company agreed to supply Arch with enzymes for use in the manufacture of atorva family products and Arch agreed to market these products directly to end customers. The Company recognized product revenue for the sale of enzyme inventory to Arch pursuant to the New Arch Enzyme Supply Agreement of $0.2 million for the three months ended June 30, 2014 and $0.2 million for the six months ended June 30, 2014, and nil for the three months ended three months ended June 30, 2013 and $2.1 million for the six months ended June 30, 2013, as Biocatalyst Product revenue. During 2013, the Company recorded an allowance for bad debt of approximately $387,000 due to a write-off of an accounts receivable from Arch.

4. Cash Equivalents and Marketable Securities

At June 30, 2014, cash equivalents and marketable securities consisted of the following (in thousands):

	June 30, 2014				
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Contractual Maturities (in days)
Money market funds (1)	$15,598	$—	$—	$15,598	n/a
Common shares of CO2 Solutions	563	890	—	1,453	n/a
Total	$16,161	$890	$—	$17,051	

(1) Money market funds are classified in cash and cash equivalents on the Company’s condensed consolidated balance sheets.

At December 31, 2013, cash equivalents and marketable securities consisted of the following (in thousands):

	December 31, 2013				
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Contractual Maturities (in days)
Money market funds (1)	$16,089	$—	$—	$16,089	n/a
Corporate bonds	1,002	3	—	1,005	140
U.S. Treasury obligations	2,000	—	—	2,000	59
Common shares of CO2 Solutions	563	232	—	795	n/a
Total	$19,654	$235	$—	$19,889	

(1) Money market funds are classified in cash and cash equivalents on the Company’s condensed consolidated balance sheets.

5. Fair Value Measurements

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 instruments, the Company's investment adviser provides monthly account statements documenting the value of corporate bonds and U.S. Treasury obligations based on prices received from an independent third-party valuation service provider. This third party evaluates the types of securities in the Company's 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 the Company is ultimately responsible for the determination of the fair value of these instruments, it performs quarterly analyses using prices obtained from another independent provider of financial instrument valuations, to validate that the prices the Company has used are reasonable estimates of fair value.

Fair Value of Financial Instruments

The following table presents the financial instruments that were measured at fair value on a recurring basis at June 30, 2014 by level within the fair value hierarchy (in thousands):

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market funds	$15,598	$—	$—	$15,598
Common shares of CO_2 Solutions	—	1,453	—	1,453
Total	$15,598	$1,453	$—	$17,051

The following table presents the financial instruments that were measured at fair value on a recurring basis at December 31, 2013 by level within the fair value hierarchy (in thousands):

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Money market funds	$16,089	$—	$—	$16,089
Corporate bonds	—	1,005	—	1,005
U.S. Treasury obligations	—	2,000	—	2,000
Common shares of CO2 Solutions	—	795	—	795
Total	$16,089	$3,800	$—	$19,889

Fair Value of Assets Held for Sale

As of June 30, 2014, the Company had assets held for sale related to lab equipment located in the United States. The fair value of these assets was determined based on Level 3 inputs, primarily sales data for similar assets. For further discussion, see Note 7 "Assets Held for Sale".

The fair value of assets held for sale at June 30, 2014, measured on a nonrecurring basis, is as follows (in thousands):

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets held for sale	$—	$—	$292	$292

The fair value of assets held for sale at December 31, 2013 , measured on a nonrecurring basis, is as follows (in thousands):

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets held for sale	$—	$—	$2,179	$2,179

6. Balance Sheets Details

Inventories, net

Inventory, net consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$452	$763
Work in process	229	31
Finished goods	1,282	693
Inventory, net	$1,963	$1,487

Property and Equipment, net

Property and equipment, net consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Laboratory equipment	$23,774	$23,949
Leasehold improvements	9,493	9,493
Computer equipment	3,249	3,196
Office furniture and equipment	1,227	1,228
	37,743	37,866
Less: accumulated depreciation and amortization	(31,064)	(29,461)
	6,679	8,405
Construction in progress	15	41
Property and equipment	6,694	8,446
Less: Impairment of laboratory equipment	(1,841)(1)	—
Property and equipment, net	$4,853	$8,446

(1) Plans to utilize certain CodeXol® assets changed in the second quarter of 2014 such that assets with a a carrying value of $1.8 million were no longer recoverable. Accordingly, the Company recorded an impairment charge of $1.8 million, reducing the carrying value to zero (their estimated fair value, net of costs). The impairment charge was recorded within Research and Development Expense for the three and six months ended June 30, 2014.

Intangible Assets

Intangible assets consisted of the following (in thousands):

	June 30, 2014			December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period (years)
Customer relationships	$3,098	$ (3,098)	$—	$3,098	$ (3,098)	$—	5
Developed and core technology	1,534	(1,534)	—	1,534	(1,534)	—	5
Maxygen intellectual property	20,244	(12,371)	7,873	20,244	(10,684)	9,560	6
Total	$24,876	$ (17,003)	$7,873	$24,876	$ (15,316)	$9,560	

The estimated future amortization expense to be charged to research and development through the year ending December 31, 2016 is as follows (in thousands):

Year ending December 31:	Total
2014 (remaining 6 months)	$1,687
2015	3,374
2016	2,812
	$7,873

Goodwill

There were no changes in the carrying value of goodwill of $3,241,000 for the three and six months ended June 30, 2014 and 2013.

7. Assets Held for Sale

In the fourth quarter of 2013, the Company announced that it would begin winding down its CodeXyme® cellulase enzyme program. As a result of the termination of this research program and corresponding reductions in headcount, the Company concluded that certain excess research and development equipment, including assets at the Company's Hungarian subsidiary, were no longer held for use, and these assets were determined to meet the criteria to be classified as held for sale at December 31, 2013. In conjunction with classifying certain assets as held for sale, in 2013, the Company performed a detailed review of its excess research and development equipment with the assistance of a third party and determined that the estimated net sales price, less selling costs, was below the carrying value. A charge of $1,571,000 was recorded in the fourth quarter of 2013 to research and development expenses to reduce the value of held for sale assets to their estimated fair market value net of selling expenses. The Company reclassified the adjusted carrying value to Assets Held for Sale as of December 31, 2013.

In March 2014, the Company sold its Hungarian subsidiary including all of the equipment at this facility classified as assets held for sale. The sale of the assets was recorded at their adjusted carrying value of $779,000.

During the second quarter of 2014, the Company made changes to its plan to sell the U.S. excess research and development equipment and certain equipment was retained by the Company and reclassified approximately $333,000 of equipment as Held for Use. Some of the unutilized equipment reclassified as Held for Use was exchanged for more suitable research equipment. In addition to the exchange of equipment, the Company recognized a loss of approximately $188,000. As a result of the above changes to its plan to use the excess research and development equipment, the Company determined that further impairment charges should be recorded in the second quarter of 2014. Total impairment charges related to excess research and development equipment totaled $568,000 for the three months ended June 30, 2014. The Company revised the estimated fair value for the sale of the remaining equipment as Held for Sale to be approximately $292,000.

Total assets reclassified as Assets Held for Sale at June 30, 2014, were (in thousands):

Assets Held for Sale	Adjusted Carrying Value
Research & development equipment classified as held for sale at December 31, 2013	$2,179
Hungarian assets sold for the three months ended March 31, 2014	(779)
U.S. assets sold for the three months ended March 31, 2014	(6)
Research & development equipment classified as held for sale at March 31, 2014	$1,394
Research & development equipment reclassified as held for use	(333)
U.S. assets sold for the three months ended June 30, 2014	(13)
Loss on exchange of assets	(188)
Change in estimated fair value of research equipment during three months ended June 30, 2014	(568)
Research & development equipment classified as held for sale at June 30, 2014	$292

Assets held for sale located in the United States were sold for proceeds of $4,000 for the six months ended June 30, 2014, resulting in a loss on the sale of approximately $2,000.

8. Sale of Hungarian Subsidiary

On March 13, 2014, the Company entered into an agreement with Intrexon Corporation to sell 100% of its equity interests in its Hungarian subsidiary, Codexis Laboratories Hungary Kft. On March 15, 2014, the sale transaction closed and the Company received cash proceeds of $1,500,000 from the sale and recorded a net gain of $760,000 which was included in research and development expenses in connection with the sale. As part of the purchase, the buyer obtained all the Hungarian assets held for sale and assumed all employment and facility lease related contract obligations. There were no transaction related costs incurred other than legal fees, which were recorded in selling, general and administrative expenses.

9. Related Party Transactions

Exela PharmaSci, Inc.

The Company signed a commercialization agreement with Exela PharmaSci, Inc. (“Exela”) in 2007, whereby Exela agreed to pay to the Company a contractual percentage share of Exela’s net profit from the sales of licensed products. CMEA Ventures, which owns approximately 7.6% of the Company's common stock, owns over 10% of Exela’s outstanding capital stock. Thomas R. Baruch, one of the Company's directors, also serves on the board of directors of Exela and, as a limited partner in the CMEA Ventures funds that hold such shares of Exela, has an indirect pecuniary interest in the shares of Exela held by CMEA Ventures.

The Company recognized revenue from the revenue sharing arrangement of $2.1 million for the three months and $4.1 million for the six months ended June 30, 2014, and $0.4 million for the three months and $1.5 million for the six months ended June 30, 2013. The Company had no receivables from Exela at June 30, 2014.

Alexander A. Karsner

Alexander A. Karsner is a director of Codexis and provided consulting services to the Company for the six months ended June 30, 2014 and 2013. Consulting services paid to Mr. Karsner was $30,000 for each of the three months ended June 30, 2014 and 2013, and $60,000 for each of the six months ended June 30, 2014 and 2013. The Company owed Mr. Karsner $30,000 at June 30, 2014, which is reflected in accounts payable in its condensed consolidated balance sheet.

10. Commitments and Contingencies

Operating Leases

The Company's headquarters are located in Redwood City, California where it leases approximately 107,000 square feet of office and laboratory space in four buildings within the same business park from Metropolitan Life Insurance Company ("MetLife"). The Company entered into the initial lease with MetLife for a portion of this space in 2004 and the lease has been amended numerous times since then to add and subtract space and amend the terms of the lease, with the latest amendment

being in 2012. The various terms for the spaces under the lease have expiration dates that range from January 2017 through January 2020.

As of December 31, 2012, the Company incurred $3,600,000 of capital improvement costs related to the facilities leased from MetLife and received $3,100,000 of reimbursements from the landlord out of the tenant improvement and HVAC allowances for the completed construction. The reimbursements are being amortized on a straight line basis over the term of the lease as a reduction in rent expense. As of June 30, 2014, the lease incentive obligation remaining was classified with other long-term liabilities on the condensed consolidated balance sheet for $1,948,000.

As part of a restructuring plan that the Company undertook in the third quarter of 2012, the Company began the process of vacating the 101 Saginaw Drive, Redwood City, California space and marketed the space for sublease. In March 2014, the Company entered into a three-year sublease agreement with a subtenant, which terminates in April 2017, with the option to extend for two consecutive one-year terms thereafter. Sublease income is being recorded as a reduction of the Company's rent expense and was $0.1 million for the three and six months ended June 30, 2014.

The Company's lease obligations for the facility in Hungary were transferred to the buyer of the Company's Hungarian subsidiary in March 2014.

Rent expense is recognized on a straight-line basis over the term of the lease. In accordance with the terms of the amended lease agreement, the Company exercised the Company's right to deliver letters of credit in lieu of a security deposit. The letters of credit in the amount of $707,000 as of June 30, 2014 were collateralized by deposit balances held by the Company's bank. These deposits are recorded as restricted cash on the condensed consolidated balance sheets.

As of June 30, 2014, the Company had estimated asset retirement obligations of approximately $109,000 from operating leases, requiring the Company to restore the facilities that the Company is renting to their original form. The Company is expensing the asset retirement obligation over the terms of the respective leases. The Company reviews the estimated obligation each period and makes adjustments for any changes in estimates.

Future minimum payments under noncancellable operating leases are as follows at June 30, 2014 (in thousands):

	Lease payments
6 months ending December 31,	
2014	$1,338
Years ending December 31,	
2015	2,743
2016	2,827
2017	2,677
2018	2,736
2019 and beyond	3,054
Total	$15,375

Litigation

The Company has 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, the Company has 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 the condensed consolidated financial position, results of operations or cash flows.

Other Contingencies

On July 30, 2013, Dyadic International, Inc. ("Dyadic") delivered notice to the Company alleging that it is in breach under the Dyadic license agreement and stating that Dyadic intended to terminate the Dyadic license agreement in 60 days if the alleged breach was not cured to Dyadic's satisfaction. This notice was subsequently withdrawn by Dyadic in February 2014 in light of the Company's decision to wind down its CodeXyme® cellulase enzyme program. Although the Company does not believe that the use of the licensed technology in its CodeXyme® cellulase enzyme program constituted a breach of the Dyadic license agreement, the Company can make no assurances that Dyadic will not make such allegations again in the future, or regarding the Company's ability to resolve any possible future disputes with Dyadic on commercially reasonable terms or the Company's ability to dispute with success, through legal action or otherwise, any possible future allegations by Dyadic that such use may have breached the Dyadic

license agreement.

In November 2009, one of the Company's foreign subsidiaries sold intellectual property to Codexis, Inc. Under the local laws, the sale of intellectual property to a nonresident legal entity is deemed an export and is not subject to VAT. However, there is uncertainty regarding whether the items sold represented intellectual property or research and development services, which would subject the sale to VAT. The Company believes that the uncertainty results in an exposure to pay VAT that is more than remote but less than likely to occur and, accordingly, has not recorded an accrual for this exposure. If the sale is deemed a sale of research and development services, the Company could be obligated to pay an estimated amount of $600,000.

Indemnifications

The Company is required to recognize a liability for the fair value of any obligations the Company assumes upon the issuance of a guarantee. The Company has certain agreements with licensors, licensees and collaborators that contain indemnification provisions. In such provisions, the Company typically agrees to indemnify the licensor, licensee and collaborator against certain types of third party claims. The maximum amount of the indemnifications is not limited. The Company accrues for known indemnification issues when a loss is probable and can be reasonably estimated. There were no accruals for expenses related to indemnification issues for any periods presented.

11. Stock-Based Compensation

Stock Plans

In 2002, the Company adopted the 2002 Stock Plan (the “2002 Plan”), pursuant to which its board of directors issued incentive stock options, non-statutory stock options and stock purchase rights to its employees, officers, directors and consultants. In March 2010, the Company's board of directors and stockholders approved the 2010 Equity Incentive Award Plan (the “2010 Plan”), which became effective upon the completion of its initial public offering ("IPO") in April 2010. The 2010 Plan is similar to the 2002 Plan but allows for issuance of additional awards, such as a restricted stock unit (“RSU”), performance stock unit (“PSU”), deferred stock award and stock appreciation rights. 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 the Company's 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. As of June 30, 2014, total shares remaining available for issuance were approximately 5.4 million.

Performance Stock Units

PSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. Total compensation expense for PSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company's common stock, commencing at the inception of the requisite service period. The fair value of such an award is equal to the closing price of our common stock on the grant date. At the end of the performance period, if the goals are attained, the awards are granted. The Company recognizes compensation expense of these awards on a straight-line basis over the vesting period.

The Company awarded 775,000 PSUs for the six months ended June 30, 2014 and 523,048 PSUs for the six months ended June 30, 2013 under the 2010 Plan based upon achieving certain cash flow performance goals for each respective year. These PSUs vest such that one-half of the PSUs subject to the award vest one year following the grant, and the remainder of the PSUs vest two years following the grant, subject to the recipient’s continued service to the Company on each vesting date and the Company achieving the performance goals. If the performance goal is achieved at the threshold level the number of shares issuable in respect of the PSUs would be equal to half the number of PSUs granted. If the performance goal is achieved at the target level, the number of shares issuable in respect of the PSUs would be equal to the number of PSUs granted. If the performance goal is achieved at the superior level, the number of shares issuable in respect of the PSUs would be equal to two times the number PSUs granted. The number of shares issuable upon achievement of the performance goal at the levels between the threshold and target levels or target level and superior levels is determined using linear interpolation. Achievement below the threshold level results in no shares being issuable in respect of the PSUs.

During 2013, the Company revised its estimate of forecasted performance criteria and concluded that the performance target would not likely be achieved for the PSUs that were granted in 2013. The 358,308 outstanding PSUs that were granted in 2013 were canceled in February 2014 when the Company determined that it had not attained the threshold performance target for the 2013 awards.

Stock-Based Compensation Expense

The following table presents total stock-based compensation expense by functional areas included in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Research and development	$268	$502	$507	$1,706
Selling, general and administrative	1,078	760	2,068	1,029
Total	$1,346	$1,262	$2,575	$2,735

Total stock-based compensation expense capitalized to inventory was not material for the periods presented.

The following table presents total stock-based compensation expense by security types included in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	$320	$531	$596	$1,141
RSUs and RSAs	792	604	1,661	1,296
PSUs	234	127	318	298
Total	$1,346	$1,262	$2,575	$2,735

As of June 30, 2014, unrecognized stock-based compensation expense, net of expected forfeitures, was: $2.0 million related to unvested employee stock options; $3.8 million related to unvested RSUs and RSAs; and $0.9 million related to unvested PSUs.

Valuation Assumptions

The range of weighted-average assumptions used to estimate the fair value of employee stock options granted was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Expected term (in years)	—	6.0	6.0	6.0
Volatility	—	.6520	0.6394	0.6520
Risk-free interest rate	— %	1.13 %	0.19 %	1.07%-1.13%
Dividend yield	— %	— %	— %	— %
Weighted-average estimated fair value of stock options granted	$—	$1.26	$1.15	$1.36

No employee stock options are shown for the three months ended June 30, 2014, as no stock options were granted during this period.

12. Stockholders' Equity

Exercise of options

For the six months ended June 30, 2014, 61,331 shares were exercised at a weighted-average exercise price of $1.01 per share, for total cash proceeds of less than $0.1 million.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, net of tax, and other comprehensive income are summarized as follows (in thousands):

	Net Unrealized Gains on Marketable Securities	Accumulated Other Comprehensive Income
Balance at December 31, 2013	$(32)	$(32)
Other comprehensive income	405	405
Amounts reclassified to interest income	1	1
Balance at June 30, 2014	$374	$374

Warrants

The Company's outstanding warrants are exercisable for common stock at any time during their respective terms. As of June 30, 2014, the following warrants remain outstanding:

June 30, 2014

Issue Date	Shares Subject to warrants	Exercise Price per Share	Expiration
July 17, 2007	2,834	$12.45	February 9, 2016
September 28, 2007	72,727	$8.25	September 28, 2017

13. Segment Reporting

The following table represents revenues that are identified in the corresponding geographic regions based on the customer's ship-to locations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
United States	$4,197	$2,181	$7,771	$4,301
Asia				
India	324	289	411	2,508
Singaore	—	3,073	—	6,721
Others	339	254	680	543
Europe				
Ireland	784	—	2,744	1,219
Others	910	1,177	2,022	3,163
Other	16	—	16	—
Total Revenues	$6,570	$6,974	$13,644	$18,455

The following table represents identifiable long-lived assets in the corresponding regions (in thousands):

	June 30, 2014	December 31, 2013
Long-lived assets		
United States	$12,726	$16,189
Europe (1)	—	2,123
Total long-lived assets	$12,726	$18,312

(1) Primarily Hungary

14. Restructuring

Q4 2013 Restructuring Plan

During the fourth quarter of 2013, the Company's board of directors approved and committed to a restructuring plan (the “Q4 2013 Restructuring Plan”) to reduce its cost structure resulting from the Company's decision to begin winding down its CodeXyme® cellulase enzymes program, which included a total of 15 employee terminations in the United States. For the year ended December 31, 2013, costs of $809,000 of employee severance and other termination benefits have been recognized, consisting of $573,000 in research and development expenses and $236,000 in selling, general and administrative expenses. For the three months ended March 31, 2014, the Company made severance payments of $238,000 and there was no remaining liability at March 31, 2014. Associated with the Q4 2013 Restructuring Plan, the Company announced it was selling certain research and development assets that have become excess to future requirements (see Note 7 "Assets Held for Sale"). The Company does not anticipate recording any further costs under this restructuring plan.

The following table summarizes the activity in the restructuring accrual for the three months ended March 31, 2014 and the three months ended June 30, 2014 (in thousands):

	Q4 2013 Restructuring Plan
Balance at December 31, 2013	$277
Cash payments for the first quarter of 2014	(238)
Adjustments to previously accrued charges	(39)
Balance at March 31, 2014	$—
Cash payments for the second quarter of 2014	$—
Adjustment to previously accrued charges	$—
Balance at June 30, 2014	$—

15. Subsequent Event

In July 2014, the Company and entered into a platform technology license agreement (the "License Agreement") with GlaxoSmithKline (GSK).

Under the terms of the License Agreement, the Company granted GSK a license to use the Company's proprietary CodeEvolver® protein engineering platform technology.

The Company is eligible to receive up to $25.0 million, $6.0 million of which was paid upfront after executing the License Agreement and an additional $19.0 million to be received over the next two years subject to satisfactory completion of technology transfer milestones. The Company also has the potential to receive numerous additional milestone payments that range from $5.75 million to $38.5 million per project based on GSK's successful application of the licensed technology. In addition, the Company will be eligible to receive royalties based on net sales, if any, of a limited set of products developed by GSK using the Company's CodeEvolver protein engineering platform technology.

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, 2013 included in our Annual Report on Form 10-K filed with the SEC on March 13, 2014. 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 set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 13, 2014, as incorporated herein and referenced 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.

Business Overview

We develop biocatalysts for the pharmaceutical and fine chemicals markets. Our proven technologies enable scale-up and implementation of biocatalytic solutions to meet customer needs for rapid, cost-effective and sustainable process development, from research to manufacturing.

Biocatalysts are enzymes or microbes that initiate and/or accelerate chemical reactions. Manufacturers have historically used naturally occurring biocatalysts to produce many goods used in everyday life. However, inherent limitations in naturally occurring biocatalysts have restricted their commercial use. Our proprietary technology platform is able to overcome many of these limitations, allowing us to evolve and optimize biocatalysts to perform specific and desired chemical reactions at commercial scale.

We have commercialized our technology and products in the pharmaceuticals market, which is our primary business focus. Our pharmaceutical customers, which include several of the largest global pharmaceutical companies, use our technology, products and services in their manufacturing process development, including in the production of some of the world's best selling and fastest growing drugs.

We have recently begun to use our technology to develop biocatalysts for use in the fine chemicals market. The fine chemicals market is similar to our pharmaceutical business and consists of several large market segments, including food, animal feed, polymers, flavors and fragrances and agricultural chemicals.

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 that 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.

Results of Operations Overview

Revenues for the second quarter of 2014 were $6.6 million, a 6% decrease from $7.0 million of revenues recorded in the second quarter of 2013. Biocatalyst product revenue in the second quarter of 2014 was $2.8 million, a 44% decrease from $4.9 million in the prior year quarter. The decrease was primarily due to the expected loss of our biocatalyst and intermediate sales to customers in the hepatitis C drug marketplace, which was previously disclosed in our Quarterly Report on Form 10 for the quarterly period ended March 31, 2104. Biocatalyst product gross margins in the second quarter were 24%, a decrease compared to 27% in the prior year quarter.

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Biocatalyst research and development revenues in the second quarter of 2014 were $1.7 million, an increase of 4%, compared with $1.6 million for the second quarter of 2013. The increase was primarily due to an increase in services provided to key customers.

Revenue sharing arrangement revenues in the second quarter of 2014 were $2.1 million, an increase of 410%, compared with $0.4 million for the second quarter of 2013. The increase was driven by an increase in sales of argatroban through our partner Exela, a related party.

Research and development expenses in the second quarter of 2014 were $7.7 million, a decrease of 10% from $8.6 million for the second quarter of 2013. The results for the second quarter of 2014 include non-recurring non-cash impairment charges of $2.5 million, of which $1.8 million was related to our write down of assets associated with our CodeXol program. Excluding non-recurring charges, research and development expenses decreased $3.3 million or 38% in the second quarter of 2014 compared to the prior year second quarter. The decrease was primarily due to headcount reductions and write down or disposal of excess equipment undertaken as part of the company-wide restructuring implemented in late 2013.

Selling, general and administrative expenses in the second quarter of 2014 were $5.6 million, a decrease of $1.5 million or 22% compared to $7.2 million in the second quarter of 2013. The decrease was primarily due to headcount reductions and reductions in other discretionary expenses undertaken as part of the company-wide restructuring implemented in late 2013.

Net loss for the second quarter of 2014 was $8.5 million or a loss of $0.22 per share, based on 38.0 million weighted average common shares outstanding in the second quarter of 2014. This compares favorably to a net loss of $12.6 million, or a loss of $0.33 per share, for the second quarter of 2013. The reduced loss is primarily related to reduced research spending as a result of exiting the CodeXyme® cellulase enzyme program in the fourth quarter of 2013.

Cash, cash equivalents and marketable securities balances decreased to $21.5 million as of June 30, 2014 compared to$25.9 million as of December 31, 2013. Net cash used in operating activities decreased to $6.3 million in the six months ended June 30, 2014, as compared to $10.6 million during in the six months ended June 30, 2013. We are actively collaborating with new and existing pharmaceutical customers and we believe that we can utilize our products and services, and develop new products and services that will increase our revenue and gross margins in future periods. We believe that, based on our current level of operations, 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.

GlaxoSmithKline (GSK) platform technology license agreement

In July 2014, we entered into a platform technology license agreement (the "License Agreement") with GlaxoSmithKline (GSK). Under the terms of the License Agreement, we granted GSK a non-exclusive, worldwide license to use our CodeEvolver® Platform Technology to develop novel enzymes for (a) the manufacture and commercialization of compounds, molecules and products for the treatment of any human disease or medically treatable human condition, (b) the prophylaxis, diagnosis, or treatment of any human disease or medically treatable human condition, and (c) the research and development of compounds, molecules and products for the treatment of any human disease or medically treatable human condition. This license to GSK is exclusive for the use of the CodeEvolver® Platform Technology to develop novel enzymes for the synthesis of small-molecule compounds owned or controlled by GSK.

We are eligible to receive up to $25.0 million over approximately the next two years, $6.0 million of which was paid upfront in July 2014 after executing the License Agreement and an additional $19 million subject to satisfactory completion of technology transfer milestones. We also have the potential to receive numerous additional milestone payments that range from $5.75 million to $38.5 million per project based on GSK's successful application of the licensed technology. We do not expect to begin receiving these potential additional milestone payments, if any, during the first two years of the License Agreement. We will also be eligible to receive royalties based on net sales, if any, of a limited set of products developed by GSK using our CodeEvolver® protein engineering platform technology. In addition, for up to three years following the end of the three-year period during which we will transfer our CodeEvolver® Platform Technology to GSK, GSK can exercise an option, upon payment of certain option fees, that would extend GSK’s license to include certain improvements to the CodeEvolver® Platform Technology that arise during such period. In total, we expect to receive $5.0 million in cash during the remainder of 2014 as a result of the

License Agreement.

The term of the License Agreement continues, unless earlier terminated, until the expiration of all payment obligations under the License Agreement. At any time following the completion of the first technology transfer stage, GSK can terminate the License Agreement by providing 90 days written notice to us. If GSK exercises this termination right during the three-year technology transfer period, GSK will make a one-time termination payment to us.

Sale of Hungarian Subsidiary

On March 13, 2014, we entered into an agreement with Intrexon Corporation to sell 100% of our equity interests in our Hungarian subsidiary, Codexis Laboratories Hungary Kft. On March 15, 2014, the sale transaction closed and we received gross proceeds of $1.5 million from the sale and recorded a net gain of $0.8 million which was included in research and development expenses in connection with the sale. As part of the purchase, the buyer assumed all employment and facility lease related contract obligations. There were 32 employees at the time of the sale. There were no transaction related costs incurred other than legal fees, which were recorded in selling, general and administrative expenses. As a result of the sale of our Hungarian subsidiary, we estimate that we will reduce our operating expenses, not including depreciation, by approximately $3.0 million per year. Prior to the sale of our Hungarian subsidiary, we transferred certain of its equipment to another European subsidiary of the Company and incurred a VAT liability of approximately $0.4 million. We paid this VAT amount in July 2014 and expect to recover the VAT payment within the next 12 months.

CodeXyme® Cellulase Enzyme and CodeXol® Detergent Alcohols Businesses

During 2013 we maintained a reduced level of spending in biofuels research while seeking to obtain funding or sell the rights for this business. In the fourth quarter of 2013, we announced that we would begin winding down our CodeXyme® cellulase enzyme program and stop further development of our CodeXol® detergent alcohols program. As a result, we committed to the Q4 2013 Restructuring Plan to reduce our cost structure to align with our projected future revenues from our pharmaceutical business. The Q4 2013 Restructuring Plan included a reduction of employees in the United States and Hungary and the sale of excess assets which will reduce future research and development costs and related expenditures. We recorded restructuring charges of $0.8 million in the year ended December 31, 2013, which included a total of 15 employee terminations in the United States. We also recorded $1.6 million in asset impairment charges related to excess equipment reclassified as held for sale as of December 31, 2013.

Plans to utilize certain CodeXol assets changed in the second quarter of 2014 such that assets with a carrying value of $1.8 million were no longer recoverable. Accordingly, we recorded an impairment charge of $1.8 million, reducing the carrying value to zero, which is our estimated fair value of the assets, net of costs. The impairment charge of was recorded within Research and Development Expense for the three and six months ended June 30, 2014.

Arch Collaboration

Since 2006, Arch Pharma Labs of Mumbai, India has manufactured substantially all of our commercialized intermediates and APIs for sale to generic and innovator pharmaceutical manufacturers. Prior to November 2012, Arch produced statin-family API's and intermediates for us and we sold these directly to end customers primarily in India. In November 2012, we entered into a new commercial arrangement with Arch (the "New Arch Enzyme Supply Agreement") whereby we agreed to supply Arch with enzymes for use in the manufacture of certain of Arch's products and Arch agreed to market these products directly to end customers. We recognized product revenue for the sale of enzyme inventory to Arch pursuant to the New Arch Enzyme Supply Agreement of $0.2 million for the three months and six months ended June 30, 2014, and nil for the three months and $2.1 million for the six months ended June 30, 2013, as Biocatalyst Product revenue. We do not anticipate significant Arch revenues in future periods.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions in the preparation of our consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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	
	2014	2013	2014	2013	2014	2013	2014	2013
Revenues:								
Biocatalyst products	$2,776	$4,948	42 %	71 %	$5,761	$14,085	42 %	76 %
Biocatalyst research and development	1,666	1,609	25 %	23 %	3,812	2,909	28 %	16 %
Revenue sharing arrangement	2,128	417	33 %	6 %	4,071	1,461	30 %	8 %
Total revenues	6,570	6,974	100 %	100 %	13,644	18,455	100 %	100 %
Costs and operating expenses:								
Cost of biocatalyst product revenues	2,123	3,631	32 %	52 %	4,647	9,296	34 %	50 %
Research and development	7,733	8,624	118 %	124 %	12,567	15,946	92 %	86 %
Selling, general and administrative	5,625	7,169	86 %	103 %	11,737	15,293	86 %	83 %
Total costs and operating expenses	15,481	19,424	236 %	279 %	28,951	40,535	212 %	220 %
Loss from operations	(8,911)	(12,450)	(136)%	(179)%	(15,307)	(22,080)	(112)%	(120)%
Interest income	3	16	— %	— %	12	43	— %	— %
Other expenses	(8)	(183)	— %	(3)%	(126)	(268)	(1)%	(1)%
Loss before income taxes	(8,916)	(12,617)	(136)%	(181)%	(15,421)	(22,305)	(113)%	(121)%
Benefit from income taxes	(437)	(12)	(7)%	— %	(567)	(77)	(4)%	— %
Net loss	$(8,479)	$(12,605)	(129)%	(181)%	$(14,854)	$(22,228)	(109)%	(120)%

Revenues

Our revenues are comprised of biocatalyst product revenues, biocatalyst research and development revenues and revenue sharing arrangements.

- Biocatalyst product revenues consist of sales of biocatalysts intermediates, APIs and Codex Biocatalyst Panels and Kits.
- Biocatalyst research and development revenues include license, technology access and exclusivity fees, FTE payments, milestones, royalties, and optimization and screening fees.
- Revenue sharing arrangement revenues are recognized based upon sales of licensed products by the Company's revenue share partner Exela.

	Three months ended June 30,		Change		Six months ended June 30,		Change	
(In Thousands)	2014	2013	$	%	2014	2013	$	%
Biocatalyst products	$2,776	$4,948	$(2,172)	(44)%	$5,761	$14,085	$(8,324)	(59)%
Biocatalyst research and development	1,666	1,609	57	4 %	3,812	2,909	903	31 %
Revenue sharing arrangements	2,128	417	1,711	410 %	4,071	1,461	2,610	179 %
Total revenues	$6,570	$6,974	$(404)	(6)%	$13,644	$18,455	$(4,811)	(26)%

Total revenues decreased $0.4 million for the three months ended June 30, 2014, and $4.8 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The decrease was primarily due to decreased biocatalyst product sales, which was partially offset by an increase in revenue sharing arrangements.

Biocatalyst product revenues decreased $2.2 million for the three months ended June 30, 2014, and $8.3 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The decrease was primarily due to the expected loss of

our biocatalyst and intermediate sales to customers in the hepatitis C drug marketplace, which was previously disclosed in our Quarterly Report on Form 10 for the quarterly period ended March 31, 2104, as well as, deliveries to Merck for $6.2 million shipped in the six months ended June 30, 2013 to conclude a campaign for Boceprevir products that were delivered over a period of two years.

While we expect biocatalyst product sales to increase in future periods, the timing of orders and delivery of product will continue to fluctuate from quarter-to-quarter, and may not be comparable on a sequential or year over year basis.

Biocatalyst research and development revenues increased $0.1 million during three months ended June 30, 2014, and $0.9 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The increase was primarily due to an increase in services provided to key customers.

Revenue sharing arrangement revenues increased $1.7 million for the three months ended June 30, 2014, and $2.6 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The increase was driven by an increase in sales of argatroban through our partner Exela, a related party.

Cost of Biocatalyst Products Gross Margin

Cost of biocatalyst 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 biocatalyst product revenues.

	Three months ended June 30,		Change		Six Months Ended June 30,		Change	
(In Thousands)	2014	2013	$	%	2014	2013	$	%
Biocatalyst products revenues	$2,776	$4,948	$(2,172)	(44)%	$5,761	$14,085	$(8,324)	(59)%
Cost of biocatalyst products revenues	2,123	3,631	(1,508)	(42)%	4,647	9,296	(4,649)	(50)%
Biocatalyst products gross profit	$653	$1,317	$(664)	(50)%	$1,114	$4,789	$(3,675)	(77)%
Product gross margin %	24%	27%			19%	34%		

Our cost of biocatalyst products decreased to $2.1 million for the three months and $4.6 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The decreases were primarily due to the decrease of contract manufacturing costs related to reduced hepatitis C product sales, as well as costs associated with the sale of inventory to Arch in the first quarter of 2013.

Our product gross margins decreased to 24% for the three months and 19% for the six months ended June 30, 2014, as compared to the same periods in 2013. This decrease was due to a less favorable sales mix from lower margin products.

Operating Expenses

	Three months ended June 30,		Change		Six months ended June 30,		Change	
(In Thousands)	2014	2013	$	%	2014	2013	$	%
Research and development	$7,733	$8,624	$(891)	(10)%	$12,567	$15,946	$(3,379)	(21)%
Selling, general and administrative	5,625	7,169	(1,544)	(22)%	11,737	15,293	(3,556)	(23)%
Total operating expenses	$13,358	$15,793	$(2,435)	(15)%	$24,304	$31,239	$(6,935)	(22)%

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.

Research and development expenses decreased $0.9 million for the three months ended June 30, 2014, and $3.4 million for the six months ended June 30, 2014, as compared to the same periods in 2013. The results for the second

quarter of 2014 include non-cash impairment charges of $2.5 million, primarily related to write down of assets associated with our CodeXol program. Excluding non-recurring charges, research and development expenses decreased $3.3 million or 38% in the second

quarter of 2014 compared to the prior year second quarter. The decrease was primarily due to headcount reductions and write down or disposal of excess equipment undertaken as part of the company-wide restructuring implemented in late 2013. Research and development expenses included stock-based compensation expense of $0.3 million for the three months ended and $0.5 million for the six months ended June 30, 2014, as compared to $0.5 million for the three months ended and $1.7 million for the six months ended June 30, 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation expenses (including stock-based compensation), hiring and training costs, consulting and outside services expenses (including audit and legal counsel related costs), marketing costs, building lease costs, depreciation and amortization expenses, and travel and relocation expenses.

Selling, general and administrative expenses decreased $1.5 million for the three months ended June 30, 2014 and $3.6 million for the six months ended June 30, 2014, as compared to the same periods in 2013. These decreases were primarily due to headcount reductions and reductions in other discretionary expenses undertaken as part of the company-wide restructuring implemented in late 2013.

lower outside services and reduced headcount as a result of the restructuring plans completed by the Company throughout 2013. Selling, general and administrative expenses included stock-based compensation expense of $0.8 million for the three months ended June 30, 2014, and $1.0 million six months ended June 30, 2014, as compared to $2.1 million for the three months ended June 30, 2013 and $1.0 million for the six months ended June 30, 2013.

Interest income and other expenses

	Three months ended June 30,		Change		Six months ended June 30,		Change	
(In Thousands)	2014	2013	$	%	2014	2013	$	%
Interest income	$3	$16	$(13)	(81)%	$12	$43	$(31)	(72)%
Other expenses	(8)	(183)	175	(96)%	(126)	(268)	142	(53)%
Total other income (expense)	$(5)	$(167)	$162	(97)%	$(114)	$(225)	$111	(49)%

Interest income decreased $13,000 for the three months ended June 30, 2014 and $31,000 for the three months ended June 30, 2014, as compared to the same periods in 2013. The decreases were primarily due to lower investment balances.

Other expenses decreased $0.2 million for the three months ended June 30, 2014, and $0.1 million for the six months ended June 30, 2014, as compared to the same periods in 2013. These decreases were primarily related to fluctuations in foreign currency.

Benefit from income taxes

We recognized an income tax benefit of $0.4 million for the three months and $0.5 million for the six months ended June 30, 2014, as compared to an income tax benefit of $0.01 million and $0.1 million for the comparable period in 2013, respectively. The increases are primarily due tot he releasing of reserves related to uncertain tax positions from previous years. The total tax benefit for the three-month and six-month period ended June 30, 2014 primarily consist of income tax benefit attributable to foreign operations offset by the tax effect on the unrecognized gain from our investment in CO_2 Solutions, as well as the recognition of previously unrecognized tax benefits. We continue to recognize a full valuation allowance against our net deferred tax assets as we believe that it is more likely than not that the majority of our deferred tax assets will not be realized.

For the three months ended June 30, 2014, we recognized approximately $0.4 million of previously unrecognized tax benefits related to our operations in Singapore. There were no other material changes to our reserves for unrecognized tax benefits for the quarter ended June 30, 2014, and we do not anticipate any further material changes to our reserves for unrecognized tax benefits during 2014.

Liquidity and Capital Resources

Liquidity is the measurement of our ability to meet potential cash requirements, fund the planned expansion of our operations and acquire businesses. Our sources of cash include operations and stock option exercises. We actively

manage our cash usage and investment of liquid cash to ensure the maintenance of sufficient funds to meet our daily needs. The majority of

our cash and investments are held in U.S. banks and our foreign subsidiaries maintain a limited amount of cash in their local banks to cover their short-term operating expenses.

(In Thousands)	June 30, 2014	December 31, 2013
Cash and cash equivalents	$20,090	$22,130
Marketable securities, current	$—	$3,005
Accounts receivable, net	$2,944	$5,413
Accounts payable, accrued compensation and accrued liabilities	$8,140	$9,198
Working capital	$16,113	$24,582
Marketable securities, non-current	$1,453	$795

	Six months ended June 30,	
(In Thousands)	2014	2013
Net cash used in operating activities	$(6,339)	$(10,560)
Net cash provided by investing activities	4,580	10,668
Net cash (used in) provided by financing activities	(281)	281
Net increase (decrease) in cash and cash equivalents	$(2,040)	$389

We have historically experienced negative cash flows from operations as we continue to invest in key technology development projects, improvements to our biocatalysis technology platform, and expand our business development and collaboration with new pharmaceutical customers. Our cash flows from operations will continue to be affected principally by sales and gross margins from biocatalyst product sales to pharmaceutical customers, as well as our headcount costs, primarily in research and development. Our primary source of cash flows from operating activities is cash receipts from our customers for purchases of biocatalyst products or biocatalyst research and development services. Our largest uses of cash from operating activities are for employee-related expenditures, rent payments, inventory purchases to support our product revenue and non-payroll research and development costs.

Cash, cash equivalents and marketable securities balances totaled $21.5 million as of June 30, 2014, as compared to $25.9 million as of December 31, 2013.

We are actively collaborating with new and existing pharmaceutical customers and we believe that we can utilize our current products and services, and develop new products and services, that will increase our revenue and gross margins in future periods.

We believe that, based on our current level of operations, 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. However, 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, our spending required 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 potential costs for filing, prosecution, enforcement and defense of patent claims, if necessary.

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 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.

Cash Flows from Operating Activities

Cash used in operating activities was $6.3 million for the six months ended June 30, 2014, which resulted from a net loss of $14.9 million, adjusted for non-cash charges depreciation and amortization of $3.8 million, stock-based compensation of $2.6 million and the gain on the sale of the Hungarian subsidiary of $0.8 million, and changes in working capital of $8.5 million.

Cash used in operating activities was $10.6 million for the six months ended June 30, 2013, which resulted from a net loss of $22.2 million, adjusted for non-cash depreciation and amortization of $5.2 million, stock-based compensation of $2.7 million and impairment of property and equipment and assets held for sale of $2.6 million. Changes in working capital components of approximately $3.6 million. The changes in working capital were primarily due to a decrease in accounts receivables of $6.0 million, partially offset by a decrease in accounts payable and accrued compensation of $2.3 million.

Cash Flows from Investing Activities

Cash flows from investing activities primarily relate to our investments in marketable securities and purchases and sales of property and equipment primarily for research and development.

Cash provided by investing activities was $4.6 million for the six months ended June 30, 2014, which mainly resulted from the maturities of our investment securities of $3.0 million and proceeds from the sale of our Hungarian subsidiary of $1.5 million.

Cash provided by investing activities was $10.7 million for the six months ended June 30, 2013, which mainly resulted from the proceeds from our marketable securities of $10.9 million and the decrease of our restricted cash of $0.4 million due to the reduction of the available credit under the Company's working capital line, offset by capital expenditures of $0.6 million.

Cash Flows from Financing Activities

Cash used in financing activities was $0.3 million for the six months ended June 30, 2014, which was the result of the payment of taxes related to the net share settlement of equity awards, partially offset by the proceeds from exercises of employee stock options.

Cash provided by financing activities was $0.3 million during each of the six months ended six months ended June 30, 2013, which was a result of proceeds from exercises of employee stock options.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of June 30, 2014.

Contractual Obligations

Our contractual obligations primarily arise from operating leases primarily related to our leased facilities in Redwood City, California. There have been no significant changes in our payments due under contractual obligations, compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

Our cash flows 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 for the three or six months ended June 30, 2014. This is discussed in further detail in our Annual Report in Form 10-K filed with the SEC on March 13, 2014.

Equity Price Risk

As described in Note 4 "Cash Equivalents and Marketable Securities" and Note 5 "Fair Value Measurements" to the condensed consolidated financial statements, we have an investment in common shares of CO2 Solutions, whose shares are publicly traded in Canada on the TSX Venture Exchange. As of June 30, 2014, the fair value of our investment in CO2 Solutions’ common stock was $1.5 million and our carrying cost for the investment was $0.6 million.

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This investment is exposed to fluctuations in both the market price of CO2 Solutions' common shares and changes in the exchange rates between the U.S. dollar and the Canadian dollar. As of June 30, 2014 the fair value of our investment in CO2 Solutions' common stock was $1.5 million. The effect of a 10% adverse change in the market price of CO2 Solution's common shares as of June 30, 2014 would have been an unrealized loss of approximately $0.1 million, recognized as a component of our condensed consolidated 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, 2014 would have been an unrealized loss of approximately $0.1 million, recognized as a component of our condensed consolidated statements of comprehensive income.

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 principal executive officer and our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and our principal financial and accounting officer, 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 principal executive officer and our principal financial and accounting officer concluded that these disclosure controls and procedures were effective as of June 30, 2014 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

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, even if determined effective and no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives to prevent or detect misstatements. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2013, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There are no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2013 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company's stock.

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

(a) Unregistered Sales of Equity Securities

Not applicable.

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

On April 27, 2010, we closed our IPO of our common stock 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). As of June 30, 2014, we have used approximately $48 million of the net offering proceeds for purchase and installation of machinery and equipment, continued investments in research and development, payment of restructuring costs, payment of taxes related to net share settlement of equity awards and working capital.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

See the Exhibit Index on the page immediately following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed as part of this Quarterly Report, which Exhibit Index is incorporated herein by reference.

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 8, 2014

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

Date: August 8, 2014

By: /s/ David McCaman
David McCaman
Vice President and Corporate Controller
(principal financial and accounting officer)

EXHIBIT INDEX

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

ITEM 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of Codexis, Inc. filed with the Secretary of the State 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	Certificate of Designations of Series A Junior Participating Preferred Stock of Codexis, Inc., filed with the Secretary of State of the State of Delaware on September 4, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on September 4, 2012).
3.3	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	Form of the Registrant's Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed on August 9, 2012).
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.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, (ii) Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2014 and 2013, and iv) Notes to Condensed Consolidated Financial Statements.