SECURITIES AND EXCHANGE COMMISSION

FORM S-1

General form of registration statement for all companies including face-amount certificate companies

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AGRAQUEST INC

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As filed with the Securities and Exchange Commission on August 3, 2001
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AGRAQUEST, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	2879	68-0348328
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification No.)

1530 Drew Avenue
Davis, California 95616
(530) 750-0150
(Address and Telephone Number of Registrant's Principal Executive Offices)

Pamela G. Marrone, Ph.D.
President and Chief Executive Officer
AgraQuest, Inc.
1530 Drew Avenue
Davis, California 95616
(530) 750-0150
(Name, Address, and Telephone Number of Agent For Service)

Copies to:

Charles S. Farman, Esq. Charles C. Kim, Esq. Donald C. Hunt, Esq. Morrison & Foerster LLP 400 Capitol Mall, 23rd Floor Sacramento, California 95814	Michael L. Fitzgerald, Esq. Sidley Austin Brown & Wood LLP One World Trade Center New York, New York 10048

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the

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same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, $0.001 par value per share..	$75,000,000	$18,750

(1) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated August 3, 2001

PROSPECTUS

Shares

[LOGO OF AGRAQUEST, INC.]

Common Stock

This is AgraQuest, Inc.'s initial public offering. AgraQuest is selling all of the shares.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares. After pricing this offering, we expect that the shares will trade on the Nasdaq National Market under the

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symbol "AGRQ."

Investing in the common stock involves risks that are described in the "Risk Factors" section beginning on page 7 of this prospectus.

	Per share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to AgraQuest	$	$

The underwriters may also purchase up to an additional shares at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2001.

Merrill Lynch & Co.

Stephens Inc.

First Union Securities, Inc.

The date of this prospectus is , 2001

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

AgraQuest(R), Serenade(R), Sonata(TM), Rhapsody(TM), Virtuoso(TM) and Vivace(TM) are trademarks of AgraQuest.

PROSPECTUS SUMMARY

This summary highlights information contained in other parts of this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" section and our consolidated financial statements and related notes, before making an investment decision. References in this prospectus to "AgraQuest," "our company," "we," "our" and "us" refer to AgraQuest, Inc. and its subsidiaries, unless the context indicates otherwise.

AgraQuest, Inc.

Overview

We are a biotechnology company focused on leveraging our proprietary microorganism database, screening technology and natural product compound library to discover, develop, manufacture and market effective, safe and environmentally friendly natural pest management products for the agricultural and institutional and home markets. Our proprietary technology platform enables us to discover and characterize naturally occurring microorganisms that we believe can be developed into natural product solutions to almost any pest or plant disease. We are developing and commercializing a pipeline of natural pest management products that we believe will offer superior alternatives to synthetic chemical pesticides and genetically modified crops. We believe our first product, Serenade, and our initial product candidates can compete favorably with existing pest management products on efficacy, cost effectiveness, pest resistance, shelf life, ease of use, food and worker safety and environmental impact. With Serenade, we have demonstrated our ability to develop and commercialize novel products more quickly and cost effectively than our competitors. As concerns over the effects of synthetic chemical pesticides and genetically modified crops continue to grow, we believe our products will be increasingly adopted into the integrated pest management programs of conventional and organic growers as well as by institutional and home users. We believe we will set the industry standard for natural pest management solutions.

Our Proprietary Technology Platform

Using our proprietary technology platform, we isolate and screen naturally occurring microorganisms in a highly efficient manner to identify those that may have effective, novel and safe pest management characteristics. We then

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employ natural product chemistry to analyze and characterize the structures of compounds produced by selected microorganisms to identify product candidates for further development and commercialization. We believe our proprietary technology platform will be the foundation for the discovery and development of natural products for the pest management industry and has the following advantages:

- Highly efficient discovery process. We believe we can discover new, effective product candidates faster than other developers of pest management products. To date, we have identified 23 product candidates from the more than 17,000 microorganisms in our database.

- Valuable data capture and utilization. We gather valuable data on each microorganism and the natural product compounds it produces. Using this information, we are able to determine which microorganisms may have the highest pest management commercial potential. This information may also be used by chemical, biotechnology, pharmaceutical and consumer products companies to develop natural products for their respective industries.

- Cost-effective and rapid new product development. We believe we can bring effective natural pest management products to market at greater speed and cost efficiency than our competitors.

Serenade and Our Initial Product Candidates

Serenade is the first broad spectrum foliar biofungicide. We began selling Serenade in the United States in July 2000. On the basis of over 750 field trials, Serenade has generally proven to be as or more effective than synthetic chemical pesticides on a broad spectrum of plant diseases. We believe Serenade also offers improved safety for the environment, consumers, growers and farm workers as compared with synthetic chemical pesticides. Serenade is currently approved for use on high-value specialty crops such as grapes, apples, pears, cherries, tomatoes, hops, several vegetables, peanuts and walnuts, and we are targeting other crops such as bananas, citrus, turf and ornamentals. A formulation of Serenade is approved for use in organic agriculture, thereby allowing us to address this increasingly important and rapidly growing market.

Our most advanced product candidates include Sonata, a biofungicide, Virtuoso, a bioinsecticide, and Vivace, an enhancer of Bt, the world's most widely-used biopesticide. We believe Serenade and each of these product candidates can compete favorably with existing pest management products because they:

- are highly effective;

- offer growers an attractive value proposition in terms of cost-effective plant disease and pest control, resulting in increased yields;

- have an accelerated time-to-market;

- increase food and worker safety and reduce the risk of negative environmental impact;

- address the rapidly growing organic foods market; and

- reduce the risk of pest resistance.

Strategic Collaborations

We believe that our proprietary technology platform and product candidates will have broad commercial applications beyond pest management for the discovery and development of natural products for broader applications,

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including animal health, human health and pharmaceutical, aquaculture, industrial enzyme and specialty chemical. We intend to continue establishing strategic collaborations with chemical, biotechnology, pharmaceutical and consumer products companies to support the development and commercialization of natural products for pest management and other applications. To date, we have entered into strategic collaborations with Dow AgroSciences LLC, Maxygen, Inc. and American Home Products Corporation.

Our Strategy

Our goal is to become the leader in the discovery, development and commercialization of natural pest management products. The key elements of our strategy include:

- Utilize our proprietary technology platform to identify new product candidates. By applying our screening technology to our microorganism database and utilizing our natural product compound library, we anticipate that we will continue to discover multiple new natural pest management product candidates annually.

- Increase sales of Serenade. We have initiated marketing activities to increase the distribution and sale of Serenade by focusing on high-value specialty crops, targeting early adopters of new pest management technologies, educating growers about the benefits of our natural pest management products, enhancing distribution relationships and developing and leveraging relationships with key industry influencers.

- Develop and commercialize product candidates. We will continue to allocate significant research and development resources to develop and commercialize new natural pest management products that we have identified using our proprietary technology platform. We initially intend to focus our research and

development efforts on Sonata, Virtuoso and Vivace, which each display high levels of activity against insects or plant diseases. We will maintain control over product quality, consistency and margins by manufacturing our products at our facility in Tlaxcala, Mexico.

- Focus initially on high-value specialty crops. We are focusing our initial commercialization efforts on high-value specialty crops in the United States. We expect growers of these crops to derive the greatest economic benefit from our natural pest management products, in terms of relative cost, safety and the value of expected yield increases.

- Maximize organic market opportunities. To address the rapidly growing organic market, in which there are few pest management alternatives, we will continue to ensure that a formulation of each of our products meets the requirements for organic food production in our target, specialty crop markets.

- Brand AgraQuest as the leading provider of natural pest management solutions. To enhance industry and public awareness of our company and increase demand for our natural pest management products, including Serenade, we intend to pursue an aggressive brand development strategy.

- Leverage our proprietary technology platform in conjunction with strategic collaborators. We believe that our proprietary microorganism database and screening technology may have broad commercial applications beyond pest management. We intend to pursue strategic collaborations with chemical, biotechnology, pharmaceutical and consumer products companies, which we believe will allow us to enhance our market presence as well as our revenue growth.

- Pursue select acquisitions. We may acquire businesses, technologies or

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products that we believe would strategically complement our business and allow us to be a more complete provider of crop production solutions.

We were incorporated in the state of Delaware in January 1995. Our principal executive offices are located at 1530 Drew Avenue, Davis, California 95616, and our telephone number is (530) 750-0150. Our web site is located at http://www.agraquest.com. Any information that is included on or linked from our web site is not a part of this prospectus.

THE OFFERING

Common stock offered by AgraQuest..................	shares
Common stock to be outstanding after the offering..	shares
Use of proceeds....................................	We estimate that our net proceeds from this offering, assuming no exercise of the underwriters' overallotment option, will be approximately $ million. We intend to use the net proceeds from this offering to expand our sales and marketing capabilities and research and development activities, and to enhance our manufacturing facilities. We intend to use the remainder of the net proceeds to repay indebtedness and for working capital and general corporate purposes, including potential acquisitions.
Risk factors.......................................	See "Risk Factors" and other information included in this prospectus for a discussion of factors that you should carefully consider before deciding to invest in shares of our common stock.
Proposed Nasdaq National Market symbol.............	AGRQ

The number of shares of common stock to be outstanding after this offering is based on shares outstanding as of June 30, 2001 and excludes:

- 2,425,016 shares of common stock issuable upon exercise of options outstanding as of June 30, 2001 at a weighted average exercise price of $1.66 per share;
- 39,000 shares of common stock issuable upon exercise of warrants outstanding at an exercise price of $1.70 per share;
- 1,455,003 shares of common stock reserved for future issuance under our

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stock option plans; and

. 350,000 shares of common stock reserved for issuance under our 2001 employee stock purchase plan.

In addition, except as otherwise noted, all information in this prospectus is based on the following assumptions:

. the conversion of all outstanding shares of preferred stock into 14,903,593 shares of common stock upon the effectiveness of our registration statement; and

. no exercise of the underwriters' overallotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The statement of operations data for the fiscal years ended December 31, 1998, 1999 and 2000 are derived from, and are qualified by reference to, our audited financial statements included elsewhere in this prospectus. The statement of operations data for the fiscal years ended December 31, 1996 and 1997 are derived from audited financial statements not included in this prospectus. The statement of operations data for the six month periods ended June 30, 2000 and 2001 and our balance sheet data as of June 30, 2001 are derived from, and are qualified by reference to, our unaudited financial statements included elsewhere in this prospectus. The pro forma net loss per share and shares used in computing pro forma net loss per share are calculated as if all outstanding shares of our preferred stock were converted into shares of our common stock on the date of issuance.

<TABLE>
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	Year Ended December 31,					Six Months Ended June 30,	
	1996	1997	1998	1999	2000	2000	2001
	(In thousands, except per share data)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated statement of operations data:							
Revenues:							
Product sales	$ --	$ --	$ --	$ --	$ 502	$ --	$ 428
Research revenue	30	55	110	77	218	75	117
Total revenues	30	55	110	77	720	75	545
Operating costs and expenses:							
Cost of product sales	--	--	--	--	502	--	484
Manufacturing plant start-up costs	--	--	--	--	--	--	295
Research and development	387	1,780	3,090	4,468	6,300	3,558	2,651
Selling, general and administrative	138	403	836	1,749	2,914	1,191	1,777
Stock option compensation	--	10	15	12	224	14	301
Total operating costs and expenses	525	2,193	3,941	6,229	9,940	4,763	5,508
Loss from operations	(495)	(2,138)	(3,831)	(6,152)	(9,220)	(4,688)	(4,963)
Interest income, net	4	86	170	68	134	51	191
Net loss	(491)	(2,052)	(3,661)	(6,084)	(9,086)	(4,637)	(4,772)
Preferred stock accretion	--	--	(341)	(810)	(1,496)	(642)	(1,395)

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Net loss applicable to common stockholders	$ (491)	$(2,052)	$(4,002)	$(6,894)	$(10,582)	$(5,279)	$(6,167)
Basic and diluted net loss per share applicable to common stockholders	$(0.17)	$ (0.67)	$ (1.30)	$ (2.20)	$ (3.07)	$ (1.55)	$ (1.70)
Shares used in computing basic and diluted net loss per share applicable to common stockholders	2,955	3,068	3,068	3,140	3,451	3,399	3,620
Pro forma basic and diluted net loss per share applicable to common stockholders					$ (0.61)		$ (0.26)
Shares used in computing pro forma basic and diluted net loss per share applicable to common stockholders					14,802		18,524

</TABLE>

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	As of June 30, 2001		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands)		
Consolidated balance sheet data:			
Cash and cash equivalents	$ 6,359	$ 6,359	$
Working capital	7,949	7,949	
Total assets	19,355	19,355	
Notes payable and capital lease obligations, net of current portion	5,206	5,206	
Convertible preferred stock	42,239	--	
Accumulated deficit	(30,458)	(30,458)	
Total stockholders' equity (deficit)	(29,218)	13,021	

</TABLE>

The table above presents consolidated balance sheet data as of June 30, 2001:

- on an actual basis;
- on a pro forma basis to reflect the automatic conversion of all outstanding shares of preferred stock into 14,903,593 shares of common stock upon the effectiveness of our registration statement; and
- on a pro forma as adjusted basis to reflect the automatic conversion of all outstanding shares of preferred stock and the receipt of the estimated net proceeds from the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share (the midpoint of the expected price range), after deducting the estimated underwriting discount and estimated offering expenses payable by us, and after the application of a portion of the estimated proceeds to repay indebtedness as described under "Use of Proceeds."

RISK FACTORS

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An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed, the trading price of our common stock could decline and you may lose all or part of your investment.

We have a limited operating history and are subject to risks encountered by early stage companies.

We began our operations in January 1995. Accordingly, we have a limited operating history, and our business and prospects must be considered in light of the risks and uncertainties to which early stage companies in the rapidly changing market for pest management products are exposed. These risks include our inability to transition from a company with a research and development focus to a company also capable of supporting the commercial sale of products, including in the areas of regulatory approval and compliance, manufacturing, sales and marketing, distribution and quality control and assurance. Our inability to adequately address these risks could prevent us from becoming profitable or cause us to cease our operations.

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

We have incurred operating losses since inception, and we expect to continue to incur further operating losses for the foreseeable future. We had an accumulated deficit of $24.3 million at December 31, 2000 and $30.5 million at June 30, 2001. We had a net loss of $9.1 million for the year ended December 31, 2000 and $4.8 million for the six months ended June 30, 2001. To date, our limited revenues have been derived primarily from research grants and initial commercial sales of our first product, Serenade. We expect our future revenues to be primarily from sales of Serenade and other natural pest management products, and those sales are highly uncertain. We expect to continue to devote substantial resources to expand our research and development activities, enhance our manufacturing facilities and expand our sales and marketing capabilities for the commercialization of Serenade and other product candidates. As a result, we will need to generate significant revenue to achieve and maintain profitability. We may never generate profits and, if we do become profitable, we may be unable to maintain or increase profitability on a quarterly or annual basis.

If Serenade is not successful, we may not be able to generate significant product revenues.

We introduced Serenade in Chile in October 1999 and began commercial sales in the United States in July 2000. We will be dependent on sales of Serenade for the immediately foreseeable future. We have derived only limited revenues from sales of Serenade to date, and we cannot assure you that Serenade will achieve broad market acceptance and generate increased sales. A number of factors will determine the commercial success of Serenade, including our ability to overcome grower reluctance to switch to natural pest management products, the efficacy and commercial viability of Serenade, our ability to implement and maintain an appropriate pricing policy for Serenade, the success of our commercialization and marketing strategies and the rate and extent that regulatory authorities and the public accept new pest management products.

Serenade may not be effective on, or economically viable for, all crops or markets that we are targeting. In addition, because Serenade has not been put to widespread commercial use over significant periods of time, Serenade may have reduced benefits as compared to our field trial results.

We may be unable to commercialize the product candidates we are developing, which may adversely impact our ability to achieve or maintain profitability.

Our future success will depend in part on our ability to commercialize the natural pest management product candidates we are developing. In addition to Serenade, we have identified 22 product candidates to date using our

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proprietary technology platform, and we currently are focusing our development and

commercialization efforts on three of these product candidates. Successful development of our product candidates will require significant additional investment, including costs associated with research and development, completing field trials and obtaining regulatory approval. In addition, we are subject to inherent risks associated with new products and technologies. These risks include the possibility that any product candidate may:

- be ineffective or less effective than anticipated;
- fail to receive necessary regulatory approvals;
- be difficult to competitively price relative to alternative pest management solutions;
- be harmful to consumers, growers, farm workers or the environment;
- be difficult or impossible to manufacture on an economically viable scale;
- fail to be developed and accepted by the market prior to the successful marketing of similar products by competitors; or
- be impossible to market because it infringes on the proprietary rights of third parties.

Our inability to obtain regulatory approvals, or to comply with ongoing and changing regulatory requirements, could delay or prevent sales of Serenade and other products we are developing.

The field testing, manufacture, sale and use of pest management products, including Serenade and the product candidates we are developing, are regulated extensively by the U.S. Environmental Protection Agency, or the EPA, and state, local and foreign governmental authorities. These regulations substantially increase the time and cost associated with bringing our products to market. If we do not receive the necessary governmental approvals to test, manufacture and market our products, or if regulatory authorities revoke our approvals or grant them subject to restrictions on use, we may be unable to sell our products and our business may fail.

The EPA granted us conditional approval in June 2000 to market and sell Serenade in the United States. Within the United States, we are authorized to sell Serenade in every state except Hawaii. Serenade is also approved for sale in Chile, Mexico and Puerto Rico. We are required to obtain regulatory approval from other foreign regulatory authorities before we can market Serenade in those jurisdictions. Some states and foreign countries may apply different criteria than the EPA in their approval processes.

If we make significant enhancements to Serenade's design, additional regulatory approvals may be required. We may not obtain regulatory approvals to market other natural pest management products or product extensions we are developing or may develop in the future. Although the EPA and state and foreign regulatory authorities have in place a registration procedure for natural products that is streamlined in comparison to the registration procedure for synthetic chemical pesticides or genetically modified crops, some of our products or product extensions may not be eligible for this streamlined procedure or the EPA or other regulatory authorities may mandate additional requirements, which could make the regulatory approval process more time consuming and costly for our future products.

Even if we obtain all necessary regulatory approvals to market and sell our products, they will be subject to continuing review and extensive regulatory

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requirements. The EPA, as well as state and foreign regulatory authorities, could withdraw a previously approved product from the market upon receipt of newly discovered information, including our inability to comply with regulatory requirements, the occurrence of unanticipated problems with our products or for other reasons. Violations of any regulation could result in civil and criminal penalties, including suspension or revocation of our licenses or registrations, seizure of our inventory or monetary fines, which could adversely affect our operations.

Our inability to satisfy the conditions of our EPA registration could limit or prevent sales of Serenade in the United States.

The EPA conditioned its approval of our Serenade registration on the requirement that by July 2001 we conduct five additional studies that are designed to further demonstrate Serenade's safety. All of these studies have been completed and submitted to the EPA. We are required to submit one additional study to the EPA by May 2002. If the results of any of these studies are unacceptable to the EPA, the EPA may revoke its approval of Serenade or impose limitations on its use. Because EPA approval is required for commercial sales of Serenade in the United States and will affect sales of Serenade abroad, the loss of EPA approval for any reason, including our inability to satisfy the conditions of our EPA registration, would prevent further sales of Serenade in the United States and in countries that export crops to the United States.

If our ongoing or future field trials are unsuccessful, we may be unable to obtain regulatory approval of, or commercialize, our products.

The successful completion of multiple field trials in domestic and foreign locations on many crops is critical to the success of our product development and marketing efforts for Serenade and our other product candidates. Regulatory approval of our products could be delayed or we may be unable to commercialize our products if our ongoing or future field trials are unsuccessful or these field trials produce inconsistent results or unanticipated adverse side effects on crops or non-target organisms, or if we are unable to collect reliable data. 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. In addition, 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 drought or floods, severe heat or frost, hail, tornadoes and hurricanes. We generally pay third parties such as growers, consultants and universities to conduct field tests on our behalf. Incompatible crop treatment practices or misapplication of our products by these third parties could interfere with the success of our field trials.

If we are unable to ensure production of high-quality products at acceptable costs, our business will be harmed.

To be successful, we will need to manufacture our products in large quantities at acceptable costs while also maintaining high product quality. We recently began production of Serenade at our manufacturing facility in Tlaxcala, Mexico, and we currently only rely on third-party contract manufacturers to spray dry and package Serenade. We expect our Tlaxcala, Mexico manufacturing facility to be fully operational, including having spray drying and packaging capabilities, by the end of 2001. We may encounter difficulties in commercially producing our products, including problems involving:

- production yields;
- quality control and assurance;
- shortage of qualified personnel;

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- compliance with federal, state, local and foreign regulations;
- production costs;
- process controls; and
- down-time related to plant maintenance and expansion.

Even if we are successful in enhancing our manufacturing capabilities and processes, we cannot assure you that we will do so in time to meet our product commercialization schedule or satisfy the requirements of our distributors or customers.

Our inability to develop adequate sales and marketing capabilities could prevent us from successfully commercializing Serenade and other products we are developing.

We currently have limited sales and marketing experience and capabilities. We will incur substantial costs to further develop our sales and marketing capabilities to successfully commercialize Serenade and other products we are developing. Our internal sales and marketing staff consists primarily of sales and marketing specialists and field development specialists who are trained to educate growers and independent distributors on the uses and benefits of Serenade. These specialists require a high level of technical expertise and knowledge regarding Serenade's capabilities and other pest management products and techniques. Our specialists and other members of our sales and marketing team may not successfully compete against the sales and marketing teams of our current and future competitors, many of which may have more established relationships with distributors and growers and significantly greater financial resources. Our inability to recruit, train and retain sales and marketing personnel or their inability to effectively market and sell Serenade and other products we are developing could impair our ability to gain market acceptance of our products and cause our sales to suffer.

We may be unable to maintain and further establish successful relationships with third-party distributors, which could adversely affect our sales.

We rely, and will increasingly rely, on third-party distributors of agrichemicals in the United States and foreign markets to distribute and assist us with the marketing and sale of Serenade and other products we are developing. We have signed several agreements, some of which are non-exclusive, with third parties to distribute Serenade and are currently engaged in discussions with several other third-party distributors. Our future revenue growth will depend in large part on our success in establishing and maintaining these sales and distribution channels. The distributors with which we partner may not focus adequate resources on selling our products or be successful in selling them. Many of our potential distributors sell and sometimes manufacture other, possibly competing, pest management products, including natural pest management products. As a result, these distributors may perceive Serenade and other products we may develop as a threat to product lines currently being distributed or manufactured by them. In addition, these distributors may earn higher margins by selling competing products or combinations of competing products. If we are unable to maintain or further establish successful relationships with third-party distributors, we will need to further develop our internal sales and distribution capabilities, which would be expensive and time-consuming and the success of which would be uncertain.

If we are unable to identify new product candidates through our proprietary technology platform, we may not achieve or maintain profitability.

Our future success will depend in part on our ability to utilize our proprietary screening process to identify and commercialize additional microorganisms and natural product compounds that may be considered product candidates. To date, we have identified 23 natural pest management product

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candidates. We have licensed access to our microorganism database to other companies to develop natural pest management products or natural products for applications beyond pest management. If we are unable to identify additional microorganisms, natural product compounds or product candidates, we may be unable to develop new products or generate revenues through strategic collaborations or licensing agreements.

Conflicts with our strategic collaborators could jeopardize the outcome of our strategic collaborations, which would limit our revenue from those collaborations.

We have entered into strategic collaborations to identify, develop and commercialize products. We intend to conduct proprietary research programs in specific agricultural and other product areas that are not covered by our collaboration agreements. However, our pursuit of opportunities in these markets could result in conflicts with our collaborators, and disagreements with our collaborators could develop over rights to our intellectual property. Any conflicts with our collaborators could lead to the termination of the relevant strategic collaboration agreement, delay collaborative activities, reduce our ability to renew agreements or enter into

future strategic collaborations or result in litigation or arbitration and would negatively impact our relationships with existing collaborators.

We have limited or no control over the resources that our collaborators may choose to devote to our joint efforts. Our collaborators may breach or terminate their agreements with us or fail to perform their obligations under these agreements. Further, our collaborators may elect not to develop products arising out of our strategic collaborations or may fail to devote sufficient resources to develop, manufacture, market or sell these products. Some of our collaborators could also become our competitors in the future. If our collaborators develop competing products, preclude us from entering into collaborations with their competitors, fail to obtain necessary regulatory approvals, prematurely terminate their agreements with us or fail to devote sufficient resources to the development and commercialization of our products, our joint product development efforts could be delayed and may fail to lead to commercialized products.

We are subject to risks associated with international expansion, which could harm 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 products in foreign countries. We have conducted field trials in 17 countries and recently purchased a manufacturing facility in Tlaxcala, Mexico. International expansion of our operations could impose substantial burdens on our resources, divert management's attention from domestic operations or otherwise harm our business. Furthermore, international operations are subject to risks, including:

- different regulatory requirements;
- inadequate protection of intellectual property;
- difficulties and costs associated with complying with a wide variety of complex foreign laws and treaties;
- legal uncertainties regarding, and timing delays associated with, tariffs, export licenses and other trade barriers;
- increased difficulty in collecting delinquent or unpaid accounts receivable;
- adverse tax consequences; and

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. currency fluctuations.

Any of these or other factors could adversely affect our ability to compete in international markets and our operating results.

We depend heavily on the principal members of our management and scientific personnel, the loss of whom could impair our ability to maintain and expand our business.

We depend heavily on the principal members of our management and scientific personnel, particularly Dr. Pamela G. Marrone, our President and Chief Executive Officer, the loss of whose services might significantly delay or prevent the achievement of our scientific or business objectives. Our ability to attract and retain qualified scientific personnel is critical to our success. Competition among biotechnology and biopesticide companies for qualified employees is intense, and we may not be able to attract and retain these individuals on acceptable terms or at all, and our inability to do so may significantly harm our business.

We have relationships with scientific collaborators at academic and other institutions, some of whom conduct research at our request or assist us in formulating our research and development strategy. These scientific collaborators are not our employees and may have commitments to, or consulting or advisory contracts with, other entities, including competitors, which may limit their availability or loyalty to us. We have limited control over the activities of these scientific collaborators and generally expect these individuals to

devote only limited amounts of time to our activities. The inability or unwillingness of any of these persons to devote sufficient time and resources to our scientific programs could harm the development of our business.

If we are unable to manage our anticipated growth effectively and efficiently, our business could be harmed.

As we add manufacturing, marketing, sales, field development and other personnel, both domestically and internationally, and expand our research and development capabilities and enhance our manufacturing facilities, our operating expenses and capital requirements will increase. Our ability to manage our growth effectively and efficiently requires us to continue to forecast accurately our sales, manufacturing capacity and human resources and 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. If we are unable to manage our anticipated growth effectively and efficiently, our business could be harmed.

Changes in technology could render our products unmarketable or obsolete.

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

If we are unable to effectively promote the AgraQuest and Serenade brands, we may not be able to attract customers or compete effectively against alternative pest management solutions.

We believe that establishing and maintaining the AgraQuest and, initially, the Serenade brands are critical to our success. The importance of brand

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recognition will increase in part due to the increasing number of companies offering technologies similar to, and products that compete with, ours. We intend to increase our marketing and branding expenditures in an effort to promote awareness of our brands. If our brand building strategy is unsuccessful, these expenses may never be recovered, we may be unable to increase our future revenues and our business could be materially harmed.

We use hazardous materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly to resolve.

Our research and development activities involve the controlled use of hazardous materials and disposal of biological and other hazardous waste. Some of these materials may be novel, including bacteria with novel properties and bacteria that produce biologically active compounds. We are subject to federal, state, local and foreign laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products. We cannot eliminate the risk of accidental contamination or discharge and any resulting injury from these materials. In the event of an accident, we could be held liable for damages or penalized with fines, and this liability could exceed our cash resources. We may have to incur significant costs to comply with future environmental laws and regulations. New governmental regulations may have an adverse effect on the research, development, production and marketing of our products. We may be required to incur significant costs to comply with current or future laws or regulations.

Our strategic collaborators may use hazardous materials in connection with our collaborative efforts. In the event of a lawsuit or investigation, we could be held responsible for any injury caused to persons or property by exposure to, or release of, hazardous materials used by these parties. Further, we may be required to indemnify our collaborators against all damages and other liabilities arising out of our development activities or products produced in connection with these collaborations.

We may need to raise additional capital that may not be available to us when needed or on acceptable terms, which could harm our business.

Our future capital requirements will depend on the success of our operations. We may require substantial additional funding to continue our research and development activities, enhance our manufacturing capabilities and commercialize our products. We may seek additional funds from public and private stock offerings, strategic collaborations and licenses, borrowings under lines of credit or other sources. Additional capital may not be available on terms acceptable to us, or at all. Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may include restrictive covenants. If we cannot raise more capital when needed, we may have to reduce our capital expenditures, scale back our development of new products and research and development activities, reduce our workforce or license to others products that we otherwise would seek to commercialize ourselves. Our cash used in operations has exceeded cash generated from operations in each period since our inception. We used cash for operating activities of approximately $10.2 million in 2000 and $5.0 million in the six months ended June 30, 2001.

If we are unable to successfully integrate acquisitions, our revenue growth and future profitability may be negatively impacted.

If appropriate opportunities present themselves, we may acquire businesses, technologies or products that we believe strategically complement our business. The process of integrating an acquired business, technology or product may result in unforeseen operating difficulties and expenditures and may absorb significant management attention and capital that would otherwise be available for ongoing development of our business. In addition, the anticipated benefits of any acquisition may not be realized. Future acquisitions could result in

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potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities with restrictive covenants or have an undesirable impact on our consolidated financial statements.

If a natural disaster strikes our facilities, our business may suffer.

Our microorganism database and natural product compound library are critical to the success of our business. If these assets are damaged or destroyed by any event or series of events, such as a fire, contamination or other casualty, our business, financial condition and results of operations may be materially adversely affected.

Our Davis, California facility is located near a known earthquake fault and our manufacturing facility in Tlaxcala, Mexico is located near a volcano. The impact of a major earthquake, volcanic eruption or other natural disaster on our facilities, infrastructure and overall operations is difficult to predict, and any natural disaster could seriously disrupt our operations. The insurance we maintain may not be adequate to cover losses resulting from natural disasters or other business interruptions.

Our 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 ongoing review and periodic inspection. We must dedicate funds, time and effort in the areas of production, safety and quality control and assurance to ensure compliance with the regulations applicable to these facilities and procedures. If the EPA or another regulatory body determines that we are not in compliance with these regulations, regulatory approval of our products could be delayed or we may be required to limit or cease our research and development or manufacturing activities or pay a monetary fine. If we are required to limit or cease our research and development activities, our ability to develop new products would be impaired. If we are required to limit or cease our manufacturing activities, our ability to produce Serenade and other products in commercial quantities would be impaired or prohibited, which would harm our business.

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

The markets for pest management products are intensely competitive, rapidly changing and undergoing consolidation. We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for our products.

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

Our inability to protect our patents and proprietary rights in the United States and foreign countries could limit our ability to compete effectively because third parties may take advantage of our research and development efforts.

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Our success depends in part on our ability to obtain and maintain patent and other proprietary right protection for our technologies 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 a 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, our trade secret-protected know-how could fall into the public domain, unauthorized parties may copy aspects of our products and obtain and use information that we regard as proprietary. Other parties may also independently develop our know-how or otherwise obtain access to our technologies.

The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

Patent law is still evolving relative to the scope and enforceability of claims in the fields in which we operate. We are like most biotechnology companies in that our patent protection is highly uncertain and involves complex legal and technical questions for which legal principles are not yet 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. Our pending patent applications may not issue. 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 prevent us from selling our products.

Our success depends in part 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 such as ours in which there may be numerous patent applications pending, many of which are confidential when filed, with regard to similar technologies. Patents issued to third parties may contain claims that conflict with our patents and that compete with our products and technologies, and third parties could assert infringement claims against us. Any litigation or interference proceedings, regardless of their outcome, may be costly and may require significant time and attention of our management and technical personnel. Litigation or interference proceedings could also force us to:

- stop or delay using our proprietary technologies;
- stop or delay selling, manufacturing or using products that incorporate the challenged intellectual property;
- pay damages; or

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

We may be exposed to product liability claims, which could harm our business.

We may be held liable for, or incur costs to settle, liability claims if any product we develop, or any product that uses or incorporates any of our technologies or products, causes injury or is found unsuitable during product testing, manufacturing, marketing, sale or use. These risks exist even with respect to products that have received, or may in the future receive, regulatory approval, registration or clearance for commercial use.

Our product liability insurance may not be adequate and, at any time, 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 or insurance coverage. Even if we have adequate insurance coverage, product liability claims or recalls could result in negative publicity or force us to devote significant time, attention and financial resources to those matters.

You will suffer immediate and substantial dilution.

We expect the initial public offering price of our common stock to be substantially higher than the net tangible book value per share of our outstanding common stock, resulting in immediate and substantial dilution. The pro forma net tangible book value of a share of our common stock purchased at an assumed initial public offering price of $ (the midpoint of the expected price range) will be only $. Additional dilution may be incurred if stock options or warrants, whether currently outstanding or subsequently granted, are exercised.

Our principal stockholders, executive officers and directors own a significant percentage of our common stock, and these stockholders may take actions that may be adverse to your interests.

Our executive officers and directors and entities affiliated with them will, in the aggregate, beneficially own approximately % of our common stock following this offering. These stockholders, acting together, will be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and approval of significant corporate transactions such as mergers, consolidations and sales of assets. They also could dictate the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination, which could cause the market price of our common stock to fall or prevent you from receiving a premium in such a transaction.

Our common stock may experience extreme price and volume fluctuations, which could lead to costly litigation for us and make an investment in us less appealing.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- announcements regarding product sales by us or competitors;

- announcements of technological innovations or new products by us or competitors;

- media reports and publications about pest management products;

- announcements concerning competitors or the pest management industry or the agricultural economy in general;

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- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions; and
- changes in financial estimates or recommendations by securities analysts.

The market prices of the securities of biotechnology and technology companies, particularly companies like ours without consistent product revenues and earnings, have been highly volatile and are likely to remain highly volatile in the future. This volatility has often been unrelated to the operating performance of these companies. In the past, securities class action litigation has often been brought against companies that experience volatility in the market price of their securities. Whether or not meritorious, litigation brought against us could result in substantial costs, divert management's attention and resources and harm our business.

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

Our sales are expected to be highly seasonal. Sales of pest management products used for crop protection are dependent on planting and growing seasons, climatic conditions and other variables, which we expect to result in substantial fluctuations in our quarterly sales and earnings. In contrast, 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 product sales. As a result, any shortfall in sales relative to our expectations could cause significant changes in our operating results from quarter to quarter, which could result in uncertainty surrounding our earnings and possibly a decrease in our stock price. Other factors may also contribute to the unpredictability of our operating results, including 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 in a particular quarter to store and use over long periods of time or time their purchases to coincide with their receipt of revenues or loan proceeds, which may cause significant fluctuations in our operating results for a particular quarter or year.

Future sales of our common stock by our stockholders could depress our stock price.

Sales of a large number of shares of our common stock, or the availability of a large number of shares for sale, could adversely affect the market price of our common stock and could impair our ability to raise funds in additional stock offerings. Based on shares outstanding as of June 30, 2001, upon completion of this offering, we will have   shares of common stock outstanding, assuming no exercise of options or warrants after June 30, 2001, and the conversion of all shares of outstanding preferred stock into common stock. Substantially all holders of our common stock are subject to agreements with the underwriters that restrict their ability to transfer their stock for 180 days after the date of this prospectus. Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of the underwriters, may in its sole discretion and at any time waive the restrictions on transfer in these agreements during this period. After these agreements expire, approximately   shares will be eligible for sale in the public market assuming no exercise of stock options or warrants after June 30, 2001.

We will have broad discretion in how we use the net proceeds from this offering.

We intend to use the net proceeds from this offering to expand our sales and marketing capabilities and research and development activities, and to enhance

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our manufacturing facilities. We intend to use the remainder of the net proceeds to repay indebtedness and for working capital and general corporate purposes, including potential acquisitions. Our management has not designated a specific use for a substantial portion of the net proceeds and will have broad discretion over their use. Our management may allocate the net proceeds differently than investors in this offering would have preferred, or we may not maximize our return on the net proceeds.

Our incorporation documents and Delaware law may have anti-takeover provisions that could delay or prevent a change in control of our company, which could negatively affect your investment.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could delay or prevent a change in control of our company that stockholders may consider favorable. Some of these provisions:

- authorize the issuance of preferred stock that can be created and issued by our board of directors without prior stockholder approval, commonly referred to as "blank check" preferred stock, with rights senior to those of our common stock;
- provide for a classified board of directors;
- limit the persons who can call special stockholder meetings;
- provide that a supermajority vote of our stockholders is required to amend our certificate of incorporation or bylaws; and
- establish advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by stockholders at stockholder meetings.

These and other provisions in our incorporation documents and Delaware law could allow our board of directors to affect your rights as a stockholder by making it more difficult for stockholders to replace board members. Because our board of directors is responsible for appointing members of our management team, these provisions could in turn affect any attempt to replace the current management team.

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. These forward-looking statements include, among other things, statements about our:

- anticipated development and release of new products;
- business strategy;
- anticipated expenditures for research and development, sales and marketing and general and administrative expenses;
- future operating results;
- plans for hiring additional personnel;
- anticipated sources of funds, including the proceeds from this offering, to fund our operations following the date of this prospectus; and
- plans, objectives, expectations and intentions contained in this prospectus that are not historical facts.

All statements included in this prospectus, other than statements of historical facts, regarding our strategy, future operations, financial

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position, estimated revenues or losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words "will," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. All forward-looking statements speak only as of the date of this prospectus. You should not place undue reliance on these forward-looking statements. The plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus may not be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Information regarding market and industry statistics contained in the "Prospectus Summary" and "Business" sections of this prospectus is included based on information available to us that we believe is accurate. It is generally based on academic and other publications that are not produced for purposes of securities offerings or economic analysis. We have not reviewed or included data from all sources and cannot assure you of the accuracy of the data that we have included.

USE OF PROCEEDS

We expect to receive approximately $ million in net proceeds from the sale by us of the shares of common stock in this offering (approximately $ million if the underwriters' overallotment option is exercised in full), based on an assumed initial public offering price of $ per share (the midpoint of the expected price range) and after deducting the estimated underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to expand our sales and marketing capabilities and research and development activities, to enhance our manufacturing facilities and for working capital and general corporate purposes. We also intend to use approximately $5.0 million of the net proceeds to repay in full the principal and interest, which has been accruing at 9% per year, on a promissory note that we made in connection with our purchase of a manufacturing facility in Tlaxcala, Mexico in December 2000. This promissory note is due and payable in full upon the receipt of proceeds from this offering.

We may also use a portion of the net proceeds to invest in or acquire complementary businesses, products or technologies. From time to time, in the ordinary course of business, we expect to evaluate potential acquisitions of these businesses, products and technologies. At this time, however, we do not have any present understandings, commitments or agreements with respect to any material acquisition. Pending the uses described above, we will invest the net proceeds in short-term, investment grade, interest-bearing securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain future earnings for use in the operation and expansion of our business and, therefore, do not anticipate paying any cash dividends for the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2001:

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. on an actual basis;

. on a pro forma basis to reflect the automatic conversion of all outstanding shares of preferred stock into 14,903,593 shares of common stock upon the effectiveness of our registration statement; and

. on a pro forma as adjusted basis to reflect the automatic conversion of all outstanding shares of preferred stock as well as receipt of the net proceeds from the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share (the midpoint of the expected price range), after deducting the estimated underwriting discount and estimated offering expenses payable by us, and after the application of a portion of the estimated net offering proceeds to repay indebtedness as described under "Use of Proceeds."

You should read the table below in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

<TABLE>
<CAPTION>

	June 30, 2001		
	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands, except share data)		
<S>	<C>	<C>	<C>
Notes payable and capital lease obligations, net of current portion	$ 5,206	$ 5,206	$ 206
Convertible preferred stock--16,000,000 shares authorized; $0.001 par value; 14,903,593 shares issued and outstanding, actual; 6,000,000 authorized, none issued and outstanding, pro forma and pro forma as adjusted	42,239	--	--
Stockholders' equity (deficit):			
Common stock--26,000,000 shares authorized; $0.001 par value; 3,688,239 shares issued and outstanding, actual; 18,591,832 shares issued and outstanding pro forma; 60,000,000 authorized, shares issued and outstanding pro forma as adjusted	2,192	44,431	
Deferred stock option compensation	(952)	(952)	(952)
Accumulated deficit	(30,458)	(30,458)	(30,458)
Total stockholders' equity (deficit)	(29,218)	13,021	
Total capitalization	$ 18,227	$ 18,227	$

</TABLE>

The above information excludes:

. 2,425,016 shares of common stock issuable upon exercise of options outstanding as of June 30, 2001 at a weighted average exercise price of $1.66 per share;

. 39,000 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2001 at an exercise price of $1.70 per share;

. 1,455,003 shares of common stock reserved for future issuance under our stock option plans; and

. 350,000 shares of common stock reserved for issuance under our 2001

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employee stock purchase plan.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share and the pro forma as adjusted net tangible book value per share after this offering.

Investors participating in this offering will incur immediate, substantial dilution. The pro forma net tangible book value of our common stock as of June 30, 2001 was approximately $13.0 million, or approximately $0.70 per share. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding after giving effect to the conversion of all outstanding shares of our preferred stock into common stock. After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share and after deducting the estimated underwriting discount and estimated offering expenses payable by us, and after application of a portion of the estimated proceeds to repay indebtedness as described under "Use of Proceeds," our pro forma as adjusted net tangible book value at June 30, 2001 would have been $, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to purchasers of common stock in this offering. The following table illustrates this dilution:

Assumed initial public offering price per share.................		$
Pro forma net tangible book value per share at June 30, 2001..	$0.70	
Increase per share attributable to new investors..............		
Pro forma as adjusted net tangible book value per share after this offering..		
Dilution per share to new investors...........................		$

The following table sets forth on a pro forma as adjusted basis, as of June 30, 2001, the total number of shares of common stock purchased from us, the total consideration paid for these shares and the average price per share paid by existing stockholders and new investors, before deducting the estimated underwriting discount and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	18,591,832		$39,160,000		$2.11
New investors.............					
Total		100.0%		100.0%	

As of June 30, 2001, we had 2,425,016 shares of common stock issuable upon exercise of options outstanding at a weighted-average exercise price of $1.66 per share and 39,000 shares of common stock issuable upon exercise of outstanding warrants with an exercise price of $1.70 per share. We have

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reserved 1,455,003 shares of common stock for future issuance under our stock option plans and 350,000 shares of common stock under our 2001 employee stock purchase plan. To the extent these options or warrants are exercised, and to the extent we issue new options or rights under our stock option plans or issue additional shares of common stock in the future, purchasers of common stock in this offering will experience further dilution.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. We derived the consolidated statement of operations data for the years ended December 31, 1998, 1999 and 2000 and the consolidated balance sheet data as of December 31, 1999 and 2000 from the consolidated financial statements which have been audited by Ernst & Young LLP and included elsewhere in this prospectus. The consolidated statement of operations data for the six months ended June 30, 2000 and 2001 and the consolidated balance sheet data as of June 30, 2001 have been derived from our unaudited financial statements included elsewhere in this prospectus. We derived the consolidated statement of operations data for the years ended December 31, 1996 and 1997 and the consolidated balance sheet data as of December 31, 1996, 1997 and 1998 from audited consolidated financial statements which are not included elsewhere in this prospectus. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations for these periods and financial condition at those dates. Historical results are not necessarily indicative of future results.

See note 2 to the consolidated financial statements for an explanation of the method used to determine the numbers of shares used in computing basic and diluted and pro forma basic and diluted net loss per share.

<TABLE>
<CAPTION>

	Years Ended December 31,					Six Months Ended June 30,	
	1996	1997	1998	1999	2000	2000	2001
	(In thousands, except per share data)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated statement of operations data:							
Revenues:							
Product sales	$ --	$ --	$ --	$ --	$ 502	$ --	$ 428
Research revenue	30	55	110	77	218	75	117
Total revenues	30	55	110	77	720	75	545
Operating costs and expenses:							
Cost of product sales	--	--	--	--	502	--	484
Manufacturing plant start-up costs	--	--	--	--	--	--	295
Research and development	387	1,780	3,090	4,468	6,300	3,558	2,651
Selling, general and administrative	138	403	836	1,749	2,914	1,191	1,777
Stock option compensation	--	10	15	12	224	14	301
Total operating costs and expenses	525	2,193	3,941	6,229	9,940	4,763	5,508
Loss from operations	(495)	(2,138)	(3,831)	(6,152)	(9,220)	(4,688)	(4,963)
Interest income, net	4	86	170	68	134	51	191
Net loss	(491)	(2,052)	(3,661)	(6,084)	(9,086)	(4,637)	(4,772)

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Preferred stock accretion..............	--	--	(341)	(810)	(1,496)	(642)	(1,395)
Net loss applicable to common stockholders..........................	$ (491)	$(2,052)	$(4,002)	$(6,894)	$(10,582)	$(5,279)	$(6,167)
Basic and diluted net loss per share applicable to common stockholders......	$(0.17)	$ (0.67)	$ (1.30)	$ (2.20)	$ (3.07)	$ (1.55)	$ (1.70)
Shares used in computing basic and diluted net loss applicable to common stockholders..........................	2,955	3,068	3,068	3,140	3,451	3,399	3,620
Pro forma basic and diluted net loss per share applicable to common stockholders..........................					$ (0.61)		$ (0.26)
Shares used in computing pro forma basic and diluted net loss per share applicable to common stockholders......					14,802		18,524

</TABLE>

<TABLE>
<CAPTION>

	As of December 31,					As of June 30,	
	1996	1997	1998	1999	2000	2001	
	(In thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated balance sheet data:							
Cash and cash equivalents............	$1,680	$ 776	$ 2,956	$ 2,849	$ 12,518	$ 6,359	
Working capital.........	1,515	656	2,574	2,214	13,422	7,949	
Total assets............	1,712	1,016	3,934	5,436	24,445	19,355	
Notes payable and capital lease obligations, net of current portion........	7	79	433	369	5,340	5,206	
Convertible preferred stock..................	1,877	3,149	9,396	17,252	40,858	42,239	
Accumulated deficit.....	(761)	(2,813)	(6,815)	(13,709)	(24,291)	(30,458)	
Total stockholders' equity (deficit).......	(337)	(2,379)	(6,366)	(13,142)	(23,409)	(29,218)	

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Since our inception in January 1995, we have focused on discovering, developing, manufacturing and marketing effective, safe and environmentally friendly pest management products for the agricultural and institutional and home markets. We have devoted substantially all of our efforts toward research and development activities and have recently commenced marketing and sales efforts for Serenade, our first natural pest management product.

We incurred net losses of $3.7 million in 1998, $6.1 million in 1999, $9.1 million in 2000 and $4.8 million for the six months ended June 30, 2001. As of

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June 30, 2001, we had an accumulated deficit of $30.5 million. We expect to incur additional losses and to expend substantial financial resources to continue our research and development activities, enhance our manufacturing capabilities, expand our sales and marketing activities and for other general corporate purposes. We anticipate our research and development expenses will increase as we continue to develop new products and conduct field trials. Our selling and marketing expenses will increase as we commercialize Serenade, and general and administrative expenses will increase as we enhance our facilities and increase personnel.

We began commercial production of Serenade in the third quarter of 2000. We recognize revenues from product sales upon shipment to distributors, unless contractual obligations, acceptance provisions or other contingencies exist. If these obligations or provisions exist, we recognize revenues after they are fulfilled or expire. Distributors do not have price protection or return rights. We generate research revenues from research and development activities under contracts with other entities. We recognize revenues from "best efforts" research and development contracts as work is performed. If, however, the contracts provide for specific milestones or deliverables, we recognize revenues upon the achievement of those milestones or upon delivery. We record funding received in advance of work performed, including up-front payments, as deferred revenue. We may receive payments under strategic collaboration agreements as collaborators or their sublicensees achieve product development milestones as well as royalty payments based on sales of products that incorporate our proprietary technology. We will recognize any future milestone payments or royalty revenues as earned.

We have deferred the recognition of revenue for some sales transactions that provide for payment terms of relatively longer duration. During the six months ended June 30, 2001, we deferred recognition of $334,000 of this type of revenue. For transactions with these longer payment terms, our policy is to recognize revenue upon the earlier of cash received or the original invoice due date, assuming it is probable that we will collect at that date. As of June 30, 2001, transactions with these longer payment terms have original invoice due dates in August 2001.

Until we purchased our manufacturing facility in Tlaxcala, Mexico in December 2000, we relied on third-party manufacturers to produce our products. We believe our production costs through our own manufacturing facility will be lower than the costs of using third-party manufacturers.

We have recorded deferred stock option compensation in connection with the grant of stock options to employees based on the difference between the exercise price of the options and the fair value of our common stock on the grant date. We determined fair value based on the business factors underlying the value of our common stock on the grant date.

We recorded deferred stock option compensation expense of $528,000 for the year ended December 31, 2000 and $710,000 for the six months ended June 30, 2001. These amounts were recorded as a component of stockholders' equity and are being amortized as charges to operations over the vesting periods of the options, generally five years, using a graded-vesting method. We recorded stock option compensation expense of approximately $74,000 for the year ended December 31, 2000 and $212,000 for the six months ended June 30,

2001. For options granted to employees through June 2001, we expect to record stock option compensation expense as follows: approximately $282,000 for the remainder of 2001, $350,000 in 2002, $185,000 in 2003, $98,000 in 2004, $35,000 in 2005, and $2,000 in 2006. The amount of stock option compensation expense to be recorded in future periods may decrease if unvested options for which deferred stock option compensation has been recorded are subsequently canceled.

We have also recorded stock option compensation for options granted to consultants in accordance with Emerging Issues Task Force No. 96-18,

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"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." For the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, we recorded stock compensation expense of $15,000, $12,000, $150,000, $14,000 and $89,000, respectively, relating to options granted to consultants. Stock option compensation expense incurred as a result of stock option grants to consultants is an estimate based on the fair market value of our common stock.

Results of Operations

Six Months Ended June 30, 2000 and 2001

Revenues

Product sales were recorded for the first time in the third quarter of 2000. For the six months ended June 30, 2001, we recorded $428,000 in revenues for shipments of Serenade. Three distributors accounted for 83% of product sales during this period. Research revenues were $75,000 and $117,000 for the six months ended June 30, 2000 and 2001, respectively, and resulted primarily from research revenues under "best efforts" research and development agreements.

Cost of product sales

Cost of product sales was $484,000 for the six months ended June 30, 2001 and represents expenses incurred in connection with the manufacture of pre-production batches of Serenade, which yielded saleable quantities of Serenade.

Manufacturing plant start-up costs

Manufacturing plant start-up costs were $295,000 for the six months ended June 30, 2001 and represent expenses incurred through June 30, 2001 in connection with one-time activities related to opening our new manufacturing facility in Tlaxcala, Mexico. This facility was purchased in December 2000. Costs associated with start-up activities were primarily related to the operating costs incurred during the pre-production period, including a portion of salary-related expenses for employees in Mexico, travel costs for the implementation team, consulting fees and routine maintenance costs. These costs exclude expenditures relating to constructing and developing long-lived assets and getting these assets ready for their expected use.

Research and development

Research and development expenses include costs associated with the design, development and testing of Serenade and our product candidates. These costs consist primarily of salaries and other personnel-related expenses, as well as field trial laboratory, pilot plant and equipment expenses. Research and development expenses were $3.6 million and $2.7 million for the six months ended June 30, 2000 and 2001, respectively, representing a decrease of $0.9 million. This decrease was primarily due to process development costs for Serenade incurred in 2000 which were not present in 2001. In the absence of these process development costs, research and development expenses would have increased due to higher staffing levels and increases in the number of field trials conducted.

Selling, general and administrative

Selling, general and administrative expenses include salaries and personnel-related expenses, marketing and recruiting costs, professional service fees and general corporate expenses. Selling, general and administrative expenses were $1.2 million and $1.8 million for the six months ended June 30, 2000 and 2001, respectively, representing an increase of $0.6 million. This increase was primarily attributable to increases in marketing expenses and employee compensation costs.

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Stock option compensation

Stock option compensation expenses were $14,000 and $301,000 for the six months ended June 30, 2000 and 2001, respectively. This increase was primarily attributable to the amortization of deferred stock option compensation.

Interest income, net

Net interest income increased from $51,000 for the six months ended June 30, 2000 to $191,000 for the six months ended June 30, 2001. This increase resulted from increased interest income earned on higher average cash balances as a result of funds received from the sale of our preferred stock in December 2000.

Preferred stock accretion

The adjustment to accrete the carrying amount of our convertible preferred stock to its redemption amount increased from $642,000 for the six months ended June 30, 2000 to $1.4 million for the six months ended June 30, 2001. This increase is related to the sale of our convertible preferred stock in December 2000.

Net loss applicable to common stockholders

Net loss applicable to common stockholders increased slightly from $5.3 million for the six months ended June 30, 2000 to $6.2 million for the six months ended June 30, 2001. The increase was attributable to marketing expenses, employee compensation costs, including stock option compensation, and accretion of our convertible preferred stock to its redemption amount, partially offset by the decrease in process development costs for Serenade.

Years ended December 31, 1998, 1999 and 2000

Revenues

Product sales were $502,000 in 2000. Four distributors accounted for 89% of product sales during this period. We did not generate revenues from product sales prior to 2000. Research revenues were $110,000, $77,000 and $218,000 in 1998, 1999 and 2000, respectively, and resulted primarily from research and development activities under "best efforts" contracts for other entities. The fluctuation in research revenues was primarily due to timing of the work performed.

Cost of Product Sales

Cost of product sales was $502,000 in 2000 and represents expenses incurred in connection with the manufacture of pre-production batches of Serenade, which yielded saleable quantities of Serenade. These expenses were initially capitalized at the lower of cost or market and included in inventories.

Research and development

Research and development expenses increased from $3.1 million in 1998 to $4.5 million in 1999 to $6.3 million in 2000. These increases were primarily due to increases in the number of personnel as we expanded our product development efforts, costs associated with the development and regulatory approval of Serenade and increases in the number of field trials conducted.

Selling, general and administrative

Selling, general and administrative expenses increased from $836,000 in 1998 to $1.7 million in 1999 to $2.9 million in 2000. These increases were primarily attributable to increases in the number of personnel and salaries, marketing expenses incurred relating to the introduction of Serenade and increases in

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professional service fees as a result of growth in our business activities.

Stock option compensation

Stock compensation expenses were $15,000 in 1998, $12,000 in 1999 and $224,000 in 2000. Expenses incurred primarily represent an estimate of the fair value of options granted to consultants during these periods.

Interest income, net

Net interest income decreased from $170,000 in 1998 to $68,000 in 1999 and increased to $134,000 in 2000. The decrease in 1999 resulted from lower average cash balances as a result of an increase in cash used in operations. The increase in 2000 resulted from increased interest income earned on higher average cash balances as a result of funds received from the sale of our preferred stock in April 2000.

Preferred stock accretion

The adjustment to accrete the carrying amount of our convertible preferred stock to its redemption amount increased from $341,000 in 1998 to $810,000 in 1999 to $1.5 million in 2000. These increases are related to sales of our convertible preferred stock in those years.

Net loss applicable to common stockholders

Net loss applicable to common stockholders increased from $4.0 million in 1998 to $6.9 million in 1999 to $10.6 million in 2000. These increases in net loss were primarily attributable to expanding our product development efforts, increases in personnel and marketing expenses incurred relating to the introduction of Serenade and the adjustments to accrete the carrying amount of our preferred stock to its redemption amount.

Income taxes

As of December 31, 2000, we had net operating loss carryforwards of approximately $21.5 million for federal and state income tax purposes that expire in the years 2010 through 2020 and 2003 through 2010, respectively. We also had approximately $322,000 and $360,000 in federal and state income tax credits, respectively, which expire in the years 2010 through 2020. Future utilization of the our net operating loss and other credit carryforwards may be subject to limitations set forth in the Internal Revenue Code and similar state provisions. These limitations could result in the expiration of the net operating losses before utilization.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through private sales of our equity securities, resulting in gross proceeds of $39.2 million through June 30, 2001. To a lesser extent, we have financed our operations and other capital requirements through borrowings. As of December 31, 2000, we had cash and cash equivalents of $12.5 million and working capital of $13.4 million. As of June 30, 2001, we had cash and equivalents of $6.4 million and working capital of $7.9 million.

Net cash used in our operating activities was $3.4 million in 1998, $5.9 million in 1999, $10.2 million in 2000, and $5.0 million for the six months ended June 30, 2001. Net cash used in operating activities resulted primarily from net losses for those periods.

Net cash used in investing activities was $701,000 in 1998, $1.1 million in 1999, $2.4 million in 2000 and $780,000 for the six months ended June 30, 2001. Investing activities consisted of the purchase of plant and equipment.

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Net cash provided by financing activities was $6.3 million in 1998, $6.9 million in 1999 and $22.2 million in 2000. Net cash provided by financing activities was primarily from the sale of preferred stock and proceeds from long-term borrowings, net of repayments. Net cash used in financing activities was $390,000 for the six months ended June 30, 2001 primarily for the repayment of notes payable and capital lease obligations and prepaid financing costs.

As of December 31, 2000, aggregate principal payments required under notes payable and capital lease obligations totaled $5.7 million. These payments are payable through 2003. We financed a portion of the purchase of our manufacturing facility in Tlaxcala, Mexico with a $5.0 million limited recourse promissory note from the seller. This note is due upon the receipt of proceeds from this offering.

Our 10-year facilities lease for office, laboratory and pilot plant space in Davis, California provides for minimum lease payments of approximately $194,000 per year which commenced upon completion of construction in March 1999.

As of June 30, 2001, we had capital equipment of $10.6 million less accumulated depreciation of $728,000 to support our research, development, manufacturing and administrative activities. For the next twelve months, we expect capital expenditures to increase as we acquire equipment and expand and upgrade our facilities.

Our capital requirements depend on numerous factors, including market acceptance of our products and the resources we devote to develop and support our products. We expect to devote substantial capital resources to continue our research and development activities, enhance our manufacturing capabilities, expand our sales and marketing capabilities and for other general corporate purposes. These additional expenses and expenditures will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We believe that the net proceeds from this offering, together with our existing cash balances, will be sufficient to fund our currently foreseeable liquidity requirements for the next twelve months. We may, however, need to raise additional capital, which may not be available on terms acceptable to us, if at all.

Quarterly Results of Operations

Our operating results for a particular quarter or year are likely to fluctuate, which could result in uncertainty surrounding our level of earnings and possibly a decrease in our stock price. Numerous factors will contribute to the unpredictability of our operating results. In particular, our sales are expected to be highly seasonal. Sales of pest management products for the agricultural market are dependent on planting and growing seasons, climate conditions and other variables, which we expect to result in substantial fluctuations in quarterly sales and earnings. 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, including the size and timing of significant distributor and grower transactions, the delay or deferral of customer use of Serenade or our future products and the fiscal or quarterly budget cycles of our customers. For example, customers may purchase large quantities of our products in a particular quarter to store and use over long periods of time, or time their purchases to coincide with their receipt of revenue or loan periods, which may cause significant fluctuations in our operating results for a particular quarter or year.

Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments

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without significantly increasing risk. Some of the securities that we invest in may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk in the future, we intend to maintain our portfolio of investments in a variety of securities, including commercial paper, money market funds and government and non-government debt securities. The average duration of all of our investments as of December 31, 1999 and 2000 and June 30, 2001 was less than 90 days. Due to the short-term nature of these investments, we believe that we have no material exposure to interest rate risk arising from our investments.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133 which, as amended, is required to be adopted in years beginning after June 15, 2000. Because we do not use derivative instruments, the adoption of SFAS 133 did not have an effect on our results of operations, financial position or cash flows.

BUSINESS

Overview

We are a biotechnology company focused on leveraging our proprietary microorganism database, screening technology and natural product compound library to discover, develop, manufacture and market effective, safe and environmentally friendly natural pest management products for the agricultural and institutional and home markets. Our proprietary technology platform enables us to discover and characterize naturally occurring microorganisms that we believe can be developed into natural product solutions to almost any pest or plant disease. We are developing and commercializing a pipeline of natural pest management products, including our first product, Serenade, which we believe will offer superior alternatives to synthetic chemical pesticides and genetically modified crops for conventional and organic growers.

Using our proprietary technology platform, we isolate and screen naturally occurring microorganisms in a highly efficient manner to identify those that may have novel, effective and safe pest management characteristics. We then employ natural product chemistry to analyze and characterize the compound structures of selected microorganisms to identify product candidates for further development and commercialization. To date, we have screened more than 17,000 microorganisms, which has enabled us to identify 23 product candidates that display high levels of activity against insects, nematodes and plant diseases. These include, Serenade, a biofungicide, and our most advanced product candidates, Sonata, a biofungicide, Virtuoso, a bioinsecticide, and Vivace, an enhancer of Bt, the world's most widely-used biopesticide. We believe that Serenade and each of these three initial product candidates can compete favorably with existing pest management products because they:

- are highly effective;
- offer growers an attractive value proposition in terms of cost-effective plant disease and pest control, resulting in increased yields;
- have an accelerated time-to-market;
- increase food and worker safety and reduce the risk of negative environmental impact;
- address the rapidly growing organic foods market; and

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. reduce the risk of pest resistance.

We began selling Serenade in the United States in July 2000. On the basis of over 750 field trials, Serenade has generally proven to be as or more effective than synthetic chemical pesticides on a broad spectrum of plant diseases. Serenade is currently approved for use on high-value specialty crops such as grapes, apples, pears, cherries, tomatoes, hops, several vegetables, peanuts and walnuts, and we are seeking or plan to seek approval for other crops, such as bananas, citrus, turf and ornamentals. A formulation of Serenade is approved for use in organic agriculture, which allows us to address this increasingly important and rapidly growing market.

We believe that our proprietary technology platform will be the foundation for the discovery and development of natural products for the pest management industry. We also believe that our proprietary technology platform has broad commercial applications beyond pest management, including animal health, human health and pharmaceutical, aquaculture, industrial enzyme and specialty chemical applications. We intend to continue establishing strategic collaborations with chemical, biotechnology, pharmaceutical and consumer products companies to support the development and commercialization of natural products for pest management and other applications. To date, we have entered into strategic collaborations with Dow AgroSciences LLC, Maxygen, Inc. and American Home Products Corporation.

Industry Background

Crop Protection

Growers are constantly challenged to supply the increasing global demand for food, while reducing the negative impact of crop protection practices on consumers, farm workers and the environment. According to the Food and Agriculture Organization of the United Nations, global crop losses from pests, including bacterial, fungal and viral plant diseases, nematodes, insects and weeds, are estimated at $300 billion annually. Growers have historically relied on traditional practices such as cultivation, crop rotation and plant breeding to protect their crops. Although most growers currently rely on synthetic chemical pesticides for crop protection, an increasing number are integrating a combination of traditional practices with synthetic chemical pesticides, genetically modified crops and natural pest management products into a system called integrated pest management. Due to recent technological advances in natural pest management products and increasing environmental, food and worker safety concerns relating to synthetic chemical pesticides and genetically modified crops, natural pest management products are becoming an increasingly important component of the integrated pest management solution.

Synthetic Chemical Pesticides

In 2000, approximately $30 billion was spent globally on synthetic chemical pesticides. Of this amount, over $11 billion was spent to protect high value specialty crops and turf and for home and garden uses, while the remainder was spent to protect large acreage row crops. Although synthetic chemical pesticides often are effective in controlling pests, many are acutely toxic and are suspected carcinogens. The use of some synthetic chemical pesticides has been shown to have harmful effects on the environment, humans and other animals, including bees, lady beetles and other beneficial insects. Consumers are increasingly demanding food that is free of chemical residues and produced in an environmentally friendly manner. As a result, many food processors restrict the use of several synthetic chemical pesticides on crops for which they have contracted.

In addition, growers incur significant costs when using synthetic chemical pesticides, including the costs of complying with required minimum waiting periods before workers may reenter fields after spraying, limitations on spraying in the period prior to a harvest because of chemical residues and

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increased susceptibility to pest resistance. More than 500 pests have developed resistance to synthetic chemical pesticides. When resistance develops, growers must increase the quantity or frequency of pesticide applications to manage pests effectively, which not only increases crop production costs but also increases health and environmental risks associated with synthetic chemical pesticide use.

Concerns associated with the use of synthetic chemical pesticides, including adverse environmental effects, food and worker safety and increasing negative public perception, have prompted federal, local, state and foreign governments and regulatory agencies to restrict or eliminate some uses of these pesticides. For example, in 1996, Congress unanimously passed the Food Quality Protection Act of 1996, which has led the EPA to limit and, in some cases, prohibit the use of several synthetic chemical pesticides in and around schools and households and in foods. The European Union has also enacted legislation to reduce or restrict pesticide use.

Development and registration of new synthetic chemical pesticides is costly due to stringent regulatory requirements. Major agrichemical companies typically test hundreds of thousands of chemicals each year to find a single new product that will meet these stringent regulatory requirements. The average cost and time to bring a new synthetic chemical pesticide to market is now estimated to be at least $70 million to $100 million and seven to ten years. Accordingly, major agrichemical companies focus their product development efforts primarily on pesticides targeted for use on large acreage row crops in an effort to recover their substantial product development costs and achieve economies of scale. It is often uneconomical for major agrichemical companies to develop synthetic chemical pesticides for use in the highly fragmented, specialty crop market, which results in fewer pest management alternatives for growers in this market.

Genetically Modified Crops

Beginning in the 1980s, major agrichemical companies sought to reduce human health risks associated with synthetic chemical pesticides by investing billions of dollars to develop genetically modified plants that resist pests or have high tolerance to herbicides. Grower acceptance of this technology is evidenced by the fact that, in 2000, growers in the United States planted 72 million acres of genetically modified crops, consisting principally of soybeans, cotton and corn.

Despite general acceptance by growers, consumer disapproval of genetically modified crops, especially in Europe and Japan, threatens the future commercial viability of this technology. In response to consumer concerns, several food processors have demanded that their contracted growers supply them with only non-genetically modified crops. Environmental groups have also voiced concerns about the unintended effects of genetically modified crops, including pest resistance, contamination of non-modified crops, allergic reactions in humans and negative impacts on non-target species such as on soil microorganisms and monarch butterfly populations. In addition, growers and food processors have found it difficult and costly to segregate and track modified and non-modified crops within the current commodity distribution system. For example, last year, genetically modified corn approved only for use as animal feed was found in many human foods, causing concern among consumers, food processors, regulators, environmental groups and growers.

Some scientific experts have asserted that widespread plantings of genetically modified crops that produce an internal pesticide could lead to the proliferation of pests resistant to that pesticide. As pests become resistant to pesticides produced by genetically modified crops, the effectiveness of these crops is reduced. The U.S. Environmental Protection Agency, or the EPA, requires companies that produce genetically modified crops to submit costly resistance management and monitoring plans with their registration packages.

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Natural Pest Management Products

Although approximately 60% of all human drugs are derived from natural sources, only approximately 7% of all pesticides are derived from natural sources. However, the development and use of natural pest management products is increasing rapidly in response to consumer, grower and regulatory concerns regarding current pest management practices, pest resistance and food and worker safety. An increasing number of growers are integrating natural pest management products into a more sustainable approach to crop protection.

Natural pest management products include biopesticides as well as minerals such as copper and sulfur. Biopesticides consist of or are based on a living organism or a substance produced by a living organism, and they are generally distinguished from synthetic chemical pesticides by their unique modes of action, low toxicity to non-target species, biodegradability and natural occurrence.

The EPA classifies biopesticides as microbials or biochemicals. Microbial pesticides contain a microorganism such as a bacterium or fungus as the active ingredient. The most widely used microbial pesticides are various types of the bacterium Bacillus thuringiensis, or Bt, which can control specific insects in vegetables and other crops. Biochemical pesticides are naturally occurring substances that control pests by non-toxic mechanisms. Biochemicals include products that interfere with a pest's growth or mating patterns such as pheromones and plant growth regulators that increase crop yield.

Although only about 1% of annual global crop protection expenditures are attributable to natural pest management products, the use of these products is increasing rapidly. For example, from 1991 to 1999, biopesticide use in California, the state with the largest production of fruits and vegetables, increased at a compound annual growth rate of over 25%. Historically, biopesticide market share has been limited by the perceived relative lack of effectiveness, difficulty in application, constraints in the timing of application and shorter shelf life as compared to synthetic chemical pesticides. We believe that recent advances in biopesticides will continue to overcome these perceived deficiencies and will greatly increase their adoption.

Organic Food

In order to be certified as organic, food must be produced and processed without the use of synthetic chemicals, bioengineering or any other adulteration. Accordingly, organic growers have few pest management alternatives, other than traditional practices and natural pest management products. Consumer demand for organically grown food has been increasing rapidly, principally due to concerns about food safety and the adverse environmental effects of synthetic chemical pesticides and genetically modified crops. In the United States, sales of organically grown food have grown at a compound annual growth rate of more than 20% over the last decade, resulting in an estimated $6.6 billion in sales during 2000. In late 2000, the U.S. Department of Agriculture approved national production and labeling standards for organic food marketed in the United States. These standards are widely expected to facilitate the continued growth of the organic foods industry. Large food processors and agricultural businesses, such as Dole Food Company, General Mills, Inc., H.J. Heinz Company, Kellogg Company and Gerber Products Company, have entered the organic foods market due to its attractive profit margins and growth potential.

Institutional and Home Pest Management

Approximately $2.2 billion is spent annually worldwide on synthetic chemical pesticide products to control pests such as cockroaches, flies and mosquitoes in the institutional market, including in and around schools, parks, golf courses and other public use areas. Homeowners spend approximately $5.0 billion annually worldwide on pest management products to control pests in their homes,

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gardens and lawns and to control fleas and ticks on their pets. Producers of livestock such as cattle, swine and poultry use pest management products to control pests and parasites. The Food Quality Protection Act of 1996 has led to the reduction in use or elimination of some synthetic chemical pesticides, including in and around schools and households. Several states and municipalities have restricted pesticide use in and on public use areas. Congress is also considering new legislation to promote school pest management practices that minimize risk to children and provide safety information to parents and school staff when pesticides are used in schools. Homeowners are becoming increasingly concerned about the dangers to their children and pets of spraying synthetic chemical pesticides in their homes and gardens. As a result, institutional and home uses present opportunities for new effective, safe and environmentally friendly natural pest management products.

The AgraQuest Solution and Advantages

We believe growers and other pesticide users seek pest management products that are effective, competitively priced, safe and environmentally friendly. We are developing and commercializing a pipeline of natural pest management products, including Serenade, which we believe will offer superior alternatives to synthetic chemical pesticides and genetically modified crops in terms of performance, value, safety and environmental impact.

We have developed a proprietary technology platform, consisting of a microorganism database, a screening technology and a natural product compound library, which we believe will provide the foundation for the discovery and development of natural products for the pest management industry. We also believe our technology platform can be used to develop products for broader applications, including animal health, human health and pharmaceutical, aquaculture, industrial enzymes and specialty chemicals.

Our Proprietary Technology Platform

Our proprietary technology platform has the following advantages:

- Highly efficient discovery process. We believe we can discover new effective product candidates faster than other developers of pest management products. Our first product, Serenade, was discovered after testing only 713 microorganisms. Major agrichemical companies typically test hundreds of thousands of chemicals each year to discover a single new product. To date, we have identified 23 product candidates from the more than 17,000 microorganisms in our database. We believe these product

candidates can compete with synthetic chemical pesticides on performance, cost-effectiveness, shelf life and ease of use.

- Valuable data capture and utilization. Our proprietary technology platform allows us to gather data on the source of each microorganism, taxonomy, activity spectrum and the natural product compounds produced by the microorganism. Using this information, we are able to determine which microorganisms may have the highest pest management commercial potential. Expanding the information in our microorganism database and natural product compound library improves the efficiency of our product discovery process. This information may also be valuable to chemical, biotechnology, pharmaceutical and consumer products companies for developing natural products for their respective industries.

- Cost-effective and rapid new product development. We believe we can bring effective natural pest management products to market at greater speed and cost efficiency than our competitors. For example, we spent approximately $6 million for the testing, initial development and approval process for Serenade. The cost to bring a new synthetic chemical pesticide or genetically modified crop to market is estimated

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to be at least $70 million to $100 million.

Serenade and Our Initial Product Candidates

Serenade and our three initial product candidates:

- Are highly effective. Laboratory and field trials suggest that Serenade and our initial product candidates are generally more effective than existing biopesticides and generally are as or more effective than synthetic chemicals in controlling targeted pests. These trials also demonstrate that Serenade and Sonata generally have a broader disease control spectrum than synthetic chemical pesticides.

- Offer growers an attractive value proposition. We believe by using Serenade and our future natural pest management products, growers can increase profits while increasing food and worker safety and reducing environmental impact. Serenade is easy to use, competitively priced and has a comparable shelf life to synthetic chemical pesticides. In addition, the naturally low toxicity of Serenade allows growers to utilize it safely up to the time of harvest, limiting crop losses caused by the late onset of plant diseases.

- Have an accelerated time-to-market. By combining our proprietary technology platform and the favorable regulatory approval process for biopesticides, we have the ability to navigate our products quickly through the development and regulatory approval processes. For example, we were able to receive conditional EPA approval for Serenade within approximately 38 months from the time we first tested the Serenade strain. Conversely, it typically takes approximately seven to ten years to develop and obtain regulatory approval for a synthetic chemical pesticide or genetically modified crop.

- Increase safety and reduce risk to the environment. Serenade and our initial product candidates offer a favorable alternative to synthetic chemicals and genetically engineered crops, which have come under heightened scrutiny due to the negative environmental impact and health risks associated with their use. Our product and product candidates are based on naturally occurring microorganisms that we select specifically for their safety and that leave no synthetic chemical residues, increasing food safety. Based upon extensive field trials and independent toxicology studies and risk assessments, we believe that Serenade and Sonata offer improved safety for growers, workers, consumers and the environment.

- Provide unique solutions for organic crops. We believe Serenade and our initial product candidates will be of particular benefit by providing organic growers, who have a limited toolbox of crop protection solutions, with a means to grow their crops more productively.

- Have novel and complex modes of action that reduce the risk of pest resistance. Pest resistance concerns provide growers with strong motivation for growers to incorporate Serenade and our initial product candidates into their integrated pest management programs. Due to strict regulatory

requirements, some synthetic chemical pesticides rely on a single mode of action and are therefore subject to an increased probability of pest resistance. Similarly, genetically modified crops typically contain a single active gene and are also subject to an increased probability of pest resistance. Conversely, biopesticides typically rely on novel and complex modes of action that are more difficult for pests to develop resistance to. We therefore believe that growers can allocate a large portion of their total pesticide use to our natural pest management products without compromising the risk of pest resistance in their fields.

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- Are produced by environmentally friendly and sustainable production processes. Unlike the production of synthetic chemical pesticides, which requires large volumes of synthetic chemicals and solvents, our products are produced by fermentation using readily available agricultural raw materials such as soy flour and corn starch. Our production process is not only less harmful to the environment than that of synthetic chemical pesticides but also provides farmers with an additional sales channel for their products.

Our Strategy

Our goal is to become the leader in the discovery, development and commercialization of natural pest management products. The key elements of our strategy include:

- Utilize our proprietary technology platform to identify new product candidates. We intend to increase our natural pest management product offerings by identifying new product candidates discovered using our proprietary technology platform. By applying our proprietary screening technology to our microorganism database and utilizing our natural product compound library, we anticipate that we will continue to discover multiple natural pest management product candidates annually.

- Increase sales of Serenade. We have initiated marketing activities designed to increase the distribution and sale of Serenade. We intend to expand our distribution arrangements with established agrichemical distributors and retailers in order to leverage their existing sales forces and grower relationships. We also intend to expand our team of field development specialists to maintain close relationships with growers and educate industry leaders and distributors. As we obtain regulatory approvals, we plan to launch Serenade in key foreign markets, including Australia, Canada, Europe, Japan, New Zealand and South and Central America. We are seeking to add additional crops to the permitted uses of Serenade in Chile and the United States, and we may expand the use of Serenade to large acreage row crops.

- Develop and commercialize product candidates. We will continue to allocate significant research and development resources to develop and commercialize new natural pest management products that we have identified using our proprietary technology platform. To date, we have identified 23 product candidates, including Sonata, Virtuoso and Vivace, which each display high levels of activity against insects, nematodes and plant diseases. We initially intend to focus our research and development efforts on Sonata, Virtuoso and Vivace, all of which we believe can compete favorably with existing pest management products on efficacy, cost-effectiveness, pest resistance, shelf life, ease of use, food and worker safety and environmental impact. We may also establish strategic collaborations with third parties to support the development and commercialization of those natural pest management product candidates that we choose not to develop internally. We will maintain control over product quality, consistency and margins by manufacturing our products at our facility in Tlaxcala, Mexico.

- Focus initially on high-value specialty crops. We are focusing our initial commercialization efforts on high value specialty crops in the United States, such as grapes, apples, pears, tomatoes, vegetables, nuts and ornamentals. We expect growers of high-value specialty crops to derive the greatest economic benefit from our natural pest management products, in terms of relative cost, safety and the value of the expected yield increases.

- Maximize organic market opportunities. To address the rapidly growing organic market, in which there are few pest management alternatives, we will continue to ensure that a formulation of each of our

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products meets the requirements for organic food production in our target, specialty-crop markets. We also intend to conduct field trials in large acreage organic crops, such as cereals, which are well suited for our products but have less competition than conventional large acreage crops.

- Brand AgraQuest as the leading provider of natural pest management solutions. We believe that building our corporate brand will foster continued adoption of our natural pest management products by establishing AgraQuest as a leading supplier of effective, safe and environmentally friendly natural pest management products with significant benefits over existing pest management solutions. We also believe that strong brands will increase strategic collaboration opportunities, contributing to potential revenue growth and diversification. To enhance industry and public awareness of our company and increase demand for our natural pest management products, including Serenade, we intend to pursue an aggressive brand development strategy through targeted advertising, conference and trade show appearances, promotions and public relations.

- Leverage our proprietary technology platform in conjunction with strategic collaborators. We intend to pursue strategic collaborations with chemical, biotechnology, pharmaceutical and consumer products companies to use our proprietary screening technology and microorganism database to develop products for use in pest management, as well as animal health, human health and pharmaceuticals, aquaculture, industrial enzymes and specialty chemicals. Strategic collaborations will allow us to enhance our market presence and visibility and have the potential to generate significant revenues.

- Pursue select acquisitions. We may acquire businesses, technologies or products that we believe would strategically complement our business and allow us to be a more complete provider of crop production solutions.

Our Proprietary Technology Platform

Our proprietary technology platform consists of three key components: a microorganism database, screening technology and a natural product compound library. Our proprietary technology allows us to quickly and accurately identify microorganisms with the greatest pest management commercial potential. To date, we have identified 23 product candidates from the more than 17,000 microorganisms in our database that display high levels of activity against insects, nematodes and plant diseases.

Our product candidates are discovered and developed through the following steps:

[A flow chart diagram describing our product candidate discovery and development processes, including the following text:

DISCOVERY
- Collection and Isolation (sourcing and isolation of microorganism)
- Fermentation (produce sufficient testing quantities; maximize pesticidal properties; mimic commercial media)
- Primary Screening (test and confirm pesticidal activity and dose response)
- Preliminary Toxicology (test for toxic effects)
- Natural Product Chemistry (compare natural compounds produced by each selected microorganism with compounds in our natural product compound library; perform stability studies: pH, temperature; identification, purificaton and structure elucidation of active compounds
- Pre-Development Testing

PRODUCT DEVELOPMENT
- Process Development and Formulation

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. Advanced Toxicology
. Commercial Development
. Field Testing]

Discovery

. Collection and isolation. We use information from our existing microorganism database such as taxonomic groups, geographical locations, types of samples, niches and habitats to collect and identify new microorganism samples that may have novel, effective and safe pest management characteristics. We then isolate these selected microorganisms on proprietary media.

. Fermentation. Before testing the selected microorganisms for activity against pests, we first ferment them to produce sufficient quantities for testing. We grow the selected microorganisms in proprietary media, which maximizes their pesticidal properties. In addition, we have developed several proprietary fermentation processes that are designed to replicate those that would be required for large-scale fermentation and commercial production and, therefore, we avoid the time and expense of an unsuccessful scale-up.

. Primary screening. We use automated, miniaturized biological assays to test the selected microorganism's effectiveness against several insect, mite and nematode pests and plant diseases. We compare those results to synthetic chemical pesticide standards. When a microorganism shows a high level of pesticidal activity, we conduct further tests to determine the spectrum of activity, mode of action, stability and activity on plants.

. Natural product chemistry. Using high-performance liquid chromatography with diode array detection technology, we compare the natural product compounds produced by each of the selected microorganisms with the compounds in our natural product compound library. This allows us to eliminate those microorganisms that produce known toxins and select those that we believe are novel and safe. From the selected microorganisms, we identify and characterize the natural product compounds responsible for their pesticidal activity by using high performance liquid chromatography, liquid chromatography-mass spectroscopy and nuclear magnetic resonance equipment.

. Pre-development testing. We conduct laboratory, greenhouse and initial small plot field tests to select product candidates for further development.

Product Development

. Development of the manufacturing process. We have developed proprietary processes that increase the yield of both the microorganism and the natural product compounds produced by the microorganism during fermentation. We have developed proprietary methods for producing and analyzing these compounds, which results in greater product consistency and efficacy than biopesticides produced using conventional techniques. We believe that our process development allows us to produce products that have superior performance and lower cost than existing biopesticides and have comparable or better performance than synthetic chemical pesticides. We then scale up these proprietary processes in progressively larger fermentation tanks.

. Formulation. We are able to develop proprietary wettable powder, liquid and granule formulations that allow us to tailor our products to our customers' needs. This allows us to develop product formulations with enhanced performance characteristics, such as effectiveness, value, shelf life, suitability for organic agriculture, dispersibility,

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wettability, rainfastness, compatibility with other pest management products and ease of use.

- Field testing. We conduct hundreds of field trials for each product candidate that we develop. These field trials are conducted in small plots on commercial farms or research stations by our own field development specialists and private and public researchers to determine large-scale effectiveness, use rates, spray timing and crop safety. We conduct field trials globally in both hemispheres to accelerate the results of our field trials and provide alternate season learning opportunities. As the product candidate nears commercialization, we conduct demonstration trials in conjunction with our sales and marketing team. These trials are conducted with distributors, influential growers and food processors on larger acreages in a commercial setting.

Serenade and Our Initial Product Candidates

The following table sets forth information relating to Serenade and our initial product candidates that are most advanced in development:

Product Name	Uses	Primary Modes of Action	Target Markets	Regulatory Status
Serenade	Controls many bacterial and fungal plant diseases	Attacks fungal spores and bacteria as they germinate; excretes antifungal compounds; competes for space and food on the plant's surface	Registered for use on specialty crops, including apples, pears, grapes, cherries, tomatoes, hops, several vegetables, peanuts and walnuts; also targeting bananas, ornamentals, turf and home and garden	Registered in the United States, Chile, Mexico and Puerto Rico; approved for use in 49 U.S. states; filed registration packages in the European Union, Argentina, New Zealand and Switzerland
Sonata	Controls many fungal and some bacterial diseases; complementary to Serenade	Prevents spore germination on plant's surface; excretes antifungal compounds	Specialty crops, cereals, ornamentals and home and garden	Technical and experimental use permit registrations submitted to the EPA and the California EPA
Virtuoso	Controls caterpillar pests; fleas, some flies and mites	Possibly inhibits cell growth in caterpillar pests	Specialty crops, turf, home and garden, and row crops; animal health, pets	In development; registration not yet submitted to the EPA
Vivace	Enhances the activity of Bt bioinsecticide; complementary to Virtuoso	Increases the effect of Bt in destroying the stomach lining of insects	Specialty crops, home and garden	In development; registration not yet submitted to the EPA

Serenade

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Serenade is the first broad spectrum foliar biofungicide and is based on a novel and patented strain of Bacillus subtilis, which we isolated using our proprietary screening technology. Bacillus subtilis bacteria are known to be non-toxic and not harmful to animals. We began marketing Serenade commercially in the United States in July 2000. Serenade currently is targeted for use on high value specialty crops and is registered for use on apples, pears, grapes, cherries, tomatoes, hops, several vegetables, peanuts and walnuts. We are seeking to expand the permitted uses of Serenade to other specialty crops, turf and ornamentals. Serenade is currently formulated as a wettable powder and a wettable disbursable granule that is topically applied either independently or in conjunction with traditional pesticides. We believe Serenade has the following advantages:

- High level of broad spectrum activity against many bacterial and fungal plant diseases;
- Can be integrated into pest management programs for both conventional and organic growers;
- Improved safety for the environment, applicators and farm workers;

- Can be sprayed up until harvest and does not require any special handling or equipment;
- No synthetic chemical residues, enhancing food safety; and
- Reduced likelihood of pest resistance due to its novel and complex mode of action.

To address the rapidly growing organic market, we have developed and registered with the EPA a formulation of Serenade that is included on the Organic Materials Review Institute's list of approved products. Additionally, we have in-house capabilities to develop other formulations of Serenade that specifically address market needs and customer preferences. For example, we are currently developing Rhapsody, a formulation of Serenade targeted for ornamental flowers and foliage.

We believe Serenade offers an attractive value proposition to the grower in terms of cost effective plant disease control resulting in increased yields compared to synthetic chemical pesticides. For example, field trials conducted by our customers, the University of Arizona and our own field development specialists to determine the effectiveness of Serenade in controlling Sclerotinia, a major lettuce disease, indicated that Serenade was on average 8% more effective than the leading chemical in controlling Sclerotinia, which implies increased lettuce yields of on average 31%.

Serenade has been tested in more than 750 field trials in the United States and 16 other countries worldwide. In addition to conducting our own field trials, we have also conducted field trials with major growers, universities and consultants in order to further validate the performance of Serenade. The compiled field data shows that Serenade is generally as or more effective than synthetic chemical pesticides in preventing a broad spectrum of diseases, such as: botrytis bunch rot/gray mold, powdery mildews, fire blight, bacterial spot, Sclerotinia rots/blights and black sigatoka. Of particular interest is Serenade's control of fire blight, lettuce drop and tomato bacterial spot for which growers have limited alternatives.

In addition to field trials, we also have conducted numerous laboratory and greenhouse experiments. Laboratory and greenhouse experiments show that Serenade works effectively on brown rot in stone fruits such as peaches and almonds and gray mold in strawberries. Laboratory studies and field observations also show that Serenade has curative activity on powdery mildew; unlike most pesticides, it was shown to control the disease after the disease

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was already present. These potential applications of Serenade are being tested more fully in research field trials.

Serenade received registration approval for Chile in October 1999, in the United States in June 2000, and in Mexico in July 2001. We are currently seeking regulatory approval for Serenade in the European Union, Costa Rica, Argentina, New Zealand, Switzerland, Japan, Australia, South Africa and Canada. In October 2000, we received notice that our Serenade registration package passed the completeness check by the Commission of the European Communities, Director General of Agriculture, and we have commenced national registrations in the European Union.

Sonata

Sonata is based on a novel and patented strain of Bacillus pumilus, which we isolated using our proprietary screening technology. Bacillus pumilus bacteria are known to be non-toxic and not harmful to animals. Our strain of Bacillus pumilus has a unique, high level of broad spectrum activity against many fungal and some bacterial plant diseases. Laboratory, greenhouse and more than 60 field trials indicate that Sonata is particularly effective against downy mildews, powdery mildews, rusts, Sclerotinia blights/rots and some bacterial diseases.

We believe that Sonata is as or more effective, safer and more environmentally friendly than many synthetic chemical pesticides. In addition, while their complex modes of action make it unlikely that product resistance will develop even when used alone, Serenade and Sonata can be rotated or combined with each other or with other pest management products to reduce the likelihood of pest resistance. Growers usually prefer to use multiple

products for disease control and typically rotate or tank mix several pest management products within a growing season. Sonata's complementary nature addresses growers' desire to avoid reliance on a single product, reduces the likelihood of resistance development and obtains the best spectrum of disease control.

We submitted the technical registration for Sonata to the EPA in May 2000. An experimental use permit that would allow sales on 4,000 acres of some crops was submitted to the EPA and the Department of Pesticide Regulation of the California Environmental Protection Agency in November 2000.

Virtuoso

Virtuoso is based on a novel and proprietary strain of Streptomyces, which we tested using our proprietary screening technology. This strain, which was licensed exclusively to us for an indefinite term in 1998, has broad spectrum control of caterpillar pests, such as armyworms, codling moths, cotton bollworms and budworms, cabbage loopers and diamondback moths, and it also has activity on fleas, some flies and mites.

We believe Virtuoso will be an effective replacement for toxic insecticides such as organophosphates for caterpillar pests. Organophosphates are being restricted by the EPA under the Food Quality Protection Act. In addition, there are major caterpillar pests affecting most of the crops we are targeting with Serenade and Sonata, and Virtuoso would allow us to offer growers of these crops both plant disease and insect control products. Laboratory tests and initial field trials indicate that Virtuoso is generally as effective as synthetic chemical pesticides in controlling some types of pests. Independent laboratory and initial field studies conducted by four major agrichemical companies indicated that Virtuoso has a high level of broad spectrum activity against caterpillar pests. We also believe Virtuoso has applications in the animal health and pet markets because of its activity on fleas and some flies.

Vivace

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Vivace is a proprietary and novel suite of natural product compounds that we isolated from a microorganism using our proprietary screening process. Vivace is an early stage product candidate that has been shown to substantially enhance the activity of Bt, which has provided caterpillar pest control for conventional and organic growers for many years. Bt protein genes have been engineered into crop plants and commercialized for caterpillar pest control in cotton and corn. However, Bt sprays and Bt crops are not as effective as synthetic chemical pesticides on some caterpillar pests, such as armyworms. Our studies have shown that Vivace improves the activity of Bt by up to tenfold such that caterpillar pest control generally equals that of synthetic chemical pesticides. Vivace has no insecticidal activity by itself, and is effective against caterpillar pests only in combination with Bt. Vivace's and Virtuoso's complementary natures address growers' desire to avoid reliance on a single product, reduce the likelihood of resistance development and obtain the best spectrum of disease control. We intend to position Vivace and Virtuoso for use together in integrated pest management systems for the specialty crop, turf and home and garden markets.

Sales, Marketing and Distribution

We have initiated marketing activities designed to promote sales of Serenade and our future natural pest management products by implementing the following strategies:

- Target early adopters of new pest management technologies. We intend to target large commercial growers in the United States, who generally set industry standards through early adoption of new pest management technologies. We plan to continue to recruit leading growers and their consultants to participate in field trials, enabling them to become familiar with our natural pest management products and to experience their benefits firsthand.

- Educate growers about the benefits of our natural pest management products. We will continue to perform on-farm demonstrations and provide field data packages to support and validate our product claims. We will also continue to participate in trade shows and conferences to educate growers and their licensed pest control advisors about the benefits of our natural pest management products.

- Enhance distribution relationships. We will continue using established agrichemical distribution channels to distribute Serenade and our future products. We intend to provide distributors a portfolio of products with attractive profit margins and growth potential. In addition, we will continue to provide distributors access to innovative alternative pest management solutions, which we believe will reduce their dependence on major agrichemical companies.

- Develop and leverage relationships with key industry influencers. We will continue to develop relationships early in the product development process with influential members within our target markets, including technical experts at leading agricultural universities, licensed pest control advisors, wineries, baby food manufacturers and other food processors and produce packers. We believe that educating industry influencers about the benefits of Serenade and our future products increases the likelihood that they will recommend our products to their growers and customers.

We have signed agreements to distribute Serenade in the United States with leading agricultural distributors such as United Agri Products, Western Farm Services and Wilbur Ellis. We have also entered into agreements to distribute Serenade in foreign countries, including in Chile under an agreement with Moviagro, a Monsanto joint venture. We have agreements to develop and distribute Serenade in Japan through SDS Biotech, Japan's largest supplier of

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biopesticides, and in France with Agtrol.

We currently have ten employees dedicated to sales and marketing in the United States organized into eight geographic sales territories. We anticipate adding additional sales and marketing personnel in the United States and in international territories.

Strategic Collaborations

We have entered into, and will continue to pursue, strategic collaborations with chemical, biotechnology, pharmaceutical and consumer products companies to support the development and commercialization of natural pest management product candidates identified through our proprietary technology platform. The terms of strategic collaborations that we undertake depend on the nature and stage of development of the particular product candidate. For example, for product candidates in early stages of development, we may grant a third party the commercial rights to that product candidate in exchange for our use of that party's research, development or marketing resources. We also intend to license our microorganism database for applications beyond pest management, including the discovery and development of natural products for animal health, human health and pharmaceutical, aquaculture, industrial enzyme and specialty chemical products. We believe that these strategic collaborations will allow us to maximize the potential value and reinforce the credibility of our proprietary technology platform, as well as enhance our market presence and revenue growth.

We have entered into the following strategic collaborations:

Dow AgroSciences. In October 2000, we entered into a research and development agreement with Rohm and Haas Company, the agricultural business of which was subsequently acquired by Dow AgroSciences LLC. Under this agreement, Dow AgroSciences has the exclusive, worldwide rights to commercialize seven of our product candidates for all uses other than human health, animal health and aquaculture. If Dow AgroSciences selects a product candidate for further development, it must pay us a fee, reimburse us for our development costs relating to that product candidate and make additional milestone payments based on the progress of product development. Additionally, if Dow AgroSciences determines to further commercialize any of these product candidates, it will make additional milestone payments to us, pay the costs of EPA registration, and pay us a royalty on any product sales. In addition, we retain a right of first refusal to manufacture these product candidates for Dow AgroSciences for which we will receive cost reimbursements plus a share in the profits. In November 2000, Dow AgroSciences selected its first product candidate to develop and commercialize under this agreement and began making initial milestone payments to us. In connection with this agreement, Dow AgroSciences purchased 83,333 shares of our Series F preferred stock for $500,000.

Maxygen. In December 2000, we entered into an agreement with Maxygen, Inc. under which we granted Maxygen a nonexclusive license to develop and commercialize 3,000 of the more than 17,000 microorganisms in our microorganism database for gene-shuffling uses other than for the development of biopesticides. Under this agreement, Maxygen paid us an up-front fee and agreed to make milestone payments based on the progress of product development and commercialization.

American Home Products, Fort Dodge Animal Health Division. In November 2000, we entered into an agreement with the Fort Dodge Animal Health Division of American Home Products Corporation under which we agreed to provide it with selected microorganisms from our microorganism database for testing and product development. We will seek to enter into a licensing arrangement with Fort Dodge in the event it desires to commercialize any products based on these microorganisms.

Manufacturing

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To control product quality and the speed and timing of manufacturing, protect our proprietary position in our products and lower our manufacturing costs, we purchased a manufacturing facility in Tlaxcala, Mexico in December 2000 from Abbott Laboratories, and we recently began manufacturing Serenade at this facility. This plant has approximately 208,000 square-feet of manufacturing and support facilities on approximately 35 acres. We have established comprehensive quality control and assurance procedures to ensure that we sell high quality products. The facility includes several seed and fermentation tanks, a downstream processing, recovery and extraction building, several microbiology and quality control laboratories, a waste treatment plant, warehouses and offices. We intend to add spray drying and packaging facilities and equipment, and we expect this facility to be fully operational by the end of 2001. We believe this facility will be adequate to meet our anticipated manufacturing volume requirements for the foreseeable future. In addition, the site is large enough to accommodate additional fermentation and other processing equipment as needed.

To date, we have relied primarily on third parties to manufacture Serenade. We have a 3,000 square-foot fermentation pilot plant in our Davis, California facility that we use to scale up new processes and to produce material for field trials. We intend to use a portion of the net proceeds from this offering to expand our Davis facility.

Research and Development

We currently have 32 employees dedicated to research and development, 16 of whom hold Ph.D. degrees. Our research and development team has technical expertise in microbiology, natural product chemistry, entomology, plant pathology, fermentation, product formulation and field development. In addition, we have formed a scientific advisory board comprised of individuals specializing in the fields of natural product chemistry, microbiology, biochemistry and fermentation who from time to time provide our management and scientists with specific expertise in both research and product development.

Our research and development activities are principally conducted at our Davis, California facility as well as by our field development specialists on crops in their respective regions.

We have made, and will continue to make, substantial investments in research and development. Our research and development expenses were $3.1 million in 1998, $4.5 million in 1999, $6.3 million in 2000 and $2.7 million for the six months ended June 30, 2001.

Intellectual Property

We rely on patents and other proprietary right protections, including trade secrets and proprietary know-how, to preserve our competitive position. We own 19 issued U.S. patents and have two pending patent applications covering our products, including microorganisms and natural product compounds, uses and related technologies. Also, we own eight foreign patents and have 95 pending foreign patent applications.

Our success depends on our ability to operate without infringing the patents and proprietary rights of third parties. We cannot determine with certainty whether patents or patent applications of other parties may materially affect our ability to make, use or sell any products. A number of crop protection and other pest management companies, universities and research institutions may have filed patent applications or may have been granted patents that cover technologies similar to the technologies owned by or licensed to us.

Although we believe our patents and patent applications provide a competitive advantage, the patent positions of crop protection and other pest management companies are highly uncertain and involve complex legal and factual

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questions. Our patents or those for which we have licensed or will license rights may be challenged, invalidated, infringed or circumvented, and the rights granted in those patents may not provide proprietary protection or competitive advantages to us. We and our collaborators or licensors may not be able to develop patentable products or obtain patents from pending patent applications. Even if patent claims are allowed, the claims may not issue, or in the event of issuance, may not be sufficient to protect the technology owned by or licensed to us.

Third-party patent applications and patents could reduce the coverage of the patents owned by or licensed to us. If patents containing competitive or conflicting claims are issued to third parties, we may be enjoined from pursuing commercialization of products or be required to obtain licenses to these patents or to develop or obtain alternative products. In addition, other parties may duplicate, design around or independently develop similar or alternative technologies to ours or our licensors.

Litigation may be necessary to enforce patents issued or licensed to us or to determine the scope or validity of another party's proprietary rights. U.S. Patent Office interference proceedings may be necessary if we and another party both claim to have invented the same subject matter. We may not prevail in any of these actions or proceedings, and we could incur substantial costs and our management's attention would be diverted if:

- litigation is required to defend against patent suits brought by third parties;
- we participate in patent suits brought against or initiated by our licensors;
- we initiate similar suits; or
- we participate in an interference proceeding.

Regulatory Considerations

Our activities are subject to extensive federal, state, local and foreign governmental regulations. These regulations may prevent us or our collaborators from developing or commercializing products in a timely manner or under technically or commercially feasible conditions and may impose expenses, delays and other impediments to our product development and registration efforts. In the United States, the EPA regulates our natural pest management products under the Federal Insecticide, Fungicide and Rodenticide Act, the Federal Food, Drug and Cosmetics Act and the Food Quality Protection Act.

On June 20, 2000, the EPA granted conditional approval for full commercial use of Serenade Biofungicide Wettable Powder. The conditional nature of this approval does not impact our ability to market and sell Serenade, but the approval for Serenade expires two years from the date of issue. For Serenade to continue to be registered after June 20, 2002, we were required to submit to the EPA by July 16, 2001 a two-year storage stability study and additional studies on the effect of Serenade on selected non-target species. All of these studies have been completed and submitted to the EPA, and indicate that Serenade poses no foreseeable hazards to the non-target species. Upon review and acceptance of these data, we believe that the EPA will convert the Serenade registration from conditional to unconditional status. We are required to submit one additional study to the EPA by May 2002. If we are unable to meet the conditions specified by the EPA, however, the EPA could revoke our registration or impose use restrictions that are not currently applicable to Serenade.

As with any pesticide, our pest management products will continue to be subject to review by the EPA and state regulatory agencies. The EPA has the authority to revoke the registration or impose limitations on the use

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of any of our pest management products if we do not comply with the regulatory requirements, if unexpected problems occur with a product or the EPA receives other newly discovered adverse information.

In addition to EPA approval, we are required to obtain regulatory approval from the appropriate state regulatory authority in individual states and foreign regulatory authorities before we can market or sell any pest management product in those jurisdictions. Serenade is currently registered in 49 states in the United States, including California, the largest producer of fruits, nuts and vegetables in the United States. We were also required to submit additional field data for Serenade to the California EPA, which we submitted in July 2001. We have also registered Serenade in Chile, Mexico and Puerto Rico. Our registration package for Serenade in the European Union has been determined to be complete by the EU Commission. However, until the registration is granted within the entire EU, we must obtain provisional authorization approval in each country in order to market and sell products in those countries. We have submitted applications for Serenade registration in Argentina and New Zealand and expect approvals in those countries.

Our manufacturing operations are also subject to federal, state, local and foreign worker safety, air pollution, water pollution and solid and hazardous waste regulatory programs and periodic inspection. We believe that our facilities are in substantial compliance with all applicable environmental regulatory requirements.

Competition

For pest management products, performance and value are critical competitive factors. To compete against manufacturers of synthetic chemical pesticides and genetically modified crops, we will need to demonstrate the advantages of our products over these more established pest management products. Many large agrichemical companies are developing and have introduced new chemical pesticides and genetically modified products that they believe are safer and more environmentally friendly than older synthetic chemical products.

The pest management market is very competitive and is dominated by multinational chemical and life science companies, such as Aventis Pasteur, BASF AG, Bayer AG, The Dow Chemical Co., E.I. du Pont de Nemours and Co., Monsanto Co., Sumitomo Chemical Co., Ltd. and Syngenta, AG. Universities, research institutes and government agencies may also conduct research, seek patent protection and, through collaborations, develop competitive pest management products. Other companies, including biopesticide companies such as Valent Biosciences Corp., EDEN Bioscience Corporation and Certis USA L.L.C. (formerly Thermo Trilogy Corp.), may prove to be significant competitors in the pest management market.

In many instances, agrichemical companies have substantially greater financial, technical, development, distribution and sales and marketing resources than we do. Moreover, these companies may have greater name recognition than we do, and may offer discounts as a competitive tactic. We cannot assure you that our competitors will not succeed in developing pest management products that are more effective or less expensive than ours or that would render our products obsolete or less competitive. Our success will depend in large part on our ability to maintain a competitive position with our technologies and products.

Employees

As of June 30, 2001, we had 65 full-time employees, of whom 16 hold Ph.D. degrees. Approximately 32 employees are engaged in research and development, ten in sales and marketing, nine in management, accounting/finance, regulatory and administration in the United States. In addition, we have 14 employees engaged in manufacturing at our facility in Mexico. None of our domestic employees is represented by a labor union. We have entered into a collective bargaining agreement with a labor union that represents two employees at our manufacturing plant in Tlaxcala, Mexico. We consider our employee relations to

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be good.

Facilities

We are headquartered in Davis, California, where we occupy approximately 13,000 square-feet of office, research and development, sales and marketing and laboratory space under a lease that expires in July 2008. Our fermentation pilot plant occupies approximately 3,000 square-feet of this facility. We also own a 208,000 square-foot fermentation, manufacturing and extraction facility on approximately 35 acres in Tlaxcala, Mexico.

Legal Proceedings

We may from time to time become a party to various legal proceedings arising in the ordinary course of our business. We are not currently subject to any legal proceeding.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors and our key employees as of June 30, 2001.

Name	Age	Position
Pamela G. Marrone, Ph.D.	44	President, Chief Executive Officer and Chairman
Donald J. Glidewell	44	Vice President, Chief Financial Officer and Secretary
James Chambers	35	Director of Sales and Marketing
Jennifer Ryder Fox, Ph.D.	51	Vice President of Regulatory Affairs and Technical Development
G. Steven Burrill(2)	56	Director
Jack Hunt(1)	56	Director
Frank F.C. Kung, Ph.D.(1)	52	Director
Walter Locher(2)	58	Director
Joe A. Mancini	43	Director
George E. Myers(2)	43	Director
Ann Partlow(1)	57	Director
James A. Schlindwein(2)	72	Director

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(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.

Pamela G. Marrone, Ph.D. has served as our President and Chief Executive Officer and as Chairman of our board of directors since our incorporation in January 1995. From February 1990 to January 1995, Dr. Marrone served as President of Novo Nordisk Entotech, Inc., a subsidiary of the biotechnology company Novo Nordisk A/S. Dr. Marrone has also held various management positions at Monsanto Company, a leading provider of agricultural solutions to growers worldwide. She received her Ph.D. from North Carolina State University and holds a B.S. degree with honors and distinction in Entomology from Cornell University.

Donald J. Glidewell has served as our Vice President, Chief Financial

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Officer and Secretary since May 2000. From November 1994 to May 2000, Mr. Glidewell served as Chief Financial Officer of Bio-Trends International, a biotechnology company. In February 1999, Mr. Glidewell filed a plan of reorganization under Chapter 13 of the federal bankruptcy laws as a result of three separate floods that severely damaged riverfront real estate owned by him, each of which was declared a federal disaster. Mr. Glidewell is licensed by the California Society of Certified Public Accountants and holds a B.S. in Business Administration, Accounting from Arizona State University

James Chambers has served as our Director of Sales & Marketing since June 2001. From August 1995 to January 2001, Mr. Chambers held product development, sales and marketing positions with Monsanto Company. Most recently, he was a Product Manager for a biotechnology product. Prior to that, he was a Market Manager for the Dairy Division. He has also managed a family farm. Mr. Chambers has a B.S. in Economics & Marketing from Ohio State University.

Jennifer Ryder Fox, Ph.D. has served as our Vice President of Regulatory Affairs and Technical Development since August 2001. From May 1998 to July 2001, she served as our Director of Regulatory Affairs. From November 1994 to May 1998, Dr. Fox served as a Manager of Regulatory Affairs at the agricultural products group of FMC Corporation, an agricultural chemical company. She received her Ph.D. in Agronomy & Horticulture and her M.S. in Soil Science from New Mexico State University and holds a B.S. in Soil Science from California Polytechnic State University.

G. Steven Burrill has served as a director since July 1999. Mr. Burrill is the Chief Executive Officer of Burrill & Company, a private merchant bank focused on life science companies, which he founded in January 1996. Prior to that, Mr. Burrill spent 27 years with Ernst & Young, including the last 17 years as a partner of

the firm. Mr. Burrill currently serves on the boards of directors of DepoMed, Inc., Paradigm Genetics, Inc., Third Wave Technologies, Inc. and Transgene SA. Mr. Burrill holds a B.B.A. degree from the University of Wisconsin, Madison.

Jack Hunt has served as a director since March 1998. Since May 1995, Mr. Hunt has served as President and Chief Executive Officer of King Ranch, Inc., a ranching and agricultural business company. Mr. Hunt currently serves as a director of King Ranch, Inc. and St. Mary Land and Exploration Company. Mr. Hunt also currently serves as a member of the Texas Water Development Board. Mr. Hunt is a member of the Board of Trustees of Baylor College of Medicine. He received his M.B.A. from Harvard University and holds a B.A. from Williams College.

Frank F.C. Kung, Ph.D. has served as a director since March 1998. Since January 1997, Dr. Kung has served as managing member of BioAsia Investments LLC, a venture capital firm. From January 1984 to May 1996, Dr. Kung served as Chairman and Chief Executive Officer of Genelabs Technologies, Inc., a biopharmaceutical company. He received both his Ph.D. in Molecular Biology and his M.B.A. from the University of California, Berkeley. He holds a B.S. in Chemistry from the National TsingHwa University, Taiwan.

Walter Locher has served as a director since November 1999. Since October 1997, Mr. Locher has been a consultant with GSM, LLC, a consulting firm. From December 1990 to September 1997, Mr. Locher served as the Chief Executive Officer of Anderson Clayton Corp., a cotton and cottonseed processor, and concurrently served as President of Volkart International, Inc., an international cotton trading house. He currently serves as President of Volkart America, Inc. He received his Diploma in Management from IMD, Lausanne and holds a Diploma in Commerce from Commercial College, Winterthur, Switzerland.

Joe A. Mancini has served as a director since December 2000. Since June 1997, Mr. Mancini has served with CDC Group Plc, a global private equity firm. He is currently director of technology-related investments at CDC Capital

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Partners, a division of CDC Group Plc. From January 1991 to May 1997, Mr. Mancini served as a director of Eurocontinental (Advisers) Limited, advisers to Eurocontinental Ventures S.A., a European venture capital fund. He received his M.B.A. from Schiller International University, London. He holds a B.Eng. in Civil Engineering and a B.Sc. in Mathematics, both from the University of Sydney, Australia.

George E. Myers has served as a director since May 1997. Since 1995, Mr. Myers has served as President of Ojai Ranch and Investment Co., Inc., a venture capital and agricultural business firm. He holds a B.S. in Agricultural Economics and Business Management from the University of California, Davis.

Ann Partlow has served as a director since May 1997. Since April 1974, Ms. Partlow has worked at Rockefeller & Company as a financial advisor and has served as the investment manager of Rockefeller & Company's Odyssey Fund since 1977. She holds a B.A. in Economics from Connecticut College.

James A. Schlindwein has served as a director since June 1998. Mr. Schlindwein has served as a consultant to Morgan Stanley since August 1994. Mr. Schlindwein also serves on the board of directors of a number of private companies, including Imperial Sugar Group, Chilay Corp., Eggs Innovation, Alaska Seafood International and Emmpak Foods.

Key Research and Development Managers

Our key research and development managers lead our new product discovery and development and have significant technical expertise in microbiology, natural product chemistry, entomology, plant pathology, fermentation, product formulation and field development. Our key research and development managers are:

Denise C. Manker, Ph.D. Dr. Manker has served as our Research Manager since January 1996 and leads our natural product chemistry, microbiology and secondary testing teams. She also co-led the project team that developed Serenade. From September 1990 to November 1995, Dr. Manker served as a staff researcher at Novo

Nordisk Entotech, Inc., a subsidiary of the biotechnology company Novo Nordisk A/S, where she established and managed the natural products chemistry laboratory. Dr. Manker holds a Ph.D. from Scripps Institution of Oceanography and served as a post-doctoral research associate at the University of California, Davis.

Desmond R. Jimenez, Ph.D. Dr. Jimenez has served as our Staff Scientist since November 1995 and leads our primary screening and entomology teams. From June 1993 to November 1995, he was employed at Novo Nordisk Entotech, Inc. where he led advanced testing of insecticidal natural products, high throughput bioassays, and mode of action studies for Bt bioinsecticide. Dr. Jimenez holds a Ph.D. in Food and Nutritional Sciences from the University of Arizona and served as a post-doctoral research associate at the USDA-ARS Horticultural Research Lab and the Carl Hayden Bee Research Center.

Jian-Er Lin, Ph.D. Dr. Lin has served as our Manager of Fermentation/Process Development since July 2000 and is responsible for developing and scaling up manufacturing processes for our natural products. From August 1994 to July 2000, he served as a group leader, applications and technical support for Sybron Chemicals, Inc. Dr. Lin also held technical microbiology and engineering positions at Celgene Corporation, the U.S. EPA Research Laboratory and the Michigan Biotechnology Institute. Dr. Lin holds a Ph.D. in Biotechnology/Biochemical Engineering from the University of Michigan.

Scientific Advisory Board

Our Scientific Advisory Board is comprised of individuals specializing in

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the fields of natural product chemistry, microbiology, biochemistry and fermentation who from time to time provide our management with specific expertise in both research and product development. Non-employee members of our Scientific Advisory Board have received stock options and some have received cash compensation. Our Scientific Advisory Board currently consists of the following individuals:

- William Fenical, Ph.D. Professor of Oceanography and Director, Center for Marine Biotechnology and Biomedicine, Scripps Institute of Oceanography, University of California, San Diego; Scientific Founder, Nereus Pharmaceuticals, a marine microbial natural products pharmaceutical company.

- Bruce Hammock, Ph.D. Professor, Department of Entomology and Cancer Research Center, University of California, Davis; Program Director, National Institute of Environment and Health Science Superfund Basic Research Project; Member, National Academy of Sciences.

- Tadeusz Molinski, Ph.D. Professor, Department of Chemistry, University of California, Davis.

- David Block, Ph.D. Associate Professor, Departments of Viticulture and Enology and Chemical Engineering and Materials Science, University of California, Davis.

Board of Directors

Our board of directors is currently comprised of nine directors. All of our directors hold office until the next annual meeting of stockholders or until their successors are duly elected and qualified. Our certificate of incorporation to be effective upon completion of this offering provides that, as of the first annual meeting of stockholders, our board of directors will be divided into three classes, each with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

Messrs. Burrill and Mancini and Dr. Kung have been designated as Class I directors, and their terms will expire at the 2002 annual meeting of stockholders; Messrs. Hunt and Myers and Ms. Partlow have been designated as Class II directors, and their terms will expire at the 2003 annual meeting of stockholders; and Messrs. Locher and Schlindwein and Dr. Marrone have been designated as Class III directors, and their terms will expire at the 2004 annual meeting of stockholders.

Board Committees

The audit committee of the board of directors was formed in May 1998 and currently consists of Mr. Hunt, Dr. Kung and Ms. Partlow. The audit committee reviews the results and scope of the annual audit and other services provided by our independent auditors, reviews and evaluates our internal audit and control functions and monitors transactions between us and our employees, officers and directors.

The compensation committee of the board of directors was formed in May 1998 and currently consists of Messrs. Locher, Myers, Burrill and Schlindwein. The compensation committee exercises the authority of our board of directors on all compensation matters, including both cash and equity incentive compensation, and administers our employee benefit plans.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers

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serving as a member of our board of directors or compensation committee.

Director Compensation

Our directors who are also employees receive no additional compensation for their services as directors. Our non-employee directors do not receive a fee for attendance in person at meetings of our board of directors or committees of our board of directors, but they are reimbursed for travel expenses and other out-of-pocket costs incurred in connection with their attendance at meetings. In addition, our non-employee directors are eligible to receive options and be issued shares of common stock directly under our 2001 non-employee director stock option program. Upon the effective date of the registration statement relating to this offering, each non-employee director will automatically be granted an option to purchase 5,000 shares of our common stock with subsequent annual options to purchase 5,000 shares of our common stock, both at an exercise price per share equal to the fair market value of the common stock at the date of grant. Our directors who are also employees are eligible to receive options and be issued shares of common stock directly under our 2000 stock incentive plan.

Executive Compensation

The following table sets forth information concerning the compensation that we paid during the fiscal year ended December 31, 2000 for services rendered to us in all capacities to our Chief Executive Officer and our most highly compensated executive officers whose total salary, bonus and other compensation exceeded $100,000 during that fiscal year. We refer to these persons as named executive officers elsewhere in this prospectus. In accordance with the rules of the Securities Exchange Commission, the compensation described in this table does not include perquisites and other personal benefits received by the executive officers named in the table below which do not exceed the lesser of $50,000 or 10% of the total salary and bonus reported for these executive officers.

Summary Compensation Table

<TABLE>
<CAPTION>

	Annual Compensation		Long-Term Compensation	
Name and Principal Position	Salary	Bonus	Securities Underlying Options	All Other Compensation
<S>	<C>	<C>	<C>	<C>
Pamela G. Marrone, Ph.D. .... President and Chief Executive Officer	$144,000	--	115,250	--
Kurt Schwartau(1)...................... Former Vice President of Sales and Marketing	$108,000	--	10,250	--

</TABLE>

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(1) Mr. Schwartau ceased to be employed by us in March 2001.

Option Grants in Last Fiscal Year

The following table sets forth information concerning grants of stock options to each of the named executive officers during the fiscal year ended December 31, 2000. The percentage of total options set forth below is based on an aggregate of 959,250 options granted to employees in 2000. Our board of directors determined the fair market value of the options on the date of grant, which is based on our financial results and prospects and our share price in

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arms-length transactions. The exercise price may in some cases be paid by delivery of other shares or by offset of the shares subject to options. The deemed value on the date of grant has been adjusted solely for financial accounting purposes. Potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts represent hypothetical gains that could be achieved for the options if exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with the rules of the Securities and Exchange Commission and do not represent our estimate or projection of the future common stock price.

Name	Number of Securities Underlying Options	Percent of Total Options Granted to Employees	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Pamela G. Marrone, Ph.D.	12,250	1.3%	$0.70	1/10/10	$ 5,393	$ 13,666
	3,000	0.3%	$0.70	4/15/10	$ 1,321	$ 3,347
	100,000	10.4%	$5.00	12/07/10	$314,447	$796,871
Kurt Schwartau(1).......	10,250	1.1%	$0.70	1/10/10	$ 4,512	$ 11,435

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(1) Mr. Schwartau ceased to be employed by us in March 2001.

The following table sets forth information concerning exercisable and unexercisable stock options held by each of the named executive officers at the fiscal year ended December 31, 2000. The value realized upon exercise is based on the estimated fair value of our common stock at the time of exercise less the per share exercise price, multiplied by the number of shares acquired upon exercise. The value of unexercised in-the-money options is based on the assumed initial public offering price of $ per share less the per share exercise price, multiplied by the number of shares underlying the options. An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.

Aggregate Option Exercises in Last Fiscal Year and Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Options at December 31, 2000		Value of Unexercised In-the-Money Options at December 31, 2000	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Pamela G. Marrone, Ph.D.	12,250	--	3,000	100,000		
Kurt Schwartau(1).......	--	--	100,250	110,000		

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(1) Mr. Schwartau ceased to be employed by us in March 2001.

Employee Benefit Plans

1995 Stock Option Plan

Our 1995 stock option plan was approved by our board of directors and our

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stockholders in May 1995. We have reserved a total of 2,500,000 shares of common stock for issuance under our 1995 plan. As of June 30, 2001, options to purchase 619,981 shares of common stock had been exercised, options to purchase 1,687,371 shares of common stock were outstanding and options to purchase 192,648 shares of common stock remained available for grant.

Awards under our 1995 plan may consist of incentive stock options, which are stock options that qualify under Section 422 of the Internal Revenue Code, or non-qualified stock options, which are stock options that do not qualify under Section 422 of the Internal Revenue Code. Incentive stock options may be granted to employees, including officers and employee directors of our company or any parent, subsidiary or affiliate of our company. Non-qualified stock options and restricted stock may be granted to employees, directors, consultants and advisers of our company or any parent, subsidiary or affiliate of our company.

A committee consisting of our board or appointed by our board administers our 1995 plan. Subject to the terms of our 1995 plan, this committee has authority to determine the terms and conditions of option grants.

The exercise price of options granted under our 1995 plan may not be less than 100% of the fair market value of our common stock on the date of grant and the term of an option may not exceed 10 years. If, however, incentive stock options are granted to a person owning more than 10% of the total combined voting power of all classes of stock of our company or any parent or subsidiary of our company, the exercise price of such options may not be less than 110% of the fair market value of our common stock on the date of grant and the term of the option may not exceed 5 years.

In the case of incentive stock options, the aggregate fair market value of stock for which the options are exercisable for the first time by an optionee may not exceed $100,000. If the value of the stock exceeds $100,000, the options for the amount in excess of $100,000 shall become nonqualified stock options.

Options issued under our 1995 plan are not transferable, though the plan administrator may approve the transfer of nonqualified stock options by non-insider optionees to family members, trusts and charitable institutions.

Our 1995 plan provides that optionees who cease to be employed by our company or any parent, subsidiary or affiliate of our company must exercise their incentive stock options within 90 days, or twelve months in the case of death or disability, and only to the extent they would have been exercisable upon the date of termination.

In the event of one of the following, options under our 1995 plan will become fully vested, unless the successor corporation assumes or substitutes the options:

- a dissolution, liquidation or sale of all or substantially all of our assets;
- a merger or consolidation in which we are not the surviving entity; or
- a corporate transaction wherein our stockholders give up all of their equity interest in our company.

Our 1995 plan will terminate automatically in 2005 unless terminated earlier by our board of directors. The board of directors has the authority to amend or terminate our 1995 plan, subject to stockholder approval of some amendments. However, no action may be taken which will affect any shares of common stock previously issued and sold or any option previously granted under our 1995 plan, without the optionee's consent.

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2000 Stock Incentive Plan

Our board of directors and our stockholders initially approved our 2000 stock incentive plan in December 2000. Our amended and restated 2000 stock incentive plan was adopted by our board of directors in January 2001 and will be submitted for approval by our stockholders prior to the completion of this offering. We have reserved 2,000,000 shares of our common stock for issuance under our 2000 stock incentive plan. As of June 30, 2001, options to purchase 737,645 shares of common stock were outstanding and options to purchase 1,262,355 shares of common stock remained available for grant under our 2000 stock incentive plan. The number of shares reserved for issuance under our 2000 stock incentive plan will increase annually on the first

business day of each calendar year beginning in January 2003 by an amount equal to 500,000 shares. Our 2000 stock incentive plan provides for the grant of:

- incentive stock options to our employees, including officers and employee directors;
- non-qualified stock options to our employees, directors and consultants; and
- other types of awards.

We anticipate that all future option grants will be made solely under our 2000 stock incentive plan. The board of directors or a committee designated by the board will administer our 2000 stock incentive plan, including selecting the optionees, determining the number of shares to be subject to each option, determining the exercise price of each option and determining the vesting and exercise periods of each option.

The exercise price of all incentive stock options granted under our 2000 stock incentive plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of all nonstatutory stock options granted under our 2000 stock incentive plan will be determined by the board, but in no event may this price be less than 100% of the fair market value of the common stock on the date of grant unless otherwise determined by the board. If, however, incentive stock options are granted to one who owns stock possessing more than 10% of the voting power of all our classes of stock, the exercise price must equal at least 110% of the fair market value of the common stock on the grant date and the maximum term of any of these options must not exceed five years. The maximum term of an incentive stock option granted to any participant who does not own stock possessing more than 10% of the voting power of all our classes of stock must not exceed ten years. The board will determine the term of all other awards granted under our 2000 stock incentive plan.

Except as determined by the board, an option holder's initial grant will vest at a rate no less than 25% per year, over four years from the date the option is granted. Subsequent options will vest in the same manner.

In the event a participant in our 2000 stock incentive plan terminates employment or is terminated by us for any reason, any options which have become exercisable prior to the time of termination will remain exercisable for twelve months from the date of termination if termination was caused by death or disability, or three months from the date of termination if termination was caused by reasons other than death or disability. In no event may an optionee exercise the option after the expiration date of the term of an award in the award agreement.

In the event of a corporate transaction or a change of control where the acquiror assumes or replaces options granted under our 2000 stock incentive plan, none of the options issued under this plan will be subject to accelerated vesting under the plan. In the event of a corporate transaction or a change of

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control where the acquiror does not assume or replace options granted under our 2000 stock incentive plan, all of these options become fully vested upon consummation of the corporate transaction or change of control. Assumed or replaced options will automatically become fully vested if the grantee is terminated by the acquiror without cause or terminates employment for good reason within twelve months of a corporate transaction or a change of control. Under our 2000 stock incentive plan, a corporate transaction or a change in control is defined as:

- acquisition of 50% or more of our stock by any individual or entity including by tender offer or a reverse merger;
- change of a majority of the members on our board of directors;
- a sale, transfer or other disposition of all or substantially all of our assets;
- a merger or consolidation in which we are not the surviving entity; or
- approval by our stockholders of a plan of complete liquidation.

Unless terminated sooner, our 2000 stock incentive plan will automatically terminate in 2010. Our board of directors will have authority to amend or terminate our 2000 stock incentive plan, provided that this type of action would not impair the rights of any participant without the written consent of that participant.

2001 Non-Employee Director Stock Option Program

Our 2001 non-employee director stock option program was adopted as part of the 2000 stock incentive plan and will be subject to the terms and conditions of the 2000 stock incentive plan. Our 2001 non-employee director stock option program was approved by our board of directors in January 2001. The 2001 non-employee director stock option program will become effective as of the effective date of this prospectus, and no awards will be made under this program until that time.

The purpose of the 2001 non-employee director stock option program will be to enhance our ability to attract and retain the best available non-employee directors, to provide them additional incentives and, therefore, to promote the success of our business.

The 2001 non-employee director stock option program will establish an automatic option grant program for the grant of awards to non-employee directors. Under this program, each then-existing non-employee director upon the effective date of this prospectus will automatically be granted an option to acquire 5,000 shares of our common stock at an exercise price per share equal to the fair market value of our common stock at the date of grant. Each non-employee director first elected to our board of directors following the closing of this offering will automatically be granted an option to acquire 10,000 shares of our common stock at an exercise price per share equal to the fair market value of our common stock at the date of grant. Upon the date of each annual stockholders' meeting, each non-employee director who continues as a member of our board of directors following the stockholders' meeting, and who has served as a director for at least eleven months, will receive an automatic grant of options to acquire 5,000 shares of our common stock at an exercise price equal to the fair market value of our common stock at the date of grant. These options will vest on a quarterly basis and become fully exercisable on the first anniversary of the grant date.

The term of each automatic option grant and the extent to which it will be transferable will be provided in the agreement evidencing the option. The consideration for the option may consist of cash, shares of our common stock, the assignment of part of the proceeds from the sale of shares acquired upon

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exercise of the option or any combination of these forms of consideration.

The 2001 non-employee director stock option program will be administered by the board or a committee designated by the board made up of two or more non-employee directors so that such awards would be exempt from Section 16(b) of the Exchange Act. The program administrator shall determine the terms and conditions of awards, and construe and interpret the terms of the program and awards granted under the program. Non-employee directors may also be granted additional incentives, subject to the discretion of the board or the committee.

Unless terminated sooner, the 2001 non-employee director stock option program will terminate automatically in 2010 when the 2000 stock incentive plan terminates. Our board of directors will have the authority to amend, suspend or terminate the 2001 non-employee director stock option program provided that no such action may affect awards to non-employee directors previously granted under the program unless agreed to by the affected non-employee directors.

2001 Employee Stock Purchase Plan

Our 2001 employee stock purchase plan was adopted by our board of directors in January 2001 and will be submitted for approval by our stockholders prior to the completion of this offering. Our 2001 employee stock purchase plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code in order to provide our employees with an opportunity to purchase common stock

through payroll deductions. An aggregate of 350,000 shares of common stock will be reserved for issuance and will be available for purchase under our 2001 employee stock purchase plan, pending adjustment for a stock split or any future stock dividend or other similar change in our common stock or our capital structure. Our 2001 employee stock purchase plan will provide for annual increases in the number of shares of common stock subject to the plan equal to the lesser of:

- 200,000 shares;
- the number of shares equal to 0.75% of the total number of shares outstanding; or
- a lesser number of shares as determined by the compensation committee.

All of our employees who are regularly employed for more than five months in any calendar year and work more than 20 hours per week will be eligible to participate in our 2001 employee stock purchase plan and will be automatically enrolled in the initial offer period. Employees hired after the consummation of our initial public offering will be eligible to participate in our 2001 employee stock purchase plan, subject to a three day waiting period after hiring. Non-employee directors, consultants and employees subject to the rules or laws of a foreign jurisdiction that prohibit or make impractical their participation in an employee stock purchase plan will not be eligible to participate in our 2001 employee stock purchase plan.

Our 2001 employee stock purchase plan will designate offer periods, purchase periods and exercise dates. Offer periods will generally be overlapping periods of 24 months. The initial offer period will begin on the effective date of our 2001 employee stock purchase plan, which is the effective date of the registration statement relating to this offering, and ends on December 31, 2003. Additional offer periods will commence each January 1 and July 1. Purchase periods will generally be six month periods, with the initial purchase period commencing on the effective date of our 2001 employee stock purchase plan and ending on June 30, 2002. Thereafter, purchase periods will commence each January 1 and July 1. Exercise dates are the last day of each purchase period. In the event we merge with or into another corporation, sell all or substantially all of our assets or enter into other transactions in which all

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of our stockholders before the transaction own less than 50% of the total combined voting power of our outstanding securities following the transaction, the administrator of our 2001 employee stock purchase plan may elect to shorten the offer period then in progress.

On the first day of each offer period, a participating employee will be granted a purchase right. A purchase right is a form of option to be automatically exercised on the forthcoming exercise dates within the offer period during which authorized deductions are to be made from the pay of participants and credited to their accounts under our 2001 employee stock purchase plan. When the purchase right is exercised, the participant's withheld salary is used to purchase shares of common stock. The price per share at which shares of common stock are to be purchased under our 2001 employee stock purchase plan during any purchase period is the lesser of:

- 85% of the fair market value of the common stock on the date of the grant of the option, which is the commencement of the offer period; or

- 85% of the fair market value of the common stock on the exercise date, which is the last day of a purchase period.

The participant's purchase right is exercised in this manner on each exercise date arising in the offer period unless, on the first day of any purchase period, the fair market value of the common stock is lower than the fair market value of the common stock on the first day of the offer period. If so, the participant's participation in the original offer period is terminated and the participant is automatically enrolled in the new offer period effective the same date.

Payroll deductions may range from 1% to 10% in whole percentage increments of a participant's regular base pay, exclusive of bonuses, overtime, shift-premiums, commissions, reimbursements or other expense allowances. Participants in the first purchase period must purchase shares through a direct cash payment. Once the shares reserved for issuance under our 2001 employee stock purchase plan have been registered on Form S-8

under the Securities Act, participants in the first purchase period may elect to purchase shares through payroll deductions. After the first purchase period, participants may not make direct cash payments to their accounts. The maximum number of shares of common stock that any employee may purchase under our 2001 employee stock purchase plan during a purchase period is 1,750 shares. The Internal Revenue Code imposes additional limitations on the amount of common stock that may be purchased during any calendar year.

Our 2001 employee stock purchase plan will be administered by our board of directors or a committee designated by our board, which will have the authority to terminate or amend our 2001 employee stock purchase plan, subject to specified restrictions, and otherwise to administer our 2001 employee stock purchase plan and to resolve all questions relating to the administration of our 2001 employee stock purchase plan.

401(k) Plan

In 1996, we implemented a 401(k) plan covering some of our employees. Under the 401(k) plan, eligible employees may elect to reduce their current compensation up to the prescribed annual limit, which was $10,500 in 2000, and contribute these amounts to the 401(k) plan. We may make contributions to the 401(k) plan on behalf of eligible employees. Employees become fully vested in these contributions immediately, subject to limitations on access to the contributions during the duration of employment. The 401(k) plan is intended to qualify under Section 401 of the Internal Revenue Code so that contributions by employees or by us to the 401(k) plan, and income earned on the 401(k) plan contributions, are not taxable to employees until withdrawn from the 401(k) plan and so that contributions by us, if any, will be deductible by us when

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made. The trustee under the 401(k) plan, at the direction of each participant, invests the 401(k) plan employee salary deferrals in selected investment options. We made no contributions to the 401(k) plan in 1996, 1997, 1998, 1999 or 2000. We currently do not expect to make contributions to the 401(k) plan in 2001.

Limitations on Liability and Indemnification

Our certificate of incorporation and bylaws provide that we will indemnify all of our directors and officers to the fullest extent permitted by Delaware law. Our certificate of incorporation and bylaws also authorize us to indemnify our employees and other agents, at our option, to the fullest extent permitted by Delaware law. We intend to enter into agreements to indemnify our directors and officers, in addition to indemnification provided for in our charter documents. These agreements, among other things, will provide for the indemnification of our directors and officers for expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any person in any action or proceeding, including any action by or in the right of our company, arising out of that person's services as a director or officer of our company or any other company or enterprise to which that person provides services at our request to the fullest extent permitted by applicable law. We believe that these provisions and agreements will assist us in attracting and retaining qualified persons to serve as directors and officers.

Delaware law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for any breach of the director's duty of loyalty to the corporation or its stockholders, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for liability arising under Section 174 of the Delaware General Corporation Law or for any transaction from which the director derived an improper personal benefit. Our certificate of incorporation provides for the elimination of personal liability of a director for breach of fiduciary duty, as permitted by Delaware law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of our company in accordance with the provisions contained in our charter documents, Delaware law or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against these liabilities, other than

the payment by us of expenses incurred or paid by a director, officer or controlling person of our company in the successful defense of any action, suit or proceeding, is asserted by a director, officer or controlling person, we will, unless, in the opinion of our counsel, the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and we will follow the court's determination.

We intend to purchase and maintain insurance on behalf of our officers and directors, insuring them against liabilities that they may incur in such capacities or arising out of this status.

There is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1998, we issued the following securities to various investors in private placement transactions:

- 3,523,535 shares of our Series C preferred stock at a purchase price of $1.70 per share between March 1998 and April 1998;
- 3,015,306 shares of our Series D preferred stock, as adjusted for our July 1999 stock split, at a purchase price of $2.35 per share between April 1999 and September 1999;
- 2,251,919 shares of our Series E preferred stock at a purchase price of $3.20 per share in April 2000; and
- 2,976,333 shares of our Series F preferred stock at a weighted-average purchase price of $5.03 per share in December 2000.

Each share of preferred stock will convert automatically into one share of common stock upon the closing of this offering. The investors in these financings included the following directors, executive officers and holders of more than 5% of our outstanding stock and their affiliates:

<TABLE>
<CAPTION>

	Preferred Stock			
Purchasers	Series C	Series D	Series E	Series F
<S>	<C>	<C>	<C>	<C>
Odyssey Fund Rockefeller & Co., Inc.(1).....	441,177	425,531	156,250	100,000
BioAsia Investments, LLC and its affiliates(2)............................	1,176,471	212,766	62,500	50,000
Milagro de Ladera, L.P.(3).................	352,942	319,147	78,360	100,000
Burrill Agbio Capital Fund L.P.(4)..........	--	851,064	--	200,000
Swiss Reinsurance Company..................	--	--	781,250	200,000
Volkart Holdings Ltd. and its affiliates(5)..............................	147,058	106,382	78,318	400,000
King Ranch Investments, L.P.(6)............	588,236	106,382	78,425	--
J.S.S. Management Co., Ltd. and its affiliates(7)..............................	117,647	106,383	62,688	100,000
SAM Sustainability Private Equity, L.P. and its affiliate(8)...........................	--	--	--	800,000
CDC Financial Services (Mauritius) Limited(9)................................	--	--	--	550,000

</TABLE>

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(1) Ann Partlow serves on our board of directors and is the investment manager of Odyssey Fund Rockefeller & Co., Inc.

(2) Includes 784,118 shares of Series C preferred stock held of record by Biotechnology Development Fund III, L.P., 392,353 shares of Series C preferred stock held of record by Biotechnology Development Fund, L.P., 141,486 shares of Series D preferred stock held of record by Biotechnology Development Fund III, L.P., 71,280 shares of Series D preferred stock held of record by Biotechnology Development Fund, L.P., 62,500 shares of Series

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E preferred stock held of record by Biotechnology Development Fund, L.P., and 50,000 shares of Series F preferred stock held of record by Biotechnology Development Fund, L.P. Dr. Kung serves on our board of directors and is the managing member of these entities.

(3) George E. Myers serves on our board of directors and is a limited partner of Milagro de Ladera, L.P.

(4) G. Steven Burrill serves on our board of directors and is the chief executive officer of Burrill & Company, which is the general partner of Burrill Agbio Capital Fund, L.P.

(5) Includes 147,058 shares of Series C preferred stock, 106,382 shares of Series D preferred stock and 78,318 shares of Series E preferred stock held of record by Volkart Holdings Ltd., 300,000 shares of Series F preferred stock held of record by Volkart Foundation and 100,000 shares of Series F preferred stock held of record by Andreas Reinhart, who is the president of the Volkart entities.

(6) Jack Hunt serves on our board of directors and is the president and chief executive officer of King Ranch, Inc. Running W, Ltd. is the general partner of King Ranch Investments, L.P. and is a wholly-owned subsidiary of King Ranch, Inc.

(7) Includes 40,000 shares of Series F preferred stock, 62,688 shares of Series E preferred stock and 85,106 shares of D preferred stock held of record by J.S.S. Management Co., Ltd., 20,000 shares of Series F preferred stock and 21,277 shares of Series D preferred stock held of record by Suzanne S. Schlindwein and 40,000 shares of Series F preferred stock held of record by James A. Schlindwein. Mr. Schlindwein serves on our board of directors and is a trustee of J.S.S. Management Co., Ltd. Suzanne Schlindwein is the wife of James Schlindwein.

(8) Includes 400,000 shares of Series F preferred stock held of record by SAM Sustainability Private Equity, L.P. and 400,000 shares of Series F preferred stock held of record by Sustainable Performance Group N.V. Walter Locher serves on our board of directors and is a principal of SAM Equity Partners Ltd., which is the general partner of SAM Sustainability Private Equity, L.P. and manages the Sustainable Performance Group N.V.

(9) Joe A. Mancini serves on our board of directors and is director of technology-related investments at CDC Capital Partners, a division of CDC Group Plc. CDC Group Plc is the parent company of CDC Financial Services (Mauritius) Limited.

We have entered into agreements with holders of our preferred stock whereby we granted them registration rights with respect to their shares of common stock, including common stock issuable upon conversion of their preferred stock. See "Description of Capital Stock--Registration Rights."

We intend to enter into indemnification agreements with each of our directors and officers. These indemnification agreements will require us to indemnify these individuals to the fullest extent permitted by Delaware law.

We believe that all of the transactions set forth above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. We intend that all future transactions, including loans, between us and our officers, directors, principal stockholders and their affiliates will be approved by a majority of our board of directors, including a majority of the independent and disinterested outside directors on our board of directors, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

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PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of June 30, 2001 by:

- each person or entity known by us to own beneficially more than five percent of our common stock;
- each of our directors and named executive officers; and
- all of our directors and named executive officers as a group.

This table calculates applicable percentage ownership based on 18,591,832 shares of our common stock issued and outstanding as of June 30, 2001, assuming the conversion of all outstanding shares of preferred stock into common stock, which will occur automatically upon the effectiveness of this offering. It also calculates applicable percentage ownership based on shares of common stock outstanding immediately following the completion of this offering. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares issuable upon the exercise of options that are currently exercisable or become exercisable within 60 days of June 30, 2001 are considered outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares of our common stock held by any other individual. Except as indicated in the footnotes to this table and as affected by applicable community property laws, all persons listed below have sole voting and investment power for all shares shown as beneficially owned by them.

Except as otherwise noted, the address of each person or entity in the following table is c/o AgraQuest, Inc., 1530 Drew Avenue, Davis, California 95616.

<TABLE>
<CAPTION>

Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
<S>	<C>	<C>	<C>
5% Stockholders			
Odyssey Fund Rockefeller & Co., Inc.(1)........	1,837,244	9.9%	
BioAsia Investments, LLC and its affiliates(2)................................	1,501,737	8.1%	
Milagro de Ladera, L.P.(3)....................	1,326,640	7.1%	
Burrill Agbio Capital Fund L.P.(4)............	1,051,064	5.7%	
Swiss Reinsurance Company(5)..................	981,250	5.3%	
Volkart Holdings Ltd. and its affiliates(6)....	969,853	5.2%	
Named Executive Officers and Directors			
Pamela G. Marrone, Ph.D.(7)...................	1,357,450	7.3%	
Kurt Schwartau................................	110,250	*	
G. Steven Burrill(8)..........................	1,063,064	5.7%	
Jack Hunt(9)..................................	799,045	4.3%	
Frank F.C. Kung, Ph.D.(10)....................	1,527,737	8.2%	
Walter Locher(11).............................	1,614,000	8.7%	
Joe A. Mancini(12)............................	--	*	
George E. Myers(13)...........................	1,369,140	7.4%	

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Ann Partlow(14)................................	1,879,744	10.1%
James A. Schlindwein(15).......................	463,956	2.5%
All named executive officers and directors as a group (10 persons)............................	10,184,386	54.5%

</TABLE>

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* Less than 1%.

(1) The business address of Odyssey Fund Rockefeller & Co., Inc. is 30 Rockefeller Plaza, Room 5425, New York, NY 10112.

(2) Includes 925,604 shares held of record by Biotechnology Development Fund III, L.P. and 576,133 shares held of record by Biotechnology Development Fund, L.P. The business address of BioAsia Investments, LLC is 575 High Street, Suite 201, Palo Alto, CA 94301.

(3) The business address of Milagro de Ladera, L.P. is 1114 State Street, Suite 232, Santa Barbara, CA 93101.

(4) The business address of Burrill Agbio Capital Fund L.P. is 120 Montgomery Street, #1370, San Francisco, CA 94104.

(5) The business address of Swiss Reinsurance Company is Mythenquai 50/60, P.O. Box 8022, Zurich, Switzerland.

(6) Includes 225,376 shares held of record by Volkart Holdings Ltd., 300,000 shares held of record by Volkart Foundation and 100,000 shares held of record by Andreas Reinhart, who is the president of the Volkart entities. The business address of Volkart Holdings Ltd. is Turnerstr. 1, 8401 Winterthur, Switzerland.

(7) Includes 3,000 shares issuable upon exercise of options within 60 days of June 30, 2001.

(8) Includes 12,000 shares issuable upon exercise of options within 60 days of June 30, 2001 and 1,051,064 shares held of record by Burrill Agbio Capital Fund L.P. Mr. Burrill is the chief executive officer of Burrill & Company, which is the general partner of Burrill Agbio Capital Fund L.P. Mr. Burrill disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(9) Includes 26,000 shares issuable upon exercise of options within 60 days of June 30, 2001 and 773,045 shares held of record by King Ranch Investments, L.P. Running W, Ltd. is the general partner of King Ranch Investments, L.P. and a wholly-owned subsidiary of King Ranch, Inc., of which Mr. Hunt is the president and chief executive officer. Mr. Hunt disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(10) Includes 12,000 shares held of record by Dr. Kung, 12,000 shares issuable upon exercise of options within 60 days of June 30, 2001 and 1,501,737 shares held of record by BioAsia Investments, LLC and its affiliates, of which Dr. Kung is the managing member. Dr. Kung disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(11) Includes 8,000 shares held of record by Mr. Locher, 6,000 shares issuable upon exercise of options within 60 days of June 30, 2001, 400,000 shares held of record by SAM Sustainability Private Equity, L.P. and 400,000 shares held of record by Sustainable Performance Group N.V. Mr. Locher is a principal of SAM Equity Partners Ltd., which is the general partner of SAM Sustainability Private Equity, L.P. and manages the Sustainable Performance Group N.V. Mr. Locher disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

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(12) Excludes 550,000 shares held of record by CDC Financial Services (Mauritius) Limited. Mr. Mancini is director of technology-related investments at CDC Capital Partners, a division of CDC Group Plc. CDC Group Plc is the parent company of CDC Financial Services (Mauritius) Limited.

(13) Includes 35,000 shares held of record by Mr. Myers, 7,500 shares issuable upon exercise of options within 60 days of June 30, 2001 and 1,326,640 shares held of record by Milagro de Ladera L.P., of which Mr. Myers is a limited partner. Mr. Myers disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(14) Includes 42,500 shares issuable upon exercise of options within 60 days of June 30, 2001 and 1,837,244 shares held of record by Odyssey Fund Rockefeller & Co., Inc., of which Ms. Partlow is the investment manager. Ms. Partlow disclaims beneficial ownership of these shares except to the extent of her pecuniary interest therein.

(15) Includes 16,000 shares held of record by Mr. Schlindwein, 6,000 shares issuable upon exercise of options within 60 days of June 30, 2001, 400,679 shares held of record by J.S.S. Management Co., Ltd., of which Mr. Schlindwein is a trustee, and 41,277 shares held of record by Suzanne Schlindwein, who is the wife of Mr. Schlindwein. Mr. Schlindwein disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

DESCRIPTION OF CAPITAL STOCK

The following information describes our common stock and preferred stock, as well as options to purchase our common stock, and provisions of our certificate of incorporation and our bylaws. This description is only a summary. You should also refer to our certificate of incorporation and bylaws that have been filed with the Securities and Exchange Commission as exhibits to our registration statement, of which this prospectus forms a part.

Upon the completion of this offering, we will be authorized to issue up to 66,000,000 shares of capital stock, $0.001 par value per share. Of these authorized shares, 60,000,000 shares will be designated as common stock and 6,000,000 shares will be designated as preferred stock.

Common Stock

As of June 30, 2001, there were 3,688,239 shares of common stock outstanding that were held of record by approximately 72 stockholders. After giving effect to the sale of the common stock we are offering, there will be   shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and conversion of all outstanding shares of preferred stock into common stock.

The holders of our common stock are entitled to one vote for each share held of record upon such matters and in such manner as may be provided by law. Subject to preferences applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive dividends ratably, if any, as may be declared by our board of directors out of funds legally available for dividend payments. In the event we liquidate, dissolve or wind up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and liquidation preferences of any outstanding shares of the preferred stock. Holders of common stock have no preemptive rights or rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are validly issued, fully paid and nonassessable, and the shares of common stock to be issued in this offering

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will be validly issued, fully paid and nonassessable.

Preferred Stock

As of June 30, 2001, there were 14,903,593 shares of preferred stock outstanding that were held of record by approximately 55 stockholders. In connection with the closing of this offering, all outstanding shares of our preferred stock will automatically be converted into common stock on a one-for-one basis. Upon the closing of this offering, we will be authorized to issue 6,000,000 shares of preferred stock that will not be designated as a particular class. Our board of directors will have authority to issue the undesignated preferred stock in one or more series and to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued series of undesignated preferred stock and to fix the number of shares constituting any series and the designation of the series, without any further vote or action by our stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

Warrants

In December 1998, in connection with a financing arrangement, we issued a warrant to purchase (a) 31,200 shares of our Series C preferred stock to MMC/GATX Partnership No. 1 and (b) 7,800 shares of our Series C preferred stock to Silicon Valley Bank, each with an exercise price of $1.70 per share. These warrants are exercisable at any time prior to the earlier of December 23, 2008 or five years after the closing of this offering. Upon the closing of this offering, these warrants will be exercisable for an aggregate of 39,000 shares of our common stock at an exercise price of $1.70 per share.

Registration Rights

After the closing of this offering, the holders of approximately 16,938,557 shares of our common stock will be entitled to registration rights with respect to their shares. Beginning three months after the closing of this offering, the holders of approximately 30% of these securities may require us to register all or part of their shares. In addition, these holders may require us to include their shares in future registration statements that we file and may require us to register their shares on Form S-3. Upon registration, these shares will be freely tradable in the public market without restriction.

All expenses in effecting these registrations, with the exception of underwriting discounts and selling commissions, will be borne by us. These registration rights are subject to some conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in the registration. We have agreed to indemnify the holders of these registration rights, and each selling holder has agreed to indemnify us, against liabilities under the Securities Act, the Securities Exchange Act or other applicable federal or state law.

Anti-Takeover Effects of Provisions of our Charter Documents and Bylaws and Delaware Law

Provisions of Delaware law and our certificate of incorporation and bylaws could make our acquisition by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors more difficult. These provisions are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweighs

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the disadvantages of discouraging proposals, including proposals that are priced above the then current market value of our common stock, because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are subject to Section 203 of the Delaware General Corporation Law. Under this provision, we may not engage in any business combination with any interested stockholder for a period of three years following the date that stockholder became an interested stockholder, unless:

- prior to that date the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock outstanding at the time the transaction began; or

- on or following that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of assets with an aggregate market value equal to 10% or more of the aggregate market value of all assets of the corporation or the aggregate market value of all outstanding stock of the corporation involving the interested stockholder;

- subject to some exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws will contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change in control of our company. In particular, our certificate of incorporation and bylaws, as applicable, among other things, will:

- provide that our board of directors will be divided into three classes

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of directors, as nearly equal in number as is reasonably possible, serving staggered terms so that directors' initial terms will expire at the first, second and third succeeding annual meeting of the stockholders following our initial public offering, respectively. At each such succeeding annual meeting, directors elected to succeed those directors whose terms are expiring at such meeting shall be elected for a three-year term of office. A vote of at least 80% of our capital stock would be required to amend this provision;

- provide that special meetings of the stockholders may be called only by our president, our secretary or at the direction of the board. Advance written notice of a stockholder proposal or director nomination that the stockholder desires to present at a meeting of stockholders is required and generally must be received by the secretary not less than 45 days nor more than 75 days prior to the meeting;

- not include a provision for cumulative voting in the election of directors. Under cumulative voting, a minority stockholder holding a sufficient number of shares may be able to ensure the election of one or more directors. The absence of cumulative voting may have the effect of limiting the ability of minority stockholders to effect changes in the board and, as a result, may have the effect of deterring a hostile takeover or delaying or preventing changes in control or management of our company;

- provide that vacancies on our board may be filled by a majority of directors in office, although less than a quorum, and not by the stockholders; and

- allow us to issue up to 6,000,000 shares of undesignated preferred stock with rights senior to those of the common stock and that otherwise could adversely affect the rights and powers, including voting rights, of the holders of common stock. In some circumstances, this issuance could have the effect of decreasing the market price of the common stock as well as having the anti-takeover effect discussed above.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board and in the policies formulated by them and to discourage certain types of transactions that may involve an actual or threatened change in control of us. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is   . Its address is   , and its telephone number is (   )   .

Quotation on the Nasdaq National Market

We expect the shares to be approved for quotation on the Nasdaq National Market under the symbol "AGRQ."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public offering for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices. Only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale. Accordingly, sales of substantial amounts of our common stock in the public market after these restrictions lapse

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could adversely affect prevailing market prices and our ability to raise equity capital in the future.

Upon completion of this offering, we will have shares of common stock outstanding, assuming no exercise of options or warrants after June 30, 2001 and assuming the conversion of all shares of preferred stock outstanding into common stock, based on shares outstanding as of June 30, 2001. Of these shares, the shares of common stock sold in this offering, plus any shares issued upon exercise of the underwriters' over-allotment option, will be freely transferable without restriction or registration under the Securities Act, except for shares purchased by any of our existing "affiliates," which generally include officers, directors or 10% stockholders, as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding upon completion of this offering are "restricted securities" within the meaning of Rule 144 under the Securities Act. These shares may be sold in the public market only if registered, or if they qualify for an exemption from registration under Rule 144, Rule 144(k) or 701 promulgated under the Securities Act, each of which is summarized below.

Including our directors and executive officers, holders of a total of approximately shares of common stock, including shares issuable upon automatic conversion of the outstanding preferred stock, have entered into lock-up agreements generally providing that they will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, subject to some exceptions, for a period of 180 days after the date of this prospectus. We have entered into a similar agreement with Merrill Lynch. As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, Rule 144(k) and 701, shares subject to lock-up agreements will not be eligible for sale until these agreements expire or are waived by Merrill Lynch. Taking into account the lock-up agreements, and assuming Merrill Lynch does not release the parties from these agreements, the following shares will be eligible for sale in the public market at the following times:

- Beginning on the effective date of this offering, shares will be immediately available for sale in the public market;

- Beginning 90 days after the date of this prospectus, approximately shares will be eligible for sale under Rules 144 and 701;

- Beginning 180 days after the date of this prospectus, the expiration date of the lock-up agreements, approximately shares will be eligible for sale under Rules 144, 144(k) and 701; and

- An additional shares will become eligible for sale under Rule 144 during the period beginning 180 days after the date of this prospectus through , 2002, upon the expiration of various one-year holding periods. Shares eligible to be sold by affiliates under Rule 144 are subject to the volume restrictions below.

Rule 144. In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person, or persons whose shares are aggregated, who has beneficially owned restricted securities for at least one year, including the holding period of any prior owner other than an affiliate, is entitled to sell within any three-month period a number of shares that does not exceed the greater of (a) 1% of our then outstanding shares of common stock, approximately shares immediately after this offering, or (b) the average weekly trading volume of our common stock on the Nasdaq National Market during the four

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calendar weeks preceding the date on which notice of sale is filed with the SEC. Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, may sell these shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701. Beginning 90 days after the effective date of this prospectus, subject to contractual restrictions, any of our employees, consultants or advisors who purchased shares from us prior to the closing of this offering under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that persons other than affiliates may sell shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitations or notice provisions of Rule 144.

Stock plan. As of June 30, 2001, 1,455,003 shares of common stock remain available for grant under our stock plans and 350,000 shares of common stock are reserved for future issuance under our 2001 employee stock purchase plan. No shares have been issued to date under our 2001 employee stock purchase plan.

After the closing of this offering, we intend to file registration statements under the Securities Act to register shares to be issued under our stock plans. These registration statements are expected to become effective immediately upon filing, and shares covered by the registration statements will then become eligible for sale in the public market. As a result, shares issued under our 1995 stock option plan, our 2000 stock incentive plan and our 2001 employee stock purchase plan, after the effectiveness of the registration statements, also will be freely tradeable in the public market, subject to Rule 144 limitations applicable to affiliates, vesting restrictions and expiration of lock-up agreements.

Lock-up agreements. All of our executive officers and directors and holders of approximately % of our stock have signed lock-up agreements. Under these agreements, they have agreed, among other things, not to transfer or dispose of any shares of our common stock, or securities convertible into shares of common stock, for a period of 180 days after the date of this prospectus. Transfers or dispositions can be made sooner with the prior written consent of Merrill Lynch. This consent may be given at any time without public notice.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Stephens Inc. and First Union Securities, Inc. are acting as representatives of the underwriters named below. Subject to the terms and conditions described in a purchase agreement between us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally and not jointly have agreed to purchase from us, the number of shares listed opposite their names below.

<TABLE>
<CAPTION>

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated..	
Stephens Inc.	
First Union Securities, Inc.	

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Total	====

</TABLE>

Subject to the terms and conditions in the purchase agreement, the underwriters have agreed to purchase all the shares of our common stock being sold under the purchase agreement if any of these shares of our common stock are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriter may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares of our common stock, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares of our common stock to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount to be paid by us to the underwriters and the proceeds, before expenses, to us. This information assumes either no exercise or full exercise by the underwriters of their overallotment option.

<TABLE>
<CAPTION>

<S>	Per Share <C>	Without Option <C>	With Option <C>
Public offering price.................	$	$	$
Underwriting discount.................	$	$	$
Proceeds, before expenses, to AgraQuest...........................	$	$	$

</TABLE>

The expenses of this offering, not including the underwriting discount, are estimated at $ and are payable by us.

Overallotment Option

We have granted an option to the underwriters to purchase up to additional shares of our common stock at the initial public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares of our common stock proportionate to that underwriter's initial amount reflected in the above table.

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Reserved Shares

At our request, the underwriters have reserved for sale, at the initial public offering price, up to shares of our common stock offered hereby to be sold to certain individuals and entities designated by us. If these individuals and entities purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

No Sales of Similar Securities

We, our executive officers and directors, and certain existing shareholders have agreed, with exceptions, not to sell or transfer any shares of our common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;

- sell any option or contract to purchase any common stock;

- purchase any option or contract to sell any common stock;

- grant any option, right or warrant for the sale of any common stock;

- lend or otherwise dispose of or transfer any common stock;

- request or demand that we file a registration statement related to any common stock; or

- enter into any swap or other agreement that transfers, in whole or in part, the economic consequences of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to shares of our common stock and to securities convertible into, or exchangeable or exercisable for, or repayable with, shares of our common stock. Subject to certain exceptions, it also applies to shares of our common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and Merrill Lynch. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;

- our financial information;

- the history of, and the prospects for, our company and the industry in which we compete;

- an assessment of our management, our past and our present operations, and the prospects for, and timing of, our future revenues;

- the present state of our development; and

- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

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An active trading market for the shares of our common stock may not develop. It is also possible that after this offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares of our common stock in the aggregate to accounts over which they exercise discretionary authority.

Quotation on the Nasdaq National Market

We expect the shares to be approved for quotation on the Nasdaq National Market under the symbol "AGRQ."

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares of our common stock is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may make short sales of our common stock. Short sales involve the sale by the underwriters at the time of the offering of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the public offering price at which they may purchase the shares through the over-allotment option.

Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the purchases by the underwriters to cover syndicate short positions may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than it would otherwise be in the absence of these transactions.

The representatives may also impose a penalty bid on underwriters and selling group members. This means that if the representatives purchase shares of our common stock in the open market to reduce the underwriter's short position or to stabilize the price of such shares, they may reclaim the amount of the selling commission from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares of our common stock in that it discourages resales of those shares.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

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Merrill Lynch will be facilitating Internet distribution for this offering to some of its Internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the Internet Web site maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch Web site is not a part of this prospectus.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

As of June 30, 2001, Stephens Group, Inc., the parent company of Stephens Inc., one of the underwriters, held 781,250 shares of our Series E preferred stock through Stephens-AgraQuest LLC, a limited liability company controlled by Stephens Group, Inc. These shares were purchased in April 2000 at $3.20 per share and represent approximately 4.2% of our outstanding equity securities prior to this offering.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Morrison & Foerster llp, Sacramento, California. Certain legal matters will be passed on for the underwriters by Sidley Austin Brown & Wood llp, New York, New York.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements at December 31, 1999 and 2000, and for each of the three years in the period ended December 31, 2000, as set forth in their report. We have included our consolidated financial statements in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, or the SEC, in Washington, D.C. a registration statement on Form S-1 under the Securities Act with respect to the common stock offered in this prospectus. This prospectus, filed as part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and our common stock, we refer you to the registration statement and to its exhibits and schedules. Statements in this prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of that contract, agreement or document filed as an exhibit to the registration statement, with each of these statements being qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the public reference facilities the SEC maintains at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these reports and other information without charge at a Web site maintained by the SEC. The address of this site is http://www.sec.gov.

Upon completion of this offering, we will become subject to the informational requirements of the Exchange Act and will be required to file

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reports, proxy statements and other information with the SEC. You will be able to inspect and copy these reports, proxy statements and other information at the public reference facilities maintained by the SEC and at the SEC's regional offices at the addresses noted above. You also will be able to obtain copies of this material from the Public Reference Section of the SEC as described above, or inspect them without charge at the SEC's Web site. We have applied for quotation of our common stock on the Nasdaq National Market. If we receive approval for quotation on the Nasdaq National Market, then you will be able to inspect reports, proxy and information statements and other information concerning us at the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

AGRAQUEST, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Ernst & Young LLP, Independent Auditors	F-2
Consolidated balance sheets as of December 31, 1999 and 2000 (audited) and as of June 30, 2001 (unaudited)	F-3
Consolidated statements of operations for each of the three years in the period ended December 31, 2000 (audited) and for the six months ended June 30, 2000 and 2001 (unaudited)	F-4
Consolidated statements of changes in convertible preferred stock, common stock and other stockholders' equity (deficit) for each of the three years in the period ended December 31, 2000 (audited) and for the six months ended June 30, 2001 (unaudited)	F-5
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Notes to consolidated financial statements	F-7

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
AgraQuest, Inc.

We have audited the accompanying consolidated balance sheets of AgraQuest, Inc. as of December 31, 1999 and 2000, and the related consolidated statements of operations, changes in convertible preferred stock, common stock and other stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AgraQuest, Inc. at December 31, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended

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December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

January 19, 2001

AGRAQUEST, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	December 31, 1999	December 31, 2000	June 30, 2001	Pro Forma Stockholders' Equity at June 30, 2001
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents........	$ 2,849	$ 12,518	$ 6,359	
Accounts receivable..............	95	261	146	
Other receivables................	--	1,033	1,064	
Inventories......................	204	1,198	1,417	
Other current assets.............	23	68	91	
Total current assets...........	3,171	15,078	9,077	
Plant and equipment................	2,079	9,181	9,838	
Other assets.......................	186	186	440	
Total assets...................	$ 5,436	$ 24,445	$ 19,355	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable.................	$ 265	$ 502	$ 389	
Accrued liabilities..............	457	731	384	
Deferred revenue.................	--	100	53	
Current portion of notes payable.........................	139	219	228	
Current portion of capital lease obligations....................	96	104	74	
Total current liabilities......	957	1,656	1,128	
Long-term liabilities:				
Seller promissory note...........	--	5,000	5,000	
Notes payable, net of current portion.........................	253	295	162	
Capital lease obligations, net of current portion.................	116	45	44	
Total liabilities..............	1,326	6,996	6,334	
Commitments and contingencies (Notes 1 and 6)				
Convertible preferred stock--16,000 shares authorized, $0.001 par				

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value; 9,676 shares issued and outstanding at December 31, 1999, 14,904 shares issued and outstanding at December 31, 2000 and June 30, 2001, none issued and outstanding pro forma (aggregate liquidation preference of $41,137 and $42,532 at December 31, 2000 and June 30, 2001)................	17,252	40,858	42,239	$ --
Stockholders' equity (deficit):				
Common stock--26,000 shares authorized, $0.001 par value; 3,348, 3,553 and 3,688 shares issued and outstanding at December 31, 1999 and 2000 and June 30, 2001, 18,592 shares issued and outstanding pro forma......................	567	1,336	2,192	44,431
Deferred stock option compensation....................	--	(454)	(952)	(952)
Accumulated deficit.............	(13,709)	(24,291)	(30,458)	(30,458)
Total stockholders' equity (deficit)....................	(13,142)	(23,409)	(29,218)	$ 13,021
Total liabilities and stockholders' equity (deficit)....................	$ 5,436	$ 24,445	$ 19,355	

</TABLE>

See accompanying notes.

AGRAQUEST, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	Year Ended December 31,			Six Months Ended June 30, (Unaudited)	
	1998	1999	2000	2000	2001
Revenues:					
Product sales...................	$ --	$ --	$ 502	$ --	$ 428
Research revenue................	110	77	218	75	117
Total revenues.................	110	77	720	75	545
Operating costs and expenses:					
Cost of product sales...........	--	--	502	--	484
Manufacturing plant start-up costs..........................	--	--	--	--	295
Research and development........	3,090	4,468	6,300	3,558	2,651
Selling, general and administrative.................	836	1,749	2,914	1,191	1,777
Stock option compensation (Note 8)............................	15	12	224	14	301
Total operating costs and expenses.....................	3,941	6,229	9,940	4,763	5,508

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Loss from operations............	(3,831)	(6,152)	(9,220)	(4,688)	(4,963)
Interest income.................	190	155	218	85	241
Interest and other expense.......	(20)	(87)	(84)	(34)	(50)
Net loss........................	(3,661)	(6,084)	(9,086)	(4,637)	(4,772)
Preferred stock accretion........	(341)	(810)	(1,496)	(642)	(1,395)
Net loss applicable to common stockholders....................	$(4,002)	$(6,894)	$(10,582)	$(5,279)	$(6,167)
Basic and diluted net loss per share applicable to common stockholders....................	$ (1.30)	$ (2.20)	$ (3.07)	$ (1.55)	$ (1.70)
Shares used in computing basic and diluted net loss per share applicable to common stockholders....................	3,068	3,140	3,451	3,399	3,620
Pro forma basic and diluted net loss per share applicable to common stockholders (unaudited).....................			$ (0.61)		$ (0.26)
Shares used in computing pro forma basic and diluted net loss per share applicable to common stockholders (unaudited)........			14,802		18,524

</TABLE>

See accompanying notes.

AGRAQUEST, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

<TABLE>
<CAPTION>

	Convertible Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Deferred Stock Option Compensation	Accumulated Deficit	Total Stockholders' Equity (Deficit)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1997...................	3,137	$ 3,149	3,068	$ 434	$ --	$ (2,813)	$ (2,379)
Sale of Series C preferred stock, net of issuance costs of $85..	3,524	5,906	--	--	--	--	--
Fair value of options granted to non-employees.............	--	--	--	15	--	--	15
Preferred stock accretion.............	--	341	--	--	--	(341)	(341)
Net loss................	--	--	--	--	--	(3,661)	(3,661)
Balance at December 31, 1998...................	6,661	9,396	3,068	449	--	(6,815)	(6,366)
Sale of Series D							

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preferred stock, net of issuance costs of $39..	3,015	7,046	--	--	--	--	--
Exercise of employee stock options..........	--	--	280	98	--	--	98
Fair value of options granted to non-employees.............	--	--	--	20	--	--	20
Preferred stock accretion.............	--	810	--	--	--	(810)	(810)
Net loss................	--	--	--	--	--	(6,084)	(6,084)
Balance at December 31, 1999...................	9,676	17,252	3,348	567	--	(13,709)	(13,142)
Sale of Series E preferred stock, net of issuance costs of $35..	2,252	7,168	--	--	--	--	--
Exercise of employee stock options..........	--	--	205	91	--	--	91
Fair value of stock options granted to non-employees.............	--	--	--	150	--	--	150
Deferred stock option compensation..........	--	--	--	528	(528)	--	--
Amortization of deferred stock option compensation..........	--	--	--	--	74	--	74
Sale of Series F preferred stock, net of issuance costs of $23..	2,976	14,942	--	--	--	--	--
Preferred stock accretion.............	--	1,496	--	--	--	(1,496)	(1,496)
Net loss................	--	--	--	--	--	(9,086)	(9,086)
Balance at December 31, 2000...................	14,904	40,858	3,553	1,336	(454)	(24,291)	(23,409)
Exercise of employee stock options (unaudited)...........	--	--	135	57	--	--	57
Fair value of stock options granted to non-employees (unaudited)..	--	--	--	89	--	--	89
Additional Series F issuance costs (unaudited)...........	--	(14)	--	--	--	--	--
Deferred stock option compensation (unaudited)...........	--	--	--	710	(710)	--	--
Amortization of deferred stock option compensation (unaudited)...........	--	--	--	--	212	--	212
Preferred stock accretion (unaudited)..	--	1,395	--	--	--	(1,395)	(1,395)
Net loss (unaudited)....	--	--	--	--	--	(4,772)	(4,772)
Balance at June 30, 2001 (unaudited)...........	14,904	$42,239	3,688	$2,192	$(952)	$(30,458)	$(29,218)

</TABLE>

See accompanying notes.

AGRAQUEST, INC.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(In thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
				(Unaudited)	
<S>	<C>	<C>	<C>	<C>	<C>
Operating activities					
Net loss	$(3,661)	$(6,084)	$(9,086)	$(4,637)	$(4,772)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	61	184	296	143	147
Stock option and stock warrant expenses	15	20	224	14	301
Changes in operating assets and liabilities:					
Accounts receivable	(16)	(79)	(166)	88	115
Other receivables	--	--	(1,033)	--	(31)
Inventories	--	(204)	(994)	(1,361)	(219)
Other assets	(26)	(136)	(45)	(22)	(23)
Accounts payable	132	77	237	275	(113)
Accrued liabilities	58	327	274	(292)	(347)
Deferred revenue	--	--	100	75	(47)
Net cash used in operating activities	(3,437)	(5,895)	(10,193)	(5,717)	(4,989)
Investing activities					
Purchases of plant and equipment	(701)	(1,122)	(2,357)	(120)	(780)
Financing activities					
Proceeds from issuance of notes payable	459	--	300	--	--
Repayment of notes payable	(38)	(142)	(178)	(71)	(125)
Repayment of capital lease obligations	(9)	(92)	(104)	(51)	(54)
Proceeds from sale of common stock	--	98	91	3	57
Proceeds from sale of convertible preferred stock	5,906	7,046	22,110	7,168	--
Increase in other non-current assets	--	--	--	--	(268)
Net cash provided by (used in) financing activities	6,318	6,910	22,219	7,049	(390)
Net increase (decrease) in cash and cash equivalents	2,180	(107)	9,669	1,212	(6,159)
Cash and cash equivalents at beginning of period	776	2,956	2,849	2,849	12,518
Cash and cash equivalents at end of period	$ 2,956	$ 2,849	$12,518	$ 4,061	$ 6,359
Supplementary disclosures of cash flow information and non-cash transactions:					
Cash paid for interest	$ 20	$ 79	$ 84	$ 34	$ 271

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Borrowings for the purchase of plant and equipment	$ 56	$ 252	$ 5,041	$ 41	$ 24

</TABLE>

See accompanying notes.

AGRAQUEST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 (information as of June 30, 2000 and 2001 and for the six months then ended is unaudited)

1. Business and Significant Accounting Policies

Description of Business and Plan of Operations

AgraQuest, Inc. (the "Company") was incorporated under the laws of the State of Delaware on January 24, 1995. The Company is focused on discovering, developing, manufacturing and marketing effective, safe and environmentally friendly pest management products for agricultural and institutional and home markets.

The Company has devoted substantially all of its efforts towards research and development activities and has recently commenced marketing and sales efforts of its first product. The Company is subject to a number of risks and uncertainties, including that: the Company may not be able to identify or commercialize product candidates, obtain regulatory approvals or develop adequate sales and marketing capabilities or distribution relationships; the markets for pest management products are intensely competitive; the Company depends on its principal management and scientific personnel; and the Company may not be able to protect its patents and proprietary rights. The Company has financed its operations primarily through the sale of preferred stock and various debt financing arrangements. Management believes that additional funding will be needed to finance planned operations. However, management has the intent, and believes it has the ability, to delay or reduce expenditures so as not to require additional financial resources if such resources are not available. If additional funding is not available, management believes that available resources will provide sufficient funding to enable the Company to meet its obligations at least through December 31, 2001.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiary, AgraQuest de Mexico, S.A. de C.V. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with an original

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maturity from the date of purchase of three months or less to be cash equivalents for the purpose of balance sheet and statement of cash flows presentation. Cash equivalents consist primarily of funds invested in money market accounts at the balance sheet dates. The carrying value of cash and equivalents approximates market value at the balance sheet dates.

Concentrations of Risk

Financial instruments which subject the Company to potential credit risk consist of its cash equivalents and accounts receivable. The Company invests with high credit quality financial institutions. The Company believes the financial risks associated with these financial instruments are minimal.

The Company's Serenade product has accounted for all of the Company's product sales for the year ended December 31, 2000 and for the six months ended June 30, 2001. For the year ended December 31, 2000, four distributors accounted for 34%, 25%, 17% and 13% of total product sales. As of December 31, 2000, two of these distributors represent 48% and 37% of total accounts receivable. For the six months ended June 30, 2001, three distributors accounted for 39%, 23% and 21% of total product sales. In the opinion of management, these distributors represent the leading national agricultural distributors in the United States in the Company's markets. The Company generally does not require collateral. The Company may provide reserves for potential credit losses but has not experienced significant losses to date.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market value. At December 31, 2000, inventory consisted of the following: raw materials of $156,000, work-in-process of $325,000 and finished goods of $717,000.

Plant and Equipment

Plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the lesser of the estimated useful lives of the assets or the lease term, generally 3 to 20 years.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment to its distributors, unless contractual obligations, acceptance provisions or other contingencies exist. If such obligations or provisions exist, revenue is recognized after such obligations or provisions are fulfilled or expire. Distributors do not have price protection or return rights. The Company generates research revenues from research and development activities under contracts with other entities. The Company recognizes revenue from "best efforts" research and development contracts as work is performed. If, however, the contracts provide for specific milestones or deliverables, the Company recognizes revenue upon the achievement of such milestones or upon delivery. Funding received in advance of work performed, including up-front payments, is recorded as deferred revenue. The Company may also receive payments under strategic collaboration agreements as the collaborators or their sublicensees achieve product development milestones as well as royalty payments based on sales of products that incorporate its proprietary technology. The Company will recognize any future milestone payments or royalty revenues as earned.

The Company has deferred the recognition of revenue for some sales

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transactions that provide for payment terms of relatively longer duration. During the six months ended June 30, 2001, the Company deferred recognition of such revenue in the amount $334,000. For transactions with such longer payment terms, the Company's policy is to recognize revenue upon the earlier of cash received or the original invoice due date, assuming collectibility is deemed probable at that date. At June 30, 2001, transactions with such longer payment terms have original invoice due dates in August 2001.

Research and Development

Research and development costs are expensed to operations as incurred in accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs." The cost of product manufactured in pre-production batches yielding saleable quantities of Serenade has been included in inventories. These quantities have been recorded at the lower of cost or net realizable value.

Advertising

The Company expenses advertising costs as incurred. Advertising costs for the year ended December 31, 2000 and for the six months ended June 30, 2001 were $357,000 and $209,000. No such costs were incurred prior to fiscal 2000.

Stock Option Compensation

As permitted under the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), for stock options granted to its employees, the Company has elected to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB 25"). Under the intrinsic value method, compensation cost is the excess, if any, of the fair value of the stock at the grant date, or other measurement date, over the amount an employee must pay to acquire the stock.

Segment Disclosures

The Company operates in one segment, the development, manufacture and marketing of effective, safe and environmentally friendly pest management products for agricultural and institutional and home markets. For the year ended December 31, 2000, sales to the U.S. and Chile accounted for 75% and 25% of total product sales. For the six months ended June 30, 2001, the U.S. accounted for 100% of total product sales.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which, as amended, is required to be adopted in years beginning after June 15, 2000. Because the Company does not use derivative instruments, the adoption of SFAS 133 did not have an effect on the results of operations, financial position or cash flows of the Company.

Unaudited Interim Financial Information

The financial information at June 30, 2001 and for the six months ended June 30, 2000 and 2001 is unaudited but in the opinion of management includes all adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position at such

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date and the operating results and cash flows for those periods. Results of the June 30, 2001 interim period are not necessarily indicative of the results for the entire fiscal year or future periods.

2. Unaudited Pro Forma Stockholders' Equity and Net Loss Per Share

The Board of Directors has authorized management of the Company to file a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock to the public. If the initial public offering contemplated by the Company is consummated, all of the preferred stock outstanding will automatically be converted into shares of common stock on a one-for-one basis. Unaudited pro forma stockholders' equity at June 30, 2001 is set forth in the accompanying consolidated balance sheet and reflects the adjustment for the assumed conversion of preferred stock outstanding at June 30, 2001. Upon the completion of this offering, the Company will be authorized to issue up to 66,000,000 shares of capital stock, $0.001 par value per share. Of these authorized shares, 60,000,000 shares will be designated as common stock and 6,000,000 shares will be designated as preferred stock.

Basic and diluted net loss per share applicable to common stockholders have been computed using the weighted-average number of shares of common stock outstanding during the period. Pro forma basic and diluted net loss per share applicable to common stockholders, as presented in the statements of operations, have been computed as described above and also give effect to the conversion of the convertible preferred stock (using the if-converted method) from the original date of issuance. To date, the Company has not had any issuances of shares for nominal consideration as that term is used in the Securities and Exchange Commission's Staff Accounting Bulletin No. 98, "Earnings Per Share."

The following table presents the calculation of basic and diluted net loss per share and pro forma basic and diluted net loss per share (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Year Ended December 31,			Six Months Ended June 30, (Unaudited)	
	1998	1999	2000	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>
Numerator used for basic and diluted net loss per share applicable to common stockholders	$(4,002)	$(6,894)	$(10,582)	$(5,279)	$(6,167)
Denominator used for basic and diluted net loss per share applicable to common stockholders--weighted average common shares outstanding	3,068	3,140	3,451	3,399	3,620
Basic and diluted net loss per share applicable to common stockholders	$ (1.30)	$ (2.20)	$ (3.07)	$ (1.55)	$ (1.70)

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Potentially dilutive securities excluded from diluted net loss per share applicable to common stockholders computation because they are anti-dilutive......................	8,190	11,156	17,139	13,784	17,368
	=======	=======	========	=======	=======
Numerator used for pro forma basic and diluted net loss per share applicable to common stockholders (unaudited).......			$ (9,086)		$(4,772)
			========		=======
Shares used in computing pro forma basic and diluted net loss per share applicable to common stockholders (unaudited):					
Shares used above.............			3,451		3,620
Pro forma adjustments to reflect weighted effect of the assumed conversion of preferred stock (unaudited)..			11,351		14,904
			--------		-------
			14,802		18,524
			========		=======
Pro forma basic and diluted net loss per share applicable to common stockholders (unaudited)....................			$ (0.61)		$ (0.26)
			========		=======

</TABLE>

3. Other Receivables

Other receivables consist of the following at December 31, 2000 (in thousands):

<TABLE>

<S>	<C>
VAT refund..	$ 836
Refund due from supplier..	164
Other...	33

	$1,033
	======

</TABLE>

4. Plant and Equipment

Plant and equipment consists of the following (in thousands):

<TABLE>
<CAPTION>

	December 31,	
	1999	2000
<S>	<C>	<C>

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Land	$ --	$1,237
Manufacturing plant and equipment	--	5,992
Laboratory equipment and pilot plant	1,672	1,751
Leasehold improvements	562	564
Office furniture and equipment	117	175
Vehicles	13	43
	2,364	9,762
Less accumulated depreciation and amortization	(285)	(581)
	$2,079	$9,181

</TABLE>

The Company has granted to third parties interests in specific plant and equipment as part of certain financing arrangements (Note 5).

In December 2000, the Company purchased a manufacturing facility in Tlaxcala, Mexico for $7.0 million. A portion of the purchase price was financed with a promissory note from the seller (Note 5). During the six months ended June 30, 2001, the Company incurred costs for one-time activities related to opening this new facility as well as costs required to ready the purchased long-lived assets for their intended use. As of June 30, 2001, activities necessary to prepare this facility for its intended use were in progress.

Manufacturing plant start-up costs were $295,000 for the six months ended June 30, 2001 and represents expenses incurred through June 30, 2001 in connection with one-time activities related to opening the new manufacturing facility in Tlaxcala, Mexico. These costs have been accounted for in accordance with Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." Costs associated with start-up activities are primarily related to the operating costs incurred during the pre-production period which include a portion of salary-related expenses for employees in Mexico, travel costs for the implementation team, consulting fees and routine maintenance costs. These start-up costs exclude expenditures relating to constructing and developing long-lived assets and other necessary activities to prepare these assets for their intended use.

Of total interest costs of $271,000 incurred during the six months ended June 30, 2001, $225,000 has been capitalized as part of the Company's new manufacturing facility in accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost."

5. Notes Payable and Capital Lease Obligations

In December 2000, the Company purchased a manufacturing facility in Tlaxcala, Mexico for $7.0 million. A portion of the purchase price, $5.0 million, has been financed with a promissory note from the seller which bears interest at a rate of 9.0% per annum. The maturity date of this note is the earlier of: December 2002, the receipt of proceeds from an underwritten initial public offering, the receipt of proceeds from a private placement financing specifically designated for the financing of the facility or debt financing of the facility.

Other notes payable consist of the following (in thousands):

<TABLE>
<CAPTION>

December

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	December 31, 1999	December 31, 2000
Note payable, bearing interest at an effective rate of 13.5% per annum, payable through July 2002, collateralized by equipment with a net book value of $388 at December 31, 2000	$ 345	$ 496
Note payable, bearing interest at 19.4% per annum, payable through October 2001, collateralized by equipment with a net book value of $38 at December 31, 2000	47	18
	392	514
Less current portion	(139)	(219)
	$ 253	$ 295

</TABLE>

As of December 31, 2000, aggregate contractual future principal payments by year on notes payable are due as follows: 2001-$219,000; 2002-$5.2 million; and 2003-$59,000.

In accordance with Statement of Financial Accounting Standard No. 13, "Accounting for Leases," the Company accounts for certain equipment acquired under financing arrangements as capital leases. This equipment is included in plant and equipment and related amortization is included in depreciation expense. The cost of this equipment was $317,000 and $358,000 and the related accumulated amortization was $38,000 and $67,000 as of December 31, 1999 and 2000.

The Company's aggregate commitment under these lease arrangements as of December 31, 2000 is as follows (in thousands):

<TABLE>

2001	$ 126
2002	24
2003	6
Total minimum payment required	156
Less: amount representing interest	(7)
Present value of future payments	149
Less: current portion	(104)
	$ 45

</TABLE>

The carrying values of these obligations approximate their fair values as of December 31, 1999 and 2000. The fair value of long-term debt is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities.

6. Commitments and Contingencies

Lease Commitments

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The Company has executed a 10 year lease agreement on a building in Davis, California for office, laboratory and pilot plant space. The lease agreement provides for annual minimum lease payments of approximately $194,000 which commenced upon completion of construction in March 1999. Rental expense charged to operations for all operating leases was approximately $100,000, $208,000 and $244,000 for the years ended December 31, 1998, 1999 and 2000 and $126,000 for the six months ended June 30, 2001.

Contingencies

The Company may from time to time become a party to various legal proceedings arising in the ordinary course of its business. The Company is not currently subject to any legal proceeding.

7. Convertible Preferred Stock

The Company's convertible preferred stock is classified as mezzanine financing due to the liquidation rights upon a change in control. The carrying amount is adjusted to its redemption amount at each balance sheet date.

At December 31, 2000, the Company was authorized to issue up to 16,000,000 shares of convertible preferred stock, issuable in series, with the rights and preferences of each designated series to be determined by the Board of Directors. The outstanding shares of convertible preferred stock automatically convert into common stock upon the closing of an underwritten public offering of common stock provided the offering meets certain minimum proceeds requirements.

Convertible preferred stock as of December 31, 2000 is as follows (in thousands):

<TABLE>
<CAPTION>

<S>	Designated <C>	Shares Issued and Outstanding <C>	Gross Proceeds <C>	Net Proceeds <C>
Series A	150	138	$ 97	$ 91
Series B	3,000	2,999	3,149	3,058
Series C	3,575	3,524	5,991	5,906
Series D	3,025	3,015	7,085	7,046
Series E	3,250	2,252	7,203	7,168
Series F	3,000	2,976	14,965	14,942
	16,000	14,904	$38,490	$38,211

</TABLE>

Each share of Series A, B, C, D, E and F convertible preferred stock is convertible, at the option of the holder, into common stock on a one-for-one basis, subject to certain adjustments for dilution, if any, resulting from future stock issuances.

The Series A, B, C, D, E and F convertible preferred stockholders are entitled to noncumulative dividends, before and in preference to any dividends paid on common stock. Dividends will be paid only when and if declared by the Board of Directors. No dividends have been declared through December 31, 2000. Beginning on October 1, 2002 for Series C, October 1, 2003 for Series D, October 1, 2004 for Series E and October 1, 2005 for Series F, cumulative dividends will accrue at rates from 8% to 12% per annum and will be payable, quarterly in cash, beginning on January 1, 2003 for Series C, January 1, 2004 for Series D, January 1, 2005 for Series E and January 1, 2006 for Series F.

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The liquidation preference of Series A, B, C, D, E and F convertible preferred stock is nonparticipating and the stockholders are entitled to receive $0.70; $1.05; $1.70 plus 8% of this amount per annum from the date of issuance; $2.35 plus 8% of this amount per annum from the date of issuance; $3.20 plus 8% of this amount per annum from the date of issuance; and $5.00 plus 8% of this amount per annum from the date of issuance, respectively. As of June 30, 2001, the aggregate liquidation preference was $42.5 million.

The Series A, B, C, D, E and F convertible preferred stockholders have voting rights equal to the shares of common stock issuable upon conversion.

8. Stockholders' Equity (Deficit)

Common Stock

As of December 31, 2000, the Company has reserved shares of common stock for the conversion of preferred stock, the exercise of warrants, and the issuance of options granted under the Company's stock option plans as follows (in thousands):

Convertible preferred stock	14,904
Warrants	39
Stock option plans	3,015
	17,958

Subsequent to December 31, 2000, an additional 1,000,000 shares of the Company's common stock has been reserved for future issuance pursuant to its 2000 stock incentive plan.

Warrants

In December 1998, in connection with entering into a credit agreement, the Company issued warrants, which were immediately exercisable, to purchase 39,000 shares of common stock at an exercise price of $1.70 per share. These warrants expire in December 2008. The Company determined the fair value of these warrants using the Black-Scholes option pricing model assuming a fair value of the Company's common stock at the date of issuance of $0.35 per share, volatility factor of 0.75, risk-free interest rate of 5.4%, contractual life of 10 years and no dividend yield. The fair value of $8,000 was fully amortized in 1999 as interest expense.

Stock Option Plans

The Company established a stock option plan in 1995 under which employees, consultants and directors may be granted Incentive Stock Options ("ISOs") or Nonstatutory Stock Options ("NSOs") to purchase shares of the Company's common stock. This plan permits ISOs to be granted at an exercise price not less than the fair value of the Company's stock on the date of grant and NSOs at an exercise price not less than 85% of the fair value of the Company's common stock on the date of grant. Options granted under this plan generally expire 10 years from the date of grant. Options generally vest 20% on the first anniversary from the date of grant and 1/20 per quarter thereafter, however, options may be granted with different vesting terms as determined by the Board of Directors. A total of 2,500,000 shares of common stock have been authorized for issuance pursuant to this stock option plan.

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In December 2000, the Company adopted the 2000 stock incentive plan, which was amended and restated in January 2001. The Company originally reserved 1,000,000 shares of common stock pursuant to this plan and an additional 1,000,000 shares upon its amendment and restatement.

The Company adopted the 2001 non-employee director stock program as part of the 2000 stock incentive plan. In addition, the Company adopted the 2001 employee stock purchase plan and has reserved 350,000 shares under this plan. These programs will become effective as of the effective date of the initial public offering.

A summary of stock option activity is as follows (in thousands, except per share data):

<TABLE>
<CAPTION>

	Options Outstanding	
	Number of Shares	Weighted-Average Exercise Price
Balance as of December 31, 1997	984	$0.35
Granted	506	0.35
Balance as of December 31, 1998	1,490	0.35
Granted	234	0.35
Exercised	(280)	0.35
Forfeited	(3)	0.35
Balance as of December 31, 1999	1,441	0.35
Granted	1,021	1.53
Exercised	(205)	0.44
Forfeited	(60)	0.47
Balance as of December 31, 2000	2,197	0.89
Granted (unaudited)	525	4.19
Exercised (unaudited)	(135)	0.43
Forfeited (unaudited)	(162)	0.43
Balance as of June 30, 2001 (unaudited)	2,425	1.66

</TABLE>

The weighted-average remaining contractual life of options outstanding as of December 31, 1999 was approximately 8 years. Options to purchase 720,000 shares of common stock at a weighted-average exercise price of $0.35 per share were outstanding and vested at December 31, 1999.

The following table summarizes information concerning options outstanding and vested as of December 31, 2000 (in thousands, except per share and remaining contractual life data):

<TABLE>
<CAPTION>

Options Outstanding	Options Vested

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Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.35	1,317	7	$0.35	903	$0.35
$0.70 to $1.50	635	9	0.83	191	0.76
$2.25 to $5.00	245	10	3.35	--	--
	2,197	8	0.89	1,094	0.42

The following table summarizes information concerning options outstanding and vested as of June 30, 2001 (unaudited, in thousands, except per share and remaining contractual life data):

	Options Outstanding			Options Vested	
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.35	1,071	6	$0.35	755	$0.35
$0.70 to $1.50	582	9	0.84	223	0.74
$2.25 to $3.50	437	9	3.40	1	2.25
$4.25 to $5.00	335	10	4.98	103	4.94
	2,425	8	1.66	1,082	0.87

As of December 31, 2000 and June 30, 2001, approximately 818,000 and 1,455,000 shares of common stock were available for future grant under the Company's option plans.

Stock Option Compensation

For the year ended December 31, 2000 and for the six months ended June 30, 2001, the Company recorded deferred stock option compensation of $528,000 and $710,000 in connection with the grant of stock options to employees. Deferred stock option compensation is the difference between the exercise price of the options and the fair value of the common stock at the date of grant. Fair value was determined based on the business factors underlying the value of the Company's common stock on the date of grant. These amounts were recorded as a component of stockholders' equity(deficit) and are being amortized as charges to operations over the vesting period of the options, generally five years using a graded-vesting method.

The Company has recorded compensation expense for options granted to consultants in accordance with Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for

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Acquiring, or in Conjunction with Selling, Goods or Services." The Company determined the fair value of these options using the Black-Scholes option pricing model, the estimated fair value of the Company's common stock at the date of issuance, volatility factor of 0.75, risk-free rate of interest of 5.4%, maximum term of 10 years and no dividend yield.

The Company has recorded stock option compensation expense as follows (in thousands):

<TABLE>
<CAPTION>

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
				(Unaudited)	
<S>	<C>	<C>	<C>	<C>	<C>
Research and development..........................	$ 15	$ 12	$199	$ 14	$ 174
Selling, general and administrative...............	--	--	25	--	127
	$ 15	$ 12	$224	$ 14	$ 301
Amortization of deferred stock option compensation....................................	$ --	$ --	$ 74	$ --	$ 212
Fair value of options granted to non-employees.....	15	12	150	14	89
	$ 15	$ 12	$224	$ 14	$ 301

</TABLE>

In addition, during the year ended December 31, 1999, the Company recognized interest expense of $8,000 for the fair value of warrants issued in connection with a credit agreement.

Pro Forma Information

Pro forma information regarding net loss applicable to common stockholders is required by SFAS 123, as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. Option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

For purposes of the SFAS 123 pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The weighted-average fair value of these options was $0.23 per share, $0.23 per share and $1.51 per share for the years ended December 31, 1998, 1999 and 2000, respectively, and $4.59 per share for the six months ended June 30, 2001. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model and a graded-vesting approach using the following weighted-average assumptions: volatility factor of 0.75, risk-free interest rate of 5.4%, weighted-average expected option life of 5 years; and no annual dividends. The Company's SFAS 123 pro forma net loss applicable to common stockholders was $4.1 million, $7.0 million, and $10.9 million for the years

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ended December 31, 1998, 1999 and 2000, respectively, and $7.0 million for the six months ended June 30, 2001. The Company's SFAS 123 pro forma net loss per share applicable to common stockholders was $1.33, $2.23 and $3.16 for the years ended December 31, 1998, 1999 and 2000, respectively and $1.94 for the six months ended June 30, 2001. Future pro forma results of operations may be materially different from amounts reported as future years will include the effects of additional stock option grants.

9. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	1999	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 4,951	$ 8,589
Tax credits	297	559
Other	108	141
	5,356	9,289
Valuation allowance for deferred tax assets	(5,282)	(9,142)
	74	147
Deferred tax liabilities:		
Depreciation	(74)	(147)
	(74)	(147)
Net deferred tax asset	$ --	$ --

Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain. The valuation allowance increased by $1.6 million and $2.5 million during the years ended

December 31, 1998 and 1999, respectively. As of December 31, 2000, the Company had net operating loss carryforwards of approximately $21.5 million for federal and state income tax purposes which expire in the years 2010 through 2020 and 2003 through 2010, respectively. The Company also had approximately $322,000 and $360,000 in federal and state income tax credits which expire in the years 2010 through 2020.

The principal reasons for the difference between the effective income tax rate and the federal statutory income tax rate of 34% in each year are as follows:

	Year Ended December 31,

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	1998	1999	2000
<S>	<C>	<C>	<C>
Federal benefit expected at statutory rate.......	$(1,245)	$(2,069)	$(3,092)
Net operating loss with no current benefit.......	1,245	2,069	3,092
Income tax benefit..............................	$ --	$ --	$ --

</TABLE>

Future utilization of the Company's net operating loss and other credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating losses and credits before utilization.

10. 401(k) Plan

Substantially all of the Company's full-time employees are eligible to participate in a tax deferred investment plan (the "401(k) Plan") established by the Company. The 401(k) Plan permits each employee to contribute up to 15% of compensation on a pre-tax basis, to a maximum amount per calendar year. The Company may provide a discretionary matching contribution to the 401(k) Plan, which is determined each year by the Company. The Company has provided no matching contributions to the 401(k) Plan to date.

Through and including , 2001 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Shares

[LOGO OF AGRAQUEST, INC.]

Common Stock

PROSPECTUS

Merrill Lynch & Co.

Stephens Inc.

First Union Securities, Inc.

, 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

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Item 13. Other Expenses of Issuance and Distribution.

The expenses to be paid by the Registrant in connection with the distribution of the securities being registered, other than underwriting discounts and commissions, are as follows:

	Amount*
Securities and Exchange Commission Filing Fee	$18,750
NASD Filing Fee	8,000
Nasdaq National Market Listing Fee	5,000
Accounting Fees and Expenses	**
Blue Sky Fees and Expenses	**
Legal Fees and Expenses	**
Transfer Agent and Registrar Fees and Expenses	**
Printing Expenses	**
Miscellaneous Expenses	**
Total	$

----

* All amounts are estimates except the SEC filing fee, the NASD filing fee and the Nasdaq National Market listing fee.

** To be filed by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to officers, directors and other corporate agents under certain circumstances and subject to certain limitations. The Registrant's certificate of incorporation and bylaws provide that the Registrant shall indemnify its directors, officers, employees and agents to the full extent permitted by Delaware General Corporation Law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, the Registrant intends to enter into separate indemnification agreements with its directors, officers and certain employees which would require the Registrant, among other things, to indemnify them against certain liabilities which may arise by reason of their status as directors, officers or certain other employees. The Registrant also intends to maintain director and officer liability insurance, if available on reasonable terms.

These indemnification provisions and the indemnification agreement to be entered into between the Registrant and its officers and directors may be sufficiently broad to permit indemnification of the Registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The underwriting agreement, which is Exhibit 1.1 to this registration statement, provides for indemnification by our underwriters and their officers and directors for certain liabilities arising under the Securities Act or otherwise.

Item 15. Recent Sales of Unregistered Securities.

Since January 1, 1998, the Registrant has issued and sold the following unregistered securities:

1. Between January 1, 1998 and June 30, 2001, the Registrant granted 2,286,072 shares of restricted common stock and options to purchase shares of common stock at prices ranging from $0.35 to $5.00 to employees,

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directors and consultants pursuant to its 1995 stock option plan and 2000 stock incentive plan. These issuances were made in reliance on Rule 701 of the Securities Act.

2. In March 1998, the Registrant issued and sold an aggregate of 3,464,711 shares of its Series C preferred stock to a total of 17 investors for an aggregate purchase price of $5,890,008.70. These sales were made in reliance on Section 4(2) of the Securities Act.

3. In December 1998, the Registrant issued a warrant to purchase 31,200 shares of its Series C preferred stock to MMC/GATX Partnership No. 1 and a warrant to purchase 7,800 shares of its Series C preferred stock to Silicon Valley Bank. These warrants were issued in reliance on Section 4(2) of the Securities Act.

4. In April 1999, the Registrant issued and sold an aggregate of 3,015,267 shares of its Series D preferred stock to a total of 29 investors for an aggregate purchase price of $7,085,877.90. These sales were made in reliance on Section 4(2) of the Securities Act.

5. In April 2000, the Registrant issued and sold an aggregate of 2,251,919 shares of its Series E preferred stock to a total of 13 investors for an aggregate purchase price of $7,206,140.80. These sales were made in reliance on Section 4(2) of the Securities Act.

6. In December 2000, the Registrant issued and sold an aggregate of 2,976,333 shares of its Series F preferred stock to a total of 24 investors for an aggregate purchase price of $14,781,665. These sales were made in reliance on Section 4(2) of the Securities Act.

The issuances of the securities in the transactions above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act promulgated thereunder as transactions by an issuer not involving a public offering, where the purchasers represented their intention to acquire the securities for investment only and not with a view to distribution and received or had access to adequate information about the Registrant, or Rule 701 promulgated under the Securities Act as transactions pursuant to a compensatory benefit plan or a written contract relating to compensation.

Appropriate legends were affixed to the stock certificates issued in the above transactions. Similar legends were imposed in connection with any subsequent sales of any such securities. No underwriters were employed in any of the above transactions.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

The exhibits are as set forth in the Exhibit Index.

(b) Financial Statement Schedules.

All schedules have been omitted because they are not required or are not applicable or the required information is shown in the financial statements or related notes.

Item 17. Undertakings.

The Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense

of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sacramento, State of California on the 3rd day of August 2001.

AgraQuest, Inc.

/s/ PAMELA G. MARRONE, PH.D.
By: ______________________________
PAMELA G. MARRONE, PH.D.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Pamela G. Marrone, Ph.D. and Donald J. Glidewell, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact

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and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ PAMELA G. MARRONE, PH.D. PAMELA G. MARRONE, PH.D.	President, Chief Executive Officer and Chairman (Principal Executive Officer)	August 3, 2001
/s/ DONALD J. GLIDEWELL DONALD J. GLIDEWELL	Chief Financial Officer (Principal Financial and Accounting Officer)	August 3, 2001
/s/ ANN PARTLOW ANN PARTLOW	Director	August 3, 2001
/s/ GEORGE E. MYERS GEORGE E. MYERS	Director	August 3, 2001
/s/ FRANK F.C. KUNG, PH.D. FRANK F.C. KUNG, PH.D.	Director	August 3, 2001

Signature	Title	Date
/s/ JACK HUNT JACK HUNT	Director	August 3, 2001
/s/ JAMES A. SCHLINDWEIN JAMES A. SCHLINDWEIN	Director	August 3, 2001
/s/ WALTER LOCHER WALTER LOCHER	Director	August 3, 2001
/s/ G. STEVEN BURRILL G. STEVEN BURRILL	Director	August 3, 2001
/s/ JOE A. MANCINI JOE A. MANCINI	Director	August 3, 2001

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</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number	Document
<C>	<S>
1.1*	Form of Underwriting Agreement
3.1*	Certificate of Incorporation of the Registrant
3.2*	Bylaws of the Registrant
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2*	Specimen Stock Certificate of the Registrant
4.3	Fourth Amended and Restated Investors' Rights Agreement, dated as of December 11, 2000, among the Registrant, certain holders of the Registrant's preferred stock, certain holders of warrants to purchase the Registrant's capital stock and certain of the Registrant's founders
5.1*	Opinion of Morrison & Foerster LLP
10.1*	Form of Indemnification Agreement between the Registrant and each of its executive officers and directors
10.2	Registrant's 1995 Stock Option Plan, as amended
10.3	2000 Stock Incentive Plan, as amended
10.4	2001 Employee Stock Purchase Plan, including forms of agreements thereunder
10.5	Lease, dated as of July 8, 1998, between the Registrant and Jim Joseph, as trustee for the Jim Joseph Revocable Trust
10.7*+	Research and Development Agreement, dated as of October 30, 2000, between the Registrant and Rohm and Haas Company
10.8*+	Strain Access Agreement, dated as of December 21, 2000, between the Registrant and Maxygen, Inc.
23.1*	Consent of Morrison & Foerster LLP. Reference is made to Exhibit 5.1
23.2	Consent of Ernst & Young LLP, Independent Auditors
24.1	Powers of Attorney. Reference is made to Page II-4

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* To be filed by amendment

\+ Confidential treatment has been requested with regard to certain portions of this agreement.

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EXHIBIT 4.3

AgraQuest, Inc.

FOURTH AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT

This Fourth Amended And Restated Investors' Rights Agreement is made as of the 11th day of December, 2000, by and among AgraQuest, Inc., a Delaware corporation (the "Company"), the investors listed on Schedule A hereto (each an "Investor," and collectively the "Investors"), Silicon Valley Bank and MMC/GATX Partnership No. 1 (the "Warrant Holders"), Pamela G. Marrone, Duane Ewing, and Bruce Holm (each a "Founder" and collectively the "Founders").

R E C I T A L S

WHEREAS, certain Investors entered into a Series F Preferred Stock Purchase Agreement with the Company as of the date hereof (the "Series F Agreement");

WHEREAS, certain Investors entered into a Series E Preferred Stock Purchase Agreement with the Company (the "Series E Agreement");

WHEREAS, certain Investors previously entered into a Series D Preferred Stock Purchase Agreements with the Company (the "Series D Agreements")

WHEREAS, certain Investors previously entered into Series C Preferred Stock Purchase Agreements with the Company (the "Series C Agreements");

WHEREAS, certain Investors previously entered into Series B Preferred Stock Purchase Agreements with the Company (the "Series B Agreements");

WHEREAS, certain Investors previously executed the Third Amended and Restated Investors' Rights Agreement dated April 14, 2000 with the Company (the "Prior Investors' Agreement") and this Agreement is meant to amend and restate the Prior Investors' Agreement;

WHEREAS, the Company may sell and issue additional shares of the Series F Preferred Stock (the "Additional Series F Shares") to certain Investors and other investors (the "Additional Series F Investors") pursuant to the Series F Agreement or an Addendum to the Series F Preferred Stock Purchase Agreement to be entered into between the Company and such Additional Series F Investors (together with the Series F Agreement, the "Series F Agreement"); and

WHEREAS, in order to induce the Company to enter into the Series F Agreement and to induce the certain Investors to invest funds in the Company

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pursuant to the Series F Agreement, the Investors, the Company, and the Founders hereby agree that this Agreement shall

govern the rights of the Investors, the Founders, and the Warrant Holders to cause the Company to register shares of Common Stock held by the Founders and issuable to the Investors and the Warrant Holders and certain other matters as set forth herein;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Registration Rights. The Company covenants and agrees as follows:

1.1. Definitions. For purposes of this Section 1:

(a) The term "Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(b) The term "Form S-3" means Form S-3 under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the registrant with the SEC.

(c) The term "Holder" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.12 hereof.

(d) The term "MMC" means MMC/GATX Partnership No. 1, or its permitted assignee under the terms of the MMC Series C Warrant.

(e) The term "MMC Series C Warrant" means that Warrant dated December 23, 1998, issued to MMC representing the right to purchase up to thirty-one thousand two hundred (31,200) shares of the Series C Preferred Stock of the Company.

(f) The term "1934 Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(g) The term "Preferred Stock" means the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock and the Series F Preferred Stock.

(h) The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(i) The term "Registrable Securities" means (i) the Common Stock

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issuable or issued upon conversion of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock; (ii) the two million one hundred seventy-two thousand four hundred (2,172,400) shares of Common Stock (subject to appropriate adjustment for stock splits, stock dividends, combinations and other recapitalizations after the date hereof (collectively, a "Recapitalization")) issued or issuable to the Founders of the Company in the amounts set forth on Schedule B attached hereto; provided,

however that such shares of Common Stock issued or issuable to the Founders shall not be deemed Registrable Securities and that the Founders, in connection with such shares, shall not be deemed Holders for purposes of Sections 1.2, 1.15, and 3.9, (iii) the thirty one thousand two hundred (31,200) shares of Common Stock (subject to appropriate adjustment for any Recapitalization) issuable upon conversion of the Series C Preferred Stock issued or issuable to MMC upon exercise of the MMC Series C Warrant and the seven thousand eight hundred (7,800) shares of Common Stock (subject to appropriate adjustment for any Recapitalization) issuable upon conversion of the Series C Preferred Stock issued or issuable to SVB upon exercise of the SVB Series C Warrant; provided, however, that such shares of Common Stock issued or issuable to MMC shall not be deemed Registrable Securities and that MMC, in connection with such shares, shall not be deemed a Holder for the purposes of Sections 1.2, 1.15, Section 2, Section 3, or Section 3.9; and that such shares of Common Stock held by SVB shall not be deemed Registrable Securities and that SVB, in connection with such shares, shall not be deemed a Holder for purposes of Section 1.2, 1.12 and 1.15, Section 2, Section 3, or Section 3.9; and (iv) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of the shares referenced in clauses (i), (ii) and (iii) above; provided, however, that any Common Stock issuable under this clause (iv) shall not be deemed Registrable Securities and that any holder of such Common Stock shall not be deemed a Holder for purposes of any section of the Agreement for which the corresponding shares referenced in clauses (ii) and (iii) above are not deemed Registrable Securities; excluding in all cases, however, any shares that have been sold by a person in a transaction in which his or her rights under this Section 1 are not assigned or that have been sold by a person pursuant to a registration statement under the Act covering such Registrable Securities that has been declared effective by the SEC.

(j) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities.

(k) The term "SEC" shall mean the Securities and Exchange

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Commission and any successor thereto.

(l) The term "Series B Preferred Stock" shall mean the Series B Preferred Stock of the Company sold pursuant to the terms of the Series B Agreements.

(m) The term "Series C Preferred Stock" shall mean the Series C Preferred Stock of the Company sold pursuant to the terms of the Series C Agreements.

(n) The term "Series D Preferred Stock" shall mean the Series D Preferred Stock of the Company sold pursuant to the terms of the Series D Agreements.

(o) The term "Series E Preferred Stock" shall mean the Series E Preferred Stock of the Company sold pursuant to the terms of the Series E Agreement.

(p) The term "Series F Preferred Stock" shall mean the Series F Preferred Stock of the Company sold pursuant to the terms of the Series F Agreement.

(q) The term "SVB" means Silicon Valley Bank, or its permitted assignee pursuant to the terms of the SVB Series C Warrant.

(p) The term "SVB Series C Warrant" shall mean that Warrant dated December 23, 1998, issued to Silicon Valley Bank representing the right to purchase up to seven thousand eight hundred (7,800) shares of the Series C Preferred Stock of the Company.

1.2. Request for Registration.

(a) If the Company shall receive at any time after the earlier of (i) November 15, 2002, or (ii) three (3) months after the effective date of the first registration statement for a public offering of securities of the Company (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or a SEC Rule 145 transaction), a written request from the Holders of thirty percent (30%) of the Registrable Securities then outstanding that the Company file a registration statement under the Act covering the registration of at least twenty-five percent (25%) of the Registrable Securities then outstanding (or any lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed Seven Million Five Hundred Thousand Dollars (7,500,000), then the Company shall:

(i) within ten (10) days of the receipt thereof, give written notice of such request to all Holders; and

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(ii) use its best efforts to effect, as soon as practicable after receipt of such request, the registration under the Act of all Registrable Securities which the Holders request to be registered, subject to the limitations of subsection 1.2(b), within twenty (20) days of the mailing of such notice by the Company in accordance with Section 3.7.

(b) If the Holders initiating the registration request hereunder ("Initiating Holders") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to subsection 1.2(a) and the Company shall include such information in the written notice referred to in subsection 1.2(a). The underwriter will be selected by the Company and shall be reasonably acceptable to a majority in interest of the Initiating Holders. In such event, the right of any Holder to include his Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in subsection 1.4(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the

Initiating Holders shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(c) Notwithstanding the foregoing, if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 1.2, a certificate signed by the Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer taking action with respect to such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period.

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(d) In addition, the Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 1.2:

(i) after the Company has effected two (2) registrations pursuant to this Section 1.2 and such registrations have been declared or ordered effective; and

(ii) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the effective date of, a registration subject to Section 1.3 hereof; provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective.

1.3. Company Registration. If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for stockholders other than the Holders) any of its stock or other securities under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities which are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 3.7, the Company shall, subject to the provisions of Section 1.8, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

1.4. Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective and keep such registration statement effective for a period of up to one hundred eighty (180) days or until the distribution contemplated in the Registration Statement has been completed; provided, however, that (i) such 180-day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of Common Stock (or other securities) of the Company; and (ii) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, such 180-day period shall be extended, if necessary, to keep the registration statement effective until all such

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Registrable Securities are sold, provided that Rule 145, or any successor rule under the Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment that (I) includes any prospectus required by Section 10(a)(3) of the Act or (II) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (I) and (II) above to be contained in periodic reports filed pursuant to Section 13 or 15(d) of the Exchange Act in the registration statement.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to each Holder such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as it may reasonably request from time to time in order to facilitate the disposition of Registrable Securities owned by it.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general Consent to service of process in any such states or jurisdictions, unless the Company is already required to qualify to do business or subject to service in such jurisdiction and except as may be required by the Act.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities

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issued by the Company are then listed.

(h) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(i) make available for inspection by any Holder participating in such registration, holding, in the aggregate, at least five percent (5%) of the Registrable Securities(subject to appropriate adjustment for any Recapitalization), any underwriter participating in any disposition pursuant to such registration, and any attorney or accountant retained by any such Holder or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers and directors to supply all information reasonably requested by any such Holder, underwriter, attorney or accountant in connection with such registration statement; provided, however, that such Holder, underwriter, attorney or accountant shall agree to hold in confidence and trust all information so provided.

(j) make available to each Holder participating in such registration, upon the request of such Holder:

(i) in the case of an underwritten public offering, a copy of any opinion of counsel for the Company provided to the underwriters participating in such offering, dated the date such shares are delivered to such underwriters for sale in connection with the registration statement;

(ii) in the case of an underwritten public offering, a copy of any "comfort" letters provided to the underwriters participating in such offering and signed by the Company's independent public accountants who have examined and reported on the Company's financial statements included in the registration statement, to the extent permitted by the standards of the AICPA or other relevant authorities; and

(iii) a copy of all documents filed with and all correspondence from or to the SEC in connection with any such offering other than non-substantive cover letters and the like.

(k) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably

practicable, an earnings statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Act.

1.5. Furnish Information.

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(a) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities.

(b) The Company shall have no obligation with respect to any registration requested pursuant to Section 1.2 or 1.16 if, due to the operation of subsection 1.5(a), the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in subsection 1.2(a) or 1.16(a).

1.6. Expenses of Demand Registration. The Company shall bear and pay all expenses, other than underwriting discounts and commissions relating to Registrable Securities, incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Section 1.2 for each Holder, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees relating or apportionable thereto and the fees and disbursements of one counsel to the selling Holders hereunder (which counsel shall be designated by Holders owning a plurality of the Registrable Securities, excluding any Registrable Securities owned by any Founder or his or her transferees); provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses), unless either (a) such withdrawal by such Holders is based upon a material adverse change in the condition, business or prospects of the Company that was not known or communicated to the Holders requesting registration at the time of their request for registration under Section 1.2 and have withdrawn the request with reasonable promptness following disclosure by the Company of such material change or (b) the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2.

1.7. Expenses of Company Registration. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Section 1.3 for each Holder (which right may be assigned as provided in Section 1.12), including (without limitation) all registration, filing, and qualification fees, printers and accounting fees relating or apportionable thereto and the fees and disbursements of counsel for the Company in its capacity as counsel to the selling Holders hereunder; if Company counsel does not make itself available for this purpose, the

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Company will pay the reasonable fees and disbursements of one counsel for the selling Holders selected by them, but excluding underwriting discounts and commissions relating to Registrable Securities.

1.8. Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling stockholders according to the total amount of securities entitled to be included therein owned by each selling stockholder or in such other proportions as shall mutually be agreed to by such selling stockholders; provided that there shall be no reduction in the number of securities of any Holder that is not a Founder unless all securities held by the Founders and their transferees and any other holders of Common Stock (other than the Holders) are first withdrawn from the offering). For purposes of the preceding parenthetical concerning apportionment, for any selling stockholder which is a holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and stockholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling stockholder," and any pro-rata reduction with respect to such "selling stockholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling stockholder," as defined in this sentence.

1.9. Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.10. Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, each officer and director of such Holder, any underwriter (as defined in the Act) of such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions

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in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material

fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Act, the 1934 Act or any state securities law; and the Company will pay to each such Holder, underwriter or controlling person any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10(a) shall not apply to (1) a Holder who is either an officer or director of the Company at the time of the statement, omission or violation (a "Management Holder") unless (A) such Management Holder has sold shares included in the registration statement and (B) each Holder that is not a Management Holder has first been fully indemnified and held harmless pursuant to this Section 1.10; (2) amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); or (3) any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder (including each officer and director of such Holder), underwriter or controlling person.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, any underwriter, any other Holder selling securities in such registration statement, each officer and director of any such other Holder and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder, or by an officer or director of any such Holder expressly for use in connection with such registration; and each such Holder will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.10(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10(b) shall not apply to amounts paid in settlement of any

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such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, further, that, in no event shall any indemnity under this subsection 1.10(b) exceed the gross proceeds from the offering received by such Holder net of underwriters commissions and discounts.

(c) Promptly after obtaining actual knowledge of any third party claim or action as to which it may seek indemnification under this Section 1.10, an indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.10, deliver to the indemnifying party a written notice thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires,

jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.10, if, and to the extent that, such failure is prejudicial to such indemnifying party's ability to defend such action, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.10.

(d) If the indemnification provided for in this Section 1.10 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense (including, without limitation, legal and other expenses incurred by such indemnified party in investigating or defending any such action or claim) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent,

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knowledge, access to information, and opportunity to correct or prevent such statement or omission. Notwithstanding the provisions of this Section 1.10, no Holder shall be required to contribute any amount or make any other payments under this Agreement which in the aggregate exceed the net proceeds received by such Holder from the offering covered by the applicable registration statement.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

(f) The obligations of the Company and Holders under this Section 1.10 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.11. Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the

Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by

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the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

1.12. Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities who, after such assignment or transfer, holds at least forty thousand (40,000) shares of Registrable Securities (subject to appropriate adjustment for any Recapitalization), and provided: (a) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including without limitation the provisions of Section 1.13 below; (c) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act; and (d) MMC may assign such registration rights to an affiliate or affiliates of MMC notwithstanding the minimum number of shares otherwise required hereby. For the purposes of determining the number of shares of Registrable Securities held by a transferee or assignee, the holdings of transferees and assignees of a partnership who are partners or retired partners of such partnership (including spouses and ancestors, lineal descendants and siblings of such partners or spouses who acquire Registrable Securities by gift, will or intestate succession) shall be aggregated together and with the partnership; provided that all assignees and transferees who

would not qualify individually for assignment of registration rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices or taking any action under this Section 1.

1.13. "Market Stand-Off" Agreement. Each Holder hereby agrees that, during the period of duration specified by the Company and an underwriter of common stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except common stock included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first two (2)such registration statements of the Company which covers common stock (or other securities) to be sold on its behalf to the public in an underwritten offering;

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(b) such market stand-off time period shall not exceed one hundred eighty (180) days;

(c) such agreement shall not be applicable three (3) years after the effective date of the first registration statement for a public offering of securities of the Company; and

(d) all Founders and all officers and directors of the Company enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

Notwithstanding the foregoing, the obligations described in this Section 1.13 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms which may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms which may be promulgated in the future.

1.14. Termination of Registration Rights.

(a) No Holder shall be entitled to exercise any right provided for in this Section 1 after five (5) years following the consummation of the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the initial firm commitment underwritten offering of its Common Stock to the general public.

(b) In addition, the right of any Holder to request registration or inclusion in any registration pursuant to Section 1.3 shall terminate on such date after the closing of the first Company-initiated registered public offering of Common Stock of the Company as all

shares of Registrable Securities held or entitled to be held upon conversion by such Holder may immediately be sold under Rule 144 during any ninety (90) day period.

1.15. Limitations on Registration Rights. Except with respect to Additional Series F Investors, from and after the date of this Agreement, the Company, except with the prior written consent of the Holders of a majority of the Registrable Securities then outstanding, shall not enter into any agreement with any holder or prospective holder of any securities of the Company giving such holder or prospective holder the right to require the Company, upon any registration of any of its securities, to include, among the securities that the Company is then registering, securities owned by such holder, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of its

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securities will not limit the number of Registrable Securities sought to be included by the Holders of Registrable Securities.

1.16. Registration on Form S-3.

(a) After its initial public offering, the Company shall use its best efforts to qualify for registration on Form S-3 or any comparable or successor form or forms. After the Company has qualified for the use of Form S-3, in addition to the rights contained in the foregoing provisions of this Section 1, the Holders of Registrable Securities shall have the right to request registrations on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended methods of disposition of such shares of such Holder or Holders); provided, however, that the Company shall not be obligated to effect any such registration if (i) the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) on Form S-3 at an aggregate price to the public of less than One Million Dollars ($1,000,000) (net of any underwriters' discounts or commissions), or (ii) in the event that the Company shall furnish the certification described in Section 1.2(c) (but subject to the limitations set forth therein), or (iii) in a given twelve (12) month period, after the Company has effected one such registration in any such period, or (iv) it is to be effected more than five (5) years after the Company's initial public offering. The Company shall not be required to register in any jurisdiction in which it would be required to qualify to do business or to execute a general consent to service of process in effecting such registration.

(b) If a request complying with the requirements of Section 1.16(a) above is delivered to the Company, and the registration is for an underwritten offering, the provisions of Section 1.2(b) hereof shall apply to such registration.

(c) All expenses incurred in connection with four (4) registrations requested pursuant to Section 1.16, including (without limitation) all registration, filing, qualification, printer's and accounting fees and the reasonable fees and disbursements of one counsel for the selling Holder or Holders and counsel for the Company, shall be borne by the Company; thereafter all expenses including fees and disbursements of all counsel for the selling Holder or Holders and counsel for the Company shall be borne pro rata by the Holder or Holders participating in the S-3 registration.

2. Covenants of the Company.

2.1. Financial Statements. Subject to the restrictions set forth in this Section 2.1 below, the Company will furnish to Investors:

(a) As soon as available, but in every event not later than one hundred twenty (120) days after the close of each fiscal year, a statement of

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income and a statement of cash flows for such year, a statement of income and a statement of cash flows for such fiscal year, a balance sheet and statement of stockholders' equity as of the end of such year and complete notes to financial statements, prepared in accordance with generally accepted accounting principles, accompanied by a report of certified public accountants of nationally recognized standing selected by the Board of Directors of the Company.

(b) As soon as available, but in any event not later than forty-five (45) days after the close of each fiscal quarter other than the fourth quarter of a fiscal year, unaudited statements of income and cash flows for such fiscal quarter and an unaudited balance sheet and unaudited statement of stockholders' equity as of the end of such fiscal quarter, certified to be correct by the President of the Company, subject to normal year-end adjustments.

(c) To each Investor holding, in the aggregate, at least four hundred thousand (400,000) shares of Registrable Securities (subject to appropriate adjustment for any Recapitalization) as soon as available, but in any event within thirty (30) days after the end of each calendar month, consolidated balance sheets of the Company and its subsidiaries, if any, as of the end of such calendar month, and consolidated statements of income and cash flows for such period and for the current fiscal year to date, together with a comparison of such statements to the Company's operating plan then in effect.

(d) To each Investor holding, in the aggregate, at least four hundred thousand (400,000) shares of Registrable Securities (subject to appropriate adjustment for any Recapitalization) as soon as practicable upon approval or adoption by the Company's Board of Directors, the Company's budget and operating plan (including projected balance sheets and profits and loss and cash flow statements) for each fiscal year.

2.2. Inspection. The Company shall permit each Holder of at least four hundred thousand (400,000) shares of Registrable Securities (subject to appropriate adjustment for any Recapitalization) to visit and inspect the properties of the Company, including its corporate and financial records, and to discuss its business and finances with the officers of the Company, during normal business hours following reasonable notice and as often as may be reasonably requested.

2.3. Key Employee Insurance. The Company shall maintain term life insurance upon the life of Pamela Marrone in the minimum amount of One Million Dollars ($1,000,000) with the proceeds payable to the Company.

2.4. Nondisclosure Agreements. The Company shall require all persons now or hereafter employed by the Company or any subsidiary who have access to confidential and proprietary information of the Company or any subsidiary to enter into agreements containing

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nondisclosure and assignment of invention provisions substantially in the form attached as Exhibit E to the Series F Agreements. The Company shall require all consultants now or hereafter hired, consulted or retained by the Company or any subsidiary who have access to confidential and proprietary information of the Company or any subsidiary to enter into agreements containing nondisclosure provisions substantially in the form attached as Exhibit F to the Series F Agreements.

2.5. Right of First Refusal as to New Securities.

(a) The Company hereby grants to each Investor a right of first refusal to purchase, on a pro rata basis, all or any part of the New Securities (as defined below) that the Company may, from time to time, propose to sell and issue, subject to the terms and conditions set forth below. For purposes of this Section 2.5, an Investor shall mean any Investor who holds at least one hundred thousand (100,000) shares of Registrable Securities (subject to appropriate adjustment for any Recapitalization). An Investor's pro rata share for purposes of this Section 2.5 shall equal a fraction, the numerator of which is the number of shares of capital stock of the Company owned by such Investor and the denominator of which is the total number of shares of capital stock of the Company owned by all of the Investors.

(b) "New Securities" shall mean any capital stock of the Company whether now authorized or not, and rights, options or warrants to purchase capital stock, and securities of any type whatsoever that are, or may become, convertible into or exchangeable for capital stock; provided, however, that the term "New Securities" does not include (A) the Series F Preferred Stock issuable under the Series F Agreements (including any amendment hereto) or the shares of Common Stock issuable upon conversion thereof; (B) securities offered to the public pursuant to a registration statement or document; (C) securities issued for the acquisition of another corporation or division of a corporation by the Company by merger, purchase of substantially all the assets of such corporation or division or other reorganization resulting in the ownership by the Company of not less than fifty-one percent (51%) of the voting power of such corporation; (D) securities issued as a result of any stock split, stock dividend or reclassification of Common Stock, distributable on a pro rata basis to all holders of Common Stock; (E) the issuance of securities pursuant to the conversion or exercise of convertible or exercisable securities; (F) a total of not more than three million five hundred thousand (3,500,000) shares of Common Stock issued to officers, directors, employees or consultants of the Company pursuant to stock option plans of the Company (subject to appropriate adjustment for any Recapitalization) and the related underlying options; (G) not more than fifty thousand (50,000) shares of Common Stock issued, in each instance, pursuant to the issuance of stock warrants or other securities or rights to persons or entities with which the Company has business relationships, other than officers, directors or employees of the Company, provided such issuances are for other than primarily equity financing purposes; (H) any capital stock of the Company's operating subsidiary engaged in the internet business named

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NaturalAg.com. or such other name as the Company may decide whether now authorized or not, and rights, options or warrants to purchase capital stock, and securities of any type whatsoever that are, or may become, convertible or exchangeable for capital stock; or (I) securities issued in connection with a strategic alliance, joint venture, or licensing arrangement approved by the Board of Directors, provided such issuances are for other than primarily equity financing purposes.

(c) In the event the Company intends to issue New Securities, it shall give each Investor written notice of such intention, describing the type of New Securities to be issued, the price thereof and the general terms upon which the Company proposes to effect such issuance. Each Investor shall have twenty (20) days from the date of any such notice to agree to purchase all or part of its pro rata share of such New Securities for the price and upon the general terms and conditions specified in the Company's notice by giving written notice to the Company stating the quantity of New Securities to be so purchased. Each Investor shall have a right of over allotment such that if any Investor fails to exercise its right hereunder to purchase its total pro rata portion of the New Securities, the other Investors may purchase such portion on a pro rata basis, by giving written notice to the Company within five (5) days from the date that the Company provides written notice to the other Investors of the amount of New Securities with respect to which such nonpurchasing Investor has failed to exercise its rights hereunder.

(d) In the event any Investor fails to exercise the foregoing right of first refusal with respect to any New Securities within such twenty (20) day period (or the additional five (5) day period provided for over allotments), the Company may within one hundred twenty (120) days thereafter sell any or all of such New Securities not agreed to be purchased by the Investors, at a price and upon general terms no more favorable to the purchasers thereof than specified in the notice given to each Investor pursuant to paragraph (c) above. In the event the Company has not sold such New Securities within such one hundred twenty (120) day period, the Company shall not thereafter issue or sell any New Securities without first offering such New Securities to the Investors in the manner provided above.

2.6. Election of Directors.

(a) In the event that the Company incurs cumulative net losses in excess of Seven Million Dollars ($7,000,000) calculated in accordance with generally accepted accounting principles as reflected in the Company's quarterly or annual financial statements (a "Default"), then commencing on the tenth day following such Default and continuing thereafter until the date on which such Default is cured, the Company shall use its best efforts to increase the size of the Board of Directors such that a majority of the directors will be designated by the Investors owning a majority in interest of the Preferred Stock held by all Investors (the "Provisional Directors"), as discussed below. The Investors shall be entitled to designate the Provisional Directors at any annual meeting

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or special meeting called for such purpose or at any adjournment thereof. The Company shall use its best efforts, and the Founders agree to vote their shares, to accomplish such action as shall be required for the Investors to designate and elect the Provisional Directors. For purposes of this Section 2.6(a), such Default shall be cured only at such time that the Company has achieved a cumulative operating profit with respect to the period commencing on and continuing after the date that the Company first began operations, calculated in accordance with generally accepted accounting principles as reflected in the Company's quarterly or annual financial statements. Upon such cure each Investor agrees to vote its shares to remove the Provisional Directors.

(b) In the event that, pursuant to Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation, (i) the Company offers to purchase outstanding shares of Series F Preferred Stock, Series E Preferred Stock, Series D Preferred Stock or Series

C Preferred Stock, or all of such Preferred Stock, and (ii) the holders of at least twenty percent (20%) of the outstanding shares, previously issued by the Company, of the respective and applicable series accept the offer, and the Company fails (the "Failure") so to purchase such shares of the Series F Preferred Stock, Series E Preferred Stock, Series D Preferred Stock or Series C Preferred Stock as applicable (each, an "Affected Series"), the Company shall use its best efforts to increase the size of the Board of Directors such that a majority of the directors (the "Provisional Directors") may be designated by the holders of all of the outstanding shares of the Affected Series as discussed below. The holders of the shares of the Affected Series, shall be entitled to designate the Provisional Directors at any annual meeting or special meeting called for such purpose or at any adjournment thereof. The Company shall use its best efforts, and the Founders and the Investors agree to vote their shares, to accomplish such action as shall be required for the holders of the Affected Series to designate and elect the Provisional Directors. For purposes of this Section 2.6(b), such Failure shall be cured upon payment in full of those amounts required to be paid (as of the date of such cure) as set forth in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation. Upon such cure each Investor agrees to vote its shares to remove the Provisional Directors and to decrease the size of the Board of Directors to the size that existed immediately prior to the date of the Failure.

2.7. Additional Equity Investment. The Company may form an operating subsidiary for the business purpose of establishing an internet business to be named NaturalAg.com, or such other name as the Company may decide (a "Subsidiary"). In the event that the Subsidiary concludes an initial equity financing in which the Subsidiary will receive at least $1,000,000 in aggregate proceeds from outside investors (excluding any conversion of debt into equity) (an "Initial Financing"), the Company will issue pro rata to the certain Investors to the Series E Preferred Stock Purchase Agreement between the Company and such investors dated April 14, 2000 (the "Series E Purchase Agreement') warrants to purchase shares of the type of equity securities that are sold in

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the Initial Financing (as defined in the Series E Purchase Agreement") equal to up to 25% of the outstanding capital stock of the Subsidiary immediately following the closing of the Initial Financing. The terms and conditions of the shares of equity securities of the Subsidiary subject to the Warrants, including the purchase price, shall be the same as the equity securities sold in the Initial Financing. The Warrants will terminate upon the third anniversary of the closing of the Initial Financing.

2.8. Negative Covenants.

(a) The Company shall not, so long as (i) not less than fifty percent (50%) of the Series B Preferred Stock previously issued is still outstanding, (ii) not less than fifty percent (50%) of the Series C Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given (as defined in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation), then so long as not less than twenty percent (20%) of the Series C Preferred Stock previously issued by the Company is still outstanding), (iii) not less than fifty percent (50%) of the Series D Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given, then twenty percent (20%) of the Series D Preferred Stock previously issued by the Company is outstanding), (iv) not less than fifty percent (50%) of the Series E Preferred Stock previously issued is still outstanding (except in the case where an Offer

has been made and Notice of Acceptance given, then twenty percent (20%) of the Series E Preferred Stock previously issued by the Company is outstanding), or (v) not less than fifty percent (50%) of the Series F Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given, then twenty percent (20%) of the Series F Preferred Stock previously issued by the Company is outstanding) without prior written consent of the holders of not less than a majority of the then outstanding shares of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, voting together as a single class:

(i) Merge with or into or consolidate with any other corporation, or sell, lease, or otherwise dispose of all or substantially all of its properties or assets.

(ii) Amend or repeal its Certificate of Incorporation.

(iii) With the exception of lines of credit that exist as of the date hereof, permit to be outstanding any additional indebtedness, capital lease obligations, or other long-term lease obligations created, incurred or assumed on or after February 19, 1999 in excess of Five Hundred Thousand Dollars ($500,000) in the aggregate.

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(iv) Redeem, purchase or otherwise acquire for value (or pay into or set aside for sinking fund for such purpose) any share or shares of Preferred Stock except pursuant to Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation.

(v) Redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any shares of Common Stock; provided, however, that this restriction shall not apply to the repurchase of shares of Common Stock from employees, officers, directors, consultants or other persons performing services for the Company or any subsidiary pursuant to agreements under which the Company exercises its option to repurchase such shares at cost.

(vi) Without the prior unanimous approval of the Board of Directors of the Company, enter into any transaction with any employee, consultant, officer or director of the Company or holder of ten percent (10%) of any class of capital stock of the Company, or any member of their respective immediate families or any corporation or other entity directly or indirectly controlled by one or more of such employees, consultants, officers, directors or ten percent (10%) stockholders or members of their immediate families, on terms less favorable to the Company than in would obtain in a transaction between unrelated parties.

(vii) Effect any reverse stock split, stock combination, reclassification or similar event.

(b) The Company shall not, so long as not less than fifty percent (50%) of the Series F Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given (as defined in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation), then so long as not less than twenty percent (20%) of the Series F Preferred Stock previously issued by the Company is still

outstanding), without prior written consent of the holders of not less than two-thirds (2/3) of the then outstanding Series F Preferred Stock:

(i) Authorize or issue any other class or series of stock in preference over or on a parity with the Series F Preferred Stock or any options, warrants or other rights to acquire any such class or series of stock.

(ii) Declare or pay any dividend with respect to the Common Stock unless a dividend in an amount no less per share than that declared or paid with respect to the Common Stock is declared and paid with respect to the Series F Preferred Stock.

(c) The Company shall not, so long as not less than fifty percent (50%) of the Series E Preferred Stock previously issued is still

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outstanding (except in the case where an Offer has been made and Notice of Acceptance given (as defined in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation), then so long as not less than twenty percent (20%) of the Series E Preferred Stock previously issued by the Company is still outstanding), without prior written consent of the holders of not less than two-thirds (2/3) of the then outstanding Series E Preferred Stock:

(i) Authorize or issue any other class or series of stock in preference over or on a parity with the Series E Preferred Stock or any options, warrants or other rights to acquire any such class or series of stock.

(ii) Declare or pay any dividend with respect to the Common Stock unless a dividend in an amount no less per share than that declared or paid with respect to the Common Stock is declared and paid with respect to the Series E Preferred Stock.

(d) The Company shall not, so long as not less than fifty percent (50%) of the Series D Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given (as defined in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation), then so long as not less than twenty percent (20%) of the Series D Preferred Stock previously issued by the Company is still outstanding), without prior written consent of the holders of not less than two-thirds (2/3) of the then outstanding Series D Preferred Stock:

(i) Authorize or issue any other class or series of stock in preference over or on a parity with the Series D Preferred Stock or any options, warrants or other rights to acquire any such class or series of stock.

(ii) Declare or pay any dividend with respect to the Common Stock unless a dividend in an amount no less per share than that declared or paid with respect to the Common Stock is declared and paid with respect to the Series D Preferred Stock.

(e) The Company shall not, so long as not less than fifty percent (50%) of the Series C Preferred Stock previously issued is still outstanding (except in the case where an Offer has been made and Notice of Acceptance given (as defined in Paragraph (B)(1) of Article IV of the Company's Restated Certificate of Incorporation), then so long as not less than twenty

percent (20%) of the Series C Preferred Stock previously issued by the Company is still outstanding), without prior written consent of the holders of not less than two-thirds (2/3) of the then outstanding Series C Preferred Stock:

(i) Authorize or issue any other class or series of stock in preference over or on a parity with the Series C Preferred Stock or any options, warrants or other rights to acquire any such class or series of stock.

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(ii) Declare or pay any dividend with respect to the Common Stock unless a dividend in an amount no less per share than that declared or paid with respect to the Common Stock is declared and paid with respect to the Series C Preferred Stock.

(f) The Company shall not, so long as not less than fifty percent (50%) of the Series B Preferred Stock previously issued is still outstanding, without prior written consent of the holders of not less than a majority of the then outstanding Series B Preferred Stock:

(i) Authorize or issue any other class or series of stock in preference over or on a parity with the Series B Preferred Stock or any options, warrants or other rights to acquire any such class or series of stock.

(ii) Declare or pay any dividend with respect to the Common Stock unless a dividend in an amount no less per share than that declared or paid with respect to the Common Stock is declared and paid with respect to the Series B Preferred Stock.

2.9. Confidentiality, Termination and Assignment of Certain Covenants.

(a) Each Investor agrees that it will at all times keep confidential and will not disclose or divulge, or use for any purpose other than to evaluate its investment in the Company, any confidential, proprietary or secret information which such Investor may obtain from the Company pursuant to the Company's obligations to submit financial statements, reports and other materials hereunder, or pursuant to visitation, inspection or management meeting rights granted hereunder unless such information is or becomes known to the Investor from a source other than the Company, is or becomes publicly known other than as a result of a breach by such Investor of this Section 2.9, or unless the Company gives its written consent to the Investor's release of such information, except that no such written consent shall be required (and the Investor shall be free to release such information) if such information is to be provided to such Investor's counsel or accountant or other advisor, or to an officer, director or partner of an Investor, provided that such Investor shall inform the recipient of the confidential nature of such information, and shall instruct the recipient to treat the information as confidential. The provisions of this Section 2.9 shall be in addition to, and not in substitution for, the provisions of any separate nondisclosure agreement executed by the parties hereto, and shall survive the termination of this Agreement.

(b) The covenants set forth in Section 2 (other than those contained in Section 2.9(a) above) shall terminate and be of no further force or effect upon the consummation

of the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the firm commitment underwritten

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offering of its securities to the general public.

(c) The rights to information set forth in Sections 2.1(a) and 2.1(b) may not be assigned or transferred to any third party who does not, after such assignment or transfer, hold at least forty-thousand (40,000) of the Registrable Securities (subject to appropriate adjustment for any Recapitalization), except by each Holder to any wholly owned subsidiary or parent of, or to any corporation or entity that is, within the meaning of the Act, controlling, controlled by or under common control with, any such Holder (other than to a direct competitor of the Company, as reasonably determined by the Company).

(d) The rights to information and inspection set forth in Sections 2.1(c), 2.1(d) and 2.2 may not be assigned or transferred to any third party who does not, after such assignment or transfer, hold at least four hundred thousand (400,000) shares of the Registrable Securities (subject to appropriate adjustment for any Recapitalization), except by each Holder to any wholly owned subsidiary or parent of, or to any corporation or entity that is, within the meaning of the Act, controlling, controlled by or under common control with, any such Holder (other than to a direct competitor of the Company, as reasonably determined by the Company).

2.10. Observer Rights. The Company shall permit each Holder of at least four hundred thousand (400,000) shares of the Registrable Securities (subject to appropriate adjustment for any Recapitalization) to appoint a representative (the "Representative") to attend all meetings of the Board of Directors of the Company in a nonvoting observer capacity (the "Observer Rights") and, in this respect, shall give the Representative copies of all notices to all meetings; provided, however, that such Holder hereby agrees for itself and on behalf of the Representative to hold in confidence and trust and to act in a fiduciary manner with respect to all information provided or disclosed in such meetings; and provided further that the Company reserves the right to withhold information and to exclude the Representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or would result in disclosure of trade secrets to such representative. The Observer Rights shall not be assignable in any manner, through operation of law or otherwise.

2.11. Directors and Officers Liability Insurance. The Company shall maintain a standard policy of Directors and Officers liability insurance with a policy limit of not less than Two Million Dollars ($2,000,000) if in the opinion of the Board of Directors such policy can be obtained on commercially reasonable terms.

2.12. Company Assignment of Rights. The Company agrees to assign to the Series F Holders, Series E Holders, Series D Holders and the Series C Holders, on a pro rata basis, any right it may have to purchase the shares of an employee or consultant of the Company pursuant to a right of first refusal, but only to the extent that the Company does not fully exercise its right of first refusal. The rights of the Series F Holders, Series E Holders, Series D Holders

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and the Series C Holders to exercise the Company's right of first refusal shall be governed by the

instruments conferring the grant of the right of first refusal to the Company (the "Defining Instruments"). The Series F Holders, Series E Holders, Series D Holders and the Series C Holders shall apportion their rights amongst themselves pro rata with the right of over-allotment, with such changes to the time periods as required by the relevant Defining Instrument. The Company's obligation to assign its right of first refusal shall terminate immediately prior to the closing of the first firm commitment underwritten public offering of the Company's securities to the general public or in the event of the distribution of the proceeds of the sale of substantially all of the Company's assets for cash or a merger in which the Investors receive securities that are registered under the 1934 Act.

3. Miscellaneous.

3.1. Transferability of Shares., An Investor may sell, assign, transfer or pledge all or a portion of the Preferred Stock held by such Investor, or the common stock issuable upon conversion of the Preferred Stock (the "Securities"), held by such Investor to (a) any "accredited investor" within the meaning of Securities and Exchange Commission Rule 501 of Regulation D, as currently in effect, (b) any pledgee pursuant to a pledge made by an Investor pursuant to a bona fide loan transaction which creates a mere security interest, (c) an Investor's ancestors or descendants or spouse or to a trustee for their benefit, (d) in the case of any Investor that is a company or a partnership, to its shareholders, partners, or affiliates, (e) any donee pursuant to a bona fide gift, or (f) any affiliate of the Investor, any successor company to such Investor or any of such successor company's affiliates; provided that (i) the Investor making such sale, assignment, pledge, transfer or gift shall inform the Company thereof prior to effecting it, (ii) each pledgee, transferee or donee shall first have executed and delivered to the Company a written agreement to be bound by and comply with all provisions of this Agreement and any other agreements applicable to the Investor or the Securities and (iii) if reasonably requested by the Company, such Investor, at its own expense, shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company that the proposed transfer will not require registration of the Securities under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 or Rule 144A except in unusual circumstances. The restrictions imposed by this Section 3.1 shall terminate immediately prior to the closing of the first firm commitment underwritten public offering of the Company's securities to the general public or in the event of the distribution of the proceeds of the sale of substantially all of the Company's assets for cash or a merger in which the Investors receive securities that are registered under the 1934 Act. Any securities received pursuant to any stock dividend, stock split, recapitalization, or exercise of a conversion right shall be subject to this Section 3.1 to the same extent as the shares of the Company to which they were

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issued.

3.2. Additional Series F Investors. Upon the sale of Additional Series F Shares to Additional Series F Investors, the Company, without prior action on the part of any of the Investors, shall require each Additional Series F Investor to execute this Agreement. Each such Additional Series F Investor, upon execution and delivery of this Agreement by the Company and such Additional Series F Investor, shall be deemed an Investor hereunder.

3.3. Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective

successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. The parties acknowledge that CDC Financial Services (Mauritius) Limited is a subsidiary of CDC Group plc. The parties further acknowledge that it is intended that a majority interest in CDC Group plc will in due course be sold to private investors, resulting in a change of control of CDC Group plc. Notwithstanding any provision to the contrary contained herein, the parties agree that such change of control will not affect any of the obligations, nor give rise to any rights, of any party under this Agreement, but for the avoidance of doubt the parties hereby waive any such rights which might arise under the terms of this Agreement solely as a result of such change of control.

3.4. Governing Law. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

3.5. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.6. Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

3.7. Notices. Unless otherwise provided, any notice required or permitted to be given to a party pursuant to the provisions of this Agreement shall be in writing and shall be effective upon personal delivery or three (3) days after deposit in the U.S. mail for delivery within the United States, ten (10) days after deposit in the U.S. mail for delivery outside of the United States, or one (1) day after deposit with an overnight courier, postage prepaid

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and properly addressed to the party to be notified as set forth below such party's signature or at such other address as such party may designate by ten (10) days' advance written notice to the other parties hereto.

3.8. Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

3.9. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, the Company, and any other signatories hereto, and upon the respective successors

and assigns of such signatories; provided that, without the consent of the Company and all holders of Registrable Securities then outstanding, no amendment to this Agreement may be made that (i) modifies this Section 3.9 or (ii) would effect the holders of the Registrable Securities in a disproportionate manner (other than any disproportionate results that are due to a difference in the relative stock ownership in the Company).

3.10. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

3.11. Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

3.12. Entire Agreement; Amendment of Prior Investors' Agreement; Waiver of Certain Rights Under Prior Investors' Agreements. Effective upon the later of (i) the Initial Closing (as defined in the Series F Agreement) and (ii) the execution and delivery of this Agreement by the Company and the Holders of a majority of the outstanding Registrable Securities (as defined in the Prior Investors' Agreement), the Prior Investors' Agreement shall be amended and restated in its entirety as set forth herein and shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, the Company and other signatories hereto, and upon the respective successors and assigns of such signatories. The Investors (as defined in the Prior Investors' Rights Agreement) hereby waive, pursuant to Section 3.9 of the Prior Investors' Agreement, the right, pursuant to Section

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2.5 of the Prior Investors' Agreement, to receive notice of and participate in the sale of shares of Series F Preferred Stock of the Company pursuant to the Series F Agreements.

IN WITNESS WHEREOF, the parties have executed this Fourth Amended and Restated Investors' Rights Agreement as of the date first above written.

AgraQuest, Inc.

By: /s/ Pamela G. Marrone

Pamela G. Marrone, President

1530 Drew Avenue
Davis, CA 95616

FOUNDERS:

Pamela G. Marrone

/s/ Pamela G. Marrone

1530 Drew Avenue
Davis, CA 95616

Duane Ewing

/s/ Duane Ewing

1530 Drew Avenue
Davis, CA 95616

Bruce Holm

/s/ Bruce Holm

2418 Northwest La Camas Drive
Camas, WA 98607

IN WITNESS WHEREOF, the parties have executed this Fourth Amended and Restated Investors' Rights Agreement as of the date first above written.

INVESTOR:

By: ______________________

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Name: ______________________

Address: ______________________

____

If an Existing Investor, please complete:

Series B Preferred Stock _________________________
Number of Shares Held

Series C Preferred Stock _________________________
Number of Shares Held

Series D Preferred Stock _________________________
Number of Shares Held

Series E Preferred Stock _________________________
Number of Shares Held

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EXHIBIT 10.2

AgraQuest, Inc.

1995 STOCK OPTION PLAN

As Amended

1. PURPOSE: This 1995 Stock Option Plan ("Plan") is established as a compensatory plan to attract, retain and provide equity incentives to selected persons to promote the financial success of AgraQuest, Inc. a Delaware corporation, (the "Company"). Capitalized terms not previously defined herein are defined in Section 17 of this Plan.

2. TYPES OF OPTIONS AND SHARES: Options granted under this Plan (the "Options") may be either (a) incentive stock options ("ISO"') within the meaning of Section 42:2 of the Internal Revenue Code of 1986, as amended (the "revenue Code"), or (b) nonqualified stock options ("NQSOs"), as designated at the time of grant. The shares of stock that may be purchased upon exercise of Options granted under this Plan (the "Shares") are shares of the common stock, $0.001 par value, of the Company.

3. NUMBER OF SHARES: The aggregate number of Shares that may be issued pursuant to Options granted under this Plan is 2,500,000 Shares, subject to adjustment as provided in this Plan. If any Option expires or is terminated without being exercised in whole or in part, the unexercised or released Shares from such Option shall be available for future grant and purchase under this Plan. At all times during the term of this Plan, the Company shall reserve and keep available such number of Shares as shall be required to satisfy the requirements of outstanding Options under this Plan.

4. ELIGIBILITY: Options may be granted to employees, officers, directors, consultants, independent contractors and advisers (provided such consultants, contractors and advisers render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction) of the Company or any Parent, Subsidiary or Affiliate of the Company. ISOs may be granted only to employees (including officers and directors who are also employees) of the Company or a Parent or Subsidiary of the Company. The Committee (as defined in Section 14) in its sole discretion shall select the recipients of Options ("Optionees"). An Optionee may be granted more than one Option under this Plan. The Company may also, from time to time, assume outstanding options granted by another company, whether in connection with an acquisition of such other company or otherwise, by either (a) granting an Option under this Plan in replacement of the option assumed by the Company, or (b) treating the assumed option as if it had been granted under this Plan if the terms of such assumed option could be applied to an Option granted under this Plan. Such assumption shall be

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permissible if the holder of the assumed option would have been eligible to be granted an Option hereunder if the other company had applied the rules of this Plan to such grant.

5. TERMS AND CONDITIONS OF OPTIONS: The Committee shall determine whether each Option is to be an ISO or an NQSO, the number of Shares subject to the Option, the exercise price of the Option, the period during which the Option may he exercised. and all other terms and conditions of the Option, subject to the following:

. 5.1 FORM OF OPTION GRANT: Each Option granted under this Plan shall be evidenced by a written Stock Option Grant (the "Grant") in such form (which need not be the same for each Optionee) as the Committee shall from time to time approve. The Grant shall comply with and be subject to the terms and conditions of this Plan.

. 5.2 DATE OF GRANT: The date of grant of an Option shall be the date on which the Committee makes the determination to grant such Option unless otherwise specified by the Committee. The Grant representing the Option will be delivered to Optionee with a copy of this Plan within a reasonable time after the granting of the Option.

. 5.3 EXERCISE PRICE: The exercise price of an Option shall be not less than 100% of the Fair Market Value of the Shares on the date the Option is granted. The exercise price of any Option granted to a person owning more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company ("Ten Percent Shareholder") shall not be less than 110% of the Fair Market Value of the Shares on the date the Option is granted.

. 5.4 EXERCISE PERIOD: Options shall be exercisable within the times or upon the events determined by the Committee as set forth in the Grant; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted, and provided further that no ISO granted to a Ten Percent Shareholder shall be exercisable after the expiration of five (5) years from the date the Option is granted.

. 5.5 LIMITATIONS ON ISOs: The aggregate Fair Market Value (determined as of the time an Option is granted) of stock with respect to which ISOs are exercisable for the first time by an Optionee during any calendar year (under this Plan or under any other incentive stock option plan of the Company or any Parent or Subsidiary of the Company) shall not exceed $100,000. If the Fair Market Value of Shares with respect to which ISOs are exercisable for the first time by an Optionee during any calendar year exceeds $100,000, the Options for the first $100,000 worth of Shares to become exercisable in such year shall be ISOs and the Options for the amount in excess of $100,000 that becomes exercisable in that year shall be NQSOs. In the event that the Revenue Code or the regulations promulgated thereunder are amended after the effective date of this Plan to provide for a different limit on the Fair Market Value of Shares

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permitted to be subject to ISOs, such different limit shall be incorporated herein and shall apply to any Options granted after the effective date of such amendment.

. 5.6 OPTIONS NON-TRANSFERABLE: Options granted under this Plan, and any interest therein, shall not be transferable or assignable by Optionee, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder, and shall be exercisable during the lifetime of Optionee only by Optionee; provided. however, that NQSOs held by an Optionee who is not an officer or director of the Company or other person (in each case, an "Insider") whose transactions in the Company's common stock are subject to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), may be transferred to such family members, trusts and charitable institutions as the Committee, in its sole discretion, shall approve at the time of the grant of such Option.

. 5.7 ASSUMED OPTIONS: In the event the Company assumes an option granted by another company, the terms and conditions of such option shall remain unchanged (except the exercise price and the number and nature of shares issuable upon exercise, which will be adjusted appropriately pursuant to Section 424 of the Revenue Code). In the event the Company elects to grant a new option rather than assuming an existing option (as specified in Section 4), such new option need not he granted at Fair Market Value on the date of grant and may instead be granted with a similarly adjusted exercise price.

6. EXERCISE OF OPTIONS:

. 6.1 NOTICE: Options may be exercised only by delivery to the Company of a written stock option exercise agreement (the "Exercise Agreement") in a form approved by the Committee (which need not be the same for each Optionee), stating the number of Shares being purchased, the restrictions imposed on the Shares, if any, and such representations and agreements regarding Optionee's investment intent and access to information, if any, as may be required by the Company to comply with applicable securities laws, together with payment in full of the exercise price for the number of Shares being purchased.

. 6.2 PAYMENT: Payment for the Shares may be made in cash (by check) or, where approved by the Committee in its sole discretion and where permitted by law: (a) by cancellation of indebtedness of the Company to the Optionee; (b) by surrender of shares of common stock of the Company having a Fair Market Value equal to the applicable exercise price of the Options that have been owned by Optionee for more than six (6) months (and which have been paid for within the meaning of the Securities and Exchange Commission ("'SEC") Rule 144 and, if such Shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares), or were obtained by Optionee in the open public market; (c) by waiver of compensation due or accrued to Optionee for

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services rendered; (d) provided that a public market for the Company's stock exists, through a "same day sale" commitment from Optionee and a broker dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby Optionee irrevocably elects to exercise The Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (e) provided that a public market for the Company's stock exists, through a "margin" commitment from Optionee and an NASD Dealer whereby Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or (f) by any combination of the foregoing.

. 6.3 WITHHOLDING TAXES: Prior to issuance of the Shares upon exercise of an Option, Optionee shall pay or make adequate provision for any federal or state withholding obligations of the Company, if applicable. Where approved by the Committee in its sole discretion, Optionee may provide for payment of withholding taxes upon exercise of the Option by requesting that the Company retain Shares with a Fair Market Value equal to the minimum amount of taxes required to be withheld. In such case, the Company shall issue the net number of Shares to Optionee by deducting the Shares retained from the Shares exercised. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined in accordance with Section 83 of the Revenue Code (the "Tax Date"). All elections by Optionees to have Shares withheld for this purpose shall be made in writing in a form acceptable to the Committee and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to The particular Shares as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Committee.

In addition, if Optionee is an Insider, and if the Company is subject to Section 16(b) of the Exchange Act, the following shall apply:

(d) the election may not be made within six (6) months of the date of grant of the Option; provided, however, that this limitation shall not apply in the event that death or disability of Optionee occurs prior to the expiration of the six (6) month period;

(e) the election must be made either six (6) months prior to the Tax Date or in the 10-day period beginning on the third day following the public release of the Company's quarterly or annual summary statement of operations; and

(f) if the Tax Date is deferred until six months after exercise of the

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Option because no election is filed under Section 83(b) of the Revenue Code, Optionee shall receive the full number of Shares with respect to which the Option is exercised, but Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

. 6.4 LIMITATIONS ON EXERCISE: Notwithstanding the exercise periods set forth in the Grant, exercise of an Option shall always be subject to the following :

6.4.1 If Optionee ceases to be employed by the Company or any Parent, Subsidiary or Affiliate of the Company for any reason except death or disability, Optionee may exercise such Optionee's ISOs to the extent (and only to the extent) that they would have been exercisable upon the date of termination, within ninety (90) days after the date of termination (or such shorter time period as may be specified in the Grant).

6.4.2 If Optionee is an insider and the Company is subject to Section 16(b) of the Exchange Act, Optionee's Option will remain exercisable until the end of the thirty (30) day period commencing on the first date on which Optionee may exercise without having a matching purchase and sale under Section 16(b). with any extension beyond ninety (90) days after termination of employment deemed to be as an NQSO, and provided further that in no event may an Option be exercisable later than the expiration date of the Option.

6.4.3 If Optionee's employment with the Company or any Parent, Subsidiary or Affiliate of the Company is terminated because of the death of Optionee or disability of Optionee within the meaning of Section 22(e)(3) of the Revenue Code, Optionee's ISOs may be exercised to the extent (and only to the extent) that they would have been exercisable by Optionee on the date of termination, by Optionee (or Optionee's legal representative) within twelve (12) months after the date of termination (or such shorter time period as may be specified in the Grant), but in any event no later than the expiration date of the ISOs.

6.4.4 The Committee shall have discretion to determine whether Optionee has ceased to be employed by the Company or any Parent, Subsidiary or Affiliate of the Company and the effective date on which such employment terminated.

6.4.5 In the case of an Optionee who is a director, independent consultant, contractor or adviser, the Committee will have the discretion to determine whether Optionee is "employed by the Company or any Parent, Subsidiary or affiliate of the Company" pursuant to the foregoing Sections.

6.4.6 The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option. provided that such minimum number will not prevent Optionee from exercising the full number of Shares as to which the Option is then exercisable.

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6.4.7 An Option shall not be exercisable unless such exercise is in compliance with the Securities Act of 1933 as amended (the "Securities Act"), all applicable state securities laws and the requirements of any stock exchange or national market system upon which the Shares may then be listed, as they are in effect on the date of exercise. The Company shall be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or national market system, and the Company shall have no liability for any inability or failure to do

7. RESTRICTIONS ON SHARES: At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) in the Grant (a) a right of first refusal to purchase all Shares that an Optionee (or a subsequent transferee) may propose to transfer to a third party and or (b) a right to repurchase a portion of or all Shares held by an Optionee upon Optionee's termination of employment or service with the Company or a Parent, Subsidiary or Affiliate of the Company, for any reason within a specified time as determined by the Committee at the time of grant at Optionee's original purchase price, the Fair Market Value of such Shares or a price determined by a formula or other provision set forth in the Grant.

8. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS: The Committee shall have the power to modify, extend or renew outstanding Options and to authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of Optionee, impair any rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered shall be treated in accordance with Section 424(h) of the Revenue Code. The Committee shall have the power to reduce the exercise price of outstanding Options without the consent of Optionees by a written notice to the Optionees affected; provided, however, that the exercise price per Share may not be reduced below the minimum exercise price that would be permitted under Section 5.3 of this Plan for Options granted on the date the action is taken to reduce the exercise price.

9. STOCK OWNERSHIP, FINANCIAL STATEMENTS: No Optionee shall have any of the rights of a shareholder with respect to any Shares subject to an Option until such Option is properly exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to such date, except as provided in this Plan. However, the Company shall make available to each Optionee in the office of the Treasurer, during the period for which Optionee has one or more Options outstanding, copies of the financial statements of the Company, consisting of, at a minimum, a balance sheet and an income statement, at such time after the close of each fiscal year of the Company as such statements are released by the Company to its shareholders. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assume their access to equivalent information.

10. NO OBLIGATION TO EMPLOY: Nothing in this Plan or any Option granted under

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this Plan shall confer on any Optionee any right to continue in the employ of, or other relationship with, the Company or any Parent, Subsidiary or Affiliate of the Company or limit in any way the right of the Company or any Parent, Subsidiary or Affiliate of the Company to terminate Optionee's employment or other relationship at any time, with or without cause.

11. ADJUSTMENT OF OPTION SHARES: In the event that the number of outstanding shares of common stock of the company is changed by a stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company without consideration, or if a substantial portion of the assets of the Company are distributed, without consideration in a spinoff or similar transaction, to the shareholders of the Company, the number of Shares available under this Plan and the number of Shares subject to outstanding Options and the exercise price per Share of such Options shall be proportionately adjusted, subject to any required action by the Board of Directors (the "Board") or shareholders of the Company and compliance with applicable securities laws; provided, however, that a fractional share shall not be issued upon exercise of any Option and any fractions of a Share that would have resulted shall either be cashed out at Fair Market Value or the number of Shares issuable under the Option shall be rounded up to the nearest whole number, as determined by the Committee; and provided further that the exercise price may not be decreased to below the par value, if any, for the Shares.

12. ASSUMPTION OF OPTIONS BY SUCCESSORS.

. 12.1 ASSUMPTION OR SUBSTITUTION:

In the event of:

(a) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly owned subsidiary, a reincorporation, or other transaction in which there is no substantial change in the shareholders of the corporation and the Options granted under this Plan are assumed by the successor corporation, which assumption shall be binding on all Optionees),

(b) a dissolution or liquidation of the Company,

(c) the sale of substantially all of the assets of the Company,

or (d) any other transaction which qualifies as a "corporate transaction" under Section 424(a) of the Revenue Code wherein the shareholders of the Company give up all of their equity interest in the Company (except for the acquisition of all or substantially all of the outstanding shares of the Company),

any or all outstanding Options may be assumed by the successor corporation, which assumption shall be binding on all Optionees. In the alternative, the successor corporation may substitute an equivalent option or provide substantially similar consideration to Optionees as was provided to shareholders (after taking into account the existing provisions of Optionee's options, such as the exercise price and the vesting schedule). The successor corporation may also issue, in place of outstanding shares of the Company held by Optionee as a result of the exercise of an Option that is subject to repurchase, substantially similar shares or other property subject to similar repurchase restrictions no

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less favorable to Optionee.

. 12.2 VESTING and EXPIRATION: In the event such successor corporation, if any, refuses to assume or substitute Options, as provided above, pursuant to a transaction described in Subsections 12.1 above, or there is no successor corporation, and if the Company is ceasing to exist as a separate corporate entity, the Options shall, notwithstanding any contrary terms in the Grant, all unexercised Options theretofore granted under the Plan shall become immediately fully vested and exercisable. Upon Optionee's exercise of his Options in accordance with the term of the Plan prior to the closing of any such dissolution, consolidation or merger, and issuance of a stock certificate for the purchased shares, the Optionee shall become a stockholder of the company with respect to such shares. If the then-outstanding Options are not exercised at the time such dissolution, merger or consolidation becomes effective, those Options shall then terminate and become null and void (and, in the case of a transaction described in Subsection 12.1(a) above, if the Company has reserved to itself a right to repurchase Shares issued on exercise of Options at the original purchase price of such Shares, such right shall terminate).

. 12.3 ADDITIONAL PROVISIONS: Subject to the foregoing provisions of this Section 12, in the event of the occurrence of any transaction described in Section 12.1, any outstanding Option shall be treated as provided in the applicable agreement or plan of merger, consolidation, dissolution, liquidation, sale of assets or other "corporate transaction".

13. ADOPTION AND SHAREHOLDER APPROVAL: This Plan shall become effective on the date that it is adopted by the Board of the Company. This Plan shall be approved by the shareholders of the Company, in any manner permitted by applicable corporate law, within twelve months before or after the date this Plan is adopted by the Board. Upon the effective date of the Plan, the Board may grant Options pursuant to this Plan; provided that, in the event that shareholder approval is not obtained within the time period provided herein, all Options granted hereunder shall terminate. No Option that is issued as a result of any increase in the number of shares authorized to be issued under this Plan shall be exercised prior to the time such increase has been approved by the shareholders of the Company and all such Options granted pursuant to such increase shall similarly terminate if such shareholder approval is not obtained. After the Company becomes subject to Section 16(b) of the Exchange Act, the Company will comply with the requirements of Rule 16b-3 with respect to shareholder approval.

14. ADMINISTRATION: This Plan may be administered by the Board or a committee appointed by the Board (the "Committee"). If at the time the Company registers under the Exchange Act, a majority of the Board is not comprised of Disinterested Persons. the Company will take appropriate steps to comply with the disinterested director requirements of Section 16(b) of the Exchange Act, which may consist of the appointment by the Board of a Committee consisting of not less than two members of the Board, each of whom is a Disinterested Person.

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As used in this Plan. references to the "Committee" shall mean either the committee appointed by the Board to administer this Plan or the Board if no committee has been established. After registration of the Company under the Exchange Act, Board members who are not Disinterested Persons may not vote on any matters affecting the administration of this Plan or on the grant of any Options pursuant to this Plan, but any such member may be counted for determining the existence of a quorum at any meeting of the Board during which action is taken with respect to Options or administration of this Plan. The interpretation by the Committee of any of the provisions of this Plan or any Option granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Option or any Shares purchased pursuant to an Option. The Committee may delegate to officers of the Company the authority to grant Options under this Plan to Optionees who are not Insiders of the Company.

15. TERM OF PLAN: Options may be granted pursuant to this Plan from time to time within a period of ten (10) years after the date on which this Plan is adopted by the Board.

16. AMENDMENT OR TERMINATION OF PLAN: The Committee may at any time terminate or amend this Plan in any respect including (but not limited to) amendment of any form of grant, exercise agreement or instrument to be executed pursuant to this Plan; provided, however, that the Committee shall not, without the approval of the shareholders of the Company. amend this Plan in any manner that requires such shareholder approval pursuant to the Revenue Code or the regulations promulgated thereunder as such provisions apply to ISO plans or pursuant to the Exchange Act or Rule 16b-3 (or its successor) promulgated thereunder.

17. CERTAIN DEFINITIONS: As used in this Plan, the following terms shall have the following meanings:

. 17.1 "PARENT" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of the Option, each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

. 17.2 "SUBSIDIARY" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

. 17.3 "AFFILIATE" means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where "control" (including the terms "controlled by" and "under common control with") means the possession, direct or

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indirect, of the power to cause the direction of the management and policies of the corporation. whether through the ownership of voting securities, by contract or otherwise.

. 17.4 "DISINTERESTED PERSON" shall have the meaning set forth in Rule 16b-3(c)(2)(i) as promulgated by the SEC under Section 16(b) of the Exchange Act, as such rule is amended from time to time and as interpreted by the SEC.

. 17.5 "FAIR MARKET VALUE" shall mean the fair market value of the Shares as determined by The Committee from time to time in good faith. If a public market exists for the Shares, the Fair Market Value shall be the average of the last reported bid and asked prices for common stock of the Company on the last trading day prior to the date of determination (or the average closing price over the number of consecutive working days preceding the date of determination as the Committee shall deem appropriate) or, in the event the common stock of the Company is listed on a stock exchange or on the NASDAQ National Market System, the Fair Market Value shall be the closing price on such exchange or quotation system on the last trading day prior to the date of determination (or the average closing price over the number of consecutive working days preceding the date of determination as the Committee shall deem appropriate).

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EXHIBIT 10.3

AGRAQUEST, INC.

2000 STOCK INCENTIVE PLAN

as Amended and Restated as of January 12, 2001

1. Purposes of the Plan. The purposes of this Stock Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of the Committees appointed to administer the Plan.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

(c) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(d) "Award" means the grant of an Option, SAR, Dividend Equivalent Right, Restricted Stock, Performance Unit, Performance Share, or other right or benefit under the Plan.

(e) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(f) "Board" means the Board of Directors of the Company.

(g) "Cause" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is

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for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's: (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity; (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability); (iii) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or a Related Entity; (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. At least 30 days prior to the termination of the Grantee's Continuous Service pursuant to (i) or (ii) above, the Administrator shall provide the Grantee with notice of the

Company's or such Related Entity's intent to terminate, the reason therefor, and an opportunity for the Grantee to cure such defects in his or her service to the Company's or such Related Entity's satisfaction. During this 30 day (or longer) period, no Award issued to the Grantee under the Plan may be exercised or purchased.

(h) "Change in Control" means a change in ownership or control of the Company effected through either of the following transactions:

(i) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which a majority of the Continuing Directors who are not Affiliates or Associates of the offeror do not recommend such stockholders accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who are Continuing Directors.

(i) "Code" means the Internal Revenue Code of 1986, as amended.

(j) "Committee" means any committee appointed by the Board to administer the Plan.

(k) "Common Stock" means the common stock of the Company.

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(l) "Company" means AgraQuest, Inc., a Delaware corporation.

(m) "Consultant" means any person (other than an Employee or a

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Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(n) "Continuing Directors" means members of the Board who either (i)

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have been Board members continuously for a period of at least thirty-six (36) months or (ii) have been Board members for less than thirty-six (36) months and were elected or nominated for election as Board members by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

(o) "Continuous Service" means that the provision of services to the

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Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or

terminated. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option granted under the Plan, if such leave exceeds ninety (90) days, and reemployment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following the expiration of such ninety (90) day period.

(p) "Corporate Transaction" means any of the following transactions:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations);

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(iii) approval by the Company's shareholders of any plan or proposal for the complete liquidation or dissolution of the Company;

(iv) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(v) acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities (whether or not in a transaction also constituting a Change in Control), but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction.

(q) "Covered Employee" means an Employee who is a "covered employee" under Section 162(m)(3) of the Code.

(r) "Director" means a member of the Board or the board of directors of any Related Entity.

(s) "Disability" means a Grantee would qualify for benefit payments under the long-term disability policy of the Company or the Related Entity to which the Grantee

provides services regardless of whether the Grantee is covered by such policy. If the Company or the Related Entity to which the Grantee provides service does not have a long-term disability plan in place, "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(t) "Dividend Equivalent Right" means a right entitling the Grantee to compensation measured by dividends paid with respect to Common Stock.

(u) "Employee" means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to

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constitute "employment" by the Company.

(v) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(w) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) Where there exists a public market for the Common Stock, the Fair Market Value shall be (A) the closing price for a Share for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Common Stock or the Nasdaq National Market, whichever is applicable or (B) if the Common Stock is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a Share on the Nasdaq Small Cap Market for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(ii) In the absence of an established market for the Common Stock of the type described in (i), above, the Fair Market Value thereof shall be determined by the Administrator in good faith.

(x) "Good Reason" means the occurrence after a Corporate Transaction, Change in Control or a Related Entity Disposition of any of the following events or conditions unless consented to by the Grantee:

(i) (A) a change in the Grantee's status, title, position or responsibilities which represents an adverse change from the Grantee's status, title, position or responsibilities as in effect at any time within six (6) months preceding the date of a Corporate Transaction, Change in Control or Related Entity Disposition or at any time thereafter or (B) the assignment to the Grantee of any duties or responsibilities which are inconsistent with the Optionee's status, title, position or responsibilities as in effect at any time within six (6) months

preceding the date of a Corporate Transaction, Change in Control or Related Entity Disposition or at any time thereafter;

(ii) reduction in the Grantee's base salary to a level below that in effect at any time within six (6) months preceding the date of a Corporate Transaction, Change in Control or Related Entity Disposition or at any time thereafter; or

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(iii) requiring the Grantee to be based at any place outside a 50-mile radius from the Grantee's job location or residence prior to the Corporate Transaction, Change in Control or Related Entity Disposition, except for reasonably required travel on business which is not materially greater than such travel requirements prior to the Corporate Transaction, Change in Control or Related Entity Disposition. "Grantee" means an Employee, Director or Consultant who receives an Award pursuant to an Award Agreement under the Plan.

(y) "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Grantee's household (other than a tenant or employee), a trust in which these persons have more than fifty percent (50%) of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than fifty percent (50%) of the voting interests.

(z) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(aa) "Non-Qualified Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(bb) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(cc) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.

(dd) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(ee) "Performance - Based Compensation" means compensation qualifying as "performance-based compensation" under Section 162(m) of the Code.

(ff) "Performance Shares" means Shares or an Award denominated in Shares which may be earned in whole or in part upon attainment of performance criteria established by the Administrator.

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(gg) "Performance Units" means an Award which may be earned in whole or in part upon attainment of performance criteria established by the Administrator and which may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.

(hh) "Plan" means this 2000 Stock Incentive Plan, as amended and restated.

(ii) "Registration Date" means the first to occur of (i) the closing of the first sale to the general public of (A) the Common Stock or (B) the same class of securities of a successor corporation (or its Parent) issued pursuant to a Corporate Transaction in exchange for or in substitution of the Common Stock, pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended; and (ii) in the event of a Corporate Transaction, the date of the consummation of the Corporate Transaction if the same class of securities of the successor corporation (or its Parent) issuable in such Corporate Transaction shall have been sold to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended on or prior to the date of consummation of such Corporate Transaction.

(jj) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(kk) "Related Entity Disposition" means the sale, distribution or other disposition by the Company, a Parent or a Subsidiary of all or substantially all of the interests of the Company, a Parent or a Subsidiary in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity, other than any Related Entity Disposition to the Company, a Parent or a Subsidiary.

(ll) "Restricted Stock" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.

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(mm) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.

(nn) "SAR" means a stock appreciation right entitling the Grantee to Shares or cash compensation, as established by the Administrator, measured by appreciation in the value of Common Stock.

(oo) "Share" means a share of the Common Stock.

(pp) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 10, below, the maximum aggregate number of Shares which may be issued pursuant to Awards initially shall be 2,000,000 Shares, and commencing with the first business day of each calendar year thereafter beginning with January 1, 2003, such maximum aggregate number of Shares shall be increased by 250,000 Shares. Notwithstanding the foregoing, subject to the provisions of Section 10, below, the maximum aggregate number of Shares available for grant of Incentive Stock Options shall be 2,000,000 Shares, and such number shall not be subject to annual adjustment as described above. The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Plan Administrator.

(i) Administration with Respect to Directors and Officers. With respect to grants of Awards to Directors or Employees who are also Officers

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or Directors of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(ii) Administration With Respect to Consultants and Other Employees. With respect to grants of Awards to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. The Board may authorize one or more Officers to grant such Awards and may limit such authority as the Board determines from time to time.

(iii) Administration With Respect to Covered Employees. Notwithstanding the foregoing, grants of Awards to any Covered Employee intended to qualify

as Performance-Based Compensation shall be made only by a Committee (or subcommittee of a Committee) which is comprised solely of two or more Directors eligible to serve on a committee making Awards qualifying as Performance-Based Compensation. In the case of such Awards granted to Covered Employees, references to the "Administrator" or to a "Committee" shall be deemed to be references to such Committee or subcommittee.

(iv) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection (a), such Award shall be presumptively valid as of its grant date to the extent permitted by the Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

(i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted

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hereunder;

(iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan;

(viii) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

5. Eligibility. Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee, Director or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees, Directors or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Type of Awards. The Administrator is authorized under the Plan to award any type of arrangement to an Employee, Director or Consultant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of (i) Shares, (ii) an Option, a SAR or similar right with a fixed or variable price related to the Fair Market Value of the Shares

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and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or (iii) any other security with the value derived from the value of the Shares. Such awards include, without limitation, Options, SARs, sales or bonuses of Restricted Stock, Dividend Equivalent Rights, Performance Units or Performance Shares, and an Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as Non-Qualified Stock Options. For this purpose, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the date the Option with respect to such Shares is granted.

(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in share price, earnings per share, total stockholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to

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elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Award Exchange Programs. The Administrator may establish one or more programs under the Plan to permit selected Grantees to exchange an Award under the Plan for one or more other types of Awards under the Plan on such terms and conditions as determined by the Administrator from time to time.

(g) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(h) Individual Option and SAR Limit. The maximum number of Shares with respect to which Options and SARs may be granted to any Grantee in any fiscal year of the Company shall be five hundred thousand (500,000) Shares. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 10, below. To the extent required by Section 162(m) of the Code or the regulations thereunder, in applying the foregoing limitation with respect to a Grantee, if any Option or SAR is canceled, the canceled Option or SAR shall continue to count against the maximum number of Shares with respect to which Options and SARs may be granted to the Grantee. For this purpose, the repricing of an Option (or in the case of a SAR, the base amount on which the stock appreciation is calculated is reduced to reflect a reduction in the Fair Market Value of the Common Stock) shall be treated as the cancellation of the existing Option or SAR and the grant of a new Option or SAR.

(i) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.

(j) Term of Award. The term of each Award shall be the term stated in the Award Agreement, provided, however, that the term of an Incentive Stock Option

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shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(k) Transferability of Awards. Incentive Stock Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Grantee, only by the Grantee; provided, however, that the Grantee may designate a beneficiary of the Grantee's Incentive Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator. Other Awards may be transferred by gift or through a domestic relations order to members of the Grantee's Immediate Family to the extent provided in the Award Agreement or in the manner and to the extent determined by the Administrator.

(l) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

7. Award Exercise or Purchase Price, Consideration and Taxes.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option:

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant; or

(B) granted to any Employee other than an Employee described in the preceding paragraph, the per Share exercise price shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Non-Qualified Stock Option, the per Share exercise price shall be not less than of the Fair Market Value per Share on the date of grant.

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(iii) In the case of Awards intended to qualify as Performance-Based Compensation, the exercise or purchase price, if any, shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(iv) In the case of other Awards, such price as is determined by the Administrator.

(v) Notwithstanding the foregoing provisions of this Section 7(a), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the principles of Section 424(a) of the Code.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following, provided that the portion of the consideration equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(i) cash;

(ii) check;

(iii) delivery of Grantee's promissory note with such recourse, interest, security, and redemption provisions as the Administrator determines as appropriate;

(iv) if the exercise or purchase occurs on or after the Registration Date, surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(v) with respect to Options, if the exercise occurs on or after the Registration Date, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate

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exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(vi) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an Incentive Stock Option. Upon exercise of an Award, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

8. Exercise of Award.

(a) Procedure for Exercise; Rights as a Stockholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement.

(ii) An Award shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(v). Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of an Option or other Award. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Award Agreement or Section 10, below.

(b) Exercise of Award Following Termination of Continuous Service.

(i) An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the

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Award Agreement.

(ii) Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

(iii) Any Award designated as an Incentive Stock Option to the extent not exercised within the time permitted by law for the exercise of Incentive Stock Options following the termination of a Grantee's Continuous Service shall convert automatically to a

Non-Qualified Stock Option and thereafter shall be exercisable as such to the extent exercisable by its terms for the period specified in the Award Agreement.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, the maximum number of Shares with respect to which Options and SARs may be granted to any Grantee in any fiscal year of the Company, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or similar event affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies or any

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similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

11. Corporate Transactions/Changes in Control/Related Entity Dispositions. Except as may be provided in an Award Agreement:

(a) In the event of any Corporate Transaction, each Award which is at the time outstanding under the Plan automatically shall become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately prior to the specified effective date of such Corporate Transaction, for all of the Shares at the time represented by such Award. Effective upon the consummation of the Corporate Transaction, all outstanding Awards under the Plan

shall terminate. However, all such Awards shall not terminate if the Awards are, in connection with the Corporate Transaction, assumed by the successor corporation or Parent thereof. In addition, an outstanding Award under the Plan shall not so fully vest and be exercisable and released from such limitations if and to the extent: (i) such Award is, in connection with the Corporate Transaction, either assumed by the successor corporation or Parent thereof or replaced with a comparable Award with respect to shares of the capital stock of the successor corporation or Parent thereof or (ii) such Award is to be replaced with a cash incentive program of the successor corporation which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award; provided, however, that such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights immediately upon termination of the Grantee's Continuous Service (substituting the successor employer corporation for "Company or Related Entity" for the definition of "Continuous Service") if such Continuous Service is terminated by the successor company without Cause or voluntarily by the Grantee with Good Reason within twelve (12) months of the Corporate Transaction. The determination of Award comparability above shall be made by the Administrator.

(b) Following a Change in Control (other than a Change in Control which also is a Corporate Transaction) and upon the termination of the Continuous Service of a Grantee if such Continuous Service is terminated by the Company or Related Entity without Cause or voluntarily by the Grantee with Good

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Reason within twelve (12) months of a Change in Control, each Award of such Grantee which is at the time outstanding under the Plan automatically shall become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately upon the termination of such Continuous Service.

(c) Effective upon the consummation of a Related Entity Disposition, for purposes of the Plan and all Awards, the Continuous Service of each Grantee who is at the time engaged primarily in service to the Related Entity involved in such Related Entity Disposition shall be deemed to terminate and each Award of such Grantee which is at the time outstanding under the Plan automatically shall become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights for all of the Shares at the time represented by such Award and be exercisable in accordance with the terms of the Award Agreement evidencing such Award. However, such Continuous Service shall be not be deemed to terminate if such Award is, in connection with the Related Entity Disposition, assumed by the successor entity or its Parent. In addition, such Continuous Service shall not be deemed to terminate and an outstanding Award under the Plan shall not so fully vest and be exercisable and released from such limitations if and to the extent: (i) such Award is, in connection with the Related Entity Disposition, either to be assumed by the successor entity or its parent or to be replaced with a comparable Award with respect to interests in the successor entity or its parent or (ii) such Award is to be replaced with a cash incentive program of the successor entity which preserves the compensation element of such Award

existing at the time of the Related Entity Disposition and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award; provided, however, that such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights immediately upon termination of the Grantee's Continuous Service (substituting the successor employer entity for "Company or Related Entity" for the definition of "Continuous Service") if such Continuous Service is terminated by the successor entity without Cause or voluntarily by the Grantee with Good Reason within twelve (12) months of the Related Entity Disposition. The determination of Award comparability above shall be made by the Administrator.

(d) Notwithstanding the foregoing, in the event of a Corporate Transaction, Change in Control or Related Entity Disposition which is also intended to constitute a "pooling of interests" under generally accepted accounting principles, the Administrator shall take such actions, if any, which are specifically recommended by an independent accounting firm retained by the Company to the extent reasonably necessary in order to insure that the Corporate

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Transaction, Change in Control or Related Entity Disposition, as the case may be, will qualify as a pooling of interests, including without limitation, (i) deferring the exercisability or payment of an Award, (ii) providing that payment in respect of an Award will be made in the form of cash, Shares or securities of a successor or acquiror of the Company, or a combination of the foregoing and (iii) providing for the extension of the term of any Award to the extent necessary to accommodate the foregoing, but not beyond the maximum term permitted for any Award.

(e) The portion of any Incentive Stock Option accelerated under this Section 11 in connection with a Corporate Transaction, Change in Control or Related Entity Disposition shall remain exercisable as an Incentive Stock Option under the Code only to the extent the $100,000 dollar limitation of Section 422(d) of the Code is not exceeded. To the extent such dollar limitation is exceeded, the accelerated excess portion of such Option shall be exercisable as a Non-Qualified Stock Option.

12. Effective Date and Term of Plan. The Plan, prior to this amendment and restatement (the "Original Plan") became effective upon its adoption by the Board on November 28, 2000. The Original Plan was approved by stockholders on November 30, 2000. The amendments to the Original Plan in the form of this amendment and restatement shall become effective upon their adoption by the Board; provided, however, that the amendements to Sections 6(j), 7(a)(ii)(A), 8(a)(i), 12 and 19 of the Original Plan shall become effective upon the later of their adoption by the Board or the Registration Date. The Plan shall continue in effect for a term of ten (10) years from the effective date of the Original Plan unless sooner terminated. Subject to Section 17, below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with Applicable Laws, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) Any amendment, suspension or termination of the Plan (including termination of the Plan under Section 12, above) shall not affect Awards already granted, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

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14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without cause.

16. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

17. Stockholder Approval. The grant of Incentive Stock Options under the Original Plan was approved by stockholders on November 30, 2000. The grant of Incentive Stock Options under the Plan with respect to the increased number of Shares shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted excluding Incentive Stock Options issued in substitution for outstanding Incentive Stock Options pursuant to Section 424(a) of the Code. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws. The Administrator may grant Incentive

Stock Options under the Plan with respect to such increased number of Shares prior to approval by the stockholders, but until such approval is obtained, no such Incentive Stock Option shall be exercisable. In the event that such stockholder approval is not obtained within the twelve (12) month period provided above, all Incentive Stock Options previously granted under the Plan with respect to the increased number of Shares shall be exercisable as Non-

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Qualified Stock Options.

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EXHIBIT 10.4

AGRAQUEST, INC.

2001 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 2001 Employee Stock Purchase Plan of AgraQuest, Inc.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Parents or Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means either the Board or a committee of the Board that is responsible for the administration of the Plan as is designated from time to time by resolution of the Board.

(b) "Applicable Laws" means the legal requirements relating to the administration of employee stock purchase plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to participation in the Plan by residents therein.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means a change in ownership or control of the Company effected through the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Common Stock" means the common stock of the Company.

(g) "Company" means AgraQuest, Inc. a Delaware corporation.

(h) "Compensation" means an Employee's base salary from the Company or one or more Designated Parents or Subsidiaries, including such amounts of base salary as are deferred by the Employee (i) under a qualified cash or deferred arrangement described in Section

401(k) of the Code, or (ii) to a plan qualified under Section 125 of the Code. Compensation does not include overtime, bonuses, annual awards, other incentive payments, reimbursements or other expense allowances, fringe benefits (cash or noncash), moving expenses, deferred compensation, contributions (other than contributions described in the first sentence) made on the Employee's behalf by the Company or one or more Designated Parents or Subsidiaries under any employee benefit or welfare plan now or hereafter established, and any other payments not specifically referenced in the first sentence.

(i) "Corporate Transaction" means any of the following transactions:

(1) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(2) the sale, transfer or other disposition of all or

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substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations) in connection with complete liquidation or dissolution of the Company;

(3) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(4) acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities (whether or not in a transaction also constituting a Change in Control), but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction

(j) "Designated Parents or Subsidiaries" means the Parents or Subsidiaries which have been designated by the Administrator from time to time as eligible to participate in the Plan.

(k) "Effective Date" means the effective date of the Registration Statement relating to the Company's initial public offering of its Common Stock. However, should any Designated Parent or Subsidiary become a participating company in the Plan after such date, then such entity shall designate a separate Effective Date with respect to its employee-participants.

(l) "Employee" means any individual, including an officer or director, who is an employee of the Company or a Designated Parent or Subsidiary for purposes of Section 423 of the Code. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the

individual's employer. Where the period of leave exceeds ninety (90) days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the ninety-first (91st) day of such leave, for purposes of determining eligibility to participate in the Plan.

(m) "Enrollment Date" means the first day of each Offer Period.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(o) "Exercise Date" means the last day of each Purchase Period.

(p) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(1) Where there exists a public market for the Common Stock, the Fair Market Value shall be (A) the closing price for a share of Common Stock for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Common Stock or the Nasdaq National Market, whichever is applicable or (B) if the Common Stock is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a share of Common Stock on the Nasdaq Small Cap Market for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(2) In the absence of an established market of the type described in (1), above, for the Common Stock, and subject to (3), below, the Fair Market Value thereof shall be determined by the Administrator in good faith; or

(3) On the initial Effective Date of the Plan, the Fair Market Value shall be the price at which the Board, or if applicable, the Pricing Committee of the Board, and the underwriters agree to offer the Common Stock to the public in the initial public offering of the

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Common Stock.

(q) "Offer Period" means an Offer Period established pursuant to Section 4 hereof.

(r) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(s) "Participant" means an Employee of the Company or Designated Parent or Subsidiary who is actively participating in the Plan.

(t) "Plan" means this Employee Stock Purchase Plan.

(u) "Purchase Period" means a period of approximately six months, commencing on January 1 and July 1 of each year and terminating on the next following June 30 or December 31, respectively; provided, however, that the first Purchase Period shall commence on the Effective Date and shall end on June 30, 2002.

(v) "Purchase Price" shall mean an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(w) "Reserves" means the sum of the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(x) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Eligibility.

(a) General. Any individual who is an Employee on a given Enrollment Date shall be eligible to participate in the Plan for the Offer Period commencing with such Enrollment Date.

(b) Limitations on Grant and Accrual. Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (taking into account stock owned by any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Parent or Subsidiary, or (ii) which permits the Employee's rights to purchase stock under all employee stock purchase plans of the Company and its Parents or Subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the Fair Market Value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time. The determination of the accrual of the right to purchase stock shall be made in accordance with Section 423(b)(8) of the Code and the regulations thereunder.

(c) Other Limits on Eligibility. Notwithstanding Subsection (a), above, the following Employees shall not be eligible to participate in the Plan for any relevant Offer Period: (i) Employees whose customary employment is fewer than 20 hours per week; (ii) Employees whose customary employment is for not more than 5 or fewer months in any calendar year; (iii) Employees who are subject to rules or laws of a foreign jurisdiction that prohibit or make impractical the participation of such Employees in the Plan.

4. Offer Periods.

(a) The Plan shall be implemented through overlapping or consecutive Offer Periods until such time as (i) the maximum number of shares of Common Stock available for issuance under the Plan shall have been purchased or (ii)

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the Plan shall have been sooner terminated in accordance with Section 19 hereof. The maximum duration of an Offer Period shall be twenty-seven (27) months. Initially, the Plan shall be implemented through overlapping Offer Periods of twenty-four (24) months' duration commencing each January 1 and July 1 following the Effective Date (except that the initial Offer Period shall commence on the Effective Date and shall end on December 31, 2003).

(b) A Participant shall be granted a separate option for each Offer Period in which he or she participates. The option shall be granted on the Enrollment Date and shall be automatically exercised in successive installments on the Exercise Dates ending within the Offer Period.

(c) An Employee may participate in only one Offer Period at a time. Accordingly, except as provided in Section 4(d), an Employee who wishes to join a new Offer Period must withdraw from the current Offer Period in which the Employee is participating and must also enroll in the new Offer Period prior to the Enrollment Date for that Offer Period.

(d) If on the first day of any Purchase Period in an Offer Period in which a Participant is participating, the Fair Market Value of the Common Stock is less than the Fair Market Value of the Common Stock on the Enrollment Date of the Offer Period (after taking into account any adjustment during the Offer Period pursuant to Section 18(a)), the Offer Period shall be terminated automatically and the Participant shall be enrolled automatically in the new Offer Period which has its first Purchase Period commencing on that date, provided the Participant is eligible to participate in the Plan on that date and has not elected to terminate participation in the Plan.

(e) Except as specifically provided herein, the acquisition of Common Stock through participation in the Plan for any Offer Period shall neither limit nor require the acquisition of Common Stock by a Participant in any subsequent Offer Period.

5. Participation.

(a) All Employees eligible to participate in the Plan as of the first Enrollment Date of the Plan shall automatically become a Participant in the initial Offer Period and be eligible to make a direct payment for shares of the Common Stock on the Exercise Date of the first Purchase Period of the initial Offer Period in an amount equal to the lesser of the aggregate Purchase Price for one thousand five hundred (1,500) shares of the Common Stock or ten percent (10%) of the Compensation that he or she receives during the first Purchase Period of the initial Offer Period, unless a change of status notice in the form of Exhibit C is filed to the contrary or the Participant withdraws from the Plan as provided in Section 10. No subscription agreement need be filed by the Participant with the Company in order to participate in the initial Offer Period.

(b) After the initial Offer Period, an eligible Employee may become a Participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the designated payroll office of the Company at least five (5) business days prior to the Enrollment Date for the Offer Period in which such participation will commence, unless a later time for filing the subscription agreement is set by the Administrator for all eligible Employees with respect to a given Offer Period.

(c) No payroll deductions shall be made for Participants during the first Purchase Period of the initial Offer Period, unless a change of status notice in the form of Exhibit C to this Plan authorizing the commencement of payroll deductions is filed by the Participant with the Company after a registration statement on Form S-8 has been filed with the Securities Exchange Commission with respect to the shares being offered under the Plan. If so elected, the rate of payroll deductions during the first Purchase Period of the initial Offer Period may exceed the maximum permitted rate under Section 6(a) to make-up for missed payroll deductions that would otherwise have been made prior to the filing of the Form S-8 with respect to the Plan. Payroll deductions for a Participant in the initial Offer Period shall commence at the rate elected by the Participant under Section 6(a) with the first partial or full payroll period beginning on the first day of the second Purchase Period of the initial Offer Period and shall end on the last complete payroll period during the initial Offer Period, unless a change of status notice in the form of Exhibit B is filed to the contrary or the Participant withdraws from the Plan as provided in Section 10. No direct payment for shares shall be permitted after the first Purchase Period of the initial Offer Period. Therefore, Participants in the initial Offer Period must file the change of status notice in the form of Exhibit C to this Plan prior to the commencement of the second Purchase Period of the initial Offer Period to assure maximum participation rights under the Plan.

(d) For Offer Periods, other than the initial Offer Period, payroll

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deductions for a Participant shall commence with the first partial or full payroll period beginning on the Enrollment Date and shall end on the last complete payroll period during the Offer Period, unless sooner terminated by the Participant as provided in Section 10.

6. Payroll Deductions.

(a) At the time a Participant files a subscription agreement, the Participant shall elect to have payroll deductions made during the Offer Period in amounts between one percent (1%) and not exceeding ten percent (10%) of the Compensation which the Participant receives during the Offer Period.

(b) All payroll deductions made for a Participant shall be credited to the Participant's account under the Plan and will be withheld in whole percentages only. A Participant may not make any additional payments into such account.

(c) A Participant may discontinue participation in the Plan as provided in Section 10, or may increase or decrease the rate of payroll deductions during the Offer Period by completing and filing with the Company a change of status notice in the form of Exhibit B to this Plan authorizing an increase or decrease in the payroll deduction rate. During the first Purchase

Period of the initial Offer Period, a Participant may discontinue participation in the Plan as provided in Section 10 or initiate payroll deductions by completing and filing with the Company a change of status notice in the form of Exhibit C to this Plan. Any increase or decrease in the rate of a Participant's payroll deductions shall be effective with the first full payroll period commencing five (5) business days after the Company's receipt of the change of status notice unless the Company elects to process a given change in participation more quickly. A Participant's subscription agreement (as modified by any change of status notice) shall remain in effect for successive Offer Periods unless terminated as provided in Section 10. The Administrator shall be authorized to limit the number of payroll deduction rate changes during any Offer Period.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a Participant's payroll deductions shall be decreased to 0%. Payroll deductions shall recommence at the rate provided in such Participant's subscription agreement, as amended, at the time when permitted under Section 423(b)(8) of the Code and Section 3(b) herein, unless such participation is sooner terminated by the Participant as provided in Section 10.

7. Grant of Option. On the Enrollment Date, each Participant shall be granted an option to purchase (at the applicable Purchase Price) up to a number of shares of the Common Stock determined by dividing ten percent (10%) of such Participant's Compensation receivable during the Offer Period by the applicable Purchase Price, subject to adjustment as provided in Section 18 hereof; provided (i) that such option shall be subject to the limitations set forth in Sections 3(b), 6 and 12 hereof, and (ii) the maximum number of shares of Common Stock a Participant shall be permitted to purchase in any Purchase Period shall be one thousand (1,000) shares (except as provided in Section 5(a), above), subject to adjustment as provided in Section 18 hereof. Exercise of the option shall occur as provided in Section 8, unless the Participant has withdrawn pursuant to Section 10, and the option, to the extent not exercised, shall expire on the last day of the Offer Period.

8. Exercise of Option. Unless a Participant withdraws from the Plan as provided in Section 10, below, the Participant's option for the purchase of shares will be exercised automatically on each Exercise Date, by applying the accumulated payroll deductions in the Participant's account to purchase the number of full shares subject to the option by dividing such Participant's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price, provided, however, that if a Participant is eligible to purchase any shares on the first Exercise Date of the initial Offer Period by direct payment, the Participant's option for the purchase of shares will be exercised to the extent possible by applying the direct payment amount made by the Participant to purchase the number of full shares subject to the option by dividing such direct payment amount by the applicable Purchase Price and, provided, further, in no event may the accumulated payroll deductions and direct payment amounts applied to the purchase of shares on the first Exercise Date of the initial Offer Period exceed the amount specified in Section 5(a). No fractional shares will be purchased; any payroll deductions accumulated in a Participant's account which are not sufficient to purchase a full share shall be carried over to the next Purchase

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Period or Offer Period, whichever applies, or returned to the Participant, if the Participant withdraws from the Plan. Any direct payment amounts which are not sufficient to purchase a full share shall be returned to the Participant. Notwithstanding the foregoing, any amount remaining in a Participant's account or any excess direct payment amount following the purchase of shares on the Exercise Date due to the application of Section 423(b)(8) of the Code or Section 7, above, shall be returned to the Participant and shall not be carried over to the next Offer Period or Purchase Period. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by the Participant.

9. Delivery. Upon receipt of a request from a Participant after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to such Participant, as promptly as practicable, of a certificate representing the shares purchased upon exercise of the Participant's option.

10. Withdrawal; Termination of Employment.

(a) A Participant may either (i) withdraw all but not less than all the payroll deductions credited to the Participant's account and not yet used to exercise the Participant's option under the Plan or (ii) terminate future payroll deductions, but allow accumulated payroll deductions to be used to exercise the Participant's option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. During the first Purchase Period of the initial Offer Period, a Participant may elect to withdraw from the Plan and not purchase shares by direct payment by giving written notice to the Company in the form of Exhibit C to this Plan. If the Participant elects withdrawal alternative (i) described above, all of the Participant's payroll deductions credited to the Participant's account will be paid to such Participant as promptly as practicable after receipt of notice of withdrawal, such Participant's option for the Offer Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offer Period. If the Participant elects withdrawal alternative (ii) described above, no further payroll deductions for the purchase of shares will be made during the Offer Period, all of the Participant's payroll deductions credited to the Participant's account will be applied to the exercise of the Participant's option on the next Exercise Date, and after such Exercise Date, such Participant's option for the Offer Period will be automatically terminated. If a Participant withdraws from an Offer Period, payroll deductions will not resume at the beginning of the succeeding Offer Period unless the Participant delivers to the Company a new subscription agreement.

(b) Upon termination of a Participant's employment relationship (as described in Section 2(k)) at a time more than three (3) months from the next scheduled Exercise Date, the payroll deductions credited to such Participant's account during the Offer Period but not yet used to exercise the option will be returned to such Participant or, in the case of his/her death, to the person or persons entitled thereto under Section 14, and such Participant's option will be automatically terminated. Upon termination of a Participant's employment relationship (as described in Section 2(k)) within three (3) months of the next scheduled Exercise Date, the payroll deductions credited to such Participant's account during the Offer Period but not yet used to exercise the option will be applied to the purchase of Common Stock on the next Exercise

Date, unless the Participant (or in the case of the Participant's death, the person or persons entitled to the Participant's account balance under Section 14) withdraws from the Plan by submitting a change of status notice in accordance with subsection (a) of this Section 10. In such a case, no further payroll deductions will be credited to the Participant's account following the Participant's termination of employment and the Participant's option under the Plan will be automatically terminated after the purchase of Common Stock on the next scheduled Exercise Date.

11. Interest. No interest shall accrue on the payroll deductions credited to a Participant's account under the Plan.

12. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 18, the maximum number of shares of Common Stock which shall be made available for sale under the Plan shall be 350,000 shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning in 2002 equal to the lesser of (i) 200,000 shares, (ii) three-quarters of one percent (.75%) of the outstanding shares of Common Stock on such date, or (iii) a lesser number of shares determined by the Administrator. If the Administrator determines that on a given Exercise Date the number of shares with respect to which options are to be exercised may exceed (x) the number of

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shares then available for sale under the Plan or (y) the number of shares available for sale under the Plan on the Enrollment Date(s) of one or more of the Offer Periods in which such Exercise Date is to occur, the Administrator may make a pro rata allocation of the shares remaining available for purchase on such Enrollment Dates or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine to be equitable, and shall either continue all Offer Periods then in effect or terminate any one or more Offer Periods then in effect pursuant to Section 19, below.

(b) A Participant will have no interest or voting right in shares covered by the Participant's option until such shares are actually purchased on the Participant's behalf in accordance with the applicable provisions of the Plan. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

(c) Shares to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

13. Administration. The Plan shall be administered by the Administrator which shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by Applicable Law, be final and binding upon all persons.

14. Designation of Beneficiary.

(a) Each Participant will file a written designation of a beneficiary who is to receive any shares and cash, if any, from the Participant's account under the Plan in the event of such Participant's death. If a Participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the Participant (and the Participant's spouse, if any) at any time by written notice. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living (or in existence) at the time of such Participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Administrator), the Administrator shall deliver such shares and/or cash to the spouse (or domestic partner, as determined by the Administrator) of the Participant, or if no spouse (or domestic partner) is known to the Administrator, then to the issue of the Participant, such distribution to be made per stirpes (by right of representation), or if no issue are known to the Administrator, then to the heirs at law of the Participant determined in accordance with Section 27.

15. Transferability. Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 14 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Administrator may treat such act as an election to withdraw funds from an Offer Period in accordance with Section 10.

16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to Participants at least annually, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Reserves, the Purchase Price, the maximum

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number of shares that may be purchased in any Offer Period or Purchase Period, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, (ii) any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the Reserves and the Purchase Price.

(b) Corporate Transactions. In the event of a proposed Corporate Transaction, each option under the Plan shall be assumed by such successor corporation or a parent or subsidiary of such successor corporation, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption, to shorten the Offer Period then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Administrator shortens the Offer Period then in progress in lieu of assumption in the event of a Corporate Transaction, the Administrator shall notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offer Period as provided in Section 10. For purposes of this Subsection, an option granted under the Plan shall be deemed to be assumed if, in connection with the Corporate Transaction, the option is replaced with a comparable option with respect to shares of capital stock of the successor corporation or Parent thereof. The determination of option comparability shall be made by the Administrator prior to the Corporate Transaction and its determination shall be final, binding and conclusive on all persons.

19. Amendment or Termination.

(a) The Administrator may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18, no such termination can affect options previously granted, provided that the Plan or any one or more Offer Periods may be terminated by the Administrator on any Exercise Date or by the Administrator establishing a new Exercise Date with respect to any Offer Period and/or any Purchase Period then in progress if the Administrator determines that the termination of the Plan or such one ore more Offer Periods is in the best interests of the Company and its stockholders. Except as provided in Section 18 and this Section 19, no amendment may make any change in any option theretofore granted which adversely affects the rights of any Participant without the consent of affected Participants. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any

other Applicable Law), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any Participant rights may be considered to have been "adversely affected," the Administrator shall be entitled to limit the frequency and/or number of changes in the amount withheld during Offer Periods, change the length of Purchase Periods within any Offer Period, determine the length of any future Offer Period, determine whether future Offer Periods shall be consecutive or overlapping, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable and which are consistent with the Plan.

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20. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Administrator at the location, or by the person, designated by the Administrator for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an option, the Company may require the Participant to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned Applicable Laws. In addition, no options shall be exercised or shares issued hereunder before the Plan shall have been approved by stockholders of the Company as provided in Section 23.

22. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 19.

23. Stockholder Approval. Continuance of the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.

24. No Employment Rights. The Plan does not, directly or indirectly, create any right for the benefit of any employee or class of employees to purchase any shares under the Plan, or create in any employee or class of employees any right with respect to continuation of

employment by the Company or a Designated Parent or Subsidiary, and it shall not be deemed to interfere in any way with such employer's right to terminate, or otherwise modify, an employee's employment at any time.

25. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Designated Parent or Subsidiary, participation in the Plan shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Designated Parent or Subsidiary, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

26. Effect of Plan. The provisions of the Plan shall, in accordance with its terms, be binding upon, and inure to the benefit of, all successors of each Participant, including, without limitation, such Participant's estate and the executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Participant.

27. Governing Law. The Plan is to be construed in accordance with and governed by the internal laws of the State of California (as permitted by Section 1646.5 of the California Civil Code, or any similar successor provision) without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of the parties, except to the extent the internal laws of the State of California are superseded by the laws of the United States. Should any provision of the Plan be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

28. Dispute Resolution. The provisions of this Section 28 (and as restated in the Subscription Agreement) shall be the exclusive means of resolving disputes arising out of or relating to the Plan. The Company and the Participant, or their respective successors (the "parties"), shall attempt in good faith to resolve any disputes arising out of or relating to the Plan by negotiation between individuals who have authority to settle the controversy.

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Negotiations shall be commenced by either party by notice of a written statement of the party's position and the name and title of the individual who will represent the party. Within thirty (30) days of the written notification, the parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to resolve the dispute. If the dispute has not been resolved by negotiation, the parties agree that any suit, action, or proceeding arising out of or relating to the Plan shall be brought in the United States District Court for the Eastern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of Yolo) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or

more provisions of this Section 28 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

Exhibit A

AgraQuest, Inc. 2001 Employee Stock Purchase Plan
SUBSCRIPTION AGREEMENT

Effective with the Offer Period beginning on:
[_] ESPP Effective Date [_] January 1, 200__ or [_] July 1, 200__

1. Personal Information

Legal Name (Please Print) ____________ (Last) (First) (MI)		____________ Location	____________ Department
Street Address ____________		____________ Daytime Telephone	
City, State/Country, Zip ____________		____________ E-Mail Address	
Social Security No. __ __ __ - __ __ - __ __ __ __	Employee I.D. No. ____________	____________ Manager	Mgr. Location

2. Eligibility Any Employee whose customary employment is more than 20 hours per week and more than 5 months per calendar year, and who does not hold (directly or indirectly) five percent (5%) or more of the combined voting power of the Company, a parent or a subsidiary, whether in stock or options to acquire stock is eligible to participate in the AgraQuest, Inc. 2001 Employee Stock Purchase Plan (the "ESPP"); provided, however, that Employees who are subject to the rules or laws of a foreign jurisdiction that prohibit or make impractical the participation of such Employees in the ESPP are not eligible to participate.
3. Definitions Each capitalized term in this Subscription Agreement shall have the meaning set forth in the ESPP.
4. Subscription I hereby elect to participate in the ESPP and subscribe to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the ESPP. I have received a complete copy of the ESPP and a prospectus describing the ESPP and understand that my participation in the ESPP is in all respects subject to the terms of the ESPP. The effectiveness of this Subscription Agreement is dependent on my eligibility to participate in the ESPP.
5. Payroll Deduction Authorization I hereby authorize payroll deductions from my Compensation during the Offer Period in the percentage specified below (payroll reductions may not exceed 10% of Compensation nor $21,250 per calendar year):

Percentage to be Deducted (circle one)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%

6. ESPP Accounts and Purchase Price I understand that all payroll deductions will be credited to my account under the ESPP. No additional payments may

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be made to my account. No interest will be credited on funds held in the account at any time including any refund of the account caused by withdrawal from the ESPP. All payroll deductions shall be accumulated for the purchase of Company Common Stock at the applicable Purchase Price determined in accordance with the ESPP.

7. Withdrawal and Changes in Payroll Deduction I understand that I may discontinue my participation in the ESPP at any time prior to an Exercise Date as provided in Section 10 of the ESPP, but if I do not withdraw from the ESPP, any accumulated payroll deductions will be applied automatically to purchase Company Common Stock. I may increase or decrease the rate of my payroll deductions in whole percentage increments to not less than one percent (1%) on one occasion during any Purchase Period by completing and timely filing a Change of Status Notice. Any increase or decrease will be effective for the full payroll period occurring after five (5) business days from the Company's receipt of the Change of Status Notice.
8. Perpetual Subscription I understand that this Subscription Agreement shall remain in effect for successive Offer Periods until I withdraw from participation in the ESPP, or termination of the ESPP.
9. Taxes I have reviewed the ESPP prospectus discussion of the federal tax consequences of participation in the ESPP and consulted with tax consultants as I deemed advisable prior to my participation in the ESPP. I hereby agree to notify

the Company in writing within thirty (30) days of any disposition (transfer or sale) of any shares purchased under the ESPP if such disposition occurs within two (2) years of the Enrollment Date (the first day of the Offer Period during which the shares were purchased) or within one (1) year of the Exercise Date (the date I purchased such shares), and I will make adequate provision to the Company for foreign, federal, state or other tax withholding obligations, if any, which arise upon the disposition of the shares. In addition, the Company may withhold from my Compensation any amount necessary to meet applicable tax withholding obligations incident to my participation in the ESPP, including any withholding necessary to make available to the Company any tax deductions or benefits contingent on such withholding.

10. Dispute Resolution The provisions of this Section 10 and Section 28 of the ESPP shall be the exclusive means of resolving disputes arising out of or relating to the Plan. The Company and I, or our respective successors (the "parties"), shall attempt in good faith to resolve any disputes arising out of or relating to the Plan by negotiation between individuals who have authority to settle the controversy. Negotiations shall be commenced by either party by notice of a written statement of the party's position and the name and title of the individual who will represent the party. Within thirty (30) days of the written notification, the parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to resolve the dispute. If the dispute has not been resolved by negotiation, the Company and I agree that any suit, action, or proceeding arising out of or relating to the Plan shall be brought in the United States District Court for the Eastern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of Yolo) and that we shall submit to the jurisdiction of such court. The Company and I irrevocably waive, to the fullest extent permitted by law, any objection we may have to the laying of venue for any such suit, action or proceeding brought in such court. THE COMPANY AND I ALSO EXPRESSLY WAIVE ANY RIGHT WE HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 10 or Section 28 of the ESPP shall for any reason be held invalid or unenforceable, it is the specific intent of the Company and I that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.
11. Designation of Beneficiary In the event of my death, I hereby designate the following person or trust as my beneficiary to receive all payments and shares due to me under the ESPP: [_] I am single [_] I am married

<TABLE>

<S>	<C>
Beneficiary (please print)________________________ (Last) (First) (MI)	Relationship to Beneficiary (if any)
Street Address ________________________	________________________
City, State/Country, Zip ________________________	

</TABLE>

12. Termination of ESPP I understand that the Company has the right, exercisable in its sole discretion, to amend or terminate the ESPP at any time, and a termination may be effective as early as an Exercise Date, including the establishment of an alternative date for an Exercise Date within each outstanding Offer Period.

<TABLE>

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<S> <C>
Date: ______________________ Employee Signature: ____

____
spouse's signature (if beneficiary is other than spouse)

</TABLE>

Exhibit B

AgraQuest, Inc. 2001 Employee Stock Purchase Plan
CHANGE OF STATUS NOTICE

____
Participant Name (Please Print)

____
Social Security Number

==

Withdrawal From ESPP

I hereby withdraw from the AgraQuest, Inc. 2001 Employee Stock Purchase Plan (the "ESPP") and agree that my option under the applicable Offer Period will be automatically terminated and all accumulated payroll deductions credited to my account will be refunded to me or applied to the purchase of Common Stock depending on the alternative indicated below. No further payroll deductions will be made for the purchase of shares in the applicable Offer Period and I shall be eligible to participate in a future Offer Period only by timely delivery to the Company of a new Subscription Agreement.

[_] Withdrawal and Purchase of Common Stock

Payroll deductions will terminate, but your account balance will be applied to purchase Common Stock on the next Exercise Date. Any remaining balance will be refunded.

[_] Withdrawal Without Purchase of Common Stock

Entire account balance will be refunded to me and no Common Stock will be purchased on the next Exercise Date provided this notice is submitted to the Company ten (10) business days prior to the next Exercise Date.

==

[_] Change in Payroll Deduction

I hereby elect to change my rate of payroll deduction under the ESPP as follows (select one):

Percentage to be Deducted (circle one) 1% 2% 3% 4% 5% 6% 7% 8% 9% 10%

An increase or a decrease in payroll deduction will be effective for the first full payroll period commencing no fewer than five (5) business days following the Company's receipt of this notice, unless this change is processed more quickly.

==

==

[_] Change of Beneficiary [_] I am single [_] I am married

This change of beneficiary shall terminate my previous beneficiary designation under the ESPP. In the event of my death, I hereby designate the following person or trust as my beneficiary to receive all payments and shares due to me under the ESPP:

<TABLE>
<S> <C>
Beneficiary (please print) ____ Relationship to Beneficiary (if any)
(Last) (First) (MI)

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Street Address ____   ____________________________________

City, State/Country, Zip ____
</TABLE>

==

<TABLE>
<S>   <C>
Date: _______________________   Employee Signature: ____

____
spouse's signature (if new beneficiary is other than spouse)
</TABLE>

Exhibit C

AgraQuest, Inc. 2001 Employee Stock Purchase Plan
CHANGE OF STATUS NOTICE
DURING FIRST PURCHASE PERIOD OF THE INITIAL OFFER PERIOD

____
Participant Name (Please Print)

____
Social Security Number

==

Withdrawal From ESPP

I hereby withdraw from the AgraQuest, Inc. 2001 Employee Stock Purchase Plan (the "ESPP") and agree that my option under the applicable Offer Period will be automatically terminated. No payroll deductions will be made for the purchase of shares in the initial Offer Period and I shall be eligible to participate in a future Offer Period only by timely delivery to the Company of a new Subscription Agreement.

[_] Withdrawal Without Purchase by Direct Payment

I elect not to purchase shares by direct payment during the first Purchase Period of the initial Offer Period.

==

[_] Initiate Payroll Deduction During First Purchase Period of Initial Offer Period

I hereby elect to initiate payroll deduction under the ESPP as follows (select one):

Percentage to be Deducted (circle one)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%

To the extent possible, the rate of payroll deduction will exceed the percentage indicated to yield the correct amount of withholding on the Exercise Date to cover payroll periods during which no withholding for participation in the Plan was made.

I understand that this notice and payroll withholding rate shall remain in effect for successive Offer Periods until I withdraw from participation in the ESPP, change withholding rates, or the ESPP terminates.

An increase or a decrease in payroll deduction or direct payment percentage will be effective for the first full payroll period commencing no fewer than five (5) business days following the Company's receipt of this notice, unless this change is processed more quickly.

==

==

Designation of Beneficiary

In the event of my death, I hereby designate the following person or trust as my beneficiary to receive all payments and shares due to me under the ESPP:
[_] I am single   [_] I am married

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<TABLE>
<S> <C>

Beneficiary (please print) ______________________________ (Last) (First) (MI)	Relationship to Beneficiary (if any)
Street Address ______________________________	______________________________
City, State/Country, Zip ______________________________	

</TABLE>

==

<TABLE>
<S> <C>

Date: ____________________	Employee Signature: ______________________________
	______________________________ spouse's signature (if new beneficiary is other than spouse)

</TABLE>

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EXHIBIT 10.5

CONFIDENTIAL

LEASE

LEASE, dated July 8, 1998, between JIM JOSEPH, not individually, but as TRUSTEE FOR THE JIM JOSEPH REVOCABLE TRUST, having an address c/o Interland, 1480 Drew Avenue, Suite 100 Davis, California 95616 ("Lessor") and AGRAQUEST, INC., a Delaware corporation, having an address at 1530 Drew Avenue, Davis, California 95616 ("Lessee")

WHEREAS, Lessor is the owner of that certain parcel of real Premises consisting of approximately 1.28 acres located in the City of Davis, County of Yolo, and State of California, as more particularly described in Exhibit A annexed hereto and made a part hereof (the "Land"); and

WHEREAS, Lessor is constructing on the Land, in accordance with the exhibits and outline described in Exhibit B annexed hereto and made a part hereof (the "Site Plan"), a building that will contain approximately 12,960 square feet of gross floor area, to be known as 1530 Drew Avenue (the "Building"); and certain tenant improvements therein in accordance with the plans and specifications described in Exhibit D annexed hereto, as the same may be modified pursuant to Paragraph 3.1 below. The Land, the Building and the Tenant Improvements (defined below) are collectively referred to hereinafter as the "Premises"; and

WHEREAS, Lessor is willing to lease to Lessee the Premises on the terms set forth.

NOW, THEREFORE, Lessor and Lessee hereby agree as follows:

1. Demise.

Lessor hereby leases to Lessee and Lessee hereby leases from Lessor (a) the Building, which shall include an area of approximately 12,960 square feet of gross floor area, as shown on the floor plan (the "Floor Plan") annexed hereto as Exhibit C, (b) the Tenant Improvements and the exclusive use of the entire area of the Land shown on the site plan annexed hereto as Exhibit B (the "Site Plan").

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2. Term.

2.1 The term of this Lease shall be a period of ten (10) years, commencing on the date (the "Commencement Date") on which the following event shall have occurred: (a) Lessor shall have received a final or temporary final certificate of occupancy or similar governmental authorization for the Building (including the Tenant Improvements, as hereinafter defined).

2.2 Upon the satisfaction of the conditions described in Paragraph 2.1 above, Lessor and Lessee shall execute a Notice of Commencement Date specifying the actual Commencement Date of the Lease, in a form to be approved by Lessor and Lessee.

2.3 On the Commencement Date of this Lease, Lessee shall pay to Lessor a deposit in the amount of One Hundred Eighty Five Thousand Seven Hundred Dollars, ($185,700.00). Provided Lessee is in compliance with all terms and provisions of this Lease, and is not in default hereunder, Lessor shall release to Lessee one quarter of the deposit, or Forty Six Thousand Four Hundred and Twenty-five Dollars, ($46,425.00), at the end of the 36th month, the 48th month, the 60th month and the 72nd month so that the total deposit in the amount of ($185,700.00) shall be returned to Lessee by the end of the 72nd month. The deposit shall be placed by Lessor into one-year interest earning certificates of deposit at Wells Fargo Bank or Bank of America, and annual interest shall be paid to Lessee within thirty days of the expiration of each one-year certificate of deposit.

3. Construction of Tenant Improvements.

3.1 (a) Lessor shall construct at its sole cost and expense the Building, in accordance with Exhibit B annexed hereto. Lessor shall also construct in the Building at its sole cost and expense except as specifically provided herein, the Tenant Improvements in accordance with the plans and specifications described in Exhibit D annexed hereto, as the same may be modified in accordance with this Paragraph 3.1 (the "Plans and Specifications"), which Plans and Specifications have been approved by Lessor and Lessee. (Such construction of the Building and the Tenant Improvements is hereinafter referred to as the "Work".)

(b) Lessor shall file the Plans and Specifications with the appropriate governmental authorities and shall take whatever action shall be necessary (including paying all filing fees and other costs, and cooperating with Lessee in making any required modifications of the Plans and Specifications) to obtain and maintain all governmental permits and

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authorizations which may be required in connection with the Work.

(c) Lessor shall, with all due diligence, perform and complete the Work in a good and workmanlike manner, with only new materials, and free of all mechanics', materialmen's and other liens or claims. Lessor shall construct the Tenant Improvements according to Plans and Specifications approved by Lessee.

(d) In the performance of the Tenant Improvements, Lessor shall use all reasonable efforts to conform with the preliminary budget of $560,000.00 for the Tenant Improvements. If the final cost of the Tenant Improvements, including all necessary permits and design fees, exceeds the total allowance of $400,000.00, the additional cost shall be paid by Lessee to Lessor, prior to the Commencement of the term of this Lease.

(e) For the purposes of this Lease, the term "Tenant Improvements" shall be deemed to include only the items identified in Exhibit D annexed hereto. All other improvements necessary for or related to the Premises shall be deemed to be "Building" improvements as generally depicted in Exhibit B annexed hereto.

(f) Tenant Improvement construction cost shall be deemed to mean only the aggregate of the following costs incurred by Owner in connection with the Work:

(i) Payments made to the general contractor, subcontractors, materialmen, and suppliers;

(ii) All fees, and all permits, licenses and inspection costs paid to governmental entities exercising jurisdiction over the Work;

(iii) Fees for engineers, architects and other reasonably required professional consultants;

(iv) Utility connection fees;

(v) Signage, for interior and as required by code.

3.2 Lessor will permit Lessee and Lessee's agents, suppliers, contractors and workmen to enter the Building prior to the Commencement Date to enable Lessee, at Lessee's sole expense, to install telephones, computers, alarm systems and certain other fixtures and equipment as may be required by Lessee to make the Building ready for Lessee's occupancy, provided that Lessee and its agents, contractors, workmen and suppliers shall exercise commercially reasonable efforts not to materially

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interfere with or delay the completion of construction of the Building or the Tenant Improvements to be done by Lessor, and to avoid material interference with any other activities of Lessor on the Land. If Lessor shall reasonably determine that any such material interference or delay has been or may be caused, Lessor shall notify Lessee in writing thereof, whereupon Lessee shall exercise commercially reasonable efforts to cause a termination or modification of the activities which have caused, or may cause, any such material interference or delay for as long as and to the extent as shall reasonably be necessary. If Lessee shall fail to cause a termination or modification of such activities, Lessor shall have the right, on written notice to Lessee, to cause Lessee or such agent, contractor, workman or supplier causing such material interference or delay to leave the Building for as long as and to the extent reasonably necessary to bring about a termination or modification of those activities which have caused, or may cause, any such material interference or delay. Lessee agrees that any such entry into the Building shall be at risk and Lessor shall not be liable in any way for any injury, loss or damage which may occur to any of Lessee's property or Lessee's installations made in the Building, unless such injury, loss or damage shall have been proximately caused by the negligence, gross negligence or intentional misconduct of Lessor or any agent, employee, contractor, subcontractor, licensee or invitee of Lessor. Subject to the conduct of Lessor referenced immediately above, Lessee agrees to indemnify, defend and hold Lessor harmless from and against all liabilities, costs, damages, fees and expenses arising out of the activities of Lessee or its agents, contractors, suppliers or workmen in or about the Building prior to the Commencement Date. In addition, prior to the initial entry to the Building by Lessee and by each agent, contractor, supplier or workman of Lessee pursuant to this Paragraph 3.2, Lessee shall furnish Lessor with certificates evidencing policies of insurance covering Lessor as an insured party with the following coverages and in the following amounts: (i) Combined Single Limit, Bodily Injury and Premises Damage Insurance in an amount not less than $1,000,000.00 per occurrence and $2,000.000.00 general aggregate; and (ii) Workers' Compensation Insurance in the amount of the statutory maximum with an employees liability coverage of at least $1,000,000.00.

4. Rent.

4.1 (a) Lessee shall pay to Lessor as rent during the term of this Lease, the sum of $1,857,000.00 payable in advance in equal monthly installments on or before the first day of each month during the term hereof. The monthly rent for the first twelve months of the Lease shall be $15,475.00 per month. Said rent shall be subject to adjustment as provided in Subparagraph (b) of this Paragraph 4, and shall be in addition to all other amounts (including, without limitation, real property taxes and assessments, utilities, and maintenance of the Premises, Parking Area and Common Area) required to be paid Lessee pursuant to the provisions of this Lease.

(b) On the first anniversary date of the Commencement Date (or, in the event said first anniversary date occurs on a date other than the first day of a calendar month, on the first day of the thirteenth full calendar

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month of the term of this Lease,) and on each succeeding anniversary date thereof, the annual rent for the next succeeding twelve-month period of the term of this Lease shall be increased by the percentage increase, if any, in the revised Consumer Price Index for All Urban Consumers--San Francisco, Oakland and San Jose Metropolitan Area, for all items (1982-84= 100) as published by the Untied States Department of Labor, Bureau of Labor Statistics, using the Consumer Price Index for the month and year in which the Commencement Date occurs, as the base with which all future comparisons will be made. In no event, however, shall the annual rent be less than the amount paid in the previous year. In the event the index specified above is either unavailable or is no longer published, the most comprehensive official index then published by the United States Department of Labor, Bureau of Labor Statistics which mostly clearly approximates the Index specified above shall be substituted in place thereof. The rental increase referred to herein shall be calculated on a cumulative basis, but in no event will it exceed Four Percent (4%) nor be less than Two Percent (2%) in any one lease year.

(c) If the term of this Lease commences on a date other than the first day of a calendar month, rent for the period from the date of commencement of the term hereof through the last day of the calendar month in which such term commences shall be prorated on the basis of a thirty-day month, and rent for the first full or fractional month of the term of this Lease shall be payable on the date of commencement of said term. In the event the term of this Lease ends on a day other than the last day of the calendar month, rent for the period from the first day of the last calendar month of such term to the end of such term shall be prorated on the basis of a thirty-day month.

(d) The installments of the rent specified herein shall be paid, without deduction or offset, and without prior notice or demand to Lessor at 1480 Drew Avenue, Suite 100, Davis, California 95616, or at such other address as Lessor may from time to time specify by written notice to Lessee. All amounts of money payable by Lessee to Lessor hereunder, if not paid when due, shall bear interest from the due date until paid at the rate of 10% per annum.

5. First Right of Refusal.

5.1 Provided that Lessee is not in default under this Lease, Lessor hereby grants to Lessee the exclusive right, at Lessee's option, to negotiate a lease for a building on the remaining unimproved portion of Lot 6 of University Research Park. Upon receipt by Lessor of a written offer by any party for purchase or build-to-suit of the remainder of Lot 6, or should Lessor elect to build a speculative building, Lessor shall notify Lessee, in writing, by certified mail, whereupon Lessee shall have sixty (60) days from the date such notice is mailed in which to exercise Lessee's right to negotiate a lease for said remainder of Lot 6. Lessee shall exercise its right to negotiate a lease by notifying Lessor, in writing, and by certified mail, within the initial sixty (60) day period. In the event Lessee fails or declines to exercise its right of

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first refusal to negotiate a lease for said lot, Lessor shall be free to enter into lease negotiations with other interested parties. Lessee's rental rate per square foot for any additional building or facility must exceed the rental rate per square foot of the written offer by another party. In the event Lessor and Lessee enter into lease negotiations and terms mutually agreeable to the parties cannot be reached within an additional sixty (60) days, commencing upon Lessor's receipt of Lessee's intent to exercise this first right of refusal, Lessor shall be free to enter into lease negotiations with other interested parties.

5.2 Lessee shall pay all holding costs associated with the entirety of Lot 6, including, but not limited to, real property taxes, bonds, landscaping, and City of Davis service fees. In the event Lessor elects to cause Lot 6 to be divided and a parcel map to be recorded, Lessee's holding costs shall be reduced according to its prorata share. Lessor shall be solely liable for all costs associated with a parcel lot split.

6. Use; Compliance with Law: Condition of the Premises.

6.1 The Building shall be used and occupied only for office, light assembly, research, and related purposes, or any other use which is reasonably comparable, and for no other purpose. The Parking Area shall be used only for the parking of automobiles by Lessee, or Lessee's employees, invitees or guests, and for vehicular ingress and egress, and only as an incident to Lessee's use and occupation of the Building. The Common Area (exclusive of any landscaped areas) shall be used only for pedestrian circulation and as eating and break areas by Lessee, or Lessee's employees, invitees or guests, only as an incident to Lessee's use and occupation of the Building.

6.2 (a) Lessor warrants to Lessee that the Premises, in its state existing on the Commencement Date, shall not violate any covenants or restrictions of record, or any applicable building codes, regulations or ordinances in effect on the Commencement Date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, at Lessor's sole cost and expense, to rectify promptly any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within one (1) year after the

Commencement Date, the correction of same (other than Latent Defects) shall be the obligation of Lessee at Lessee's sole cost subject to Paragraph 6.2 (b) below.

(b) Except as provided in Paragraph 6.2 (a), Lessee shall, at Lessee's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders, covenants, and restrictions of record, and requirements in effect during the term or any part of the term hereof, regulating the use by Lessee of the Building (collectively, "Legal Requirements") except that Lessee shall not be required to make any capital

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improvements of the Premises or the Building, or any alterations of the structure, foundation, exterior walls or exterior roof of the Building, in order to so comply. Except to the extent set forth in the preceding sentence, Lessor shall, at its sole cost and expense, comply with all present and future regulations, rules, laws, ordinances, and requirements of all governmental authorities (including, without limitation state, municipal, county and federal governments and their departments, bureaus, boards and officials) applicable to the Building or Premises. Lessee shall not use nor permit the use of the Building in any manner that will create waste or a nuisance.

(c) (i) Lessee shall have the right after prior written notice to Lessor, to contest, by appropriate legal proceedings diligently conducted in good faith, as its own cost and expense, the validity or application of any Legal Requirement with which Lessee is required to comply, provided that:

(A) Such contest shall not subject Lessor to any criminal penalty; and

(B) Lessee shall obtain and maintain during the pendency of any such contest a bond (or other security satisfactory to Lessor) in form and amount and issued by a surety company reasonably satisfactory to Lessor, indemnifying and protecting Lessor, the Land and the Building, from and against any and all damages, expenses, losses, injuries, fees, including, but not limited to, reasonable attorneys' fees, penalties, actions, causes of action, suits, costs, claims or judgments arising from such contest or Lessee's compliance with any such Legal Requirements.

(ii) Lessor shall execute and deliver reasonably appropriate papers which may be necessary to permit or enable Lessee so to contest the validity or application of any such Legal Requirement, provided Lessor shall be reasonably satisfied with the contents of such papers and Lessee shall indemnify and save Lessor, the band and the Building, harmless from any costs and expenses in connection therewith including, but not limited to, reasonable attorneys' fees.

6.3 (a) Lessor shall deliver the Building to Lessee clean and free of debris on the Commencement Date, and Lessor further warrants to Lessee that the plumbing, lighting, air conditioning, heating and loading, doors in the Building shall be in good operating condition on the Commencement Date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, at Lessor's sole cost, to rectify promptly such violation. Lessee's failure to give such written notice to Lessor within one (1) year after the Commencement Date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations under this Paragraph 6.3 (other than with respect to Latent Defects).

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Building in its condition existing as of the Commencement Date, subject to all applicable zoning, municipal, county and state laws,

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ordinances and regulations governing and regulating the use of the Building, and any covenants or restriction of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Building for the conduct of Lessee's business.

7. Maintenances: Repairs and Alterations.

7.1 (a) Lessee shall keep in good order, condition and repair the (i) Building and every part thereof, except for the foundation and the roof, which shall be Lessor's responsibility, including, without limiting the generality of the foregoing, all plumbing, heating, air conditioning (Lessee shall procure and maintain, at Lessee's expense, an air conditioning system maintenance contract), ventilating, electrical and lighting systems, and all equipment, fixtures, walls (interior and exterior), ceilings, floors, windows, doors, plate glass and skylights; (ii) the Parking Area; and (iii) the Common Area, including, without limitation, all landscaping and other improvements on the Common Area. Lessee shall perform any and all roof maintenance necessary to keep drains flowing. Lessor shall repair roof leaks or other necessary roof repairs and shall be responsible for any repair or defect in the foundation. To facilitate the performance by Lessee of those obligations of Lessee arising under this Paragraph 7.1, on the Commencement Date, Lessor shall assign to Lessee (to the extent assignable) all of Lessor's right, title and interest in and to all contracts, warranties and guaranties made by or received from any third party with respect to the Building, the Parking Area and the Common Area (collectively, the "Guaranties").

(b) All of Lessee's obligations to maintain and repair shall be accomplished at Lessee's sole expense. If Lessee fails to maintain and repair the interior of the Premises, Lessor may on ten (10) days prior notice, except that no notice shall be required in case of emergency, enter the Premises and perform such repair and maintenance on behalf of Lessee. In such case, Lessee shall reimburse Lessor for all costs so incurred within thirty (30) days of receipt of a written demand therefor.

7.2 On the Expiration Date, or on any sooner termination of this Lease in accordance with the terms hereof, Lessee shall surrender the Building, the Parking Area and the Common Area to Lessor in the same condition as when received, ordinary wear and tear excepted, clean and free of debris. Lessee shall repair any damage to the Building, the Parking Area and the Common Area occasioned by the removal of Lessee's trade fixtures, furnishing and equipment. Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning and plumbing in the Building in good operating condition, ordinary wear and tear excepted.

7.3 If Lessee fails to perform Lessee's obligations under this

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Paragraph 7, Lessor may, at its option (but shall not be required to), enter upon the Building, after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), to perform such obligations on Lessee's behalf, and the cost thereof together with interest thereon at the annual rate of two percent (2%) in excess of the Wells Fargo Prime Rate shall become due and payable as additional rental to Lessor together with Lessee's next rental installment. Notwithstanding anything to the contrary contained in this Paragraph 7.3, in the event that any maintenance or repairs required to be performed by Lessee pursuant to Paragraph 7.1 above cannot reasonably be completed within ten (10) days after Lessee's receipt of Lessor's notice with respect therein, Lessor shall not be permitted to exercise its right to perform such maintenance and repairs so long as Lessee shall have promptly commenced to perform such maintenance or repair obligation after discovery of the necessity therefor, Lessee at all times exercises commercially reasonable efforts to prosecute such maintenance or repairs to completion as promptly as possible, and Lessee completes such maintenance or repairs within ninety (90) days after its discovery of the need therefor.

7.4 Except for the obligations of Lessor under Paragraphs 6.2(a), 6.3(a), 9 and 14, and except for any damage caused by Lessor or any of Lessor's agents, employees, contractors, suppliers, workmen, invitees or licensees, it is intended by the parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Building or the equipment therein, whether structural or non-structural, the Parking Area or the Common Area, all of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. Lessee expressly waives the benefit of any statute now or hereinafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, the Parking Area, and/or the Common Area in good order, condition and repair.

7.5 (a) Lessee shall not, without Lessor's prior written consent, make any alterations, improvements or additions (collectively, "Alterations") in on or about the Building other than non-structural Alterations. In any event, except for the installation of any sign thereon, Lessee shall make no change or alteration to the exterior of the Building without Lessor's prior written consent. Lessor may require that Lessee remove any or all of said Alterations, including, without limitation, any signs installed on the Building, at the expiration of the term, and restore the Building to its prior condition, normal wear and tear excepted. Should Lessee make any Alterations requiring Lessor's prior approval without such approval, Lessor may require that Lessee remove any or all of the same at Lessee's sole cost and expense.

(b) Any Alterations in or about the Building that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee

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acquiring, if required, a permit to make such Alterations from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee with all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Building, which claims are or may be secured by any mechanic's or materialmen's lien against the Building, or any interest therein. Lessee shall give Lessor not less than ten (10 days written notice prior to the commencement of any work in the Building, and Lessor shall have the right to post notices of non-responsibility in or on the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend itself and Lessor against the same and shall pay and satisfy any adverse judgment that may be rendered thereon before the enforcement thereof against Lessor or the Land, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond reasonably satisfactory to Lessor in an amount equal to such contested lien, claim or demand. In addition, Lessor may require Lessee to pay Lessor's reasonable attorneys' fees and costs in participating in such action if Lessor shall decide it is in its best interest to do.

(d) Unless Lessor requires their removal, as set forth in Paragraph 7.5(a), all Alterations (including, without limitation, the Tenant Improvements) which may be made on or in the Building, shall become the property of Lessor and remain upon and be surrendered with the Building at the expiration of the term. Notwithstanding the provisions of this Paragraph 7.5(d), Lessee's machinery and equipment, other than that which is affixed to the Building so that it cannot be removed without material damage to the Building, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of Paragraph 7.2.

8.1 Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Combined Single Limit, Bodily Injury and Property Damage insurance insuring Lessor and Lessee against any liability arising out of Lessee's use, occupancy or maintenance of the Building, the Parking Area and the Common Area. Such insurance shall be a combined single limited policy in an amount not less than $1,000,000.00 per occurrence, and not less than $2,000,000.00 general aggregate, naming Lessor as additional insured.

8.2 (a) Lessee shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Premises, in the amount of the full replacement value thereof, as the same may exist from time to time, which replacement value shall be, when the Building is completed not less than the full replacement cost on the Building including either the waiver of co-insurance clause or agreed amount clause with a deductible of no more than $1,000.00, with twelve (12) months of rental income coverage benefiting Lessor, against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Building), and special extended perils ("all risk" as such term is used in the insurance

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industry). Said insurance shall provide for payment of loss thereunder to Lessor or to the holders of mortgages or deeds of trust on the Building. If Lessee shall fail to procure and maintain said insurance,

Lessor may, but shall not be required to, procure and maintain the same, but at the expense of Lessee. Lessee shall be liable for such deductible amount except if the loss or damage is proximately caused by the negligence, gross negligence or intentional misconduct of Lessor or Lessor's authorized agent.

(b) In addition to the foregoing, Lessee shall insure its fixtures, equipment and the Tenant Improvements.

8.3 Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least A Class VIII or better, or such other rating as may be required by a lender having a lien on the Building, as set forth in the most current issue of "Best's Insurance Guide". Notwithstanding anything to the contrary contained herein, Lessor acknowledges that Lessee's current blanket insurance policy, a schedule of which is annexed hereto as Exhibit E, shall, when Lessor is added as an additional insured and when the Building is included in such policy, satisfy the requirements of this Paragraph 8. No such policy shall be canceled or subject to reduction of coverage or other modification except after thirty (30) days' prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee upon demand.

8.4 Each party shall look first to any insurance in its favor before making any claim against the other party for recovery for loss or damage resulting from fire or other casualty. To the extent that such insurance is in force and collectible and to the extent permitted by law, Lessor and Lessee each hereby releases and waives all right of recovery against the other or anyone claiming through or under the other by way of subrogation or otherwise. The foregoing release and waiver shall be in force only if the insurance policies of Lessor and Lessee provide that such release or waiver does not invalidate the insurance. Each party agrees to use its commercially reasonable efforts to include in its applicable insurance policies such a provision. If the inclusion of said provision would involve an additional expense, either party, at its expense, may require such provision to be inserted in the other's policy.

8.5 (a) Lessee shall indemnify, defend, protect and hold harmless Lessor from and against any and all claims, demands, costs, damages or liabilities arising from (i) Lessee's use of the Building, the Parking Area or the Common Area, (ii) any breach or default in the performance of any obligations on Lessee's part to be performed under the terms of this Lease, or (iii) any negligence of Lessee, or any of Lessee's agents, employees, contractors, subcontractors, invitees or licensees in. or about the Building,

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the Parking Area or the Common Area. Notwithstanding the foregoing, Lessee shall not be required to indemnify Lessor against any such claims, demands, costs, damages or liabilities to the extent that any such claims, demands, costs, damages or liabilities arise from the negligence, gross negligence or intentional misconduct of Lessor or his agents, employees, contractors, subcontractors, invitees or licensees.

(b) Lessor shall indemnify, defend, protect and hold harmless Lessee from and against all claims, demands, costs, damages or liabilities arising from (i) Lessor's use of the Building, the Parking Area or the Common Area, (ii) any breach or default in the performance of any obligations on Lessor's part to be performed under the terms of this Lease, or (iii) any negligence of Lessor, or any of Lessor's agents, employees, contractors, subcontractors, invitees or licensees in or about the Building, the Parking Area or the Common Area. Notwithstanding the foregoing, Lessor shall not be required to indemnify Lessee against claims, demands or costs, damages or liabilities to the extent that any such claims, demands, costs, damages or liabilities arise from the negligence, gross negligence or intentional misconduct of Lessee or his agents, employees, contractors, subcontractors, invitees or licensees.

(c) Each party shall give the other prompt written notice of any event, or assertion of which it has knowledge concerning any claim, demand, cost, damage or liability or other obligation as to which he may request indemnification under this Lease. In the case of any third-party suit, proceeding, claim or assertion which is covered by the indemnifying party's indemnity in this Lease, the other party shall cooperate with the indemnifying party in determining the validity of such claim or assertion. The indemnifying party shall have the right to control the conduct of such defense with counsel

reasonably satisfactory to the other party (it being understood that counsel approved by the indemnifying party's insurer shall be deemed to be reasonably satisfactory counsel). The other party shall have the right, at its expense, to participate in such defense with counsel of its choice; provided, however, that the indemnifying party shall bear the reasonable fees and expenses of such counsel if representation by such counsel is appropriate in view of possible or actual conflicts of interest between the indemnifying party and the other party. The other party shall not settle or compromise any such third party suit, proceeding, claim or assertion for which the other party will seek indemnification hereunder from the indemnifying party without the prior consent of the indemnifying party. If the other party has a right against a third party (including any insurer) with respect to any matter to which any indemnity under this Lease applies, such indemnity shall be net of any amounts recovered from third parties (including any insurer) and any amounts paid to the other party by the indemnifying party shall entitle the indemnifying party, to the extent of such indemnity, to be subrogated to the rights of the other party to the extent the indemnifying party can legally do so.

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8.6 Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents, or contractors, whether such damages or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or light fixtures, or from any other cause, whether the said damage or injury results from conditions arising upon the Building, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. In the event of any injury or damage, Lessor shall indemnify, defend, protect hold harmless Lessee from and against all claims, demands, costs, damages or liabilities in connection therewith, and the provisions of Paragraph 8.5(b) above shall be applicable as to such indemnification under this Paragraph 8.6, with Lessor being the indemnifying party and Lessee being the indemnified party.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the Premises to the extent that the cost of repair is less than fifty percent (50%) of the then replacement cost of the Premises as a whole.

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises to the extent that the cost of repair is fifty percent (50%) or more of the then replacement cost of the Premises as a whole.

(c) "Insured Loss" shall herein mean damage or destruction which was caused by an event required to be covered by the insurance described in Paragraph 8.

9.2 Subject to the provisions of Paragraphs 9.4, 9.5 and 9.6, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of Premises Partial Damage, then Lessor shall, at Lessor's expense, as promptly as is reasonably practicable, repair such damage, but not Lessee's fixtures or equipment unless the same have become Lessor's property pursuant to Paragraph 7.5(d), and this Lease shall continue in full force and effect. Notwithstanding the above, except if the damage shall have been caused by the negligence or willful act of Lessor or his agents, employees, contractors, subcontractors, licensees or invitees, if the insurance proceeds received by Lessor are not sufficient to complete such repair, Lessor shall give notice to Lessee of the amount required in addition to the insurance proceeds to complete such repair along with evidence of such insufficient funds. Lessee shall contribute the required amount to Lessor within ten (10) days after Lessee has received notice from Lessor of the shortage in the insurance. When Lessee shall contribute such

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amount to Lessor, Lessor shall complete such repair as soon as reasonably possible. Lessee shall in no event have any right to reimbursement for any such amounts so contributed.

9.3 Subject to the provisions of Paragraphs 9.4, 9.5 and 9.6, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after its receipt of such notice, to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such ten (10) day period this Lease shall be canceled and terminated at the end of such ten (10) day period. Notwithstanding anything to the contrary in the foregoing, in the event that any Premises Partial Damage is caused by a negligent or willful act of Lessor or his agents, employees, contractors, subcontractors, licensees or invitees, then Lessor shall repair such damage in accordance with the requirements of this Paragraph 9.3, and Lessor shall not have the election to terminate this Lease as hereinabove set forth.

9.4 If at any time during the term of this Lease there is damage, whether or not an Insured Loss (including destruction required by any authorized public authority), which falls into the classification of Building Total Destruction, this Lease shall terminate automatically as of the date of such total destruction.

9.5 If at any time during the last two (2) months of the term of this Lease there is damage, whether or not an Insured Loss, which falls within the classification of Building Partial Damage and which will cost in excess of $10,000.00 to repair, Lessor may, at Lessor's option, cancel and terminate this Lease by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage.

9.6 (a) In the event of damage described in Paragraph 9.2 or 9.3, and Lessor or Lessee repairs or restores the Building pursuant to the provisions of this Paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Building is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any

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damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Building under the provisions of this Paragraph 9 and shall not commence such repair or restoration within sixty (60) days after the occurrence of the damage or destruction to the Building, or, having so commenced, shall fail to complete such repair or restoration within six (6) months after the occurrence of such damage or destruction, in addition to any other remedies Lessee may have, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to fifteen (15) days after the expiration of such sixty (60) day or six (6) month period, as the case may be. In such event this Lease shall terminate as of the date of such notice.

9.7 Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor.

9.8 Lessor and Lessee waive the provisions of any statutes which relate to termination of leases when leased Premises is destroyed and agree that such event shall be governed by the terms of this Lease.

10. Real Property Taxes.

10.1 (a) Lessor and Lessee acknowledge that the Land and the remainder of Lot 6 constitute a single tax lot for real property taxation purposes. Lessee shall pay to Lessor annually as its share of the Real Property Tax, as hereinafter defined, an amount equal to 100% of such Real Property Tax. Lessor shall furnish Lessee with copies of the tax bill(s) from which the determination of the Real Property Tax shall be made, and Lessee shall pay to Lessor, not later than ten (10) days prior to the delinquency date of such Real Property Tax, the applicable amount. If Lessee shall fail timely to pay its share of such Real Property Tax, Lessor shall have the right to pay the same, in which case Lessee shall repay such amount to Lessor with Lessee's next rent installment together with interest at the rate of two percent (2%) per annum in excess of the Wells Fargo Prime Rate.

10.2 Lessee shall have the right to contest or review by legal proceedings, or in such other manner as it may deem suitable (which, if instituted, Lessee shall conduct promptly at its own expense, and free of any expense to Lessor, and, if necessary, in the name of Lessor), any Real Property Tax. Lessee may defer payment to Lessor of its share of a contested item upon condition that, before instituting any such proceedings, Lessee shall furnish to Lessor security reasonably satisfactory to Lessor, sufficient to cover the amount of the contested item or items, with interest and penalties, for the period which such be expected to take, securing payment of such contested items, interest and penalties, and all costs in connection therewith. Notwithstanding

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the furnishing of any such security other than a cash deposit (which cash deposit Lessee may request Lessor to hold in an interest-bearing account), Lessee shall promptly pay to Lessor its share of such contested item or items if at any time the Land, the Building or any improvements on the Land shall be in danger of being sold, forfeited or otherwise lost or Lessor shall be subjected to criminal liability for such nonpayment. If, however, Lessee shall have made a cash deposit, in any such event Lessee may pay such contested item or items out of such deposit. Upon termination of any such contest, Lessee shall pay the amount of its share of such contested items, as finally determined in such proceeding to be due, together with its share of the costs, fees, interest, penalties and other liabilities incurred in connection therewith. When any such contested item or items shall have been paid or canceled, any balance of any such cash deposit not so applied shall, if Lessee shall have requested that such cash deposit no so applied shall, be held in an interest-bearing account, be repaid to Lessee with all interest earned thereon. Lessor, at Lessee's expense, but without separate charge to Lessee for Lessor's cooperation, will cooperate with Lessee and execute and deliver any appropriate papers which may be reasonably necessary or proper to permit Lessee to contest any such Real Property Tax. The legal proceedings herein referred to shall include appropriate proceedings to review tax assessments and appeals from orders therein and appeals from any judgments, decrees or orders, but all such proceedings shall be begun as soon as reasonably possible after the imposition or assessment of any contested item and shall be prosecuted to final adjudication or settlement with reasonable dispatch. If there shall be any refund with respect to any contested item, Lessee shall be entitled to its proportionate share thereof.

10.3 As used herein, the term "Real Property Tax" shall mean all taxes levied upon or with respect to the Land and assessments, as described below. Real Property Taxes shall include only all general real property taxes, and general and special assessments other than those initiated or consented to by Lessor after the date of this Lease, fees or assessments for transit, housing, police, fire, or other governmental services or benefits to the Land, the Building or other improvements on the Land that are now or hereafter levied or assessed against Lessor by the United States of America, the State of California, or any political subdivision, public corporation, district, or any other political or public entity, and shall also include any other tax, fee, or other excise that may be levied or assessed as a substitute for a Real Property Tax, whether or not now customary or in the contemplation of the parties on the date of this Lease. Real Property Tax shall not include, without limitation, any franchise, transfer, inheritance, or capital stock taxes or income taxes measured by the net income of Lessor from all sources or any other taxes, assessments, fees, or other charges not in the nature of a real estate tax on land or on a building.

Lessee shall not be liable for any increase in Real Property Tax arising from any transfer or other conveyance by Lessor which may result in a change of ownership or otherwise result in an increase in such assessment of the Property during the term of this Lease.

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10.4 (a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon the trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Building, or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessor shall send Lessee a written statement setting forth the taxes applicable to Lessee's personal property, along with evidence thereof, and Lessee shall pay to Lessor such taxes not later than ten (10) days prior to the delinquency date of the payment of such taxes.

11. Utilities.

Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Building and the Land. Lessor shall not be in default hereunder or be liable for any damages directly nor indirectly resulting from, nor shall the Rent be abated by reason of (1) the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services, (ii) failure to furnish or delay in furnishing any such services where such failure or delay is caused by accident or any condition or event beyond the reasonable control of Lessor, or by the making of necessary repairs or improvements to the Premises, or the Building, or (iii) the limitation, curtailment, or rationing of, or restrictions on, the use of water, electricity, gas of any other form of energy serving the Premises, or the Building, so long as such interruption in services, or failure to furnish or delay in furnishing such services is not due to negligence or willful misconduct of Lessor.

12. Assignment and Subletting.

12.1 Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all of any part of Lessee's interest in this Lease or in the Building without Lessor's prior written consent, which consent shall not be unreasonably withheld. It shall be reasonable for Lessor to withhold his consent to any proposed assignment or subletting if the financial strength and credit history of the proposed assignee or sublessee is less favorable than Lessee, or if the proposed assignee or sublessee is less experienced than Lessee in the operation of a business. Lessor shall respond to Lessee's request for consent hereunder in a timely manner, and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a material breach of this Lease.

12.2 Notwithstanding the provisions of Paragraph 12.1 hereof, Lessee may assign this Lease or sublet the Building, or any portion thereof, without Lessor's consent, to any entity which controls, is controlled by or is

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under common control with Lessee, or to any entity resulting from a merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted in the Building, provided that said assignee assumes, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease.

12.3 Regardless of Lessor's consent, no subletting or assignment shall release Lessee of Lessee's obligation or alter the primary liability of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. The acceptance of rent by Lessor from any other person shall not be deemed to be a waiver by Lessor of any provision hereof. Consent to one (I) assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of a default by any assignee of Lessee or any successor of Lessee, in the performance of any of the

terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to the subsequent assignments or subletting of this Lease or amendments or modifications to this Lease with an assignee of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

13. Defaults: Remedies.

13.1 The occurrence of any one (1) or more of the following events shall constitute a material default and breach of this Lease by Lessee:

(a) The abandonment of the Building by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from Lessor to Lessee. Such written notice shall not constitute a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes.

(c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in Paragraph 13.1(b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion within ninety (90) days after receipt of Lessor's written notice of default.

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(d) (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 12 U.S.C. (S)101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Building, or of Lessee's interest in this Lease, where possession is not restored to Lessee within sixty (60) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Building, or of Lessee's interest in this Lease, where such seizure is not discharged within sixty (60) days. Provided, however, in the event that any provision of this Paragraph 13.1 (d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any sublessee of Lessee or any successor in interest of Lessee, or any of them, was materially false.

13.2 Remedies. In the event of any such material default or breach by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) Terminate Lessee's right to possession of the Building and use of the Parking Area and Common Area, by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Building and use of the Parking Area and Common Area, to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default, including, but not limited to, the cost of recovering possession of the Building, the Common Area and the Parking Area; expenses of reletting, including necessary renovation and alteration of the Building, reasonable attorney's fees, and any real estate commission actually paid (provided that Lessor shall use commercially reasonable efforts to relet the Building as and to the extent required by law for a term or terms which may be less than or may exceed the period which would otherwise have constituted the balance of this Lease). Any other amount reasonably necessary to

compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom; and with respect to this Lease that portion of the brokerage commission, if any, paid by Lessor applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have abandoned the Building. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as

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it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the State of California. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lessee shall bear interest from the date due at the rate of two percent (2%) per annum in excess of the Wells Fargo Prime Rate.

13.3 Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within, if not otherwise specified herein, a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for performance, then, subject to Paragraph 9.6(b) above, Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

13.4 Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Building. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to three percent (3%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights or remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of rent, then rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding Paragraph 4 or any other provision of this Lease to the contrary.

13.5 In the event that a late charge is payable hereunder, whether or not collected, for three (3) installments of rent or any other monetary obligation of Lessee tinder the terms of this Lease during the term of this Lease, Lessee shall pay to Lessor, if Lessor shall so request, in addition to any other payments required under this Lease, a monthly advance installment, payable at the same time as the monthly rent, as estimated by Lessor, for Real Property Taxes and insurance expenses on the Building which are payable by Lessee under the terms of this Lease. Such fund shall be established to insure payment when due, before delinquency, of any or all such Real Property Taxes and insurance premiums. If the amounts paid to Lessor by Lessee under the provisions of this Paragraph 13.5 are insufficient to discharge the obligations of Lessee to pay such Real Property Taxes and insurance premiums, as the same become due, Lessee shall pay to Lessor, upon Lessor's demand, such additional sums necessary

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to pay such obligations. All moneys paid to Lessor under this Paragraph 13.5 may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a default in the obligations of Lessee to perform under this Lease, then any balance remaining from funds paid to Lessor under the provisions of this Paragraph 13.5 may, at the option of Lessor, be applied to the payment of any monetary default of Lessee in lieu of being applied to the payment of Real Property Tax and insurance premiums.

14. Condemnation.

If the Building or any portion thereof is taken under the power of eminent domain ("Condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Building, or more than twenty-five percent (25%) of the land area of the Common Area which is not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Building or Common Area, as applicable, remaining, except that the rent shall be reduced in the proportion that the floor area of that portion of the Building or Common Area, as applicable, taken bears to the total floor area of the Building or Common Area, as applicable. No reduction of rent shall occur if the only area taken is that which does not have a building located thereon. Any award for taking of all or any part of the Building or Common Area, as applicable, under the power of eminent domain or any payment made under the threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss or damage to Lessee's trade fixtures, removable personal property, or any improvements to the Building (excluding the Tenant Improvements) constructed by Lessee at Lessee's sole cost and expense in accordance with the terms and conditions of this Lease. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Building caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority.

15. Broker.

Lessor and Lessee represent to the other that no broker represents Lessee and Donald C. Lewis represents Lessor, and that there was no

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other broker, finder, consultant or similar person entitled to a commission, fee or other compensation in connection with the consummation of this Lease. Lessor and Lessee shall indemnify the other against all costs, expenses, damages and liabilities, including reasonable attorneys' fees and costs, arising from any claims for brokerage commissions, finder's fees or other compensation resulting from or arising out of any conversations, negotiations or actions had by the indemnifying party or any one acting on behalf of such party with any broker, finder, consultant or similar person other than Donald C. Lewis. The provisions of this Paragraph 15 shall survive the expiration or earlier termination of this Lease.

16. Estoppel Certificate.

16.1 Lessor and Lessee shall at any time, upon not less than twenty (20) days prior written notice from the other party, execute, acknowledge and deliver to such party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) (ii) stating the date to which Base Rent and additional rent and other charges are paid in advance, if any, and (iii) acknowledging that there are not, to such party's knowledge, any uncured defaults on the part of the other party hereunder, or specifying, such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser, sublessor or encumbrances of the Building, and by any prospective assignee of this Lease.

16.2 At Lessor's option, Lessee's failure to deliver such statement within such time shall be a material breach of this Lease or shall be conclusive upon Lessee (i) that this Lease is in full force and effect, without modification except as may be represented by Lessor, (ii) that there are no

uncured defaults in Lessee's performance, and (iii) that not more than one (1) month's rent has been paid in advance, or such failure may be considered by Lessor as a default by Lessee under this Lease.

16.3 Lessor's failure to deliver such statement within such time shall be conclusive upon Lessor that (i) this Lease is in full force and effect, without modification except as may be represented by Lessee, and (ii) there are no uncured defaults hereunder on the part of Lessee.

17. Lessor's Liability.

The term "Lessor" as used herein shall mean only the owner or owners at the time in question of the fee title, and except with respect to any indemnification obligation of Lessor based on an event occurring prior to any transfer of such title or interest, in the event of any transfer of such

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title or interest, Lessor herein named (and in case of any subsequent transfers then the transferor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessee or the then transferor after the time of such transfer, in which Lessee has an interest, shall be delivered to the transferee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. Severability.

The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Interest on Past-Due Obligations.

Except as expressly herein provided, any amount due to Lessor not paid when due (after any applicable notice and grace period) shall bear interest at the rate equal to the lesser of (i) two percent (2%) per annum over the Wells Fargo Prime Rate from the date due (after any applicable notice and grace period), or (ii) the maximum rate of interest then allowable by law. Payment of such interest shall not excuse or cure any default by Lessee under this Lease.

20. Incorporation of Prior Agreement: Amendments.

This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither Lessor or any employees or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use of the Building, Common Area or Parking Area by Lessee. Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Building and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease, except as otherwise specifically stated in this Lease.

21. Notice.

21.1 All bills, statements, notices, demands, requests, consents or other communications given or required to be given under this Lease shall be

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effective only if given in writing and sent by (a) certified or registered U.S. mail, postage prepaid, return receipt requested, (b) personal delivery, or (c) a recognized national overnight courier service, addressed as follows:

(i) If to Lessee:

AgraQuest, Incorporated
1530 Drew Avenue
Davis, California 95616
Attention: Pam Marrone, President
Bruce Holm, Chief Financial Officer

(ii) If to Lessor:

Jim Joseph, Trustee of The Jim Joseph Revocable Trust c/o Interland
1480 Drew Avenue, Suite 100
Davis, California 95616
Attention: Mr. Donald C. Lewis

With a copy to:

Steefel, Levitt & Weiss
One Embarcadero Center
29th Floor
San Francisco, California 94111
Attention: Alvin T. Levitt, Esq.

21.2 Any such bill, statement, notice, demand, request, consent or other communication shall be deemed to have been rendered or given on the date which is three (3) business days

after the date mailed, one (1) business day after deposit with a courier service (or if the same is not a business day, then on the next business day after delivery) or on the date of personal delivery (or if the same is not a business day, then on the next business day after delivery), or on the date sent by facsimile, followed by U.S. mail, as the case may be. Either party may change its address for delivery by giving notice to the other party as provided in Paragraph 21.1 above, except that upon Lessee's taking possession of the Building, the Building shall constitute Lessee's address for notice purposes.

22. Waiver.

No waiver by Lessor of any provision hereof shall be deemed a waiver of any other provision hereof or any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or

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approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessee's knowledge of such preceding breach at the time of acceptance of such rent.

23. Recording.

Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

24. Holding Over.

If Lessee, with Lessor's consent, remains in possession of the Building or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month-to-month upon all the provisions of this Lease pertaining to the obligations of Lessee.

25. Cumulative Remedies.

No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

26. Binding Effect: Choice of Law.

Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of Paragraph is, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State of California.

27. Subordination.

(a) This Lease, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Land and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Building shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease shall be deemed prior to such mortgage, deed of trust, or ground lease, whether

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this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder.

28. Attorney's Fees.

If either party brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, or trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court.

29. Lessor's Access.

Lessor and Lessor's agents shall have the right to enter the Building at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such repairs to the Building as Lessor may have the right to do under this Lease. Lessor may at any time place on or about the Building any ordinary "For Sale" signs and Lessor may at any time during the last ninety (90) days of the term hereof place on or about the Building any ordinary "For Lease" signs, all without rebate of rent or liability to Lessee. Lessor shall provide Lessee with not less than four (4) hours, prior telephonic notice prior to entering the Premises as permitted hereunder. No such entry by Lessor permitted hereunder shall interfere unreasonably with Lessee's use, occupation or quiet enjoyment of the Premises.

30. Signs.

Lessee shall have the right, without Lessor's consent, to place any sign(s) on or in the Building provided that such sign(s) comply with all local ordinances; and further provided that Lessee shall remove such signs at Lessee's sole cost and expense upon the expiration or earlier termination of this Lease and repair any damage to the Building caused by the installation or removal of such signs.

31. Merger.

The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing

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subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

32. Consents.

Wherever in this Lease the consent of one (1) party is required to an act of the other party, such consent shall not be unreasonably withheld or delayed.

33. Quiet Possession.

Upon Lessee paying the rent due hereunder and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Building, the Parking Area and the Common Area, for the entire term hereof Subject to all of the provisions of this Lease.

34. Common Area Rules.

Lessee agrees that Lessee will abide by, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care, and cleanliness of the Common Area and the Parking Area, and any common area within the Building if any portion of the

Building is occupied by any Lessee other than Lessee. The violations of any such rules and regulations shall be deemed a material breach of this Lease by Lessee. Lessor agrees that it shall enforce all such rules and regulations equitable between all parties subject to those rules and regulations.

35. Security Measures.

Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of Lessee, its agents and invitees from acts of third parties.

36. Easements.

Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of parcel maps and restrictions, so long as such easements, right, dedications, maps and restrictions do not unreasonably

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interfere with the use of the Building, the Parking Area or the Common Area by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material breach of this Lease.

37. Performance Under Protest.

If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right of the part of said party to institute suit for recovery of such suit. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

38. Authority.

Each individual executing this Lease on behalf of Lessee represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority reasonably satisfactory to Lessor.

39. Hazardous Materials.

39.1 "Hazardous Materials" shall mean (a) any oil, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which cause the Building to be in violation of any Hazardous Materials Laws; (b) asbestos in any form which is or during the term of this Lease becomes friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of federal or California standards, whichever is more stringent, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials, "extremely hazardous waste", "restricted hazardous waste, or toxic substances" or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. {{9601, et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. {{1801, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. {{6901, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. {{1251, et seq.; Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316, 25501, and 25316 of the California Health and Safety Code; and Article 9

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or Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20; or (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority having jurisdiction over the Building.

39.2 "Hazardous Materials Claims" shall mean any and all enforcement, cleanup, removal, remedial or other governmental or regulatory actions, agreements or orders threatened, instituted or completed pursuant to any Hazardous Materials Laws, together with any and all claims made or threatened by any third party against Lessor, Lessee or the Building arising out of a violation of any Hazardous Materials Law.

39.3 "Hazardous Materials Laws" shall mean any federal, state or local laws, ordinances, regulations or policies relating to the environment, health and safety, any Hazardous Materials (including, without limitation, the use, handling, transportation, production, disposal, discharge or storage thereof) or to industrial hygiene or the environmental conditions on, under or about the Building, including, without limitation, soil, groundwater and indoor and ambient air conditions.

39.4 Lessee shall immediately advise Lessor in writing of (i) any and all Hazardous Materials Claims, (ii) the presence of any Hazardous Materials on, under or about the Building in accordance with, without limitation, the requirements of California Health and Safety Code Section 25359.7, (iii) any remedial action taken by Lessee in response to any (A) Hazardous Materials on, under or about the Building or (B) Hazardous Materials Claims, (iv) Lessee's discovery of the presence of Hazardous Materials on, under or about any Premises adjoining the Building, and (v) Lessee's discovery of any occurrence or condition on any Premises adjoining the Building that could cause the Building any part thereof to be as "border-zone property" tinder the provisions of Health and Safety Code, Sections 25220 _et seq._ or any adopted in accordance therewith, or to be otherwise any restrictions on the ownership, occupancy, or use of the Building under any Hazardous Materials Laws. In addition, Lessee shall provide Lessor with copies of all communications with federal, state and local governments or agencies relating to Hazardous Materials Laws and all communication with any person relating to Hazardous Materials Claims.

39.5 Lessee shall promptly take any and all necessary remedial action in response to the discharge, deposit, injection, dumping, spilling, leaking, disposal or release of any Hazardous Materials by Lessee or any of Lessees agents, employees, contractors, subcontractors, suppliers, invitees, licensees or guests, on, under or about the Land, including, without limitation, the Building and any off-site contamination resulting therefrom. In the event Lessee takes any such remedial action, Lessee shall conduct and complete such remedial action (i) in compliance with all applicable federal, state and local laws, regulations, rules, ordinances and policies, and (ii) in accordance with the orders and directives of all federal, state and local governmental authorities. For the purposes of this Paragraph 39.5, Lessee shall be deemed to

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have taken all necessary remedial action if Lessee shall have reduced any discharged, deposited, injected, dumped, spilled, leaked, disposed of, or released Hazardous Material to the lowest maximum level of concentration required for such Hazardous Material by any applicable Hazardous Materials Law or federal, state or local governmental authorities having jurisdiction over the Land and any other areas that may be contaminated; provided, however, that if there shall be no such maximum level of concentration, then (A) Lessee shall have 180 days to obtain rulings from all governmental agencies having jurisdiction over the Land and any other areas that may be contaminated with respect to such level and thereafter shall promptly reduce such Hazardous Material to the lowest maximum level set forth in such rulings, or (B) if Lessee is unable timely to obtain such rulings, Lessee shall promptly reduce such Hazardous Material to a level agreed to by Lessor and Lessee, or (C) if Lessor and Lessee cannot agree to a level of concentration, then Lessee shall promptly reduce each Hazardous Material for which a level is not otherwise established in accordance with this Paragraph 39 to a level thereafter agreed to by a governmental agency having jurisdiction over the Land and any other area that may be contaminated. Nothing contained in this Paragraph 39.5 shall be deemed to amend, modify or limit in any way whatsoever the indemnification obligations of Lessee arising under Paragraph 39.6 below.

39.6 Lessee shall not create or permit to continue in existence any lien upon the Building imposed pursuant to any Hazardous Materials Law; provided, however, that Lessee may, at its

expense, contest the validity of any such lien by appropriate legal proceedings promptly initiated and conducted in good faith and with due diligence, in which case Lessee shall, at its sole cost and expense, defend itself and Lessor against the same and shall pay and satisfy or comply with any adverse judgment that may be rendered thereon before the enforcement thereof against Lessor or the Land, provided that Lessor is reasonably satisfied that (i) neither the Land nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, canceled or lost as a result of such contest, and (ii) Lessee shall have posted a bond or furnished such other security as may be reasonably required from time to time by Lessor and is reasonably satisfactory to Lessor.

39.7 Lessor shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any Hazardous Materials Claims.

39.8 Lessee shall protect, indemnify and hold Lessor, its directors, officers, employees and agents, and any successors to Lessor's interest in the Building, and any other person who acquires any portion of the Building, and any successors to any such other person, and all directors, officers, employees and agents of all of the aforementioned indemnified parties, harmless from and against any and all actual or potential claims, liabilities, damages, losses, fines, penalties, judgments, awards, costs and expenses

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(including, without limitation, attorneys, fees and costs and expenses of investigation) which arise out of or relate in any way to any use, handling, production, transportation, disposal or storage of any Hazardous Materials in or on the Building whether by Lessee or any of Lessee's agents, employees, contractors, subcontractors, suppliers, invitees or licensees, including, without limitation, (i) all foreseeable and all unforeseeable consequential damages directly or indirectly arising out of (a) the use generation, storage, discharge or disposal of Hazardous Materials by Lessee, or any of Lessee's agents, employees, contractors, subcontractors, suppliers, invitees or licensees on or about the Building, or (b) any residual contamination affecting, any natural resource or the environment, and (ii) the costs of any required or necessary repair, cleanup, or detoxification of the Building and the preparation of any closure or other required plans. In addition, Lessee agrees that in the event any Hazardous Material is caused to be removed from the Building by Lessee, Lessor or any other person, the number assigned by the Environmental Protection Agency to such Hazardous Material shall be solely in the name of Lessee and Lessee shall assume any and all liability for such removed Hazardous Material. Lessee understands and agrees that its liability to the aforementioned indemnified parties shall arise upon the earlier to occur of (a) discovery of any Hazardous Materials on, under or about the Building, or (b) the institution of any Hazardous Materials Claim, and not upon the realization of loss or damage.

39.9 Except as required by law or by a governmental agency or as otherwise provided herein, Lessee shall not, without the prior written consent of Lessor, divulge any information or release any written material regarding matters pertaining to the discharge, deposit, injection, dumping, spilling, leaking, disposal or release of any Hazardous Materials on, under, about or in the vicinity of the Land, to any person, entity or governmental agency or authority. All reports, data, samples and memoranda concerning such matters shall be the property of Lessor. Lessee shall not enter into any agreements with any governmental agencies or authorities relating to such matters without Lessor's prior written consent.

39.10 Lessee's obligations under this Paragraph 39 shall survive the expiration or earlier termination of this Lease.

40. <u>Lessor's Representations. Covenants and Warranties Pertaining to Hazardous Materials.</u>

Lessor hereby represents, covenants and warrants as follows:

(a) To the best of Lessor's knowledge, without any investigation or inquiry, (i) no Hazardous Materials have been spilled, disposed of, or stored, on, under, or at the Land, whether by accident, burying, drainage, or storage in containers, tanks or holding areas, or by any other means whatsoever; and (ii) the Land has never been used as a dump or landfill. Notwithstanding the

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foregoing, Lessee hereby acknowledges that Lessor has disclosed to Lessee that the Land was used at one time for farming purposes and, in that connection, it is likely that certain unknown pesticides and/or herbicides may have been discharged on the Land and that traces thereof may remain on, under, or at the Land.

(b) Lessor shall take any and all necessary remedial action required by any Hazardous Materials Laws in response to the presence of any Hazardous Materials on, under or about the Land or the Building existing on or before the Commencement Date, and as required by any federal, state or local governmental entity having jurisdiction over the Land or the Building, at the time, in the manner and to the extent required by any such governmental entity.

41. ARBITRATION OF DISPUTES.

41.1 THE PARTIES HERETO SHALL NOT BE DEEMED TO HAVE AGREED TO DETERMINATION BY ARBITRATION OF ANY DISPUTE ARISING OUT OF THIS LEASE UNLESS DETERMINATION IN SUCH MANNER SHALL HAVE BEEN SPECIFICALLY PROVIDED FOR IN THIS LEASE.

41.2 THE PARTY DESIRING ARBITRATION SHALL GIVE NOTICE TO SUCH EFFECT TO THE OTHER PARTY AND SHALL IN SUCH NOTICE APPOINT A PERSON AS ARBITRATOR ON ITS BEHALF. WITHIN TEN (10) DAYS AFTER SUCH NOTICE IS GIVEN, THE OTHER PARTY BY NOTICE TO THE ORIGINAL PARTY SHALL APPOINT A SECOND PERSON AS ARBITRATOR ON ITS BEHALF. THE ARBITRATORS THUS APPOINTED SHALL APPOINT A THIRD PERSON, AND SUCH THREE (3) ARBITRATORS SHALL AS PROMPTLY AS POSSIBLE DETERMINE SUCH MATTER, PROVIDED, HOWEVER, THAT:

(a) IF THE SECOND ARBITRATOR SHALL NOT HAVE BEEN APPOINTED AS AFORESAID, THE FIRST ARBITRATOR SHALL PROCEED TO DETERMINE SUCH MATTER; AND

(b) IF THE TWO ARBITRATORS APPOINTED BY THE PARTIES SHALL BE UNABLE TO AGREE, WITHIN TEN (10) DAYS AFTER THE APPOINTMENT OF THE SECOND ARBITRATOR, UPON THE APPOINTMENT OF A THIRD ARBITRATOR, THEY SHALL GIVE WRITTEN NOTICE TO THE PARTIES OF SUCH FAILURE TO AGREE, AND, IF THE PARTIES FAIL TO AGREE UPON THE SELECTION OF SUCH THIRD ARBITRATOR WITHIN TEN (10) DAYS AFTER THE ARBITRATORS APPOINTED BY THE PARTIES GIVE NOTICE AS AFORESAID, THEN WITHIN FIVE (5) DAYS THEREAFTER EITHER OF THE PARTIES, UPON NOTICE TO THE OTHER PARTY, MAY REQUEST SUCH APPOINTMENT BY THE AMERICAN ARBITRATION ASSOCIATION (OR ANY ORGANIZATION SUCCESSOR THERETO), OR IN THE ABSENCE, REFUSAL, FAILURE OR INABILITY TO ACT OF SUCH ORGANIZATION, MAY APPLY FOR A COURT APPOINTMENT OF SUCH ARBITRATOR.

41.3 EACH ARBITRATOR SHALL BE A FIT PERSON WHO SHALL HAVE HAD AT LEAST 10 YEARS' EXPERIENCE IN THE STATE OF CALIFORNIA IN A CALLING CONNECTED WITH THE MATTER OF THE DISPUTE, AND, IN ADDITION, THE THIRD ARBITRATOR SHALL BE

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IMPARTIAL.

41.4 THE ARBITRATION SHALL BE CONDUCTED, TO THE EXTENT CONSISTENT WITH THIS PARAGRAPH 41, IN ACCORDANCE WITH THE THEN PREVAILING COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION (OR ANY ORGANIZATION SUCCESSOR THERETO). THE DECISION AND AWARD SHALL BE RENDERED BY THE ARBITRATORS, UPON THE CONCURRENCE OF AT LEAST TWO OF THEIR NUMBERS, WITHIN THIRTY (30) DAYS. AFTER THE APPOINTMENT OF THE THIRD ARBITRATOR OR IN THE CASE OF A DETERMINATION BY A SINGLE ARBITRATOR

PURSUANT TO PARAGRAPH 41.2(a) ABOVE, WITHIN THIRTY (30) DAYS AFTER THE EXPIRATION OF THE PERIOD DURING WHICH A SECOND ARBITRATOR MAY BE APPOINTED. SUCH DECISION AND AWARD SHALL BE IN WRITING AND SHALL BE FINAL AND CONCLUSIVE ON THE PARTIES, AND COUNTERPART COPIES THEREOF SHALL BE DELIVERED TO EACH OF THE PARTIES. IN RENDERING SUCH DECISION AND AWARD, THE ARBITRATORS SHALL NOT ADD TO, SUBTRACT FROM OR OTHERWISE MODIFY THE PROVISIONS OF THIS LEASE. JUDGMENT MAY BE HAD ON THE DECISION AND AWARD OF THE ARBITRATOR(S) SO RENDERED IN ANY COURT OF COMPETENT JURISDICTION.

41.5 EACH PARTY SHALL PAY THE FEES AND EXPENSES OF THE ARBITRATOR APPOINTED BY OR FOR SUCH PARTY. THE FEES AND EXPENSES OF THE THIRD ARBITRATOR AND ALL OTHER EXPENSES OF THE ARBITRATION (OTHER THAN THE FEES AND DISBURSEMENTS OF ATTORNEYS OR WITNESSES FOR EACH PARTY) SHALL BE BORNE BY THE PARTIES EQUALLY.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "`ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE. "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY. WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

LESSOR: /s/ DCL

LESSEE: /s/ PM

42. Force Majeure.

In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by

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reason of strikes, lock-outs, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war on other reason beyond the reasonable control of the party delayed in performing work or doing acts required under the terms of this Lease, then performance of such act shall be excused for the period of the delay and the period for performance of any such act shall be extended for a period equivalent to the period of such delay. The provisions of this Paragraph 42 shall not operate to excuse Lessee from the payment of Base Rent, additional rent or any other payments required by the terms of this Lease within the time periods and otherwise in accordance with the requirements of this Lease.

43. Successors and Assigns.

Subject to the provisions of Paragraph 12 hereof, this Lease and all of the provisions hereof shall bind and inure to the benefit of the successors and assigns of each of Lessor and Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND BY EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES COVERED BY THIS LEASE.

IN WITNESS WHEREOF, Lessor and Lessee have executed and delivered this Lease on the date first above written.

/s/ Jim Joseph by Donald C. Lewis

Jim Joseph "LESSOR" Trustee,
The Jim Joseph Revocable Trust [Attorney in Fact]

/s/ Pamela Marrone

Pam Marrone, "LESSEE" President
AgraQuest, Incorporated

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Exhibit 23.2

Consent of Ernst & Young LLP, Independent Auditors

We consent to the references to our firm under the captions "Selected Consolidated Financial Data" and "Experts" and to the use of our report dated January 19, 2001, in the Registration Statement and related Prospectus of AgraQuest, Inc. for the registration of its common stock

/s/ Ernst & Young LLP

Sacramento, California
August 3, 2001

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