EDEN BIOSCIENCE CORP
Form 10-Q
November 06, 2003

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-Q

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(Mark One)
[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2003**

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

**3830 Monte Villa Parkway, Suite 100**
**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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [ ] No [X]

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 5, 2003** |
|---|---|
| Common Stock, $.0025 Par Value | 24,361,990 |

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**EDEN Bioscience Corporation**

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**PART I FINANCIAL INFORMATION**

**Item 1. Unaudited Financial Statements**

**EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| | September 30, 2003 | December 31, 2002 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 21,893,061 | $ 30,729,828 |
| Accounts receivable | 43,182 | 218,529 |
| Inventory | 2,123,747 | 2,216,420 |
| Other current assets | 541,548 | 770,136 |
| Total current assets | 24,601,538 | 33,934,913 |
| Property and equipment, net | 16,800,320 | 18,410,909 |
| Other assets | 1,637,658 | 1,647,304 |
| Total assets | $ 43,039,516 | $ 53,993,126 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 264,580 | $ 361,801 |
| Accrued liabilities | 1,154,804 | 3,627,571 |
| Current portion of accrued loss on facility subleases | 492,629 | 292,482 |
| Current portion of capital lease obligations | 19,938 | 95,426 |
| Total current liabilities | 1,931,951 | 4,377,280 |
| Accrued loss on facility subleases, net of current portion | 2,497,604 | 2,613,651 |
| Capital lease obligations, net of current portion | 16,156 | 29,592 |
| Other long-term liabilities | 677,925 | 378,816 |
| Total liabilities | 5,123,636 | 7,399,339 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2003 and December 31, 2002 | -- | -- |
| Common stock, $.0025 par value, 100,000,000 shares authorized; issued and outstanding shares - 24,354,322 shares at September 30, 2003; 24,307,495 shares at December 31, 2002 | 60,886 | 60,769 |
| Additional paid-in capital | 132,513,643 | 132,466,906 |
| Cumulative translation adjustment | (84,724) | (78,842) |
| Accumulated deficit | (94,573,925) | (85,855,046) |
| Total shareholders' equity | 37,915,880 | 46,593,787 |
| Total liabilities and shareholders' equity | $ 43,039,516 | $ 53,993,126 |

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

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**EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| Product sales, net of sales allowances | $ 102,533 | $ 59,884 | $ 1,498,057 | $ 1,687,420 |
| Operating expenses: | | | | |
| Cost of goods sold | 307,766 | 373,591 | 1,513,761 | 2,106,892 |
| Research and development | 982,983 | 2,535,579 | 4,013,389 | 8,157,002 |
| Selling, general and administrative | 1,406,321 | 1,965,629 | 4,852,024 | 6,842,039 |
| Total operating expenses | 2,697,070 | 4,874,799 | 10,379,174 | 17,105,933 |
| Loss from operations | (2,594,537) | (4,814,915) | (8,881,117) | (15,418,513) |
| Other income (expense): | | | | |
| Interest income | 62,411 | 170,347 | 233,862 | 582,994 |
| Interest expense | (1,393) | (7,940) | (8,116) | (31,390) |
| Total other income | 61,018 | 162,407 | 225,746 | 551,604 |
| Loss before income taxes and cumulative effect of adoption of SFAS No. 143 | (2,533,519) | (4,652,508) | (8,655,371) | (14,866,909) |
| Provision for income taxes | -- | -- | -- | -- |
| Loss before cumulative effect of adoption of SFAS No. 143 | (2,533,519) | (4,652,508) | (8,655,371) | (14,866,909) |
| Cumulative effect of adoption of SFAS No. 143 | -- | -- | (63,508) | -- |
| Net Loss | $ (2,533,519) | $ (4,652,508) | $ (8,718,879) | $ (14,866,909) |
| Basic and diluted net loss per share: | | | | |
| Loss before cumulative effect of adoption of SFAS No. 143 | $ (0.10) | $ (0.19) | $ (0.36) | $ (0.61) |
| Cumulative effect of adoption of SFAS No. 143 | -- | -- | -- | -- |
| Net loss | $ (0.10) | $ (0.19) | $ (0.36) | $ (0.61) |
| Weighted average shares outstanding used to compute net loss per share | 24,354,322 | 24,254,210 | 24,334,770 | 24,219,932 |
| Pro forma amounts assuming retroactive application of SFAS No. 143: | | | | |
| Net loss | $ (2,533,519) | $ (4,660,773) | $ (8,655,371) | $ (14,891,295) |
| Basic and diluted net loss per share | $ (0.10) | $ (0.19) | $ (0.36) | $ (0.61) |

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

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**EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Unaudited**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2003** | **2002** |
| Cash flows from operating activities: | | |
| Net loss | $ (8,718,879) | $ (14,866,909) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation and amortization | 1,656,035 | 1,981,489 |
| Amortization of stock option compensation expense | -- | 7,605 |
| Loss on disposal of fixed assets | 63,642 | 39,360 |
| Deferred rent payable | 107,682 | 102,969 |
| Accretion expense | 15,357 | -- |
| Cumulative effect of adoption of SFAS No. 143 | 63,508 | -- |
| Changes in assets and liabilities: | | |
| Accounts receivable | 177,338 | (73,444) |
| Inventory | 102,492 | 75,551 |
| Other assets | 236,021 | 414,591 |
| Accounts payable | (99,250) | (650,370) |
| Accrued liabilities | (2,482,528) | (217,555) |
| Accrued loss on facility subleases | 84,100 | -- |
| Other long-term liabilities | -- | (32,500) |
| Net cash used in operating activities | (8,794,482) | (13,219,213) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (209,525) | (204,615) |
| Proceeds from disposal of equipment | 200,556 | 24,473 |
| Net cash provided used in investing activities | (8,969) | (180,142) |
| Cash flows from financing activities: | | |
| Reduction in capital lease obligations | (88,924) | (172,665) |
| Proceeds from issuance of common stock | 46,854 | 115,981 |
| Net cash used in financing activities | (42,070) | (56,684) |
| Effect of foreign currency exchange rates on cash and cash equivalents | 8,754 | 7,654 |
| Net decrease in cash and cash equivalents | (8,836,767) | (13,448,385) |
| Cash and cash equivalents at beginning of period | 30,729,828 | 48,327,022 |
| Cash and cash equivalents at end of period | $ 21,893,061 | $ 34,878,637 |
| Supplemental disclosures: | | |
| Cash paid for interest | $ 8,116 | $ 31,390 |
| Depreciation charges capitalized into inventory | -- | 208,225 |

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

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**EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES**

**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, 2002 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, 2002 included in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 27, 2003.

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, 2003 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

***Estimates Used in Financial Statement Preparation***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 revenues 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, asset impairments, bad debts and asset retirement obligations. Such estimates and assumptions are based on historical experience, where applicable, and other assumptions. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period in which 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 and amortization is determined using straight-line, units-of-production and accelerated methods, which allocate costs over their estimated useful lives of two to 20 years. Equipment leased under capital leases is depreciated over the shorter of its estimated useful life or lease term, which ranges between three to five years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms, which range between two to ten years.

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations, which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This statement requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred.

***Revenue***

The Company recognizes revenue from product sales, net of sales allowances, when product is shipped to its 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 deferred and recognized later if such provisions or contingencies are satisfied. Distributors do not have price protection or product-return rights. Accounts receivable are presented net of sales allowances. The Company provides an allowance for warranty claims based on

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**EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

historical experience, the results of product quality testing and future expectations. Shipping and handling costs related to product sales that are paid by the Company are included in cost of goods sold.

Sales allowances represent allowances granted to independent distributors for sales and marketing support, product warehousing and delivery and information exchange and are estimated based on the terms of the distribution agreements currently in place. Sales allowances are accrued when the related product sales are recognized and are paid in accordance with the terms of the then-current distributor program agreements. Distributor program agreements expire annually, generally on December 31. Prior to 2003, sales allowances were paid when the distributors sold the product and reported the sales data to the Company, generally on a quarterly basis. The Company expects that sales allowances related to 2003 sales will be paid in 2003 and early 2004, upon submission by distributors of annual sales data. Gross product sales and sales allowances are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Gross product sales | $ 105,409 | $ 65,239 | $ 1,435,295 | $ 2,166,160 |
| Sales allowances | (2,876) | (5,355) | (63,539) | (478,740) |
| Elimination of previously recorded sales allowance liabilities | -- | -- | 126,301 | -- |
| Product sales, net of sales allowances | $ 102,533 | | | |