FINAL TRANSCRIPT

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VRNM - Q1 2008 Verenium Corporation Earnings Conference Call

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PRESENTATION

Operator

Hello, and welcome to the first quarter 2008 Verenium Corporation earnings conference call. My name is Erica, and I will be your coordinator for today. At this time, all participants are in a listen only mode. We will be facilitating a question and answer session toward the end of this conference. (OPERATOR INSTRUCTIONS) I would like to turn the presentation over to your host for today's call, Mrs Kelly Lindenboom, Vice-President of Corporate Communications. Please proceed.

Kelly Lindenboom - *Verenium - Vice President of Corporate Communications*

Good afternoon. Thank you for joining Verenium this afternoon for our first quarter 2008 conference call. I'm Kelly Lindenboom, Vice-President of Corporate Communications and with me today are Carlos Riva, our President and Chief Executive Officer and John McCarthy our Chief Financial Officer. On today's call, we will cover the following. First we will provide an update on our current biofuels environment and our unique position for taking advantage of that environment. Then we will review the company's accomplishments and highlights from the quarter. Next we will provide you with a summary of our financial results for the first quarter and updated guidance for 2008 and finally we will review anticipated upcoming milestones.

Before we begin I would like to advise you that this discussion will include forward-looking statements within the meaning of Section of 27A of this Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. These statements involve a high degree of risks and uncertainties and relate to matters such as the company's strategy, future operating plans, markets for the company's product. Strategic partnering and collaboration activities, public policy initiatives. Financing activities, technical and business outlooks. Such statements are only predictions and actual events and results may differ materially from those projected in such forward-looking statements.

Factors that could cause or contribute to differences include but are not limited, to risks related to the company's intellectual properties, strategic partners and collaborators, competitors and regulatory and market forces. Certain of these factors and others are more fully described in the company's filings with the SEC included but not limited to the company's annual report on Form 10-K for the year December -- the year ended December 31, 2007. The forward-looking statements I speak to as of the

date here and the company expressly disclaims any intent or obligations to update these forward-looking statements. I would like to turn the call over to Carlos. Carlos?

Carlos Riva - *Verenium - President and Chief Executive Officer*

Thank you, Kelly and good afternoon, everyone. Thanks for joining our call today. As we mentioned in our last call, we believe that 2008 will be a transformational year for Verenium and the next generation biofuels industry as a whole. Before I begin to describe Verenium's performance during the last quarter, I would like to take few moments to comment on the key drivers which have been propelling our industry forward.

As we stated often before, our business strategy is driven by the increasing concerns over high energy prices, energy security, climate change and the inherent limitations of first generation corn derived ethanol. As nation we have long been aware of the risks associated with heavy reliance on nonrenewable fossil fuels most of which must be imported. Furthermore, the growing worldwide recognition of climate change and its relationship to fossil fuel use has galvanized public opinion and highlighted the need for environmentally friendly solutions to our energy needs.

Over the course of the first quarter of this year, with oil and gasoline pricing reaching record levels, these drivers have only intensified and made even more pressing the demand for cellulosic ethanol. This is clearly articulated in the energy bill passed last year, which brings the force of law to mandate the rapid growth of commercial cellulosic ethanol, which our technology is intended to address. However, as many of you are aware, there is also been a great deal of debate recently about biofuels and the respective benefits and drawbacks. Much of the debate has centered on first generation ethanol produced from corn and other grains and is linked to a variety of issues including rising food prices, carbon footprints and net energy efficiency.

Clearly this public reaction only serves to re-enforce the already compelling need for next generation biofuels like cellulosic ethanol and will advantage company's, such as Verenium, with it's unique position in the ethanol market. While, it's unclear the exact role first generation corn based ethanol has played in recent increase in food prices, we remain steadfast in our mission to find clean alternate solutions that don't adversely impact the food chain and that help break our current reliance on fossil fuels. Very importantly we would like to re-iterate that Verenium is committed to commercializing next generation cellulosic ethanol technology, not first generation corn based ethanol, which is nearing the inherent limitations to its growth potential.

Recent studies have suggest that ethanol derived from corn is not environmentally sound as one thought , while next generation ethanol using high yield, non-food biomass sources such as sugar cane bagasse and dedicated energy crops, has a much more positive carbon footprint and a far lower impact on food and feed availability and pricing. The shifting emphasis to cellulosic ethanol has been embraced by the U.S. Department of Energy. Recently Secretary Sam Bodman commented in the "Wall Street Journal" that the U.S. should begin moving away gradually from corn based ethanol. He went on to say the bottom line is this, concerns about sustainability and environmental impact of biofuels are not misplaced but they are absolutely not a reason to ignore the tremendous promise of biofuels. They are argument for developing them in a way that makes sense for our environment, for our food supply, for our agricultural community and for our nation's economic health. These sentiments echo our own point of view and our in large part what motivates our organization.

Indeed they run straight to the heart of the enormous benefits of cellulosic ethanol and illustrate the urgency of making it a integral solution to the energy problems we face today. We feel that Verenium's development strategy addresses many of the problems with first generation ethanol. We also believe that among the company's pursuing cellulosic ethanol development, we have the strongest combination of technology and experience and can utilize a broad range of suitable feed stocks in the near term. In particular the use of high yield biomass sources including sugar cane bagasse and dedicated energy crops grown on lands already under cultivation or in pasture but are currently low value to farmers. Next generation ethanol, represents a critically needed near term solution to the rising costs of fossil fuels, global climate change and sustainability.

We need liquid fuel supplies that are clean, renewable and abundant that make efficient out of valuable land and are deployable on a global basis. Verenium is well positioned to address these concerns and become an early commercial producer of cellulosic ethanol because of our unique scientific and development capabilities, our experience management team and our leading position in both next generation specialty enzymes and biofuels. We believe it's not a question of whether biofuels will be a part of the future energy landscape, but how rapidly we can overcome the hurdles to making it a meaningful part of he mix.

We need to focus our attention on making sure that next generation biofuels are done responsibly and in the right manner. I would like to turn to a specific discussion of Verenium's progress in achievements over the last quarter. Turning to our biofuels business unit, our goal is to commercialize our cellulosic ethanol technology to become a low cost producer of ethanol by maximizing the following. Our proprietary cellulosic technologies and know how, our company managed production facilities in the U.S., and our strategic partnerships and licensing arrangements around the world.

In April, we announced the successful transition into the Start-Up phase of our 1 .4 million-gallon per year demonstration scale facility in Jennings, Louisiana. Start-Up represents a critical first step toward testing and validating our process at scall and moving us one step closer to commercialization. The site has been electrically energized and the turnover of individual systems to start up operating teams has begun. In total, more than 80 individual systems will be tested over the next several weeks and already more than 30 of these have been turned over to the Start-Up teams. Following the Start-Up phase which we expect to run through June, we will begin the commissioning phase.

The commissioning phase is focused on validating our technology and process at scale, including the ability to produce ethanol within predefined performance criteria. This will involve introducing enzymes and fermentation organisms into the plant and running biomass through the system, to produce ethanol. Following that phase, we will work to optimize the facility and make process improvements, as we seek to ensure the reliable and cost effective operation of the facility. The overall commissioning and optization phase, is expected to continue through the end of this year, at that point we expect to have a clearer picture of our process economics and this will position us to move forward with construction of our first commercial scale facility. This will represent a significant milestone for both our company and the cellulosic ethanol industry as a whole.

Additionally, further progress at the demonstration plant over the last several months includes a waste water treatment system, which is fully operational. The completion of this system is an important step not only in the operation of a plant, but also in allowing us to manage the facility in an environmentally sound basis. Solid strides have been made in driving down the cost of enzyme production. A core component of our overall variable cost stack.

We expect to make further progress on this front as we drive forward toward our first commercial plant and we have continued to evolve and advance our proprietary ethanolgens used to ferment, both five carbon and six carbon sugars. We expect to make further refinements to these over time in order to make our process increasingly efficient. Finally, with regard to our demonstration plant at Jennings. While we are very pleased with our overall progress. We have experienced additional costs in construction, which will bring the tote the cost of facility to approximately $79 million.

These increases are largely attributable to escalating labor and material costs. John McCarthy will discuss this further on his comments and additional financial guidance. On the development front we are advising our pipeline of potential commercial sites in Florida, Texas and Louisiana. Project level partnering discussions are moving forward on many fronts including conversations with feed stock providers, engineering contractors, land owners and farmers. In addition, corporate level partnerships talks are continuing and given the level of interest, we remain hopeful the company will meet its goal of bringing on strategic partner during 2008.

Finally on biofuels, the public policy arena continues to be very active and a key driver for our business. As reported earlier this year, Verenium was awarded one of four grants from the Department of Energy, under a $33.8 million program for the development of improved enzyme systems, to be used in breaking down biomass for cellulosic ethanol production. The grants will be appropriated over a two year period beginning in February of 2008. We plan to use the funding to continue our efforts for the commercialization of customized cellulase solutions for biomass saccharification. The work will leverage Verenium's

proprietary library of enzymes and direct evolution technology to develop and optimize more robust and cost effective enzymes to break down biomass feed stops into fermentable sugars for making ethanol.

During 2007, our primary objective in the area of government affairs was to win adoption of an expanded renewable fuel standard that as you know a significant expansion of the RFS was written into law in December. During early 2008, the focus of federal legislation has been on rewriting the nation's farm bill. While legislation is not finalized, congressional negotiators are working right now on a farm bill revision that would include several important new programs to support biofuels production. Items of particular interest of Verenium include a dedicated biorefining loan guarantee program. Production tax credit for cellulosic ethanol.

Increased R&D on energy crop harvesting storage and collection and programs to help growers make the transition from standard commodity crops to bioenergy crops. In addition, since the end of 2007, we have undertaken a series of efforts to build Verenium's profile in our target states along the gulf coast. The efforts included meetings with dozens of state legislators as well as top state officials in agricultural and economic development. As well as expanded out reach to community leaders. The company is building its reputation as a market leader in advanced biofuels within the geography. I would now like to update you on our progress with our specialty enzyme business unit. We're focused on building a leading specialty enzyme business through the development and sales of tailored enzyme products into strategic and industrial markets.

Currently our enzyme business is focused in three key areas. Biofuels, specialty industrial processes and animal health and nutrition. While this business unit is generating revenue for multiple sources including technology, licenses, collaborations and government grants, the primary thrust of the business is now product sales. As we announced in early March, we are very pleased to have appointed Janet Roemer, a highly experienced industry professional to the position of Executive Vice-President of the Specialty Enzyme Business unit. Finding the right person with the depth of experience and expertise to lead the critical business segment as we continue to focus on accelerating commercial growth was a top goal for 2008.

With Janet now on board we are already seeing significant progress and momentum in this part of the business. John will go into more on financial specifics. But of note for the first quarter of 2008, we are pleased to report that this is the highest single quarter of revenue ever reported for the specialty enzyme business with total combined sales of $15 million. Overall product sales were up 109% over the same period last year.

In the first quarter of 2008, we have already achieved 47% of what we did all year in 2007 product sales. Sales margins have increased significantly over 2007. Phyzyme the lead product in our portfolio continues to show strong growth, while we continue to develop the balance of our portfolio. In the first quarter of 2007, it comprised 70% of total sales and for the first quarter of 2008 it comprised 65%. A testament to the overall growth of the portfolio.

Fuelzyme continues to gain market traction, including numerous customers and over ten new trials in July. Trial results to-date have shown multiple benefits, reduced chemical costs, reduced enzyme usage and increased yields all of which significantly improved the economics for ethanol production. And since launching Purifine last year, the company has successfully begun to convert trials to customers, while continuing to schedule a series of pilot scale plant runs. We expect to see continued traction with this product through the balance of the year. Overall, we were pleased with our expanding base of products and portfolio balance with a strong market leader Phyzyme balanced by emerging and up and coming new products including Fuelzyme and Purifine.

I would like to turn the call over to John McCarthy, our CFO, to review our first quarter financial results and update our financial guidance for

John McCarthy - *Verenium - Chief Financial Officer*

Thanks, Carlos. While much progress was made throughout the quarter in terms of initiation of a startup phase of our demonstration plant. Significant foundation building and revenue success in our enzyme business. And corporate partnerships discussions we and others actively involved in major industrial construction projects in the southeastern United States, continue to be plague bid unanticipated cost overruns related to significant supply demand imbalances in the regional craft labor pool which has a compounding impact on all elements of a project.

This regional imbalance has persisted since the end of last year and while some signs of abatement exist, the problem has challenged many projects in the region even those under fixed price contracts. As described in prior calls, our Demo plant project has not been immune from the circumstances. This said, the project is substantially complete. We were working aggressively to finalize our construction related spend by the end of May. In a moment I will provide further details on the subject.

Let me now turn to review of our Q1 financial performance. First, I would like to remind our investor of two historical facts that we have talked about in prior calls. Our collaboration with Syngenta was renegotiated and announced in January of 2007 and served to provide each company with greater clarity across strategic initiatives within the broad bio fuels industry. Additionally as part of the contract renegotiation, Syngenta's R & D commitment to Verenium was reduced from roughly $20 million per year to $8 million per year through 2008. Both companies continue to work closely together. Operationally and strategically across a broad spectrum of cellulosic ethanol projects and expect to continue our relationship well into the future.

Second piece of historical fact, our first full quarter of combined financial results related to the Cellunol merger, which closed on June 20, 2007, was Q3 2007. As such, Q1 2007 financial results represent stand alone Diversa financial results only. Similarly our Q2, 2007 results will likewise represent Diversa stand alone results for all but nine days of incremental Cellunol results. With this reminder of relevant historical background, total revenues for this years first quarter increased 35% to $15.2 million, from $11.3 million last year.

More importantly, however, the portfolio mix for Q1 '08, represented continue progress being made strengthen our focus on product revenue. While collaborative revenue declined in Q1 as planned due to restructured Syngenta agreement, product revenue in Q1 increased 109% to $11.2 million from $5.4 million last year. Primarily on the strength of Phyzyme market share penetration. Of total product revenue, sales of Phyzyme which is sold through the company's partnership with Danisco animal nutrition, grew approximately 96% to $7.4 million from $3.8 million in '07. As Phyzyme differentiated product characteristics continue to expand its world wide with Phytase market share in the animal feed industry.

In addition to the rather significant progress being made with Phyzyme, other products within the portfolio made solid progress in the quarter including most importantly Fuelzyme LF, lf which is the company's alpha- amylase enzyme used in grain based ethanol production. Since we began selling Fuelzyme-LF through our own dedicated sales force early last year, we were pleased with the performance and important plant trials and early adoption into commercial production. We expect to provide more specific highlights of our progress throughout the year for Fuelzyme as well as our recently introduced Purifine product which is sold under the highly concentrated multibillion dollar edible oil industry.

Of note, Q1 also included roughly $1.7 million in product revenue from two discontinued products. Those being Bayovac and Quantum which will not occur in future quarters. Product gross margin improved to 30% from 9% in first quarter last year. Which is consistent with our expectations as we grow our product portfolio volume and introduce higher margin products. Recall from prior conference calls that Danisco introduced a new Phyzyme formulation in early 2007, that had the effect of temporarily pressuring our gross margin in Q1 last year.

In terms of operating expenses, first recall the Q1 '07 financial results represent Diversa stand alone financials only as this period predated the Cellunol merger. Having said this, R&D expense for '08 first quarter totaled $14.9 million versus $11.6 million in '07, primarily related to the inclusion of Cellunol expenses in Q1 this year versus Q1 of last year. SG&A expense totaled $9.6

million in the first quarter of 2008 versus 5.2 in Q1 of last year. This year-over-year increase related to both the inclusion of Cellunol operating expenses in Q1 08 versus Q1 '07, as well as roughly $700,000 of incremental legal expenses that don't anticipate will continue beyond Q1.

Additionally please note for Q1 '07, we reclassified approximately $1.2 million in intellectual property and regulatory expenses from R&D into SG&A, in order to conform to our current classifications of the expenses. Included in both R&D and SG&A expense for all periods, is non-cash stock base compensation expense in a rough 40%, 60% proportion respectively. For Q1 '08, stock base compensation totaled $3.5 million versus 1.4 -- $1.1 million in Q1 '07, resulting primarily from additional option grants in connection with the Cellunol merger several new senior level hires since that time.

As described in our press release, the company hired a leading international accounting firm to assess the technical accounting and related component evaluations from our February '08 convertible debt offering, given the multitude of imbedded features of the transaction. Recall that we issued approximately 71 million face value of new 8% bonds, of which approximately $18 million represented an exchange for existing 5.5% bonds for certain bond holders. The company issued warrants as part of the transaction. Based upon the preliminary results of the assessment, the company anticipates that it will rookie card non-cash charges beginning in Q1 '08 related to various features and derivative components imbedded in the transaction, including a beneficial conversion feature, valuation of the call spread feature, amortization of debt discount, and a loss on the exchange of the 5.5% bonds for the 8% convertible notes. This is a assessment is subject to finalization by the company and review by the company's independent accounting firm.

As a result, the company has not reported the non-cash financial impact of this transaction at this time. But will do so as part of our 10-Q filing. Additionally for clarity of perspective guidance, we expect to describe any non-cash P&L impact of the transaction, which would fall below the loss from operations line after filing our 10-Q. I'd like to now provide commentary on cash burn for Q1 of this year and then focus the remainder of my comments on financial guidance and prospective financing considerations. As we described in our last two conference calls, Q1 '08 was always expected to disproportionately heavy cash burn quarter primarily related to our aggressive schedule to achieve mechanical completion of the demo plant by the end of March.

As such, on a pro forma basis when including the $45 million in net proceeds from our February convertible debt offering, we started the year with roughly $103 million cash on hand and finished the first quarter with approximately $60 million. Of the $43 million of cash burn for Q1 of this year, approximately $26 million was associated with capital expenditures and fiscal year end payments related to the demo plant project. Additionally approximately 4 million was due to Phyzyme related growth working capital requirements and various beginning year accrual timing considerations. While having achieved the important demo plant timing milestone, we haven't been immune from the severe shortage of high quality craft labor in the southeast as we approach mechanical completion and enter the startup phase of the project.

As we described in prior calls, this labor supply shortage has been compounded recently by an abundance of larger, more complex and longer term projects in the Louisiana contiguous market. The nature and relatively short duration of our project, like other noncommercial scale facilities of its kind has not allowed us to source fix price contracts for our major craft vendors as such we and others in this position are subject to the short-term vagueries of the regional labor market. This recent and significant labor supply, demand imbalance has continued to cause rapid double digit price increases in order to complete short-term projects like ours on schedule. The resulting cost escalation over the past several months to complete the critically important project, has certainly posed a challenge for us. As it has for most others in the industry.

As such, our most recent cost to complete estimates for the demo plant totaled an incremental $15 million, more than the anticipated and communicated last quarter when we provided financial guidance for the year. This results in an increase in capital expenditure guidance for full year 2008 from $33 to $35 million to a readvised $48 to $50 million and puts the total demo plant cost at roughly $79 million as Carlos mentioned in his comments. The resulting projected Q2 demo plant capital expenditure, is therefore roughly $15 million based on the current $79 million cost to complete estimate. Given the state of

completion of the facility today, we believe the current estimate by our engineering construction team and contractors, as fully calibrated the cost to complete the project.

Importantly, looking beyond the important demo plant project to commercial scale projects, we fully expect the structure all prospective projects under fixed price contracts with of our contractor partners. In addition to the demo plant cost overruns, the recent and unanticipated 100% plus volume growth in our Phyzyme product, has required additional working capital to support such rapid growth. As such, and before any meaningful adjustments to our current business plan, these two factors require us to raise our projected cash burn for full year '08 by $22 million from $89 to $94 million to $111 to $116 million.

Given these incremental cash requirements we have been aggressively reviewing all projects and hiring commitments to maintain a focus on only mission critical initiatives, as we seek to further build our balance sheet over the coming months. As we refine our thinking around this important subject we will communicate our plans to the investment community. To this end we have rapidly accelerated all capital building initiatives which have been underway since last fall including various creative corporate partnership opportunities. We believe the successful conclusion of one or more of these initiatives will provide us the balance sheet strength to continue our goals -- to achieve our goals and establish a solid foundation for future growth. This concludes my formal remarks

So let me now turn the call back to Carlos for closing thoughts before we open up the call for Q&A. Carlos?

Carlos Riva - *Verenium - President and Chief Executive Officer*

Thanks, John. I would like to turn to the milestones that we anticipate to be able to update you on in the near future.

As I mentioned previously, we hope to be updating you on various partnering discussions over the next several months. We also expect to provide updates on the ongoing progress that our demonstration scale plant in Jennings, Louisiana, including initiating the commissioning phase there. And finally we were planning an investor and analyst day at our plant in Jennings on May the 28th. We hope to provide attendee with an opportunity to gain further insight into our process and overall strategy, as we continue to move closer to commercialization.

For more information on the event, please contact our investor relations department. In closing, I would like to re-iterate our confidence in the potential for next generation biofuels and particular cellulosic ethanol in Verenium's technology. We continue to be very enthusiastic about the progress of the company, as we move forward in achieving our corporate goals and excited about the significant opportunity before us. Verenium is building a leading company based on our scientific and technologic leadership to develop and commercialize advanced, environmentally superior next generation biofuels and specialty enzyme products and we are poised to deliver.

At this point, I would like to turn it back to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen,(OPERATOR INSTRUCTIONS) Our first question comes from the line of Lawrence Alexander from Jefferies. Please proceed.

Lawrence Alexander - *Jeffries & Company - Analyst*

Good afternoon.

Carlos Riva - *Verenium - President and Chief Executive Officer*

Hi, Lawrence.

Lawrence Alexander - *Jeffries & Company - Analyst*

First question have I is on Purifine. Can you give us more clarity as to what the retrofit costs might be at your customers and what payback period they may be looking at?

Carlos Riva - *Verenium - President and Chief Executive Officer*

I think it's -- in fact, it's variable, depending on the facility itself. The estimates that we are working with are between $0.5 million and $1 million dollars generally speaking. And the pay backs on those tend to be less than a year.

Lawrence Alexander - *Jeffries & Company - Analyst*

And then if you look out over I guess the next three to five years and you look at your specialty enzyme portfolio. Can you give a rough ranking which products are the most promising over three to five year time frame or further out?

Carlos Riva - *Verenium - President and Chief Executive Officer*

I think the ones with the -- three to five year time frame, the one with most near term growth potential are Fuelzyme and Purifine because they are beginning the sort of life cycle, if you will, and growth. If you start getting to the back end of that period though, we are going to start seeing some very interesting development in the general class of cellulase and hemicellulase. I think the growth of that market will track the growth of the cellulosic ethanol market. But those are the products that have the greatest potential for growth in that time period.

Lawrence Alexander - *Jeffries & Company - Analyst*

And then on the cellulosic side, you mentioned several partners. Would these be several partners who together would represent the coalition to do one facility? Or are you looking at one partner who might carry most of the weight?

Carlos Riva - *Verenium - President and Chief Executive Officer*

It's actually a combination, because I think in the past I described our partnership model as looking for partners across the whole value chain, both upstream and the agricultural side and then downstream and the energy and distribution side. And I think particularly on the upstream end, we are talking to a number of parties that have particular advantage in a particular geography. So there we will probably tend to be more of a collection of different partners. Where as on the downstream side, again a number of different discussions, but they more likely to be a single parter in that would participate across the range of different projects.

Lawrence Alexander - *Jeffries & Company - Analyst*

And lastly and this may end up being deferred until the queue, but do you have your interest expense and share count for the quarter.

John McCarthy - *Verenium - Chief Financial Officer*

Yes, Lawrence it's John. We don't have the interest expense because of what I described -- what was described in the press release as well as in my comments. That until we can finalize the couple of elements of the valuation, I hesitate to give you a number because we were still working through some of the P&L geography.

It will all be below the operating line. It's just that we want to reserve any commentary on it until we finalize. Once we do finalize it, expect to come out and provide further color commentary on it prospectively.

Lawrence Alexander - *Jeffries & Company - Analyst*

But the interest expense doesn't affect -- I guess your cash interest for the year wouldn't be affected by the P&L accounting?

John McCarthy - *Verenium - Chief Financial Officer*

No, that's correct. All the things that are still finalizing with our accounting firms are all non-cash, completely non-cash. In terms of the average share count, Lawrence, I think you asked the number is $61.215 million.

Lawrence Alexander - *Jeffries & Company - Analyst*

Thank you. I will hop back in queue. Thanks.

Operator

Our next question comes from the line of Ron Oster, from BroadPoint Capital. Please proceed.

Ron Oster - *BroadPoint Securities - Analyst*

Good afternoon, guys.

Carlos Riva - *Verenium - President and Chief Executive Officer*

Hi, Ron.

Ron Oster - *BroadPoint Securities - Analyst*

I guess I want to clarify on the cash burn rate and the GAAP we have there between the cash on hand. It seems like you are going to need to raise equity here in the next two quarters. We've heard a lot about these partnerships but have yet to see really any results. What can you tell us in terms of the progress and does that assume we can expect an announcement here in the next three months or so with regards to a partnership?

John McCarthy - *Verenium - Chief Financial Officer*

Yes, Ron, it's John. Thanks, that's a great question. You are right. We have been talking for the last couple of quarters about all of the various initiatives that we've been working on broadly to build the foundation of the company. And all of those elements are still underway and are accelerated obviously now by virtue, of some of the cost overruns that we experienced at the demonstration plant. Those include as you described corporate level partner discussions, which are going very well.

As well as a number of other initiatives that we have underway to broaden the capital base. So again with the demonstration plant certainly putting a pinch on us from a cash perspective, we have actively accelerated all of those initiatives over the past two or three months and expect to do so going forward. We expect that as we build both of these businesses, that we will be describing how we expect to build a stronger foundation for the company, again, given the fact that the demo plant is costing us more than we like.

Ron Oster - *BroadPoint Securities - Analyst*

Correct me if I'm wrong. Historically haven't we been talking about the partnership to fund the commercialization efforts. But now you are looking for an immediate equity infusion into the firm? Is that's what's changed here then?

John McCarthy - *Verenium - Chief Financial Officer*

No. Let me be clear. Because I think both Carlos and I have tried to be clear here in all of our discussions. We have two groupings of partners, if you will that we have been working on for some period of time. They are project level partners that -- and we've got six to eight sites as we've describe to folks that we are working on actively. Primarily the southeastern part of the United States.

We are aggregating those partners around those potential sites. And those partners we expect to help sort of catalyze commercial development, when we get to that phase of development. Those discussions continue. Some of those discussions could provide some level of capital going forward. But the primary thrust of those project -- or those partner discussions is really the project level.

We at the same time have been having corporate level partnership discussions, to balance both the resources required to accelerate into commercial development. Frankly, also to complement the strengths we have on board today. So both of those initiatives have been underway for sometime. Again, we have been accelerating those discussions over the past several months and we expect to see some interesting traction on those over the next couple of quarters as both Carlos and I described.

Ron Oster - *BroadPoint Securities - Analyst*

Okay. And then with regards to the other financial guidance beyond the cash burn rate, is that unchanged from the last quarter with regards to revenue product revenue and the gross margins there?

John McCarthy - *Verenium - Chief Financial Officer*

Yes, it is, Ron. The incremental cash burn was meant to incorporate all of those things. But all of the other guidance at this point in time has changed, with one exception which the question that Lawrence raised about sort of below the line interest expense, et cetera. And I will be describing that further once we file the Q and get that finalized with our accounting firm.

Ron Oster - *BroadPoint Securities - Analyst*

Then one last one. In terms of the grand toward. Any update there with regards to how much your award was and the timing and when you might see some of that?

Carlos Riva - *Verenium - President and Chief Executive Officer*

This is Carlos. The award amount was $8.5 million, and it was -- it's based on a 22 month allocation starting in February of this year. I think we will be starting to I think we were close to finalizing the details of that. So we will be starting to charge the DOE for that in the near term. That's a compression actually of what the original application was because initially it was to be over four years. Now it's over 22 months.

Ron Oster - *BroadPoint Securities - Analyst*

Okay. That's already been factored into this cash burn rate guidance we have here?

John McCarthy - *Verenium - Chief Financial Officer*

No, it hasn't.

Ron Oster - *BroadPoint Securities - Analyst*

Has not. Okay. Thank you.

John McCarthy - *Verenium - Chief Financial Officer*

It hasn't because we just heard about it.

Ron Oster - *BroadPoint Securities - Analyst*

Okay. Great. Thanks.

John McCarthy - *Verenium - Chief Financial Officer*

Sure.

Operator

And next question comes from the line of Pamela Basset from Cantor Fitzgerald. Please proceed.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Thank you for taking my call. Hi, everybody.

Kelly Lindenboom - *Verenium - Vice President of Corporate Communications*

Hi, Pamela.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Just a follow-up to Lawrence's question about Fuelzyme and Purifine. Can you characterize more fully the ramp we should expect over the next couple of years? , the sales

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Carlos Riva - *Verenium - President and Chief Executive Officer*

I will start and then I think one way to look at it is to look at the level of trials that we have scheduled through the middle of the summer. Some ten additional products or rather trails in different facilities. And I guess one has to take a certain view as to the conversion ration. But to date we had recently high ratio of conversion of trials to long-term contracts. So we can see that ramping up very quickly. And also continuing trials beyond that point.

That's for Fuelzyme For Purifine the market is more concentrated. So a ramp up will probably be lumpier in the sense of large increments of increase. And again we -- this is only right at the first quarter, really, of the product being in the market. So we expect to see very rapid ramp up of that as well.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Okay. Thanks. With respect to Fuelzyme, is there a couple of very large owners of corn ethanol plants. How does that factor into a potential Fuelzyme sales. Do you think we will see some big jumps in sales revenue?

John McCarthy - *Verenium - Chief Financial Officer*

Well, I mean --

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Because of partnerships in that area?

John McCarthy - *Verenium - Chief Financial Officer*

Well, Pamela, this is John. I mean I think as Carlos described, there are -- there will be a lumpiness to some of this in the early days especially given the smaller numbers. For both Purifine as well as Fuelzyme. I think Fuelzyme in particular is quite interesting to us because of that concentrated marketplace.

We are selling this ourselves with our own sales force. They are out there initiating new trials and the trials are converting nicely into commercial production. So we expect there to be a continued leverage of our sales force into that marketplace as not only our sales folks make good progress but also word of mouth travels in that small industry very rapidly.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

So we might see over the next year or so like more of a corporate level Fuelzyme arrangement or more than one?

Carlos Riva - *Verenium - President and Chief Executive Officer*

No plans directly in that regard. But if we get achieve a sale to a owner of multiple plants, then provided that the Fuelzyme can provide those benefit across their portfolio plants, then we would see that kind of effect. But Fuelzyme works well in certain types of facilities and to which is a large market, but isn't necessarily uniformly applicable across every corn ethanol plant.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

And with respect to corporate level strategy and partners on the cellulosic ethanol side. Can you characterize to some extent the types of partners that you might be in discussion with? Are they global? Would they be focused just in the U.S.? Might they be involved very deeply in construction and alleviate going forward to some of the kind of construction delays because they are involved in that business perhaps?

Carlos Riva - *Verenium - President and Chief Executive Officer*

Thank you, Pamela. That's a very good question. And I think when we think of corporate level partnerships, we think of tying up across a variety of different dimensions with a company that will bring a number of different attributes to the table. Obviously not only financial capabilities, but very much an interest in advancing the state of the art of cellulosic ethanol and the commercialization. They could bring a variety of different attributes.

One would be increased capabilities on the engineering process technology side, which would translate not only into helping us to refine the scale up of a commercial model, but also to help us with the contracting strategy and the like in order to have better results in the commercial build-out of the plan. Additionally people that are participant and understand the market for ethanol and distribution and blending and things of that sort. Others who have access to technologies that we may in fact not have ourselves, that could be complementary to what we are trying to do. And you mentioned the issue of global reach.

Again, our technology is applicable in a number of geographies particularly where there is ample or large biomass resources and the sort of equatorial belt. And companies that could help us advance our licensing portion of our strategy, would be very welcome. So those are the kind of attributes of what the partner would be. But also I think importantly going into one of these partnerships is a bit like marriage, so there needs to be a compatibility and this is one of the reasons we are quite careful in taking our time to make sure that the working relationship would be right and that we are all thinking about the market in the same way.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

That's great. Thanks. And just last short question. With respect to the new grant. Should we expect a delay you will be billing based on work done in the quarter and then it gets recognized the following quarter? Or is this going to be the standard amount per quarter?

John McCarthy - *Verenium - Chief Financial Officer*

It's going to be activity based, Pamela, and so there will be more about that going forward as we finalize the time line with DOE. So it's activity based.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Great, Thanks very much.

John McCarthy - *Verenium - Chief Financial Officer*

Thank you.

Operator

(OPERATOR INSTRUCTIONS) Our next question comes from the line of Jeff Zekauskas of JPMorgan.

Silke Kueck-Valdes - *JPMorgan - Analyst*

This is Silke Kueck-Valdes for Jeff. How are you? A couple of questions. Regarding Phyzyme. Can you talk about what part of the growth and size was due to market share gains and what part was due to higher phosphate cost that may have led to better sales of Phyzyme, making the product more competitive, I guess.

Carlos Riva - *Verenium - President and Chief Executive Officer*

Thank you, very much. We don't break out those kind of differences, but I think you are right on both counts, though. Part of it is the rise in the value of phosphate, making our product more valuable to the end user. And also the fact that we have taken market share as well. So it's really both effects.

John McCarthy - *Verenium - Chief Financial Officer*

Yes, Silke, this is John. One of the major catalysts for market share penetration among other things was the thermal stable, the new thermal stable pelatized version that Danisco and we introduced last year and that's been one of the significant catalyst for continued market share penetration.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Half, half?

John McCarthy - *Verenium - Chief Financial Officer*

As Carlos said, we really don't describe it because frankly Danisco is really on the front lines there with the customers. So we have been asked to not really describe it in any level of depth.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Okay. Fair enough. On the interest expense side, outside of the P&L effect, how do we just think about the cash cost? Is it just 8% on like the $172.5 million?

John McCarthy - *Verenium - Chief Financial Officer*

Yes. Well, no. It's not Silke. Recall that we had $120 million convert that we did about a year ago. That carries a 5.5% coupon rate.

As far as the $71 million total face value convert that we did a couple months ago, that has an 8% coupon. But part of that $71 million was conversion or exchange of $18 million worth of bonds. So the net-net is you really have to take the 120 less about 18 at the 5.5%. And then about $54, $55 million at the 8%.

Silke Kueck-Valdes - *JPMorgan - Analyst*

And then there is some interest that you may have gotten on your cash balance, right?

John McCarthy - *Verenium - Chief Financial Officer*

That's correct, yes. I'm sorry, Silke. Let me repeat what I said because I want to make sure that I'm clear. There is $172 million of total convert. The 5.5% interest is really is on the -- about $102 million worth of bonds, that taking into consideration those bonds that were exchanged. And the $71 million of face amount of the second convert that we did, that's the gross amount. Has to use 8% coupon, so that you are accounting for interest on the full roughly $172 million worth of bonds.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Okay. Got that. Is the auditor who is looking at the assessment, how to book like the cash, the cash expenses, is it different from like the current auditor, Ernst Young?

John McCarthy - *Verenium - Chief Financial Officer*

It is because, as you know, with public companies and auditing firms these days, one has to separate the audit work from any kind of project work. So it is one of the big four firms and we used them in the past. And the finalization that we are doing is really the valuation of the embed components as opposed to the accounting treatment per se. We're finalizing that right now and obviously included in our 10-Q filing coming up.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Sales for Bayovac and Quantum in the first quarter of '07, were those similar to what you booked this quarter?

John McCarthy - *Verenium - Chief Financial Officer*

You mean in the first quarter of '07?

Silke Kueck-Valdes - *JPMorgan - Analyst*

Yes, what the amount of sales of those products were last year?

John McCarthy - *Verenium - Chief Financial Officer*

It's a similar number, Silke. I don't have the specific number from Q1 of '07 last year, but I know it was a similar number.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Last question on Fuelzyme What's the annualized run rate for Fuelzyme that we should think about? Something in the millions or something that is in the high single digit millions? Just rough order of magnitude?

John McCarthy - *Verenium - Chief Financial Officer*

We don't have a run rate at this point in time because we want to be able to sort of accurately calibrate the conversion of trials into commercial production. We described in prior conference calls the fact, for example, in 2007 since we began marketing the product ourselves from early '07, we generated just south of $2 million of Fuelzyme revenue in fiscal '07. And that was last year.

We continue to have very interesting trials ongoing. And good conversion of those trials. But until we have a better calibration for run rate, we haven't provided any specific guidance about Fuelzyme beyond that sort of commentary.

Silke Kueck-Valdes - *JPMorgan - Analyst*

Thank you very much. I will get back into queue.

John McCarthy - *Verenium - Chief Financial Officer*

Thank you.

Operator

We have a follow-up question from the line of Pamela Basset from Cantor Fitzgerald. Please proceed.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Hi Thanks. Again, back to Fuelzyme. Can you tell us how many users there are now?

John McCarthy - *Verenium - Chief Financial Officer*

You mean how many trials are underway? Or how many customers?

Pamela Bassett - *Cantor Fitzgerald - Analyst*

How many customers.

Carlos Riva - *Verenium - President and Chief Executive Officer*

Five customers currently.

Pamela Bassett - *Cantor Fitzgerald - Analyst*

Five? Okay. Great. Thank you.

Operator

We have another follow-up question from the line of Ron Oster from BroadPoint Capital. Please proceed.

Ron Oster - *BroadPoint Securities - Analyst*

Just one quick one. I was wondering you made a comment on the -- in the press release about some progress on reducing the enzyme production cost. I was wondering if you could shed some additional light on that? I know in the cost stacks that you last showed, I think the variable cost was $1.40 per gallon. Is there any update you could provide with regard to the improvement you have seen thus far?

John McCarthy - *Verenium - Chief Financial Officer*

Ron, this is John. Those -- that progress that we made are imbedded in any of the prospective production costs that we talked with the marketplace about. So again, we continue to make very, very good progress on that and other related fronts but those are in the numbers.

Ron Oster - *BroadPoint Securities - Analyst*

Great. Thanks.

Operator

There are no further questions. I will now like to send the call back to Kelly Lindenboom for closing remark.

Kelly Lindenboom - *Verenium - Vice President of Corporate Communications*

Thank you. We just like to thank everyone for your participation. We look toward to providing future updates on Verenium's continued progress. Have a nice afternoon.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Everyone have a great day.