EDEN BIOSCIENCE CORP
Form 10-Q
April 26, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002

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 0-31499

EDEN Bioscience Corporation

(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	**91-1649604** (IRS Employer Identification No.)

3830 Monte Villa Parkway
Bothell, Washington 98021-6942
(Address of principal executive offices, including zip code)

(425) 806-7300
(Registrant s telephone number, including area code)

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 during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

State the number of shares outstanding of each of the registrant s classes of common equity, as of the latest practicable date:

Class	Outstanding as of April 24, 2002
Common Stock, $.0025 Par Value	24,217,640

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

EDEN BIOSCIENCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2001	March 31, 2002
		(Unaudited)
Current assets:		
Cash and cash equivalents	$48,327,022	$41,548,277
Accounts receivable	89,128	560,678
Inventory	2,117,953	2,357,613
Other current assets	897,825	895,838
Total current assets	51,431,928	45,362,406
Property and equipment, net	22,385,662	21,688,085
Other assets	1,721,413	1,710,031
Total assets	$75,539,003	$68,760,522

LIABILITIES AND SHAREHOLDERS EQUITY

The accompanying notes are an integral part of these statements.

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EDEN BIOSCIENCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2001	**2002**
Product sales, net of sales allowances	$ 2,481,423	$ 555,007
Operating expenses:		
Cost of goods sold	974,603	692,323
Research and development	2,097,954	2,895,474
Selling, general and administrative	3,023,078	2,681,899
Total operating expenses	6,095,635	6,269,696
Loss from operations	(3,614,212)	(5,714,689)
Other income (expense):		
Interest income	1,165,138	223,135
Interest expense	(24,975)	(13,163)
Gain on disposal of assets	3,528	
Total other income	1,143,691	209,972
Loss before income taxes	(2,470,521)	(5,504,717)
Provision for income taxes		
Net loss	$ (2,470,521)	$ (5,504,717)
Basic and diluted net loss per share	$ (0.10)	$ (0.23)
Weighted average shares outstanding used to compute net loss per share	23,908,272	24,166,638

The accompanying notes are an integral part of these statements.

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EDEN BIOSCIENCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2001	**2002**
Cash flows from operating activities:		
Net loss	$ (2,470,521)	$ (5,504,717)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	380,560	777,027
Amortization of stock option compensation expense	4,620	2,535
Gain on disposal of fixed assets	(3,528)	
Deferred rent payable	137,405	34,323
Changes in assets and liabilities:		
Accounts receivable	(1,428,187)	(471,558)
Inventory	(1,142,188)	(239,181)
Other assets	(1,627,009)	13,508
Accounts payable	231,585	(154,616)
Accrued liabilities	47,531	(1,023,309)
Other long-term liabilities	32,500	(52,283)
Net cash used in operating activities	(5,837,232)	(6,618,271)
Cash flows from investing activities:		
Purchases of property and equipment	(5,509,163)	(78,650)
Proceeds from disposal of equipment	4,820	
Net cash used in investing activities	(5,504,343)	(78,650)
Cash flows from financing activities:		
Reduction in capital lease obligations	(71,380)	(66,577)
Proceeds from exercise of stock options	19,166	
Net cash used in financing activities	(52,214)	(66,577)
Effect of foreign currency exchange rates on cash and cash equivalents		(15,247)
Net decrease in cash and cash equivalents	(11,393,789)	(6,778,745)
Cash and cash equivalents at beginning of period	86,556,865	48,327,022
Cash and cash equivalents at end of period	$ 75,163,076	$ 41,548,277
Supplemental disclosures:		
Cash paid for interest	$ 24,975	$ 13,163

The accompanying notes are an integral part of these statements.

EDEN BIOSCIENCE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information as of and for the three months ended March 31, 2001 and 2002 is unaudited)

1. Organization and Summary of Significant Accounting Policies
Organization and Business

EDEN Bioscience Corporation (the Company) was incorporated in the State of Washington on July 18, 1994. The Company is a plant technology company focused on developing, manufacturing and marketing innovative, natural protein-based products for agriculture and began sales of its initial product, Messenger®, in August 2000.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements and notes should be read in conjunction with the financial statements and notes for the year ended December 31, 2001 included in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 29, 2002.

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial information set forth therein. Results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Equipment and leasehold improvements are stated at historical cost. Improvements and replacements are capitalized. Maintenance and repairs are expensed when incurred. The provision for depreciation is determined using straight-line and accelerated methods, which allocate costs over estimated useful lives of two to 20 years. On January 1, 2001, the Company adopted the units-of-production method of depreciation for manufacturing equipment placed into service after that date. Equipment leased under capital leases is depreciated over the shorter of the equipment s estimated useful life or lease term, which ranges between three to five years.

Revenue

The Company recognizes revenue from product sales, net of sales allowances, when product is delivered to distributors and all significant obligations of the Company have been satisfied, unless acceptance provisions or other contingencies exist. If acceptance provisions or contingencies exist, revenue is recognized after such provisions or contingencies have been satisfied. Distributors do not have price protection or product return rights. The Company provides an allowance for warranty claims based on reasonable expectations. Shipping and handling costs related to product sales are paid by the Company and are included in cost of goods sold.

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EDEN BIOSCIENCE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information as of and for the three months ended March 31, 2001 and 2002 is unaudited)

Sales allowances represent allowances granted to independent distributors for sales and marketing support, product warehousing and delivery and information exchange and are based on a percentage of sales. Sales allowances are accrued when the related product sales revenues are recognized and are paid to distributors when the distributors sell the product and report the sales data to the Company, usually on a quarterly basis. Gross product sales and sales allowances are as follows:

	Three Months Ended March 31,	
	2001	2002
Gross product sales	$ 3,840,952	$ 726,233
Sales allowances	(1,359,529)	(171,226)
Product sales, net of sales allowances	$ 2,481,423	$ 555,007

Net Loss Per Share

Basic net loss per share is calculated as the net loss divided by the weighted average number of common shares outstanding during the period. Diluted net loss per share is calculated as the net loss divided by the sum of the weighted average number of common shares outstanding during the period plus the additional common shares that would have been issued had all dilutive warrants and options been exercised, less shares that would be repurchased with the proceeds from such exercises (treasury stock method). The effect of including outstanding options and warrants is antidilutive for all periods presented. Therefore, options and warrants have been excluded from the calculation of diluted net loss per share and consist of the following:

	As of March 31,	
	2001	2002
Options to purchase common stock	2,342,670	2,421,268
Warrants to purchase common stock	302,644	260,805

2. Inventory

Inventory, at average cost, consists of the following:

	December 31, 2001	March 31, 2002
Raw materials	$ 934,824	$ 944,789
Work in process	82,069	221,302
Finished goods	1,101,060	1,191,522
Total inventory	$2,117,953	$2,357,613

3. Property and Equipment

Property and equipment, at cost, consist of the following:

	December 31, 2001	March 31, 2002
Equipment	$12,986,850	$13,139,705
Equipment under capital lease	714,626	641,758
Leasehold improvements	12,486,376	12,486,376
	26,187,852	26,267,839
Less accumulated depreciation	(3,802,190)	(4,579,754)
Net property and equipment	$22,385,662	$21,688,085

For the three months ended March 31, 2001 and 2002, the Company recorded depreciation expense of $380,560 and $777,027, respectively.

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EDEN BIOSCIENCE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information as of and for the three months ended March 31, 2001 and 2002 is unaudited)

4. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2001	March 31, 2002
Compensation and benefits	$1,397,639	$1,355,301
Research and development field trial expenses	1,113,546	569,921
Sales and marketing expenses	389,775	219,908
Insurance premiums	342,320	171,160
Other	723,833	627,774
Total accrued liabilities	$3,967,113	$2,944,064

5. Stock Options and Warrants

The following table summarizes stock option activity since December 31, 2001:

	Number of Options
Balance at December 31, 2001	2,740,603
Options granted	20,000
Options cancelled	(139,335)
Options exercised	(200,000)
Balance at March 31, 2002	2,421,268

The Company has elected to apply the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Accordingly, the Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

No warrants to purchase shares of our common stock were issued during the three-month period ended March 31, 2002.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this document and with the 2001 audited financial statements and notes thereto included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 29, 2002.

The following discussion of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. We use words such as anticipate, believe, expect, future and intend and similar expressions to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the factors described below and under the caption Factors That May Affect Our Business, Future Operating Results and

Financial Condition set forth at the end of this Item 2. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q. The cautionary statements made in this document should be read as being applicable to all forward-looking statements wherever they appear in this document.

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Overview

We are a plant technology company focused on developing, manufacturing and marketing innovative, natural protein-based products for agriculture. We have a fundamentally new, patented and proprietary technology that we believe will improve crop production and plant protection worldwide. We believe our technology and initial product, Messenger, offer innovative solutions versus traditional plant protection and crop enhancement alternatives and, importantly, avoid the substantial and growing public resistance to chemical pesticides and gene-based biotechnology. Commercial sales of Messenger began in August 2000.

We have incurred significant operating losses since inception. As of March 31, 2002, we had an accumulated deficit of $67.9 million. We incurred net losses of $2.5 million and $5.5 million for the quarters ended March 31, 2001 and 2002, respectively. Total operating expenses increased $200,000 (3%) from $6.1 million in the first quarter of 2001 to $6.3 million in the quarter ended March 31, 2002. We expect to incur additional net losses as we proceed with the commercialization of Messenger and the development of new products and technologies.

Results of Operations

Three Months Ended March 31, 2001 and 2002

Revenue

We recognize revenue from product sales when (a) the product is delivered to independent distributors, (b) we have satisfied all of our significant obligations and (c) any acceptance provisions or other contingencies have been satisfied. We do not offer price or inventory protection or product return rights to our distributors. We generated our first product sales revenue in August 2000. All product sales revenue to date has resulted from sales of Messenger, our only product, to distributors in the United States. Product sales revenue is reported net of applicable sales allowances, as follows:

	Three Months Ended March 31,	
	2001	2002
Gross product sales	$ 3,840,952	$ 726,233
Sales allowances	(1,359,529)	(171,226)
Product sales, net of sales allowances	$ 2,481,423	$ 555,007

Gross product sales revenue for the first quarter of 2002 was $726,000, a decrease of $3.1 million (82%) from $3.8 million in the comparable quarter of 2001. Sales were made to seven distributors in the first quarter of 2002 and to six distributors in the initial quarter of 2001. Gross sales to the following distributors exceeded 10% of our total sales in the first quarters of 2001 and 2002: