EDEN BIOSCIENCE CORP
Form 10-Q
August 06, 2003

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 June 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 August 1, 2003**
Common Stock, $.0025 Par Value	24,354,322

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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)

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,786,169	$ 30,729,828
Accounts receivable	469,799	218,529
Inventory	2,123,900	2,216,420
Other current assets	625,178	770,136
Total current assets	27,005,046	33,934,913
Property and equipment, net	17,281,685	18,410,909
Other assets	1,640,047	1,647,304
Total assets	$ 45,926,778	$ 53,993,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 298,859	$ 361,801
Accrued liabilities	1,545,774	3,627,571
Current portion of accrued loss on facility subleases	362,175	292,482
Current portion of capital lease obligations	31,384	95,426
Total current liabilities	2,238,192	4,377,280
Accrued loss on facility subleases, net of current portion	2,595,943	2,613,651
Capital lease obligations, net of current portion	19,888	29,592
Other long-term liabilities	621,461	378,816
Total liabilities	5,475,484	7,399,339
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at June 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 June 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	(82,829)	(78,842)
Accumulated deficit	(92,040,406)	(85,855,046)

Total shareholders' equity	40,451,294	46,593,787
Total liabilities and shareholders' equity	$ 45,926,778	$ 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 June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Product sales, net of sales allowances	$ 548,664	$ 1,072,529	$ 1,395,524	$ 1,627,536
Operating expenses:				
Cost of goods sold	627,799	1,040,978	1,205,995	1,733,301
Research and development	1,513,158	2,725,949	3,030,406	5,621,423
Selling, general and administrative	1,780,301	2,194,511	3,445,703	4,876,410
Total operating expenses	3,921,258	5,961,438	7,682,104	12,231,134
Loss from operations	(3,372,594)	(4,888,909)	(6,286,580)	(10,603,598)
Other income (expense):				
Interest income	77,796	189,512	171,451	412,647
Interest expense	(2,758)	(10,287)	(6,723)	(23,450)
Total other income	75,038	179,225	164,728	389,197
Loss before income taxes and cumulative effect of adoption of SFAS No. 143	(3,297,556)	(4,709,684)	(6,121,852)	(10,214,401)
Provision for income taxes	--	--	--	--
Loss before cumulative effect of adoption of SFAS No. 143	(3,297,556)	(4,709,684)	(6,121,852)	(10,214,401)
Cumulative effect of adoption of SFAS No. 143	--	--	(63,508)	--
Net loss	$ (3,297,556)	$ (4,709,684)	$ (6,185,360)	$ (10,214,401)
Basic and diluted net loss per share:				
Loss before cumulative effect of adoption of SFAS No. 143	$ (0.14)	$ (0.19)	$ (0.25)	$ (0.42)
Cumulative effect of adoption of SFAS No. 143	--	--	--	--
Net loss	$ (0.14)	$ (0.19)	$ (0.25)	$ (0.42)
Weighted average shares outstanding used to compute net loss per share	24,341,374	24,237,987	24,324,832	24,202,510
Pro forma amounts assuming retroactive application of SFAS No. 143:				
Net loss	$ (3,297,556)	$ (4,717,811)	$ (6,121,852)	$ (10,230,522)
Basic and diluted net loss per share	$ (0.14)	$ (0.19)	$ (0.25)	$ (0.42)

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

	Six Months Ended June 30,	
	2003	**2002**
Cash flows from operating activities:		
Net loss	$ (6,185,360)	$ (10,214,401)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	1,160,069	1,304,117
Amortization of stock option compensation expense	--	5,070
Loss on disposal of fixed assets	63,731	3,607
Deferred rent payable	67,496	68,646
Accretion expense	10,085	--
Cumulative effect of adoption of SFAS No. 143	63,508	--
Changes in assets and liabilities:		
Accounts receivable	(248,066)	(564,871)
Inventory	99,001	116,646
Other assets	153,754	105,514
Accounts payable	(64,792)	(685,334)
Accrued liabilities	(2,102,650)	(623,834)
Accrued loss on facility subleases	51,985	--
Net cash used in operating activities	(6,931,239)	(10,484,840)
Cash flows from investing activities:		
Purchases of property and equipment	(194,899)	(112,467)
Proceeds from disposal of equipment	200,487	3,600
Net cash provided by (used in) investing activities	5,588	(108,867)
Cash flows from financing activities:		
Reduction in capital lease obligations	(73,746)	(124,771)
Proceeds from issuance of common stock	46,854	74,315
Net cash used in financing activities	(26,892)	(50,456)
Effect of foreign currency exchange rates on cash and cash equivalents	8,884	15,799
Net decrease in cash and cash equivalents	(6,943,659)	(10,628,364)
Cash and cash equivalents at beginning of period	30,729,828	48,327,022
Cash and cash equivalents at end of period	$ 23,786,169	$ 37,698,658
Supplemental disclosures:		
Cash paid for interest	$ 6,723	$ 23,450
Depreciation charges capitalized into inventory	--	208,223

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 six months ended June 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 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 term, 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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historical experience, 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 when earned 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 June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Gross product sales	$ 567,990	$ 1,374,688	$ 1,329,886	$ 2,100,921
Sales allowances	(19,326)	(302,159)	(60,663)	(473,385)
Elimination of previously recorded sales allowance liabilities	--	--	126,301	--
Product sales, net of sales allowances	$ 548,664	$ 1,072,529	$ 1,395,524	$ 1,627,536

Net product sales for the six months ended June 30, 2003 includes the elimination of $126,301 of sales allowance liabilities recognized in prior quarters that will not be paid because of changes in distributor programs implemented in 2003 and actual amounts earned by distributors being less than amounts previously estimated.

Recent Accounting Pronouncements

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (effective January 1, 2003), replaces Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and states that an entity s commitment to an exit plan, by itself, does not create a present obligation that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The adoption of SFAS No. 146 is not expected to have a material impact on the Company s consolidated results of operations, financial position or cash flows.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The disclosure modifications required for interim and annual periods ending after December 15, 2002 are included in the notes to these unaudited condensed consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statement No. 123 to require more prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these unaudited condensed consolidated financial statements.

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

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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,	
	2003	2002
Options to purchase common stock	2,568,846	2,954,496
Warrants to purchase common stock	232,217	260,805

Comprehensive Loss

The following table summarizes the Company s comprehensive loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss	$ (3,297,556)	$ (4,709,684)	$ (6,185,360)	$ (10,214,401)
Cumulative translation adjustment	4,145	2,517	(3,987)	(10,556)
Total comprehensive loss	$ (3,293,411)	$ (4,707,167)	$ (6,189,347)	$ (10,224,957)

Stock Compensation

The Company has elected to apply the disclosure-only provisions of 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. The following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss, as reported	$ (3,297,556)	$ (4,709,684)	$ (6,185,360)	$ (10,214,401)
Add: Amortization of stock option compensation expense	--	2,535	--	5,070
Deduct: Total stock-based employee compensation expense under fair value based method	(285,741)	(397,535)	(862,618)	(888,479)
Pro forma net loss	$ (3,583,297)	$ (5,104,684)	$ (7,047,978)	$ (11,097,810)
Loss per share:				
Basic and diluted - as reported	$ (0.14)	$ (0.19)	$ (0.25)	$ (0.42)
Basic and diluted - pro forma	$ (0.15)	$ (0.21)	$ (0.29)	$ (0.46)

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:

	June 30, 2003	December 31, 2002
Raw materials	$ 872,425	$ 856,108
Work in process	265,611	291,118
Finished goods	985,864	1,069,194
Total inventory	$ 2,123,900	$ 2,216,420

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3. Property and Equipment

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

	June 30, 2003	December 31, 2002
Equipment	$ 12,690,166	$ 12,759,251
Equipment under capital leases	219,012	478,565
Leasehold improvements	11,563,408	11,415,694
	24,472,586	24,653,510
Less accumulated depreciation and amortization	(7,190,901)	(6,242,601)
Net property and equipment	$ 17,281,685	$ 18,410,909

The Company recorded depreciation and amortization of $564,707 and $735,313 for the three months ended June 30, 2003 and 2002, respectively, and $1,160,069 and $1,512,340 for the six months ended June 30, 2003 and 2002, respectively.

4. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2003	December 31, 2002
Compensation and benefits	$ 489,282	$ 751,540
Warranty	329,968	331,059
Research and development field trial expenses	226,892	604,068
Sales allowances and marketing expenses	118,235	1,170,657
Patent costs	116,133	108,526
Facility costs	112,743	426,889
Deferred revenue	19,480	106,548
Other	133,041	128,284
Total accrued liabilities	$ 1,545,774	$ 3,627,571

5. Warranty Liability

The Company records, at the time revenues are recognized, a liability for warranty claims based on a percentage of sales. The warranty accrual percentage, which has ranged between one and five percent, and warranty liability are reviewed periodically and adjusted as necessary, based on historical experience, product quality testing and future expectations.

The following table summarizes changes to the Company s warranty liability during the six months ended June 30, 2003:

Balance at December 31, 2002	$ 331,059
Payments and other settlements	(41,071)
Accruals	39,980
Balance at June 30, 2003	$ 329,968

6. Stock Options and Warrants

The following table summarizes stock option activity since December 31, 2002:

	Number of Options
Balance at December 31, 2002	1,868,452
Options granted	998,000
Options cancelled	(265,406)
Options exercised	(32,200)
Balance at June 30, 2003	2,568,846

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On June 17, 2002, the Company offered to exchange certain outstanding options to purchase shares of its common stock granted to its then-current U.S. employees and officers (other than its Chief Financial Officer and then-Interim President) for new options to be granted under the 2000 Stock Incentive Plan on a date that was at least six months and one day after the date on which the Company cancelled the tendered options. The offer was made pursuant to a tender offer that expired on July 17, 2002. Employees who participated in the offer were required to tender all stock options granted to them in October and November 2001, other than any options that may have been granted during that period expressly in connection with a promotion, with an exercise price of $7.00 per share for cancellation without replacement. On July 17, 2002, options to purchase 788,900 shares of the Company s common stock (representing approximately 56% of the shares subject to options eligible for participation in the offer) were tendered for cancellation, of which options to purchase 584,200 shares were tendered for exchange and options to purchase 204,700 shares were tendered for cancellation without replacement. On January 21, 2003, the Company granted new options to purchase 558,700 shares of its common stock. Each new option has an exercise price of $1.64 per share (the fair market value of the Company s common stock on the date of grant) and vests over four years at a rate of 25% on each anniversary of the vesting start date of the tendered option that it replaced.

As of June 30, 2003, the Company had warrants outstanding to purchase 232,217 shares of its common stock. No warrants to purchase shares of the Company s common stock were issued during the six-month period ended June 30, 2003.

7. Major Customers

Net product sales to the following distributors accounted for more than ten percent of net revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Customer A	$ 155,700	$ --	$ 309,400	$ --
Customer B	117,100	--	167,600	**
Customer C	57,600	**	**	**
Customer D	55,400	**	**	**
Customer E	**	140,800	**	191,200
Customer F	--	138,400	--	**
Customer G	**	108,500	**	**
Customer H	--	144,500	--	164,700
Customer I	**	**	182,400	**
Customer J	--	**	--	195,000

** Less than ten percent.

8. Restructuring Charges and Other Costs

The Company recorded aggregate restructuring costs of $160,082 in the three months and six months ended June 30, 2003 and $534,769 in the year ended December 31, 2002 for severance and other costs associated with workforce reductions that occurred during those periods. Although the Company s restructuring plans were executed by June 30, 2003, payment of certain restructuring liabilities will continue through the third quarter of 2003. The following table summarizes changes to the Company s restructuring charge liability during the six months ended June 30, 2003:

Balance at December 31, 2002	$ 56,534
Accrual for additional restructuring charges	160,082
Payments and other reductions	(183,022)
Balance at June 30, 2003	$ 33,594

9. Asset Retirement Obligation

As of January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, by recording an asset and liability in the amount of $129,093 related to asset retirement obligations the Company has at the expiration or earlier termination of its manufacturing facility lease. The lease expires on December 31, 2006, at which time the Company may extend the lease for three additional years. The Company has not restricted any

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assets for purposes of settling this asset retirement obligation. As of January 1, 2003, the Company also recorded a $63,508 charge for the cumulative effect of adopting SFAS No. 143, which consists of cumulative accretion of $34,821 and depreciation of $28,687 related to periods prior to January 1, 2003. Following is a reconciliation of the beginning and ending aggregate carrying value of the asset retirement obligation liability:

Initial measurement of obligation	$ 129,093
Accretion expense for periods prior to January 1, 2003	34,821
Accretion expense for the six months ended June 30, 2003	10,085
Balance at June 30, 2003	$ 173,999

Pro forma net losses for the years ended December 31, 2002 and 2001, assuming retroactive application of SFAS No. 143, would be as follows:

	Year Ended December 31,	
	2002	2001
Net loss, as reported	$ (23,505,567)	$ (23,714,967)
Accretion and depreciation expense	(32,792)	(30,716)
Pro forma net loss, assuming retroactive application of SFAS No. 143	$ (23,538,359)	$ (23,745,683)

The pro forma balance of the asset retirement obligation liability, assuming that SFAS No. 143 had been adopted prior to the quarter ended June 30, 2002 (the earliest period presented), would be $163,913 at December 31, 2002, $154,414 at June 30, 2002 and $145,465 at December 31, 2001.

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 thereto included in this report and with our 2002 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 27, 2003.

This Quarterly Report on Form 10-Q 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, the negative of these term 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 report. The cautionary statements made in this report apply to all forward-looking statements wherever they appear in this report. We undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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 enhances plant health and improves crop production and plant protection. We believe our technology and our initial product, Messenger, provide growers with valuable benefits by increasing crop yields, quality and shelf-life and improving the plant s ability to withstand diseases and other environmental stresses.

We have incurred significant operating losses since inception. We incurred net losses of $23.5 million in 2002 and $23.7 million in 2001. As of June 30, 2003, we had an accumulated deficit of $92.0 million. We incurred net losses of $6.2 million and $10.2 million for the six months ended June 30, 2003 and 2002, respectively. Total operating expenses were $7.7 million for the six months ended June 30, 2003, a decrease of $4.5 million from $12.2 million in the six months ended June 30, 2002. We expect to incur additional net losses as we proceed with the

commercialization of Messenger and the development of new products and technologies.

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Results of Operations

Three Months and Six Months Ended June 30, 2003 and 2002

Revenues

We generated our first product sales in August 2000. Product sales to date have resulted from sales of Messenger, our only product, primarily to distributors in the United States. Revenues from product sales are recognized 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 protection or product-return rights. Product sales are reported net of applicable sales allowances, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Gross product sales	$ 567,990	$ 1,374,688	$ 1,329,886	$ 2,100,921
Sales allowances	(19,326)	(302,159)	(60,663)	(473,385)
Elimination of previously recorded sales allowance liabilities	--	--	126,301	--
Product sales, net of sales allowances	$ 548,664	$ 1,072,529	$ 1,395,524	$ 1,627,536

Gross product sales for the second quarter of 2003 totaled $568,000, a decrease of $807,000 (58%) from $1.4 million in the comparable quarter of 2002. Gross product sales for the first six months of 2003 totaled $1.3 million, a decrease of $771,000 (37%) from $2.1 million for the same period in 2002. Sales in the first six months of 2003 were made to 28 distributors, three of which accounted for an aggregate of 47% of net product sales. Sales in the first six months of 2002 were made to 17 distributors, three of which accounted for an aggregate of 34% of net product sales. Sales in the quarters ended June 30, 2003 and 2002 continued to be negatively impacted by high levels of inventory held by distributors, the continuing challenges of commercializing a fundamentally new technology and product and the lagging U.S. economy. We expect these conditions to continue at least for the remainder of this year, which we expect will adversely impact sales of Messenger and our commercialization efforts.

Sales to consumers in the home and garden market in the United States totaled $37,000 in the six months ended June 30, 2003, or 3% of net product sales for the period. No sales to consumers in the home and garden market were recorded in the six months ended June 30, 2002. We do not expect sales in this market to be significant in 2003.

Foreign sales to customers in Europe and Central America totaled $28,000 in the six months ended June 30, 2003, or 2% of net product sales for the period. No foreign sales were recorded in the six months ended June 30, 2002. We do not expect foreign sales to be significant in 2003.

In the first half of 2003, we shipped 351,000 ounces of Messenger to our distributors, compared to 461,000 ounces in the first half of 2002, a decrease of 110,000 ounces (24%). Based on information received from distributors, we estimate that our distributors sold approximately 264,000 ounces to growers in the second quarter of 2003, a decrease of approximately 60,000 ounces (19%) from approximately 324,000 ounces in the second quarter of 2002. For the first six months of 2003, we estimate that our distributors sold approximately 422,000 ounces to growers, a decrease of approximately 46,000 ounces (10%) from approximately 468,000 ounces in the first half of 2002. We estimate that inventory held by distributors at June 30, 2003 was approximately 564,000 ounces, which we believe is high. We do not expect distributors that hold significant inventories of Messenger to place additional orders for Messenger until their current inventories are reduced and, therefore, we expect sales to distributors in the remainder of this year to be minor. One of our primary objectives in 2003 is to continue working with distributors to significantly reduce their inventories of Messenger.

In February 2003, we negotiated with one of our distributors a compromise settlement whereby we paid $250,000 to settle unpaid accrued sales allowances and an uncollected account receivable. As part of the settlement agreement and mutual release, we accepted approximately 232,000 ounces of Messenger from that distributor. As a result of this settlement, the estimated amount of Messenger in distributors inventories was reduced by approximately 232,000 ounces from the December 31, 2002 estimate. We do not anticipate entering into any additional such agreements.

Due to the growing seasons of our targeted crops, we expect grower usage of Messenger to be highly seasonal. Based on the recommended application timing in our targeted crops and information received from our distributors,

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we expect the second quarter of each year to be the most significant period of use. Our product sales to distributors are also expected to be seasonal. However, actual timing of orders received from distributors will depend on many factors, including the amount of Messenger in distributors inventories.

Sales Allowances

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. 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. Previously accrued sales allowances totaling approximately $546,000 related to Messenger inventory held by distributors at December 31, 2002 were paid in the first quarter of 2003. We expect that sales allowances related to 2003 sales will be paid when earned in 2003 and early 2004, upon submission by distributors of annual sales data.

Beginning in 2003, we made several changes to our distributor program. We reduced both the cost of Messenger to our distributors and the sales allowance they will receive, thereby lowering the necessary working capital investment by distributors who maintain inventories of Messenger. As a result of these changes, sales allowances related to gross sales during the three months ended June 30, 2003 totaled $19,000 (3% of gross product sales), compared to $302,000 (22% of gross product sales) in the comparable period of 2002. Sales allowances related to gross sales during the six months ended June 30, 2003 totaled $61,000 (5% of gross product sales), compared to $473,000 (23% of gross product sales) in the same period in 2002. We expect 2003 sales allowances to average approximately 5% of gross product sales. Also, estimated sales allowance liabilities recognized in prior quarters totaling $126,000 will not be paid because of changes in distributor programs implemented in 2003 and actual amounts earned by distributors being less than amounts previously estimated.

Cost of Goods Sold

Cost of goods sold consists primarily of the cost of Messenger sold to distributors, idle capacity charges, inventory cost reductions and write-offs and the cost of Messenger used for promotional purposes. Cost of goods sold was $628,000 in the second quarter of 2003, compared to $1.0 million in the second quarter of 2002. For the first six months of 2003, cost of goods sold was $1.2 million, compared to $1.7 million for the same period in 2002. This decrease resulted primarily from lower product sales in 2003 compared to 2002 and a reduction in Messenger used for promotional purposes. We expect to continue incurring idle capacity charges in the future.

Our inventory includes approximately 530,000 ounces of Messenger that was manufactured more than two years ago. In addition, we estimate that distributors own approximately 564,000 ounces of Messenger that was manufactured more than two years ago. Due to the age of this inventory, we have begun limited re-testing of Messenger samples produced in 2000 and 2001. During the first six months of 2003, we voluntarily recalled and replaced approximately 10,000 ounces of Messenger owned by distributors that our limited re-testing indicated had degraded below our quality control standards. If our limited re-testing program indicates that additional material has degraded below our quality standards, we may have to record inventory write-downs and replace any such product owned by distributors or growers, which could adversely affect our results of operations.

Research and Development Expenses

Research and development expenses consist primarily of personnel, field trial, laboratory, regulatory, patent and facility expenses. Research and development expenses decreased $1.2 million (44%) from $2.7 million in the second quarter of 2002 to $1.5 million in the same quarter of this year. For the first six months of 2003, research and development costs were $3.0 million, a decrease of $2.6 million (46%) from $5.6 million in the same period last year. This decrease was primarily due to lower spending on personnel costs, field trials, facility costs (including depreciation) and travel. Research and development costs in the quarter ended June 30, 2003 were equivalent to the first quarter of 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of payroll and related expenses for sales and marketing, executive and administrative personnel; advertising, marketing and professional fees; and other corporate expenses. Selling, general and administrative expenses decreased $414,000 (19%) from $2.2 million in the second quarter of

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2002 to $1.8 million in the same quarter of 2003. For the first six months of 2003, selling, general and administrative expenses were $3.4 million, a decrease of $1.5 million (31%) from $4.9 million in the same period last year. The majority of this decrease occurred in the United States and resulted primarily from reductions in personnel, advertising and marketing and travel costs. Compared to the first quarter of 2003, company-wide selling, general and administrative costs in the second quarter of this year were higher by 7%, due primarily to the loss on sublease described below.

In April 2003, we subleased approximately 7,300 square feet of additional office space in our headquarters in Bothell, Washington. Due to declines in the real estate market, the rent we will receive is less than the rent we will pay on the subleased space. As a result, we recorded in selling, general and administrative expenses a $235,000 loss on the sublease in April 2003.

In May 2003, we announced the elimination of 20 full-time positions (representing approximately 34% of our workforce), primarily in research and administration at our Bothell headquarters. We recorded a charge of $160,082 in the quarter ended June 30, 2003 in connection with these reductions.

Interest Income

Interest income consists of earnings on our cash and cash equivalents. Interest income decreased $112,000 (59%) from $190,000 in the second quarter of 2002 to $78,000 in the same quarter of this year. For the first six months of 2003, interest income was $171,000, down $242,000 (59%) from $413,000 in the same period last year. This decrease was due primarily to significantly lower average cash balances available for investment in the current year and interest rate reductions that occurred in the past year.

Interest Expense

Interest expense consists of interest we pay on capital leases used to finance certain equipment purchases. Interest expense decreased $7,000 from $10,000 in the second quarter of 2002 to $3,000 in the same quarter of this year. For the first six months of 2003, interest expense was $7,000, down $16,000 from $23,000 in the same period last year. This decrease was due to reduced leasing activity and lower average principal balances as we pay down our existing capital lease obligations.

Income Taxes

We have generated a net loss from operations in each period since we began doing business. As of December 31, 2002, we had accumulated approximately $76.7 million of net operating loss carryforwards for federal income tax purposes. These carryforwards expire between 2009 and 2022. Our foreign tax net operating loss carryforwards totaled $6.7 million at December 31, 2002 and expire in 2006 and 2007. The annual use of these net operating loss carryforwards may be limited in the event of a cumulative change in ownership of more than 50%.

Liquidity and Capital Resources

At June 30, 2003, our cash and cash equivalents totaled $23.8 million, a decrease of $6.9 million from the $30.7 million balance at December 31, 2002. Prior to October 2000, we financed our operations primarily through the private sale of our equity securities, which resulted in net proceeds of approximately $36.5 million through September 30, 2000. In October 2000, we received approximately $91.5 million in net proceeds from the initial public offering of 6,670,000 shares of our common stock. To a lesser extent, we have financed our equipment purchases through lease financings.

Net cash used in operations decreased $3.6 million (34%) from $10.5 million in the first six months of 2002 to $6.9 million in the same period of 2003. Net cash used in operations in the first six months of 2003 resulted primarily from a net loss of $5.0 million, after adding back depreciation expense of $1.2 million, and fluctuations in various asset and liability balances totaling $2.1 million. We expect that net cash used in operations will continue to be significant.

Investing activities provided cash of $6,000 in the first six months of 2003 and used cash of $109,000 in the first six months of 2002. This change is due primarily to proceeds from the disposal of equipment. Net cash used in financing activities decreased $23,000 (46%) from $50,000 in the first six months of 2002 to $27,000 in the same period of 2003. The primary use of funds in 2003 was to pay down principal on our outstanding capital leases, offset by proceeds of $47,000 from the issuance of shares of our common stock.

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We conduct our operations in three primary functional currencies: the U.S. dollar, the European Union euro and the Mexican peso. Historically, neither fluctuations in foreign exchange rates nor changes in foreign economic conditions have had a significant impact on our financial condition or results of operations. We currently do not hedge our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. We may invoice our international customers in U.S. dollars, euros and Mexican pesos, as the case may be. We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. Foreign exchange rate fluctuations did not have a material impact on our financial results in the three-month or six-month periods ended June 30, 2003 or 2002.

The following are our contractual obligations as of June 30, 2003:

	Payments Due by Period				
	(in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Capital lease obligations, including interest	$ 56	$ 35	$ 21	$ --	$ --
Operating leases	12,610	1,860	3,711	3,049	3,990
Total contractual cash obligations	$ 12,666	$ 1,895	$ 3,732	$ 3,049	$ 3,990

Our operating expenditures have been significant since inception. We currently anticipate that our operating expenses will significantly exceed net product sales and that net losses and working capital requirements will consume a material amount of our cash resources. If net product sales do not significantly increase in the near term, we will have to reduce our operating expenses. Our future capital requirements will depend on the success of our operations. We believe that the balance of our cash and cash equivalents at June 30, 2003 will be sufficient to meet our anticipated cash needs for net losses, working capital and capital expenditures for at least the next 18 months.

In the future, we may require additional funds to support our working capital requirements or for other purposes and may seek to raise such additional funds through public or private equity financing or through other sources, such as credit facilities. We may be unable to obtain adequate or favorable financing at that time or at all. The sale of additional equity securities could result in dilution to our shareholders.

Critical Accounting Policies, Estimates and Judgments

Our critical accounting policies are more fully described in Note 1 to our consolidated financial statements included in our most recent Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 27, 2003. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, terms of existing contracts, commonly accepted industry practices, information provided by our customers and other assumptions that we believe are reasonable under the circumstances. Our estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates include:

Revenue Recognition

We sell our product to independent, third-party distributors. Our contracts with those distributors provide no price protection or product-return rights. We recognize revenue from product sales, net of sales allowances, when product is received by our distributors and all of our significant obligations 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.

Sales allowances represent allowances granted to independent distributors for sales and marketing support, product warehousing and delivery and information exchange and are based on the terms of the distribution agreements. 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 us, generally on a quarterly basis. Sales allowances related to 2003 sales will be paid when earned in 2003 and early 2004, upon submission by distributors of annual sales data.

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We also record, at the time revenue is recognized, an allowance for warranty claims based on a percentage of sales. The warranty accrual percentage, which has ranged between one and five percent, and warranty liability are reviewed periodically and adjusted as necessary, based on historical experience, product quality testing and future expectations.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable balances are reported net of related sales allowances. In determining the adequacy of the allowance for doubtful accounts, we consider a number of factors, including the aging of the accounts receivable portfolio, customer payment trends, the financial condition of our customers, historical bad debts and current economic trends. Based upon our analysis of outstanding net accounts receivable at June 30, 2003, no allowance for doubtful accounts was recorded.

Inventory

Our inventory is valued at the lower of cost or market on an average cost basis. We regularly review inventory balances to determine whether a write-down is necessary. We consider various factors in making this determination, including recent sales history and predicted trends, industry market conditions, general economic conditions, the age of our inventory and distributors and recent quality control data. Changes in the factors above or other factors could result in significant additional inventory cost reductions and write-offs.

Valuation of Property and Equipment

We periodically review the carrying values of our property and equipment to determine whether such assets have been impaired. An impairment loss must be recorded pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, when the undiscounted net cash flows to be realized from the use of such assets are less than their carrying value. The determination of undiscounted net cash flows requires us to make many estimates, projections and assumptions, including the lives of the assets, future sales and expense levels, additional capital investments or expenditures necessary to maintain the assets, industry market trends and general and industry economic conditions. During 2002, we wrote off $1.0 million of leasehold improvements and equipment directly related to approximately 34,300 square feet of laboratory and office space subleased to another company. Based upon our analysis of net cash flows to be realized from our investments in property and equipment, no additional impairment loss was recorded. Changes in the factors listed above or other factors could result in significantly different cash flow estimates and an impairment charge.

Loss on Facility Subleases

We have entered into agreements to sublease approximately 41,600 square feet of laboratory and office space to other companies. In determining the loss on these facility subleases, we considered a number of factors, including the financial condition of the subtenants, the subtenants investments in improvements and security deposits. Based on our analysis, we estimate that all rents will be collected and that one subtenant will exercise a three-year extension option. Changes in the factors above or other factors could result in a significant increase in the loss.

Recent Accounting Pronouncements

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (effective January 1, 2003), replaces Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and states that a company s commitment to an exit plan, by itself, does not create a present obligation that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The adoption of SFAS No. 146 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial

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recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The disclosure modifications required for interim and annual periods ending after December 15, 2002 are included in the notes to the unaudited condensed consolidated financial statements included in this quarterly report.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statement No. 123 to require more prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to the unaudited condensed consolidated financial statements included in this quarterly report.

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

You should carefully consider the risks described below, together with all of the other information included in this Quarterly Report on Form 10-Q. The risks and uncertainties described below are not the only ones facing our company. If any of the following risks actually occurs, our business, financial condition or operating results could be harmed.

We currently depend on a single product and our development and commercialization of that product may not be successful.

For the immediately foreseeable future we will be dependent on the successful development and commercialization of one product, Messenger, which is based on a new technology. While Messenger has been subject to numerous field tests on a wide variety of crops with favorable results, we have had only limited sales of Messenger since its introduction in August 2000, and Messenger could prove to be commercially unsuccessful. Messenger may not prove effective or economically viable for all crops or markets. In addition, because Messenger has not been put to widespread commercial use over significant periods of time, no assurance can be given that adverse consequences might not result from the use of Messenger, such as soil or other environmental degradation, the development of negative effects on animals or plants or reduced benefits in terms of crop yield or protection.

The markets for Messenger and other harpin-based products we may develop are unproven. Messenger has not gained, and may not gain, commercial acceptance or success. If we are unable to successfully achieve broad market acceptance of Messenger, we may not be able to generate enough product revenues in the future to achieve profitability. A variety of factors will determine the success of our market development and commercialization efforts and the rate and extent of market acceptance of Messenger, including our ability to implement and maintain an appropriate pricing policy for Messenger and general economic conditions in agricultural markets, including commodity prices, climatic conditions and the extent that growers, regulatory authorities and the public accept new agricultural practices and products developed through biotechnology.

We have experienced limited grower usage of Messenger, and independent distributors hold significant inventories of Messenger.

Based on information received from distributors, we estimate that distributors sold 66,000 ounces of Messenger in 2000, 596,000 ounces in 2001 and 684,000 ounces in 2002. During the first six months of 2003, we estimate that distributors sold 422,000 ounces to growers, compared to 468,000 ounces in the same period of 2002. We estimate that inventory held by distributors at June 30, 2003 was approximately 564,000 ounces, which we believe is high. We do not expect distributors that hold significant inventories of Messenger to place additional orders for Messenger until their current inventories are reduced, which will adversely affect our sales and results of operations.

Inability to develop adequate sales and marketing capabilities could prevent us from successfully commercializing Messenger and other products we may develop.

We currently have limited sales and marketing experience and capabilities. Our internal sales and marketing staff consist primarily of sales and marketing specialists who are trained to educate growers and independent distributors on the uses and benefits of Messenger. We will need to further develop our sales and marketing capabilities in order to enhance our commercialization efforts, which will involve substantial costs. These specialists

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require a high level of technical expertise and knowledge regarding Messenger s capabilities and other plant protection and yield enhancement products and techniques. We cannot assure you that our specialists and other members of our sales and marketing team will successfully compete against the sales and marketing operations of our current and future competitors that may have more established relationships with distributors, retailers and growers. Failure to recruit, train and retain important sales and marketing personnel, such as our sales and marketing specialists, or the inability of new sales and marketing personnel to effectively market and sell Messenger and other products we may develop, could impair our ability to gain market acceptance of our products and cause our sales to suffer.

We have a history of losses since inception, we expect to continue to incur losses and we may not achieve or sustain profitability.

We have incurred operating losses in each quarter since inception and we expect to continue to incur further operating losses for the foreseeable future. From our inception in July 1994 to June 30, 2003, we have accumulated a deficit of $92.0 million. For the years ended December 31, 2002, 2001 and 2000, we had net losses of $23.5 million, $23.7 million and $15.7 million, respectively. For the six months ended June 30, 2003 we had a net loss of $6.2 million. To date, our revenues have been limited. We expect our future revenues to come primarily from the sale of Messenger, and these sales are highly uncertain. For example, there were no sales of Messenger in the fourth quarter of 2001, annual net sales decreased from $3.5 million in 2001 to $1.9 million in 2002 and we expect sales for the remainder of 2003 to be minor.

We expect to continue to devote substantial resources to funding sales and marketing activities in the United States and foreign countries, maintaining and operating our manufacturing facility and funding our research and development activities. As a result, we will need to generate significant revenues to achieve and maintain profitability. We may never generate profits, and if we do become profitable, we may be unable to sustain or increase profitability on a quarterly or annual basis.

If net product sales do not significantly increase in the near term, we will have to reduce our operating expenses. Our future capital requirements will depend on the success of our operations. We believe that the balance of our cash and cash equivalents at June 30, 2003 will be sufficient to meet our anticipated cash needs for net losses, working capital and capital expenditures for at least the next 18 months.

We may have to reduce operations if we are unable to meet our funding requirements.

We will require substantial additional funding to continue our sales and marketing and research and development activities in the United States and foreign countries and to maintain and operate our manufacturing facilities. If we are unable to generate sufficient cash flow from operations, or obtain funds through additional financing, we may have to delay, curtail or eliminate some or all of our research and development, field-testing, marketing or manufacturing programs. For example, we reduced our workforce by 34% in May 2003 and by 23% in May 2002, significantly curtailing certain research and development activities and our European and Mexican operations. Our future capital requirements will depend on the success of our operations.

If our capital requirements vary from our current plans, we may require additional financing sooner than we anticipate. Financing may be unavailable to us when needed or on acceptable terms.

If our ongoing or future field trials are unsuccessful, we may be unable to achieve market acceptance or obtain regulatory approval of our current product or any other products we may develop.

The successful completion of multiple field trials in domestic and foreign locations on a wide variety of crops is critical to the success of our product development and marketing efforts. If our ongoing or future field trials are unsuccessful or produce inconsistent results or adverse side effects, or if we are unable to collect reliable data, regulatory approval of our current product or any other products we may develop could be delayed or withheld or we may be unable to achieve market acceptance of these products. Although we have conducted successful field trials on a broad range of crops, we cannot be certain that additional field trials conducted on a greater number of acres, or on crops for which we have not yet conducted field trials, will be successful. Moreover, the results of our ongoing and future field trials are subject to a number of conditions beyond our control, including weather-related events such as droughts and floods, severe heat and frost, hail, tornadoes and hurricanes. Generally, we pay third parties, such as growers, consultants and universities, to conduct our field trials for us. Incompatible crop treatment practices or misapplication of the product by third parties could interfere with the success of our field trials.

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We are at an early stage of development and are subject to the risks of a new enterprise and the commercialization of a new technology.

We began our operations in 1994 and began the marketing and sale of our first product, Messenger, in the third quarter of 2000. Our early stage of development, the newness of our technology and the uncertain nature of the market in which we compete make it difficult to assess our prospects or predict our future operating results. We are subject to risks and uncertainties frequently encountered in the establishment of a new business enterprise, particularly in the rapidly changing market for plant protection and yield enhancement products. These risks include our inability to transition from a company with a research focus to a company capable of supporting commercial activities, including manufacturing, quality control and assurance, regulatory approval and compliance, marketing, sales, distribution and customer service. Our inability to adequately address these risks could cause us to be unprofitable or to cease operations.

Age and actual storage conditions of Messenger may cause it to degrade, which could adversely affect market acceptance of Messenger or our results of operations.

Messenger is currently being stored in large quantities under various conditions by us and by distributors. This material was manufactured in 2000, 2001 and 2002. We have conducted laboratory studies that indicate Messenger is stable for at least two years under our recommended storage conditions. No assurance can be given, however, that actual storage conditions will not cause Messenger s quality to degrade over a shorter time period.

The inventory of Messenger held by us and by distributors is aging and may not meet our quality standards, which could adversely affect market acceptance of Messenger or our results of operations.

Our inventory includes approximately 530,000 ounces of Messenger that was manufactured more than two years ago. In addition, we estimate that distributors own approximately 564,000 ounces of Messenger that was manufactured more than two years ago. Due to the age of this inventory, we have begun limited re-testing of Messenger samples produced in 2000 and 2001. During the first six months of 2003, we voluntarily recalled and replaced approximately 10,000 ounces of Messenger owned by distributors that our limited re-testing indicated had degraded below our quality control standards. In addition, we recorded increases in the warranty liability and inventory cost allowances and write-downs totaling $68,000 in the six months ended June 30, 2003 and $193,000 in 2002.

Although results of our limited re-testing indicate that a portion of inventory manufactured in 2000 and 2001 continues to meet our quality standards, no assurance can be given that this material will continue to meet our quality standards, nor can we predict if or when this material might fail to meet our quality standards. If our limited re-testing program indicates that additional material has degraded below our quality standards, we may have to record additional inventory write-downs and may choose to replace any such product owned by distributors or growers, which could adversely affect the market acceptance of Messenger or our results of operations.

We may be unable to establish or maintain successful relationships with independent distributors and retailers, which could adversely affect our sales.

We intend to rely on independent distributors and retailers of agri-chemicals to distribute and assist with the marketing and sale of Messenger and any other products we may develop. We have engaged several independent distributors and retailers for the distribution and sale of Messenger. Our future revenue growth will depend in large part on our success in establishing and maintaining these sales and distribution channels. We are in the early stages of developing our distribution network and we may be unable to establish or maintain these relationships in a timely or cost-effective manner. Moreover, we cannot assure you that the distributors and retailers on which we rely will focus adequate resources on selling these products or will be successful in selling them. Many of our potential distributors and retailers are in the business of distributing and sometimes manufacturing other, possibly competing, plant protection and yield enhancement products and may perceive Messenger as a threat to various product lines currently being manufactured or distributed by them. In addition, the distributors may earn higher margins by selling competing products or combinations of competing products. If we are unable to establish or maintain successful relationships with independent distributors and retailers, we will need to further develop our own distribution and sales and marketing capabilities, which would be expensive and time-consuming and the success of which would be uncertain.

Three distributors accounted for an aggregate of 47% of our net revenue in the six months ended June 30, 2003 and two distributors accounted for an aggregate of 21% of our net sales revenue in all of 2002. If any distributor

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which purchases a significant amount of our products, were to discontinue purchasing Messenger at any time, our sales would be adversely affected. In addition, the failure of any of these distributors, or of any other distributor to which we extend a significant amount of credit, to pay its account, now or in the future, may harm our operating results.

Inability to obtain regulatory approvals, or to comply with ongoing and changing regulatory requirements, could delay or prevent sales of Messenger or any other products we may develop.

The field testing, manufacture, sale and use of plant protection and yield enhancement products, including Messenger and any other products we may develop, are extensively regulated by the EPA and state, local and foreign governmental authorities. These regulations substantially increase the cost and time associated with bringing Messenger and any other products we may develop to market. If we do not receive the necessary governmental approvals to test, manufacture and market these products, or if the regulatory authorities revoke our approvals or grant them subject to restrictions on their use, we may be unable to sell these products and our business may fail.

We are also required to obtain regulatory approval from certain state and foreign regulatory authorities before we market Messenger in those jurisdictions. Some of these jurisdictions may apply different criteria than the EPA in connection with their approval processes. Although we are authorized to sell Messenger in 48 states on virtually all crops for crop production and disease management, and in California on citrus and tomato for yield enhancement and on strawberries, grapes and fruiting vegetables, such as tomatoes and peppers, for disease management, we have not received approval for Messenger in Colorado or for use on other crops in California. We have also received authorization to sell Messenger or are exempt from formal authorization requirements in at least 26 foreign countries, including China, Germany, Mexico and six Central American countries. Our registration in China is temporary and limited to the sale of Messenger for use on tomatoes, peppers, tobacco and rapeseed.

If we significantly modify Messenger s design as a result of our ongoing research and development projects, additional EPA and other regulatory approvals may be required. Moreover, we cannot assure you that we will be able to obtain approval for marketing additional harpin-based products or product extensions that we may develop. For example, while the EPA has in place a registration procedure for products such as Messenger that is streamlined in comparison to the registration procedure for chemical pesticides, there can be no assurance that all of our products or product extensions will be eligible for the streamlined procedure or that the EPA will not impose additional requirements that could make the procedure more time-consuming and costly for any future products we may develop.

Even if we obtain all necessary regulatory approvals to market and sell Messenger and any other products we may develop, Messenger and these other products will be subject to continuing review and extensive regulatory requirements. The EPA, as well as state and foreign governmental authorities, could withdraw a previously approved product from the market upon discovery of new information, including an inability to comply with regulatory requirements, the occurrence of unanticipated problems with the product or for other reasons. In addition, federal, state and foreign regulations relating to crop production and protection products developed through biotechnology are subject to public concerns and political circumstances and, as a result, regulations have changed and may change substantially in the future. These changes may result in limitations on the manufacturing, marketing or use of Messenger or any other products we may develop and commercialize.

Inability to satisfy the conditions of our California registration for strawberries, citrus and tomato could limit or prevent sales of Messenger in that state.

Our registration to sell Messenger in California for use on strawberries for disease management is conditioned on the requirement that we submit data from several additional studies within various required timeframes ending on March 31, 2003. We have submitted additional data and are currently awaiting a response. Our California registration for use on citrus and tomato for yield enhancement, granted in March 2003, is conditioned on the requirement that we submit data from several additional studies within various required timeframes ending on December 31, 2005. There are no conditions on our registration to sell Messenger in California for use on fruiting vegetables and grapes for disease management. As required by the California registration for use on strawberries, we submitted the results of six additional strawberry field trials in December 2001, other information in March 2002 and the results of another six strawberry field trials in July 2002. We expect to submit additional information to the California Department of Pesticide Regulation (the CDPR) at various times in 2003, in accordance with the conditions of our strawberry registration and ongoing discussions with the CDPR. We expect to submit the results of additional citrus and tomato field trials at various required timeframes, through 2005, in accordance with our

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registration. If we are unable to conduct the studies required by the CDPR in a timely manner, or if the results of the studies are unacceptable to the CDPR, they may not allow the continued use of Messenger in California on strawberries, citrus or tomatoes or they may impose limitations on this use of Messenger, which could have a negative impact on our sales. Because EPA and state approvals are required for commercial sales of Messenger, the loss of any of these approvals for any reason would prevent further sales of Messenger in the affected state or nationwide.

The high level of competition in our market may result in price reductions, reduced margins or the inability of our products to achieve market acceptance.

The market for plant protection and yield enhancement products is intensely competitive, rapidly changing and undergoing consolidation. We may be unable to compete successfully against our current or future competitors, which may result in price reductions, reduced margins or the inability to achieve market acceptance of Messenger or any other products we may develop.

Many companies are engaged in developing plant protection and yield enhancement products. Our competitors include major international agri-chemical companies, specialized biotechnology companies and research and academic institutions. Many of these organizations have significantly more capital, research and development, regulatory, manufacturing, distribution, sales, marketing, human and other resources than we do. As a result, they may be able to devote greater resources to the development, manufacture, promotion or sale of their products, receive greater resources and support from independent distributors, initiate or withstand substantial price competition or take advantage of acquisition or other opportunities more readily. Furthermore, these large agri-chemical companies have a more diversified product offering than we do, which may give them an advantage in meeting customer needs by enabling them to offer integrated solutions to plant protection and yield enhancement.

Our product development efforts, which are based on an innovative technology that is commercially unproven, may not be successful.

Our harpin and harpin-related technology is new, in an early stage of development and commercially unproven. It may take years and significant capital investment to develop viable enhancements of Messenger or any new products we may develop based on our harpin and harpin-related technology. Risks inherent in the development of products based on innovative technologies include the possibility that:

new products or product enhancements will be uneconomical to market or will be difficult to produce on a large scale;

proprietary rights of third parties will prevent us from marketing products; and

third parties will market superior or equivalent products or will market their products first.

Our operating results are likely to fluctuate, resulting in an unpredictable level of sales and earnings and possibly in a decrease in our stock price.

Our operating results for a particular quarter or year are likely to fluctuate, which could result in uncertainty surrounding our level of sales and earnings and possibly result in a decrease in our stock price. For example, there were no sales of Messenger in the fourth quarter of 2001. Numerous other factors will contribute to the unpredictability of our operating results. In particular, our sales are expected to be highly seasonal. Sales of plant protection and yield enhancement products depend on planting and growing seasons, climatic conditions and economic and other variables, which we expect to result in substantial fluctuations in our quarterly sales and earnings. For example, weather-related events such as droughts and floods, severe heat and frost, hail, tornadoes and hurricanes could decrease demand for our product and any future products we may develop, and have an adverse impact on our operating results from quarter to quarter. In addition, most of our expenses, such as employee compensation and lease payments for facilities and equipment, are relatively fixed. Our expense levels are based, in part, on our expectations regarding future sales. As a result, any shortfall in sales relative to our expectations could cause significant changes in our operating results from quarter to quarter. Other factors may also contribute to the unpredictability of our operating results, including the amount of Messenger carried in inventory by independent distributors and retailers, the size and timing of significant customer transactions, the delay or deferral of customer use of our product and the fiscal or quarterly budget cycles of our customers. For example, customers may purchase large quantities of our product in a particular quarter to store and use over long periods of time, or time their

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purchases to coincide with the availability of capital, either of which may cause significant fluctuations in our operating results for a particular quarter or year.

International expansion will subject us to risks associated with international operations, which could adversely affect both our domestic and international operations.

Our success depends in part on our ability to expand internationally as we obtain regulatory approvals to market and sell Messenger and any other products we may develop in other countries. We have been conducting field trials in several international locations, and we have personnel in Europe and Mexico to develop operations in those regions. International expansion of our operations could impose substantial burdens on our resources, divert management s attention from domestic operations or otherwise adversely affect our business. Furthermore, international operations are subject to several inherent risks, especially different regulatory requirements and reduced protection of intellectual property rights, that could adversely affect our ability to compete in international markets and could have a negative effect on our operating results.

Inability to protect our patents and proprietary rights in the United States and foreign countries could limit our ability to compete effectively since our competitors may take advantage of our patents or proprietary rights.

Our success depends on our ability to obtain and maintain patent and other proprietary-right protection for our technology and products in the United States and other countries. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our proprietary rights. We also rely on trade secrets, proprietary know-how and continuing technological innovation to remain competitive. We have taken measures to protect our trade secrets and know-how, including the use of confidentiality agreements with our employees, consultants and advisors. It is possible that these agreements may be breached and that any remedies for breach will not make us whole. We generally control and limit access to, and the distribution of, our product documentation and other proprietary information. Despite our efforts to protect these proprietary rights, unauthorized parties may copy aspects of our products or obtain and use information that we regard as proprietary. We also cannot guarantee that other parties will not independently develop our know-how or otherwise obtain access to our technology.

The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems and incurred significant costs in protecting their proprietary rights in these foreign countries.

Patent law is still evolving with respect to the scope and enforceability of claims in the fields in which we operate. We are like many biotechnology companies in that our patent protection is highly uncertain and involves complex legal and technical questions for which legal principles are not firmly established. Our patents and those patents for which we have license rights may be challenged, narrowed, invalidated or circumvented. In addition, our issued patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage. We are not certain that our pending patent applications will be issued. Moreover, our competitors could challenge or circumvent our patents or pending patent applications.

The U.S. Patent and Trademark Office and the courts have not established a consistent policy regarding the breadth of claims allowed in biotechnology patents. The allowance of broader claims may increase the incidence and cost of patent interference proceedings and the risk of infringement litigation. On the other hand, the allowance of narrower claims may limit the value of our proprietary rights.

Other companies may claim that we infringe their intellectual property or proprietary rights, which could cause us to incur significant expenses or be prevented from selling Messenger or any other products we may develop.

Our success depends on our ability to operate without infringing the patents and proprietary rights of third parties. Product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential when filed, with regard to similar technologies. Future patents issued to third parties may contain claims that conflict with our patents. Although we believe that Messenger does not infringe the proprietary rights of any third parties, third parties could assert infringement claims against us in the future. Any litigation or interference proceedings, regardless of their merit or outcome, would probably be costly and require significant time and attention of our key management and technical personnel. Litigation or interference proceedings could also force us to:

stop or delay selling, manufacturing or using products that incorporate the challenged intellectual property;

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pay damages; or

enter into licensing or royalty agreements that may be unavailable on acceptable terms.

If we do not adequately distinguish Messenger from genetically modified plants and products, public concerns over those products could negatively impact market acceptance of Messenger.

Claims that the output of genetically modified plants is unsafe for consumption or that these plants pose a danger to the environment have led to public concerns and negative attitudes about genetically modified crops, particularly in Europe. We intend to distinguish Messenger and other topically applied harpin technologies from genetically modified plants and products. Messenger is topically applied and does not modify the plant s DNA. If the public or our customers perceive Messenger as a product that genetically modifies plants, market acceptance and registration of Messenger could be delayed, impaired or limited in countries with strong political resistance to genetically modified plants.

We may be exposed to product liability claims, which could adversely affect our operations.

We may be held liable or incur costs to settle product liability claims if Messenger or any products we may develop, or any products that use or incorporate any of our technologies, cause injury or are found unsuitable during product testing, manufacturing, marketing, sale or use. These risks exist even with respect to any products that have received, or may in the future receive, regulatory approval, registration or clearance for commercial use. We cannot guarantee that we will be able to avoid product liability exposure.

We currently maintain product liability insurance at levels we believe are sufficient and consistent with industry standards for companies at our stage of development. We cannot guarantee that our product liability insurance is adequate, and, at any time, it is possible that such insurance coverage may not be available on commercially reasonable terms or at all. A product liability claim could result in liability to us greater than our assets and insurance coverage. Moreover, even if we have adequate insurance coverage, product liability claims or recalls could result in negative publicity or force us to devote significant time and attention to matters other than those that arise in the normal course of business.

Rapid changes in technology could render our current product or any other products we may develop unmarketable or obsolete.

We are engaged in an industry characterized by extensive research efforts and rapid technological development. Our competitors, many of which have substantially greater technological and financial resources than we do, may develop plant protection and yield enhancement technologies and products that are more effective than ours or that render our technology and products obsolete or uncompetitive. To be successful, we will need to continually enhance Messenger and any other products we may develop and to design, develop and market new products that keep pace with new technological and industry developments.

Inability to comply with regulations applicable to our facilities and procedures could delay, limit or prevent our research and development or manufacturing activities.

Our research and development and manufacturing facilities and procedures are subject to continual review and periodic inspection. To comply with the regulations applicable to these facilities and procedures, we must spend funds, time and effort in the areas of production, safety and quality control and assurance to help ensure full technical compliance. If the EPA or another regulator determines that we are not in compliance, regulatory approval of Messenger or any other products we may develop could be revoked, delayed or withheld or we may be required to limit or cease our research and development or manufacturing activities or pay a monetary fine. If we were required to limit or cease our research and development activities, our ability to develop new products would be impaired. In addition, if we were required to limit or cease our manufacturing activities, our ability to produce Messenger in commercial quantities would be impaired or prohibited, which could have an adverse effect on our sales.

Inability to produce a high quality product could impair our business.

To be successful, we will have to manufacture Messenger in large quantities at acceptable costs while also preserving high product quality. If we cannot maintain high product quality on a large scale, we may be unable to achieve market acceptance of our product and our sales would likely suffer. Moreover, we do not have back-up

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manufacturing systems and, as a result, the failure of any component required in the manufacturing process could delay or impair our ability to manufacture Messenger in the quantities that we may require.

We intend to continue to make changes to our manufacturing processes and facilities in order to improve the efficiency and quality of our manufacturing activities. We cannot guarantee that we will be successful in this regard or that the changes we make will improve our manufacturing activities. We may encounter difficulties in the production of our current product or any future products we may develop, including problems involving manufacturing processes or yields, packaging, distribution, storage, quality control and assurance, shortages of qualified personnel or compliance with regulatory requirements. Even if we are successful in developing our manufacturing capability and processes, there can be no assurance that we will satisfy the requirements of our distributors or customers.

If third-party manufacturers fail to adequately perform, we could be unable to meet demand and our revenues could be impaired.

When our manufacturing plant is operating, we depend on independent manufacturers for large-scale fermentation services and to perform certain other portions of our production process. We intend to engage additional third-party manufacturers as necessary to perform these processes. Any failure or delay in the ability of our current or any future manufacturers to provide us with material they produce could adversely affect our ability to produce Messenger in the quantities necessary to satisfy the requirements of our distributors or customers, or could increase our costs associated with obtaining such materials. In addition, the time and resources that our current or future third-party manufacturers devote to our business are not within our control. We cannot ensure that our current or future third-party manufacturers will perform their obligations to meet our quality standards, that we will derive cost savings or other benefits from our relationships with them or that we will be able to maintain a satisfactory relationship with them on terms acceptable to us. Moreover, these manufacturers may support products that compete directly or indirectly with ours, or offer similar or greater support to our competitors. If any of these events were to occur, our business and operations could be adversely affected.

Inability to address strain on our resources caused by growth could result in ineffective management of our business.

As we add manufacturing, marketing, sales, field development and other personnel, both domestically and internationally, during the commercialization of Messenger, and expand our manufacturing and research and development capabilities, we expect that our operating expenses and capital requirements will increase. Our ability to manage growth effectively requires us to continue to expend funds to improve our operational, financial and management controls, reporting systems and procedures. In addition, we must effectively expand, train and manage our employee base. We will be unable to effectively manage our business if we are unable to timely and successfully alleviate the strain on our resources caused by growth in our business, which could adversely affect our operating results.

Inability to retain our key employees or other skilled managerial or technical personnel could impair our ability to maintain or expand our business.

We are highly dependent on the efforts and abilities of our current key managerial and technical personnel, particularly Dr. Rhett R. Atkins, our President and Chief Executive Officer, and Dr. Zhongmin Wei, our Chief Scientific Officer and Vice President of Research. Our success will depend in part on retaining the services of Drs. Atkins and Wei and our other existing key management and technical personnel and on attracting and retaining new, highly qualified personnel.

Inability to retain our existing key management or technical personnel or to attract additional qualified personnel could, among other things, delay our sales, marketing and research and development efforts. Moreover, in our field, competition for qualified management and technical personnel is intense and many of the companies with which we compete for experienced personnel have greater financial and other resources than we do. As a result, we may be unable to recruit, train and retain sufficient qualified personnel.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not currently hold any derivative instruments, and we do not engage in hedging activities. Also, we do not have any outstanding variable-rate debt and currently do not enter into any material transactions denominated in foreign currency. Because of the relatively short-term average maturity of our investment funds, such investments

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are not sensitive to interest rate movements. Therefore, our direct exposure to interest rate and foreign exchange rate fluctuation is currently not material to our results of operations. We believe that the market risk arising from the financial instruments we hold is not material.

Item 4. Controls and Procedures

Under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the fiscal quarter covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of such quarter. There have been no changes in our internal control over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On September 26, 2000, the SEC declared effective our Registration Statement on Form S-1, as amended (Registration No. 333-41028), as filed with the SEC in connection with our initial public offering. Proceeds to EDEN, after accounting for $7.0 million in underwriting discounts and commissions and approximately $1.6 million in other expenses of the offering, were approximately $91.5 million.

To date, of the net offering proceeds, we have used approximately $18.5 million to expand and enhance our manufacturing, research and development and administration facilities, and approximately $50.1 million for working capital and general corporate purposes. The remaining portion of the net offering proceeds has been invested in cash equivalent investments. Our use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus included as part of the Registration Statement.

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

(a) The 2003 annual meeting of shareholders of EDEN Bioscience Corporation was held on May 21, 2003.

(c) The following directors were elected to serve for terms expiring at the Annual Meetings shown below, or until the directors earlier retirement, resignation or removal:

	For	Withheld
Class I Director		
Richard N. Pahre (term expiring at the 2005 Annual Meeting)	22,706,710	107,407
Class II Directors		
Gilberto H. Gonzalez (term expiring at the 2006 Annual Meeting)	22,374,876	439,241
Albert A. James (term expiring at the 2006 Annual Meeting)	21,863,555	950,562
Agatha L. Maza (term expiring at the 2006 Annual Meeting)	22,725,336	88,781
Class III Director		
Rhett R. Atkins (term expiring at the 2004 Annual Meeting)	21,847,963	966,154

There were no broker nonvotes in the election of directors since brokers who hold shares for the accounts of their clients have discretionary authority to vote such shares with respect to election of directors.

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Item 6. Exhibits

Exhibits 10.1, 31.1 and 31.2 are being filed as part of this quarterly report on Form 10-Q. Exhibits 32.1 and 32.2 are being furnished with this quarterly report on Form 10-Q.

(a) *Exhibits.*

Exhibit Number	Description
10.1	Amendments to Zhongmin Wei's Employment Agreement Dated August 16, 2000.
31.1	Rule 13a-14(a) Certification (Chief Executive Officer).
31.2	Rule 13a-14(a) Certification (Chief Financial Officer).
32.1	Section 1350 Certification (Chief Executive Officer).
32.2	Section 1350 Certification (Chief Financial Officer).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EDEN BIOSCIENCE CORPORATION

Date: August 5, 2003

By: /s/ Rhett R. Atkins

Rhett R. Atkins
President and Chief Executive Officer

By: /s/ Bradley S. Powell

Bradley S. Powell
Vice President of Finance, Chief Financial Officer and Secretary
(principal financial and accounting officer)