EDEN BIOSCIENCE CORP
Form 10-Q
August 06, 2004

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, 2004

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 98021-7266
(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 5, 2004
Common Stock, $.0025 Par Value	24,372,261

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	June 30, 2004	December 31, 2003
Current assets:		
Cash and cash equivalents	$ 15,679,306	$ 19,823,339
Accounts receivable, net of sales allowances	381,364	166,111
Inventory	2,772,985	2,057,818
Prepaid expenses and other current assets	542,145	719,939
Total current assets	19,375,800	22,767,207
Property and equipment, net	15,252,465	16,305,604
Other assets	1,603,760	1,629,769
Total assets	$ 36,232,025	$ 40,702,580

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2004	December 31, 2003
Current liabilities:		
Accounts payable	$ 256,965	$ 105,076
Accrued liabilities	1,497,289	1,568,952
Current portion of accrued loss on facility subleases	475,240	494,373
Current portion of capital lease obligations	15,503	17,257
Total current liabilities	2,244,997	2,185,658
Accrued loss on facility subleases, net of current portion	2,134,628	2,373,342
Capital lease obligations, net of current portion	4,383	12,333
Other long-term liabilities	736,775	695,996
Total liabilities	5,120,783	5,267,329
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at June 30, 2004 and December 31, 2003	--	--
Common stock, $.0025 par value, 100,000,000 shares authorized; issued and outstanding shares - 24,372,261 shares at June 30, 2004; 24,361,990 shares at December 31, 2003	60,931	60,905
Additional paid-in capital	132,532,066	132,523,362
Accumulated other comprehensive loss	(76,140)	(85,381)
Accumulated deficit	(101,405,615)	(97,063,635)
Total shareholders equity	31,111,242	35,435,251
Total liabilities and shareholders equity	$ 36,232,025	$ 40,702,580

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, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Product sales, net of sales allowances	$ 289,937	$ 548,664	$ 503,338	$ 1,395,524
Operating expenses:				
Cost of goods sold	492,896	627,799	1,150,893	1,205,995
Research and development	720,878	1,513,158	1,397,187	3,030,406
Selling, general and administrative	1,117,869	1,780,301	2,394,567	3,445,703
Total operating expenses	2,331,643	3,921,258	4,942,647	7,682,104
Loss from operations	(2,041,706)	(3,372,594)	(4,439,309)	(6,286,580)
Other income (expense):				
Interest income	46,696	77,796	98,619	171,451
Interest expense	(571)	(2,758)	(1,290)	(6,723)
Total other income	46,125	75,038	97,329	164,728
Loss before income taxes and cumulative effect of adoption of SFAS No. 143	(1,995,581)	(3,297,556)	(4,341,980)	(6,121,852)
Income taxes	--	--	--	--
Loss before cumulative effect of adoption of SFAS No. 143	(1,995,581)	(3,297,556)	(4,341,980)	(6,121,852)
Cumulative effect of adoption of SFAS No. 143	--	--	--	(63,508)
Net loss	$ (1,995,581)	$ (3,297,556)	$ (4,341,980)	$ (6,185,360)
Basic and diluted net loss per share:				
Loss before cumulative effect of adoption of SFAS No. 143	$ (0.08)	$ (0.14)	$ (0.18)	$ (0.25)
Cumulative effect of adoption of SFAS No. 143	--	--	--	--
Net loss	$ (0.08)	$ (0.14)	$ (0.18)	$ (0.25)
Weighted average shares outstanding used to compute net loss per share	24,368,875	24,341,374	24,365,432	24,324,832

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,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$ (4,341,980)	$ (6,185,360)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	836,632	1,160,069
Accretion expense	12,134	10,085
Deferred rent payable	25,278	67,496
Loss on disposal of fixed assets	1,302	63,731
Cumulative effect of adoption of SFAS No. 143	--	63,508
Changes in assets and liabilities:		
Accounts receivable	(219,245)	(248,066)
Inventory	(493,059)	99,001
Prepaid expenses and other assets	206,917	153,754
Accounts payable	152,239	(64,792)
Accrued liabilities	(67,863)	(2,102,650)
Accrued loss on facility subleases	(257,847)	51,985
Net cash used in operating activities	(4,145,492)	(6,931,239)
Cash flows from investing activities:		
Purchases of property and equipment	--	(194,899)
Proceeds from disposal of fixed assets	6,700	200,487
Net cash provided by investing activities	6,700	5,588
Cash flows from financing activities:		
Reduction in capital lease obligations	(9,704)	(73,746)
Proceeds from issuance of common stock	8,730	46,854
Net cash used in financing activities	(974)	(26,892)
Effect of foreign currency exchange rates on cash and cash equivalents	(4,267)	8,884
Net decrease in cash and cash equivalents	(4,144,033)	(6,943,659)
Cash and cash equivalents at beginning of period	19,823,339	30,729,828
Cash and cash equivalents at end of period	$ 15,679,306	$ 23,786,169
Supplemental disclosures:		
Depreciation charges capitalized into inventory	$ 208,505	$ --
Cash paid for interest	1,290	6,723

The accompanying notes are an integral part of these statements.

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

The Company is subject to a number of risks including, among others: dependence on a limited number of products and the development and commercialization of those products, which may not be successful; the need to develop adequate sales and marketing capabilities to commercialize Messenger and the Company s other products; reliance on independent distributors and retailers to sell the Company s products; competition from other companies with greater financial, technical and marketing resources; and other risks associated with commercializing a new technology.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. 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 U.S. generally accepted accounting principles for complete financial statements. The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. 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, 2003 included in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 26, 2004.

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, 2004 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Liquidity

The Company s operating expenditures have been significant since its inception. The Company currently anticipates that its operating expenses will significantly exceed net product sales and that net losses and working capital requirements will consume a material amount of its cash resources. If net product sales do not significantly increase in the near term, the Company will have to further reduce its operating expenses. The Company s future capital requirements will depend on the success of its operations. Management of the Company believes that the balance of its cash and cash equivalents at June 30, 2004 will be sufficient to meet its anticipated cash needs for net losses, working capital and capital expenditures for more than the next 12 months, although there can be no assurance in that regard.

In the future, the Company may require additional funds to support its 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. The Company 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 the Company s shareholders.

Estimates Used in Financial Statement Preparation

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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, losses on facility subleases and bad debts. Such estimates and assumptions are based on historical

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EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 is five years. Leasehold improvements are amortized 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 delivered to its distributors and all significant obligations of the Company have been satisfied, unless acceptance provisions or other contingencies or arrangements exist. If acceptance provisions or other contingencies or arrangements exist, revenue is deferred and recognized later if such acceptance provisions or other contingencies or arrangements are satisfied. As part of the analysis of whether all significant obligations of the Company have been satisfied or situations where acceptance provisions or other contingencies or arrangements exist, the Company considers the following elements, among others: sales terms and arrangements, historical experience and current incentive programs. Distributors do not have price protection or product-return rights. The Company provides an allowance for warranty claims based on historical experience and 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. Sales allowances related to 2003 sales will be paid upon submission by distributors of annual sales data. In January 2004, the Company changed its distributor program to provide for sales allowances based on marketing support and the total amount of products purchased during the year. Marketing support and volume rebates are paid throughout the year as distributors qualify to receive them.

Gross product sales and sales allowances are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Gross product sales	$ 348,064	$ 567,990	$ 480,222	$ 1,329,886
Sales allowances	(58,127)	(19,326)	(72,121)	(60,663)
Elimination of previously recorded sales allowance liabilities	--	--	95,237	126,301
Product sales, net of sales allowances	$ 289,937	$ 548,664	$ 503,338	$ 1,395,524

Net product sales for the six months ended June 30, 2004 and 2003 include the reduction by $95,237 and $126,301, respectively, 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.

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EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2004, the Company received approval to sell Messenger in Spain. The Company initiated marketing activities in March, but the approval was not received in time to meet initial sales activity. In order to ensure that an adequate supply of Messenger was quickly disbursed in the new distribution channel and to limit the amount of working capital required by our new distributors at this early stage of introduction, the Company granted flexible and/or extended payment terms to distributors in this new market. Because of this combination of factors, revenues from these product deliveries were deferred and will be recognized when payment is received. In the quarter ended June 30, 2004, the Company recognized net revenue of approximately $90,000 from these deliveries when payment was received. Net revenue of $263,000 has been deferred at June 30, 2004 and will be recognized when payment is received.

Incentives

The Company sometimes offers sales incentives, often in the form of free product, to distributors and other customers. Costs associated with such incentives are recognized as costs of sales in the later of the period in which (a) the associated revenue is recognized by the Company or (b) the sales incentive is offered to the customer.

In September 2003, with the cooperation of its retailers, the Company instituted a buy one, get one free promotion at the grower level that ran through the end of 2003. Near the end of 2003, the Company announced a reduction of approximately 50% in the price of Messenger and determined that Messenger® STS, an improved formulation of Messenger introduced in January 2004, would sell for approximately the same price as Messenger. At the same time, the Company announced to distributors that it planned to send them additional products at no charge in order to reduce the average cost of their existing inventories of Messenger. In the first half of 2004, the Company delivered approximately 378,000 ounces of free products and it estimates that approximately 112,000 ounces of products remain to be given to distributors. This will substantially increase channel inventory and negatively affect the Company s sales. The Company does not expect distributors that hold significant inventories of its products to place additional orders until their current inventories are reduced.

Stock Compensation

The Company has elected to apply the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of SFAS No. 123. 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 income and earnings 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,	
	2004	**2003**	**2004**	**2003**
Net loss, as reported	$ (1,995,581)	$ (3,297,556)	$ (4,341,980)	$ (6,185,360)
Deduct: Total stock-based employee compensation expense under fair value based method	(245,789)	(149,208)	(400,126)	(862,618)
Pro forma net loss	$ (2,241,370)	$ (3,446,764)	$ (4,742,106)	$ (7,047,978)
Loss per share:				
Basic and diluted as reported	$ (0.08)	$ (0.14)	$ (0.18)	$ (0.25)
Basic and diluted pro forma	$ (0.09)	$ (0.14)	$ (0.19)	$ (0.29)

Comprehensive Loss

The following table summarizes the Company s comprehensive loss for the three months and six months ended June 30, 2004 and 2003:

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EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Net loss	$ (1,995,581)	$ (3,297,556)	$ (4,341,980)	$ (6,185,360)
Cumulative translation adjustment	(2,631)	4,145	9,241	(3,987)
Total comprehensive loss	$ (1,998,212)	$ (3,293,411)	$ (4,332,739)	$ (6,189,347)

Net Loss Per Share

Basic net loss per share is calculated as the net loss divided by the weighted average number of common shares outstanding during the period. Diluted net loss per share is calculated as the net loss divided by the sum of the weighted average number of common shares outstanding during the period plus the additional common shares that would have been issued had all dilutive warrants and options been exercised, less shares that would be repurchased with the proceeds from such exercises using the 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,	
	2004	**2003**
Options to purchase common stock	2,459,501	2,568,846
Warrants to purchase common stock	200,000	232,217

2. Stock Options and Warrants

The following table summarizes stock option activity since December 31, 2003:

	Number of Options
Balance at December 31, 2003	2,548,941
Options granted	130,000
Options cancelled	(219,440)
Balance at June 30, 2004	2,459,501

As of June 30, 2004, the Company had warrants outstanding to purchase 200,000 shares of its common stock at $15.00 per share. The warrants are currently exercisable and expire in August 2005. No warrants to purchase shares of the Company s common stock were issued during the six-month period ended June 30, 2004.

3. Inventory

Inventory, at average cost, consists of the following:

	June 30, 2004	**December 31, 2003**
Raw materials	$ 719,909	$ 855,883
Work in process and bulk manufactured goods	1,340,821	348,965

	June 30, 2004	December 31, 2003
Finished goods	712,255	852,970
Total inventory	$ 2,772,985	$ 2,057,818

4. Property and Equipment

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

	June 30, 2004	December 31, 2003
Equipment	$ 12,711,988	$ 12,790,658
Equipment under capital leases	66,646	102,374
Leasehold improvements	11,578,034	11,578,034
Total property and equipment	24,356,668	24,471,066
Less accumulated depreciation and amortization	(9,104,203)	(8,165,462)
Net property and equipment	$ 15,252,465	$ 16,305,604

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EDEN BIOSCIENCE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recorded depreciation and amortization of $516,319 and $564,707 for the three months ended June 30, 2004 and 2003, respectively, and $1,045,137 and $1,160,069 for the six months ended June 30, 2004 and 2003, respectively.

5. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2004	December 31, 2003
Compensation and benefits	$ 300,997	$ 311,246
Research and development field trial expenses	273,869	303,586
Facility costs	251,370	283,630
Warranty	228,021	228,021
Deferred revenue, net of deferred cost of goods sold	199,258	6,223
Promotions	89,357	180,692
Sales allowances	71,253	160,217
Other	83,164	95,337
Total accrued liabilities	$ 1,497,289	$ 1,568,952

6. Warranty Liability

The warranty accrual percentage, which has ranged between zero and five percent, is reviewed periodically and adjusted as necessary, based on historical experience, the results of product quality testing and future expectations. There were no changes to the Company s warranty liability during the six months ended June 30, 2004.

7. Major Customers

Net product sales to the following distributors accounted for more than ten percent of net revenues (excluding the reduction of previously recorded sales allowances) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Customer A	$ 68,400	$ --	$ 68,400	$ --
Customer B	48,000	155,700	76,800	309,400
Customer C	41,500	--	45,800	--
Customer D	--	--	42,500	--
Customer E	--	**	--	182,400
Customer F	**	117,100	**	167,600
Customer G	--	57,600	--	--
Customer H	**	55,400	**	--

** Less than ten percent.

8. 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 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:

Balance at December 31, 2003	$	185,070
Accretion expense for the six months ended June 30, 2004		12,134
Balance at June 30, 2004	$	197,204

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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 2003 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 26, 2004.

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 terms 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 health technology company focused on developing, manufacturing and marketing innovative products for agriculture using our natural protein-based harpin technology. We have a fundamentally new, patented and proprietary technology that we believe enhances plant health and improves overall crop production and quality. We believe our technology provides growers with valuable benefits by increasing crop yields, quality and shelf-life; by improving the plant s ability to suppress certain diseases and other environmental stresses; and by enhancing the uptake of nutrients.

We have incurred significant operating losses since inception. At June 30, 2004, we had an accumulated deficit of $101.4 million. We incurred net losses of $4.3 million and $6.2 million for the six months ended June 30, 2004 and 2003, respectively, and annual losses of $11.2 million in 2003, $23.5 million in 2002 and $23.7 million in 2001. We expect to incur significant additional net losses as we proceed with the commercialization of our current products and the development of new products and technologies.

Results of Operations

Three Months and Six Months Ended June 30, 2004 and 2003

Revenues

We generated our first product sales revenue in August 2000. Product sales revenue to date has resulted primarily from sales of Messenger, our initial product, and Messenger STS, an improved formulation of Messenger introduced in January 2004, as well as Employ , MightyPlant and other related products (hereafter referred to collectively as Messenger Products) primarily to distributors in the United States and, recently, in Europe. 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 or arrangements have been satisfied. As part of the analysis of whether all of our significant obligations have been satisfied or situations where acceptance provisions or other contingencies or arrangements exist, we consider the following elements, among others: sales terms and arrangements, historical experience and current incentive programs. Our distributor contracts provide no price protection or product-return rights. Product sales revenue is reported net of applicable sales allowances, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Gross product sales	$ 348,064	$ 567,990	$ 480,222	$ 1,329,886
Sales allowances	(58,127)	(19,326)	(72,121)	(60,663)
Elimination of previously recorded sales allowance liabilities	--	--	95,237	126,301
Product sales, net of sales allowances	$ 289,937	$ 548,664	$ 503,338	$ 1,395,524

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Gross product sales revenue for the second quarter of 2004 was $348,000, a decrease of $220,000, (39%) from $568,000 in the same quarter of 2003. Gross product sales for the first six months of 2004 totaled $480,000, a decrease of $820,000 (63%) from $1.3 million for the same period of 2003. Sales in the first six months of 2004 were made primarily to 34 distributors, four of which accounted for an aggregate of 57% of net product sales revenue (excluding the reduction of previously recorded sales allowances). Sales in the first six months of 2003 were made primarily to 28 distributors, three of which accounted for an aggregate of 52% of net product sales revenue (excluding the reduction of previously recorded sales allowances). Sales in the United States in the three and six month periods ended June 30, 2004 and 2003 were significantly lower than expected and were negatively impacted by high levels of inventory in the channel, free product provided under the price reduction program and the continuing challenges of commercializing a fundamentally new technology and products. We expect that high levels of inventory in the channel, free product to be provided under the price reduction program and the difficult economic conditions in certain sectors of agriculture will continue to adversely impact our commercialization efforts and sales of Messenger Products in the United States.

Gross product sales revenue from sales to foreign customers totaled $111,000 and $8,000 in the three months ended June 30, 2004 and 2003, respectively, and $115,000 and $28,000 in the six months ended June 30, 2004 and 2003, respectively. These sales were made primarily to distributors in Europe in 2004 and Central America in 2003. In February 2004, we received approval to sell Messenger in Spain. We initiated marketing activities in March, but the approval was not received in time to meet initial sales activity. In order to ensure that an adequate supply of Messenger was quickly disbursed in the new distribution channel and to limit the amount of working capital required by our new distributors at this early stage of introduction, we granted flexible and/or extended payment terms to distributors in this new market. Because of this combination of factors, revenues from these product deliveries were deferred and will be recognized when payment is received. In the quarter and six months ended June 30, 2004, the Company recognized net revenue of approximately $90,000 from these deliveries when payment was received. Net revenue totaling $263,000 has been deferred at June 30, 2004 and will be recognized when payment is received.

Gross sales of Messenger to consumers in the home and garden market in the United States totaled $71,000 and $35,000 in the three months ended June 30, 2004 and 2003, respectively, and $153,000 and $37,000 in the six months ended June 30, 2004 and 2003, respectively. We expect sales of our home and garden products to increase. However, we do not expect revenues from this market to be significant in 2004.

In the first six months of 2004, we recognized revenue on the shipment of approximately 136,000 ounces of Messenger and Messenger STS to distributors, compared to approximately 351,000 ounces in the first six months of 2003, a decrease of approximately 215,000 ounces (61%). Based on information received from distributors, we estimate that distributors sold approximately 517,000 ounces to growers in the first six months of 2004, an increase of approximately 23% from approximately 422,000 ounces in the first six months of 2003. Based on information received from distributors, we estimate that Messenger STS inventory held by distributors at June 30, 2004 (including the shipments of free products described in the following paragraph) was approximately 500,000 ounces.

In December 2003, we announced a reduction of approximately 50% in the price of Messenger and determined that Messenger STS would sell for approximately the same price as Messenger. We also announced to distributors that we planned to send them Messenger Products at no charge in order to reduce the average cost of their existing inventories of Messenger. In the first six months of 2004, we delivered approximately 378,000 ounces of free Messenger Products and we estimate that approximately 112,000 ounces of Messenger Products remain to be given to distributors. This free product will substantially increase channel inventory and negatively affect our sales to distributors in the immediate term but will, we believe, improve our growth rate and sales to distributors over the medium term. We do not expect distributors that hold significant inventories of Messenger STS to place additional orders until their current inventories are reduced.

Due to the growing seasons of our targeted crops, we expect grower usage of Messenger Products to be highly seasonal. Based on the recommended application timing in our targeted crops and information received from our distributors, 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 Products 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 revenue is recognized and are paid in accordance with the terms of the then-current distributor program agreement. Distributor program agreements expire annually, generally on December 31. Prior to 2003, sales allowances were generally based on a percentage of sales and were required to be paid when the distributors sold the product and reported the sales data to us. We expect that sales allowances related to 2003 sales will be paid upon submission by distributors of annual sales data. In January 2004, we changed our distributor program to provide for sales allowances based on marketing support and the total amount of products purchased during the year. Marketing support and volume rebates are paid throughout the year as distributors qualify to receive them.

Sales allowances during the three months ended June 30, 2004 totaled $58,000 (17% of gross product sales) compared to $19,000 (3% of gross product sales) in the comparable period of 2003. Sales allowances for the six months ended June 30, 2004 and 2003 include the reduction by $95,237 and $126,301, respectively, of sales allowance liabilities recognized in prior quarters that will not be paid because of changes in distribution programs implemented in 2003 and actual amounts earned by distributors being less than amounts previously estimated. Excluding these sales allowance reductions, sales allowances during the six months ended June 30, 2004 totaled $72,000 (15% of gross product sales) compared to $61,000 (5% of gross product sales) in the comparable period of 2003. We expect 2004 sales allowances to average approximately 10-17% of gross product sales.

Cost of Goods Sold

Cost of goods sold consists primarily of idle capacity charges and the cost of Messenger Products sold to distributors or used for promotional purposes. Cost of goods sold was $493,000 in the second quarter of 2004, compared to $628,000 in the second quarter of 2003. Cost of goods sold for the first six months of 2004 and 2003 was $1.2 million. The quarterly reduction is due primarily to lower sales in the period and lower idle capacity charges due to the resumption of limited manufacturing operations early in 2004. We expect to complete our current manufacturing operations in the fourth quarter of this year, at which time idle capacity charges are expected to again increase.

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 $779,000 (52%) from $1.5 million in the second quarter of 2003 to $721,000 in the same quarter of this year. For the first six months of 2004, research and development costs were $1.4 million, a decrease of $1.6 million (53%) from $3.0 million in the same period last year. These decreases were primarily due to staff reductions announced in May 2003 and lower spending on facilities.

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 $0.7 million (39%) from $1.8 million in the second quarter of 2003 to $1.1 million in the same quarter of 2004. For the first six months of 2004, selling, general and administrative costs were $2.4 million, a decrease of $1.0 million (29%) from $3.4 million in the same period last year. The majority of these decreases occurred in the United States and resulted primarily from reductions in advertising and marketing, travel and personnel costs.

Interest Income

Interest income consists of earnings on our cash and cash equivalents. Interest income decreased $72,000 (42%) from $171,000 in the first half of 2003 to $99,000 in the same period of this year. This decrease was due primarily to significantly lower average cash balances available for investment in the current year.

Income Taxes

We have generated a net loss from operations in each period since we began doing business. As of December 31, 2003, we had accumulated approximately $90.9 million of U.S. net operating loss carryforwards for federal income tax purposes. These carryforwards expire between 2009 and 2023. Our foreign tax net operating loss carryforwards totaled $7.9 million at December 31, 2003 and expire between 2006 and 2008. The annual use of

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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

Our operating expenditures have been significant since our 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 further reduce our operating expenses and/or raise additional funds to support operations. 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, 2004 will be sufficient to meet our anticipated cash needs for net losses, working capital and capital expenditures for more than the next 12 months, although there can be no assurance in that regard.

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. In this regard, we recently received a delisting warning letter from the Nasdaq Stock Market notifying us that the closing price per share for our common stock was below the $1.00 minimum bid price for 30 consecutive trading days and that, as a result, we no longer meet Nasdaq s continued listing criteria. Nasdaq has provided us with 180 calendar days, or until January 26, 2005, to regain compliance. To regain compliance with the minimum bid price requirement, the closing bid price of our common stock must remain above $1.00 for a minimum of ten consecutive trading days. If we do not regain compliance by January 26, 2005, and are not eligible for an additional compliance period, our common stock will be delisted from The Nasdaq National Market. Nasdaq delisting could make it more difficult for us to raise capital. The sale of additional equity securities could result in dilution to our shareholders.

At June 30, 2004, our cash and cash equivalents totaled $15.7 million, a decrease of $4.1 million from the balance of $19.8 million at December 31, 2003. Prior to October 2000, we financed our operations primarily through the private sale of our equity securities, resulting 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 $2.8 million (41%) from $6.9 million in the first six months of 2003 to $4.1 million in the same period of 2004. Net cash used in operations in the first six months of 2004 resulted primarily from a net loss of $3.5 million, after adding back depreciation expense of $836,000, and fluctuations in various asset and liability balances totaling $679,000. We expect that net cash used in operations will continue to be significant.

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, 2004 or 2003.

The following are our contractual obligations as of June 30, 2004:

	Payments Due by Period (in thousands)				
	Total	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**More Than 5 Years**
Capital leases, including interest	$ 21	$ 17	$ 4	$ --	$ --
Operating leases	10,750	1,871	3,457	2,970	2,452
Total contractual cash obligations	$ 10,771	$ 1,888	$ 3,461	$ 2,970	$ 2,452

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 26, 2004. 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 in which 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 the majority of our products 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 delivered to our distributors and all of our significant obligations have been satisfied, unless acceptance provisions or other contingencies or arrangements exist. If acceptance provisions or contingencies exist, revenue is recognized after such provisions or contingencies have been satisfied. As part of the analysis of whether all of our significant obligations have been satisfied or situations where acceptance provisions or other contingencies or arrangements exist, we consider the following elements, among others: sales terms and arrangements, historical experience and current incentive programs.

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. We expect that sales allowances related to 2003 sales will be paid upon submission by distributors of annual sales data. In January 2004, we changed our distributor program to provide for sales allowances based on marketing support and the total amount of products purchased during the year. Marketing support and volume rebates are paid throughout the year as distributors qualify to receive them.

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable balances are reported net of customer-specific related sales allowances. In determining the adequacy of the allowance for doubtful accounts, we consider a number of factors, including the age of outstanding invoices, 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, 2004, no allowance for doubtful accounts was recorded. Changes in the factors above or other factors could result in a significant charge.

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 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 approximately $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 expected to be realized from our remaining investments in property and equipment, no additional impairment loss was recorded. Changes in the factors above or other factors could result in significantly different cash flow estimates and a significant 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 the amounts of security deposits. Based on our analysis, we estimate that 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.

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 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, 2004, we have accumulated a deficit of $101.4 million. For the years ended December 31, 2003, 2002, 2001 and 2000, we had net losses of $11.2 million, $23.5 million, $23.7 million and $15.7 million, respectively. To date, our revenues have been limited. For example, there were no sales of Messenger in the fourth quarter of 2001 and annual net sales decreased from $3.5 million in 2001 to $1.9 million in 2002 and $1.8 million in 2003. Further, we expect domestic sales in 2004 to be minor. We expect our future revenues to come primarily from the sale of Messenger, Messenger STS, Employ and other products and these sales are highly uncertain.

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 or cease operations. 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, 2004 will be sufficient to meet our anticipated cash needs for net losses, working capital and capital expenditures for more than the next 12 months, although there can be no assurance in this regard.

We may have to reduce or cease 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 or cease all operations. 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.

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As of the date of this report, we do not meet the $1.00 minimum bid requirement for continued listing on The Nasdaq National Market and, as a result, our common stock may be delisted from The Nasdaq National Market, which could further depress our stock price and make it more difficult for us to raise capital.

Our common stock is currently listed on The Nasdaq National Market. To maintain this listing, we must satisfy ongoing listing requirements, including consistently maintaining a minimum bid price for our common stock of $1.00 per share or more. We recently received a delisting warning letter from the Nasdaq Stock Market notifying us that the closing price per share for our common stock was below the $1.00 minimum bid price for 30 consecutive trading days and that, as a result, we no longer meet Nasdaq s continued listing criteria. Nasdaq has provided us with 180 calendar days, or until January 26, 2005, to regain compliance. To regain compliance with the minimum bid price requirement, the closing bid price of our common stock must remain above $1.00 for a minimum of ten consecutive trading days. If we do not regain compliance by January 26, 2005, and are not eligible for an additional compliance period, our common stock will be delisted from The Nasdaq National Market. Nasdaq also notes in the delisting warning letter that the 180-day period relates exclusively to the bid price deficiency and that we may be delisted during the 180-day period for failure to maintain compliance during this period with any other listing requirements. If we were to lose our Nasdaq National Market status, we would likely seek listing of our common stock in the over-the-counter market, which is viewed by many investors as a less liquid marketplace. Among other things, our common stock may then constitute penny stock, which would place increased regulatory burden upon brokers, making them less likely to make a market in our stock. Loss of our Nasdaq National Market status could also make it more difficult for us to raise capital or complete acquisitions and would also complicate compliance with state blue sky laws.

We currently depend on four products and our development and commercialization of those products may not be successful.

For the immediately foreseeable future we will be dependent on the successful development and commercialization of four products, Messenger, Messenger STS, Employ and MightyPlant, which are based on a new technology. We have had only limited sales of Messenger since its introduction in August 2000 and we began marketing Employ in November 2003, Messenger STS in January 2004 and MightyPlant in April 2004. These four products could prove to be commercially unsuccessful. Our products may not prove effective or economically viable for all crops or markets. In addition, because our products have not been put to widespread commercial use over significant periods of time, no assurance can be given that adverse consequences might not result from their use, 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 our products and other harpin-based products we may develop are unproven. Messenger has not gained, and may not gain, commercial acceptance or success. Messenger STS, Employ and MightyPlant may not gain commercial acceptance or success. If we are unable to successfully achieve broad market acceptance of our products, 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 our products, including our ability to implement and maintain an appropriate pricing policy 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 Messenger STS, and independent distributors hold significant inventories of Messenger STS and will be given significantly more inventory for free in 2004.

Based on information received from distributors, we estimate that distributors sold 66,000 ounces of Messenger in 2000, 596,000 ounces in 2001, 684,000 ounces in 2002 and 734,000 ounces in 2003. During the first six months of 2004, we estimate that distributors sold 517,000 ounces to growers, compared to 422,000 ounces in the same period of 2003, an increase of 23%. We estimate that Messenger and Messenger STS inventory held by distributors at June 30, 2004 was approximately 500,000 ounces. We sent distributors approximately 378,000 ounces of additional Messenger Products for free in the six months ended June 30, 2004 as part of an effort to lower the average cost of their year-end Messenger inventories by approximately 50%. We estimate that approximately 112,000 ounces of Messenger Products remain to be given to distributors, which will significantly increase channel inventory and negatively affect our sales to distributors. We do not expect distributors that hold significant inventories of Messenger Products to place additional orders for our products until their current inventories are reduced, which will adversely affect our sales and results of operations.

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

We currently have limited sales and marketing experience and capabilities. Our internal sales and marketing staff consists primarily of sales and marketing specialists who are trained to educate growers and independent distributors on the uses and benefits of our products. 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 require a high level of technical expertise and knowledge regarding our products 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 our current products and other products we may develop, could impair our ability to gain market acceptance of our products and cause our sales to suffer.

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 our current products and any other products we may develop. We have engaged several independent distributors and retailers for the distribution and sale of our products. Our future revenue growth will depend in large part on our success in establishing and maintaining these sales and distribution channels. We are continuing to develop 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 our products 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.

Four distributors accounted for an aggregate of 57% of net product sales revenue (excluding the reduction of previously recorded sales allowances) in the six months ended June 30, 2004 and three distributors accounted for an aggregate of 43% of our net sales revenue (excluding the reduction of previously recorded sales allowances) in all of 2003. If any distributor that purchases a significant amount of our products were to discontinue purchasing our products 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.

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

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 our current products, and any other products we may develop, in other countries. We recently began selling our products in Spain and China. We have been conducting field trials in several international locations and we have personnel in Europe to develop operations in that region. 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.

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 our current products or any other products we may develop. For example, from September to December 2003 we offered growers a buy one, get one free promotion and in January 2004 we introduced Messenger STS at a price that is approximately 50% of the 2003 price of Messenger.

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.

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

Messenger is currently being stored in large quantities under various conditions by us and by distributors. Most of this material was manufactured in 2000, 2001, 2002 and 2004. We have conducted laboratory studies that indicate Messenger is stable for at least two years under our recommended storage conditions and the results of recently completed re-testing of Messenger manufactured in 2000 indicate that it is stable for more than three years. No assurance can be given, however, that actual storage conditions will not cause our products 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 our products or our results of operations.

Our inventory at June 30, 2004 includes approximately 2.3 million ounces of Messenger and Messenger STS that was manufactured in 2000, 2001, 2002 and 2004. In addition, we estimate that distributors own approximately 500,000 ounces of Messenger and Messenger STS that was manufactured between 2000 and 2004. Due to the age of

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this inventory, we conducted limited re-testing of Messenger samples produced in 2000 and 2001. In 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.

Although results of our limited re-testing indicate that a portion of inventory manufactured in 2000, 2001 and 2002 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 our products or our results of operations.

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

The field testing, manufacture, sale and use of plant health products, including Messenger, Messenger STS, Employ, MightyPlant and other products we may develop, are extensively regulated by the EPA and/or state, local and foreign governmental authorities. These regulations substantially increase the cost and time associated with bringing our current products 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 our products 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 and Messenger STS in 48 states for use on virtually all crops for crop production and disease management, and in California for use on citrus for yield enhancement and on strawberries, citrus, grapes and fruiting vegetables, such as tomatoes and peppers, for disease management, we have not received approval for use on other crops in California. In Colorado, Messenger is approved for use on virtually all crops for home and garden use. We have also received authorization to sell Messenger, or are exempt from formal authorization requirements, in at least 26 foreign countries, including China, Spain, 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. Our registration in Spain is limited to the sale of Messenger for use on tomatoes, peppers, cucumbers, melons, strawberries, lettuce, citrus and olives. The EPA has approved the use of Messenger STS and we are currently in the process of obtaining foreign registrations for this product, but there can be no assurance that such registration will be obtained on acceptable terms.

Neither Employ nor MightyPlant are pesticides and they are not regulated by the EPA. However, several states and foreign governments regulate both products. Many states regulate Employ as a plant amendment or soil conditioner and some of these states and foreign regulatory authorities require the submission and review of performance data and other information prior to granting their approval. We are authorized to sell Employ in 33 states and no foreign countries. MightyPlant is classified by most states as a fertilizer and we are now in the process of obtaining state approvals for its sale. We are authorized to sell MightyPlant in 46 states and no foreign countries. However, there can be no assurance that we will obtain approval to sell Employ or MightyPlant in other states or foreign countries.

If we significantly modify our current products designs 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 our current products and any other products we may develop, these 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 or 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

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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 our current products or any other products we may develop and commercialize.

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

Our California registration for use on citrus 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 STS in California for use on citrus, strawberries, fruiting vegetables and grapes for disease management. We expect to submit the results of additional citrus field trials at various required timeframes through 2005, in accordance with our registration. If we are unable to conduct the studies required by the California Department of Pesticide Regulation (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 STS in California on citrus for yield enhancement, or they may impose limitations on this use of Messenger STS, which could have a negative impact on our sales. Because EPA and state approvals are required for commercial sales of our current products, the loss of any of these approvals for any reason would prevent further sales of products in the affected state or nationwide.

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 and commercially unproven. It may take years and significant capital investment to develop viable enhancements of our current products 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 and annual net product sales decreased 49% from 2001 to 2003. 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 products 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 our products carried in inventory by independent distributors and retailers, the amount of free product to be given to retailers, the size and timing of significant customer transactions, the delay or deferral of customer use of our products and the fiscal or quarterly budget cycles of our customers. For example, customers may purchase large quantities of our products under a promotion such as buy one, get one free in a particular quarter to store and use over long periods of time, or time their 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.

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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 our current products or any other products we may develop in the future.

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 our current products do 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;
- pay damages; or
- enter into licensing or royalty agreements that may be unavailable on acceptable terms.

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

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 our products and other topically applied harpin technologies from genetically modified plants and products. Our products are topically applied and do not modify the plant s DNA. If the public or our customers perceive our products as products that genetically modify plants, market acceptance and

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registration of our products 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 our current products 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 products 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 our current products 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 our current products 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 our current products 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 our current products 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 products and our sales would likely suffer. Moreover, we do not have back-up manufacturing systems and, as a result, the failure of any component required in the manufacturing process could delay or impair our ability to manufacture our products 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 products 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.

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If third-party manufacturers fail to perform adequately, 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 our current products 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 or other personnel, both domestically and internationally, during the commercialization of our current products, 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, manufacturing 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

Our financial instruments include primarily cash and cash equivalents. We do not use derivative financial instruments, nor do we engage in hedging activities. Also, we do not have any outstanding variable rate debt. Because of the relatively short-term average maturity of our investment funds, we do not expect interest rate fluctuations to significantly affect the aggregate value of our financial assets.

Our operations are currently based primarily in the U.S. and Europe. Transactions in the U.S. are denominated in U.S. dollars and transactions in our European unit are generally denominated in foreign currencies, primarily Euros. The balance of foreign currency-denominated assets and liabilities at June 30, 2004 was not significant.

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 on 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

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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 Bioscience, 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 $18.6 million to expand and enhance our manufacturing, research and development and administration facilities, and approximately $58.2 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

The 2004 annual meeting of shareholders of Eden Bioscience Corporation was held on May 18, 2004. At the annual meeting, our shareholders were asked:

to elect three directors to our Board of Directors to serve for terms expiring at our 2007 annual meeting of shareholders; and

to approve the 2000 Stock Incentive Plan, as amended to permit a tax deduction by Eden Bioscience of certain executive compensation.

The following directors were elected at the annual meeting:

	Votes For	Votes Withheld
Rhett R. Atkins, D.B.A	21,270,310	177,214
Jon E.M. Jacoby	20,749,641	697,883
William T. Weyerhaeuser, Ph.D	21,274,508	173,016

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.

The 2000 Stock Incentive Plan, as amended to permit a tax deduction by Eden Bioscience of certain executive compensation, was approved by our shareholders, with 9,634,472 shares voting in favor, 313,376 shares voting against and 131,196 shares abstaining, and there were 11,368,480 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

Exhibits 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.

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(a) Exhibits.

Exhibit Number	Description
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).

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter for which this report is filed.

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 6, 2004

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)