

EDEN BIOSCIENCE CORP

Form 10-Q

August 12, 2002

Table of Contents

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

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 June 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 August 8, 2002
Common Stock, \$.0025 Par Value	24,248,322

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Factors That May Affect Our Business, Future Operating Results and Financial Condition

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART II OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EXHIBIT 11.1

EXHIBIT 99.1

EXHIBIT 99.2

Table of Contents

EDEN Bioscience Corporation

Index to Form 10-Q

	<u>Page</u>
Part I. Financial Information	
Item 1. Unaudited Financial Statements	2
Condensed Consolidated Balance Sheets as of December 31, 2001 and June 30, 2002	2
Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2001 and 2002	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2001 and 2002	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Factors That May Affect Our Business, Future Operating Results and Financial Condition	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Part II. Other Information	
Item 2. Changes in Securities and Use of Proceeds	21
Item 4. Submission of Matters to a Vote of Security Holders	22
Item 6. Exhibits and Reports on Form 8-K	22
Signatures	22

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

ASSETS

	December 31, 2001	June 30, 2002
Current assets:		
Cash and cash equivalents	\$ 48,327,022	\$ 37,698,658
Accounts receivable	89,128	654,960
Inventory	2,117,953	2,211,059
Other current assets	897,825	832,665
	<hr/>	<hr/>
Total current assets	51,431,928	41,397,342
Property and equipment, net	22,385,662	20,979,341
Other assets	1,721,413	1,681,357
	<hr/>	<hr/>
Total assets	\$ 75,539,003	\$ 64,058,040

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 906,557	\$ 231,171
Accrued liabilities	4,019,396	3,415,516
Current portion of capital lease obligations	216,452	166,276
	<hr/>	<hr/>
Total current liabilities	5,142,405	3,812,963
Capital lease obligations, net of current portion	129,916	55,321
Other long-term liabilities	272,874	341,520
	<hr/>	<hr/>
Total liabilities	5,545,195	4,209,804
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2001 and June 30, 2002		
Common stock, \$.0025 par value, 100,000,000 shares authorized; issued and outstanding shares - 24,099,944 shares at December 31, 2001; 24,248,322 shares at June 30, 2002	60,250	60,621
Additional paid-in capital	132,326,759	132,400,703
Deferred stock option compensation expense	(10,145)	(5,075)
Cumulative translation adjustment	(33,577)	(44,133)
Accumulated deficit	(62,349,479)	(72,563,880)
	<hr/>	<hr/>
Total shareholders' equity	69,993,808	59,848,236

Edgar Filing: EDEN BIOSCIENCE CORP - Form 10-Q

Total liabilities and shareholders' equity	<u>\$ 75,539,003</u>	<u>\$ 64,058,040</u>
--	----------------------	----------------------

The accompanying notes are an integral part of these statements.

-2-

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Product sales, net of sales allowances	\$ 575,454	\$ 1,072,529	\$ 3,056,877	\$ 1,627,536
Operating expenses:				
Cost of goods sold	2,202,462	1,040,978	3,177,065	1,733,301
Research and development	3,442,974	2,718,742	5,687,701	5,614,216
Selling, general and administrative	3,586,436	2,198,111	6,456,450	4,880,010
Total operating expenses	9,231,872	5,957,831	15,321,216	12,227,527
Loss from operations	(8,656,418)	(4,885,302)	(12,264,339)	(10,599,991)
Other income (expense):				
Interest income	805,525	189,512	1,970,663	412,647
Interest expense	(22,410)	(10,287)	(47,385)	(23,450)
Gain (loss) on disposal of assets	3,528	(3,607)	765	(3,607)
Total other income	786,643	175,618	1,924,043	385,590
Loss before income taxes	(7,869,775)	(4,709,684)	(10,340,296)	(10,214,401)
Provision for income taxes				
Net loss	\$ (7,869,775)	\$ (4,709,684)	\$ (10,340,296)	\$ (10,214,401)
Basic and diluted net loss per share	\$ (0.33)	\$ (0.19)	\$ (0.43)	\$ (0.42)
Weighted average shares outstanding used to compute net loss per share	23,953,703	24,237,987	23,931,113	24,202,510

The accompanying notes are an integral part of these statements.

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

	Six Months Ended June 30,	
	2001	2002
Cash flows from operating activities:		
Net loss	\$(10,340,296)	\$(10,214,401)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	651,848	1,304,117
Amortization of stock option compensation expense	9,240	5,070
Loss (gain) on disposal of fixed assets	(765)	3,607
Deferred rent payable	171,728	68,646
Changes in assets and liabilities:		
Accounts receivable	(1,183,134)	(564,871)
Inventory	(986,240)	116,646
Other assets	(1,890,422)	105,514
Accounts payable	862,203	(685,334)
Accrued liabilities	(1,303,673)	(623,834)
Other long-term liabilities	32,500	
Net cash used in operating activities	<u>(13,977,011)</u>	<u>(10,484,840)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(9,300,103)	(112,467)
Proceeds from disposal of equipment	2,733	3,600
Net cash used in investing activities	<u>(9,297,370)</u>	<u>(108,867)</u>
Cash flows from financing activities:		
Proceeds from capital equipment leases	19,418	
Reduction in capital lease obligations	(141,026)	(124,771)
Proceeds from issuance of common stock	287,842	74,315
Net cash provided by (used in) financing activities	<u>166,234</u>	<u>(50,456)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	(20,408)	15,799
Net decrease in cash and cash equivalents	(23,128,555)	(10,628,364)
Cash and cash equivalents at beginning of period	86,556,865	48,327,022
Cash and cash equivalents at end of period	<u>\$ 63,428,310</u>	<u>\$ 37,698,658</u>
Supplemental disclosures:		
Cash paid for interest	\$ 47,385	\$ 23,450
Accrued expenses for construction in process	1,565,767	
Depreciation charges capitalized into inventory	232,174	208,223

The accompanying notes are an integral part of these statements.

Table of Contents

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 six months ended June 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, expenses accruals, 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 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 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.

Table of Contents**EDEN BIOSCIENCE CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Gross product sales	\$ 875,486	\$ 1,374,688	\$ 4,716,438	\$ 2,100,921
Sales allowances	(300,032)	(302,159)	(1,659,561)	(473,385)
Product sales, net of sales allowances	\$ 575,454	\$ 1,072,529	\$ 3,056,877	\$ 1,627,536

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 June 30,	
	2001	2002
Options to purchase common stock	2,634,537	2,954,496
Warrants to purchase common stock	290,805	260,805

Comprehensive Loss

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Net loss	\$(7,869,775)	\$(4,709,684)	\$(10,340,296)	\$(10,214,401)
Cumulative translation adjustment	(18,149)	2,517	(18,149)	(10,556)
Total comprehensive loss	\$(7,887,924)	\$(4,707,167)	\$(10,358,445)	\$(10,224,957)

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:

	December 31, 2001	June 30, 2002
	<hr/>	<hr/>
Raw materials	\$ 934,824	\$ 831,100
Work in process	82,069	363,716
Finished goods	1,101,060	1,016,243
	<hr/>	<hr/>
Total inventory	\$2,117,953	\$2,211,059
	<hr/>	<hr/>

