

EDEN BIOSCIENCE CORP

Form 10-Q

November 07, 2002

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

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**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended September 30, 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 of 1934 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  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 November 4, 2002
Common Stock, \$.0025 Par Value	24,307,495

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****EDEN BIOSCIENCE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)****ASSETS**

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
	<u>                    </u>	<u>                    </u>
Current assets:		
Cash and cash equivalents	\$ 34,878,637	\$ 48,327,022
Accounts receivable	164,653	89,128
Inventory	2,249,362	2,117,953
Other current assets	544,253	897,825
	<u>                    </u>	<u>                    </u>
Total current assets	37,836,905	51,431,928
Property and equipment, net	20,336,059	22,385,662
Other assets	1,659,806	1,721,413
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 59,832,770</u>	<u>\$ 75,539,003</u>
	<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>	
Current liabilities:		
Accounts payable	\$ 275,149	\$ 906,557
Accrued liabilities	3,817,587	4,019,396
Current portion of capital lease obligations	137,605	216,452
	<u>                    </u>	<u>                    </u>
Total current liabilities	4,230,341	5,142,405
Capital lease obligations, net of current portion	36,098	129,916
Other long-term liabilities	343,343	272,874
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>4,609,782</u>	<u>5,545,195</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2002 and December 31, 2001		
Common stock, \$.0025 par value, 100,000,000 shares authorized; issued and outstanding shares - 24,289,988 shares at September 30, 2002; 24,099,944 shares at December 31, 2001	60,725	60,250
Additional paid-in capital	132,442,265	132,326,759
Deferred stock option compensation expense	(2,540)	(10,145)
Cumulative translation adjustment	(61,074)	(33,577)
Accumulated deficit	(77,216,388)	(62,349,479)
	<u>                    </u>	<u>                    </u>
Total shareholders' equity	<u>55,222,988</u>	<u>69,993,808</u>

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Total liabilities and shareholders' equity	<u>\$ 59,832,770</u>	<u>\$ 75,539,003</u>
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*The accompanying notes are an integral part of these statements.*

**Table of Contents****EDEN BIOSCIENCE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Product sales, net of sales allowances	\$ 59,884	\$ 439,125	\$ 1,687,420	\$ 3,496,002
Operating expenses:				
Cost of goods sold	373,591	782,351	2,106,892	3,959,416
Research and development	2,525,478	3,645,357	8,139,694	9,329,530
Selling, general and administrative	1,939,977	2,495,848	6,819,987	8,955,061
Total operating expenses	4,839,046	6,923,556	17,066,573	22,244,007
Loss from operations	(4,779,162)	(6,484,431)	(15,379,153)	(18,748,005)
Other income (expense):				
Interest income	170,347	585,341	582,994	2,556,004
Interest expense	(7,940)	(19,331)	(31,390)	(66,716)
Loss on disposal of assets	(35,753)		(39,360)	
Total other income	126,654	566,010	512,244	2,489,288
Loss before income taxes	(4,652,508)	(5,918,421)	(14,866,909)	(16,258,717)
Provision for income taxes				
Net loss	\$ (4,652,508)	\$ (5,918,421)	\$ (14,866,909)	\$ (16,258,717)
Basic and diluted net loss per share	\$ (0.19)	\$ (0.25)	\$ (0.61)	\$ (0.68)
Weighted average shares outstanding used to compute net loss per share	24,254,210	23,978,189	24,219,932	23,946,978

*The accompanying notes are an integral part of these statements.*

**Table of Contents****EDEN BIOSCIENCE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$(14,866,909)	\$(16,258,717)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	1,981,489	1,138,319
Amortization of stock option compensation expense	7,605	13,860
Loss (gain) on disposal of fixed assets	39,360	(765)
Deferred rent payable	102,969	206,051
Changes in assets and liabilities:		
Accounts receivable	(73,444)	178,926
Inventory	75,551	(811,316)
Other assets	414,591	(2,207,865)
Accounts payable	(650,370)	(979,661)
Accrued liabilities	(217,555)	1,526,882
Other long-term liabilities	(32,500)	32,500
Net cash used in operating activities	<u>(13,219,213)</u>	<u>(17,161,786)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(204,615)	(12,768,201)
Proceeds from disposal of equipment	24,473	2,733
Net cash used in investing activities	<u>(180,142)</u>	<u>(12,765,468)</u>
Cash flows from financing activities:		
Reduction in capital lease obligations	(172,665)	(189,844)
Proceeds from issuance of common stock	115,981	290,342
Net cash provided by (used in) financing activities	<u>(56,684)</u>	<u>100,498</u>
Effect of foreign currency exchange rates on cash and cash equivalents	7,654	(19,226)
Net decrease in cash and cash equivalents	(13,448,385)	(29,845,982)
Cash and cash equivalents at beginning of period	48,327,022	86,556,865
Cash and cash equivalents at end of period	<u>\$ 34,878,637</u>	<u>\$ 56,710,883</u>
Supplemental disclosures:		
Cash paid for interest	\$ 31,390	\$ 66,716
Accrued liabilities for construction in process		2,287,540
Depreciation charges capitalized into inventory	208,225	265,703

*The accompanying notes are an integral part of these statements.*



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**EDEN BIOSCIENCE CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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 and nine months ended September 30, 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. Examples include depreciable lives of property and equipment, expense accruals and provisions for sales allowances, warranty claims, inventory valuation and bad debts. Such estimates and assumptions are based on historical experience, where applicable, and other assumptions that the Company believes are reasonable under the circumstances. We periodically review estimates and assumptions and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from these 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 one 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 that are paid by the Company are included in cost of goods sold.

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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 estimated and accrued when the related product sales revenue is 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 September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Gross product sales	\$ 65,239	\$ 644,299	\$ 2,166,160	\$ 5,360,737
Sales allowances	(5,355)	(205,174)	(478,740)	(1,864,735)
Product sales, net of sales allowances	\$ 59,884	\$ 439,125	\$ 1,687,420	\$ 3,496,002

**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 September 30,	
	2002	2001
Options to purchase common stock	2,124,452	2,675,737
Warrants to purchase common stock	260,805	290,805

**Comprehensive Loss**

The following table summarizes the Company's comprehensive loss for the three months and nine months ended September 30, 2002 and 2001:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net loss	\$ (4,652,508)	\$ (5,918,421)	\$ (14,866,909)	\$ (16,258,717)
Cumulative translation adjustment	(16,941)	(5,538)	(27,497)	(23,687)
Total comprehensive loss	\$ (4,669,449)	\$ (5,923,959)	\$ (14,894,406)	\$ (16,282,404)

**Reclassifications**

Certain reclassifications have been made in prior years financial statements to conform to classifications used in the current year.

**2. Inventory**

Inventory, at average cost, consists of the following:

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
	<u>          </u>	<u>          </u>
Raw materials	\$ 857,755	\$ 934,824
Work in process	291,118	82,069
Finished goods	1,100,489	1,101,060
	<u>          </u>	<u>          </u>
Total inventory	\$ 2,249,362	\$ 2,117,953
	<u>          </u>	<u>          </u>

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

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
Equipment	\$ 13,101,971	\$ 12,986,850
Equipment under capital leases	512,742	714,626
Leasehold improvements	12,572,529	12,486,376
	<u>26,187,242</u>	<u>26,187,852</u>
Less accumulated depreciation	(5,851,183)	(3,802,190)
	<u>\$ 20,336,059</u>	<u>\$ 22,385,662</u>

The Company recorded depreciation of \$676,862 and \$520,761 for the three months ended September 30, 2002 and 2001, respectively, and \$2,189,714 and \$1,404,022 for the nine months ended September 30, 2002 and 2001, respectively.

**4. Accrued Liabilities**

Accrued liabilities consist of the following:

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
Sales allowances and marketing expenses	\$ 1,226,583	\$ 389,775
Compensation and benefits	1,004,322	1,397,639
Research and development field trial expenses	490,968	1,113,546
Deferred revenue	308,952	52,283
Warranty	268,861	324,249
Patent costs	167,388	