

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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Mailing Address

*8505 S W CREEKSIDE PLACE
BEAVERTON OR 97008*

Business Address

*8505 SW CREEKSIDE PL
BEAVERTON OR 97005-7108
5036416115*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 30, 1996

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File No. 1-10492

EPITOPE, INC.

(Exact name of registrant as specified in its charter)

Oregon 93-0779127
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

8505 S.W. Creekside Place 97008
Beaverton, Oregon (Zip code)
(Address of principal executive offices)

(503) 641-6115
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	American Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of voting stock held by non-affiliates of the registrant, as of November 30, 1996: \$157,430,522

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of November 30, 1996: Common Stock, no par value, 13,191,844

Documents Incorporated by Reference:

Definitive Proxy Statement for 1997 Annual Shareholders' Meeting Part III

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PART I

ITEM 1. Business.

Epitope, Inc. ("Epitope" or the "Company"), is an Oregon corporation incorporated in 1981. Its Epitope Medical Products group ("Epitope Medical Products") develops and markets oral specimen collection kits and related diagnostic tests for the detection of the Human Immunodeficiency Virus ("HIV"), the cause of Acquired Immune Deficiency Syndrome ("AIDS"), and for the detection of other medical conditions and analytes. Epitope Medical Products' oral specimen HIV testing system is marketed by the Company under the name EpiScreen(TM) and by SmithKline Beecham plc ("SB") under the name OraSure(R). The Company's Agritope group ("Agritope") historically has focused its efforts on the development of novel agricultural products using plant genetic engineering and other modern methods. Through its acquisition of Andrew and Williamson Sales, Co. ("A&W") on December 12, 1996 and its majority ownership of Vinifera, Inc. ("Vinifera"), Agritope now conducts operations in each step of the production and distribution chain for a broad range of fruits, vegetables and plants and has an established infrastructure that will facilitate commercialization of the Company's genetically engineered agricultural products.

Epitope Medical Products

Epitope Medical Products' lead product, a patented collection device used as part of an oral fluid diagnostic system ("EpiScreen/OraSure"), is designed for use in the detection of HIV and other medical conditions and analytes. The Company markets the device under the brand name EpiScreen in the United States for use in screening life insurance applicants, and in certain foreign countries for use in professional markets. In February 1995, the Company entered into a Development, License and Supply Agreement with SB, under which SB is marketing the device in the U.S. and certain foreign countries as part of an integrated test system to physicians, hospitals and other healthcare professionals under the brand name OraSure. Subject to obtaining required regulatory approvals, the Company intends to market the system for over-the-counter sale through SB in the United States and through SB or other distributors in international markets.

The EpiScreen/OraSure device consists of a small, treated cotton-fiber pad on a nylon handle that is placed in the patient's mouth for two minutes. The device collects oral mucosal transudate ("OMT"), a serum-derived fluid that, unlike saliva, contains high concentrations of HIV antibodies in people infected with the virus. As a result, OMT testing is a highly accurate method for detecting HIV infection. Because EpiScreen/OraSure uses a noninvasive, needle-free collection method, the Company believes that oral fluid testing has several significant advantages over blood-based testing systems for both healthcare professionals and patients.

Epitope Medical Products also markets HIV-1 Western blot confirmatory test kits used to confirm positive results of initial screening tests for HIV-1 infection. Its OraSure HIV-1 Western blot confirmatory test kit is used in conjunction with oral-fluid based screening tests, while its EPIBlot(R) HIV-1 Western blot confirmatory test kit is used in conjunction with blood-based screening tests. The kits are distributed worldwide under an exclusive agreement with Organon Teknika Corporation ("Organon Teknika"), a member of the Akzo Pharma group of Akzo Nobel, NV.

The EpiScreen/OraSure HIV-1 device and the OraSure HIV-1 Western blot and EPIBlot confirmatory tests have all received clearance from the U.S. Food and Drug Administration ("FDA") for sale to professional markets in the United States.

Background

Acquired Immune Deficiency Syndrome is caused by the Human Immunodeficiency Virus. HIV attacks the immune system, slowly weakening the body's ability to ward off infection and certain forms of cancer. When these complications develop, the HIV infection has progressed to clinically diagnosed AIDS. HIV is spread through sexual contact, blood transfusions, the sharing of intravenous needles, accidental needle sticks, or contact between a mother and her child during gestation, childbirth, or breast-feeding. There is currently no known cure for HIV/AIDS. However, the recent introduction of a new class of anti-HIV drugs called protease inhibitors, when used in combination with nucleoside analogs (e.g., AZT), has shown promising results in slowing progress of the disease. Clinical studies have demonstrated that the early detection and treatment of HIV can help to curb the effects of the disease and significantly prolong the life of the patient. Other studies have shown that treatment with AZT of an HIV-infected pregnant woman may prevent the transmission of HIV from the mother to her child.

According to the World Health Organization ("WHO"), an estimated 24 million adults and 1.5 million children have been infected with HIV worldwide, and approximately 10,000 new infections occur each day. WHO also estimates that over 6 million cases of AIDS have occurred worldwide to date. In North America, an estimated 1.3 million people have been infected with HIV. AIDS is currently the leading cause of death for Americans between the ages of 25 and 44. It is estimated that approximately 800,000 people in the United States are living with the HIV virus. According to the Centers for Disease Control and Prevention ("CDC"), total federal funding budgeted for HIV/AIDS in 1995 was over \$2.7 billion.

Based on industry estimates, the Company believes that approximately 60

million HIV tests were performed in the U.S. in 1995. Of these tests, approximately 30 million were performed in connection with blood donor screening, 20 million were performed in healthcare settings such as hospitals and clinics, 5 million were performed in connection with life insurance applications, and the balance were performed by public health departments and the military. Currently, substantially all HIV tests are performed by testing a patient's blood. There are a number of blood tests for HIV, the most common of which is the enzyme-linked immunosorbent assay ("ELISA"). In order to reduce the possibility that an individual without HIV will be diagnosed as having the virus (a false positive), most countries require the retesting of the blood sample using a second, more specific test to confirm an initial positive test result. The most commonly used confirmatory test is the Western blot.

The Company believes that blood testing has a number of disadvantages which increase healthcare costs and patient inconvenience, pose a risk of infection to healthcare professionals and make testing uneconomic or unavailable in certain applications or settings. The disadvantages of blood testing include:

Risk of HIV Infection. Blood tests involve the use of needles or lancets to obtain blood from the patient. Healthcare professionals collecting blood risk contracting HIV if accidentally stuck by the needle or lancet used to obtain blood from an infected patient.

Limited Access. Because blood must be collected by trained professionals, its collection is often difficult or prohibitively expensive in certain settings. For example, community-based outreach programs, homeless shelters, rural communities, and other remote settings often lack healthcare professionals trained in blood collection. As a result, blood testing may not be available in some of these settings.

Higher Overall Cost. The cost of collecting a blood specimen represents a significant component of the total cost of HIV testing. Furthermore, when a healthcare professional must travel to the subject's office or home to collect a blood sample, as is often the case with life insurance applicant testing, the cost of collecting the blood specimen is substantially increased.

Patient Discomfort. Blood tests require the use of needles or lancets that are uncomfortable for patients. In addition, patients with small or damaged veins, such as intravenous drug users, the elderly and young children, may require multiple needle sticks in order to obtain an adequate blood sample.

Epitope Oral Specimen Collection Technology

In order to address the significant drawbacks associated with blood-based tests, Epitope developed and patented a device to collect oral fluid instead of blood. The EpiScreen/OraSure device, shaped like a small toothbrush, consists of a cotton-fiber pad treated with a proprietary salt solution. The pad, which is mounted on a nylon handle, is placed in the patient's mouth between the lower cheek and gum for two minutes. The pad collects oral mucosal transudate, a serum-derived fluid that, unlike saliva, contains high concentrations of antibodies. OMT contains approximately four times the amount of antibodies found in ordinary whole saliva. Following collection, the pad is sealed in a specimen vial containing a proprietary preservative solution. The treated pad enhances the collection, and the preservative solution enhances the stabilization, of antibodies and other analytes originating from the oral mucosae. The specimen in the vial is stable for three weeks at room temperature, although in most cases laboratory testing takes place within one to three days.

A schematic representation of the oral fluid collection procedure is shown below.

[Graphic material demonstrating specimen collection procedure, containing illustrations and the following captions:

Peel open package.
 Place pad between lower cheek and gum. Rub back and forth until moist.
 Keep the pad in place for 2 minutes (maximum 5 minutes) while timing.
 Open vial in upright position.
 Insert pad to bottom of vial.
 Break the pad handle by snapping it against the side of the vial.
 Replace the cap with a snap.]

Products

EpiScreen/OraSure. In December 1994, the Company received clearance from the FDA to sell EpiScreen/OraSure to professional markets for the ELISA screening of HIV-1 antibodies. The device is marketed directly by the Company under the trade name EpiScreen for use by the U.S. life insurance industry and in certain international markets, and is marketed by SB under the trade name OraSure to healthcare professionals in the United States and a number of other countries. See "Epitope Medical Products--Marketing."

The EpiScreen/OraSure oral specimen collection and HIV-1 testing system is easily administered and involves three steps: (i) collection of an oral specimen using the EpiScreen/OraSure collection device, (ii) ELISA screening of the specimen for HIV antibodies at a laboratory, and (iii) laboratory confirmation of positive screening test results with the FDA-cleared OraSure Western blot kit. A trained healthcare professional then conveys test results and provides appropriate counseling to the patient.

The EpiScreen/OraSure HIV-1 testing system represents a highly accurate alternative to traditional blood tests. In clinical trials, EpiScreen/OraSure provided the correct result or triggered appropriate follow-up testing in 3,569 out of 3,570 cases (99.97 percent). The Company believes EpiScreen/OraSure has several advantages over blood tests, as outlined in the following table.

Feature -----	Blood Test -----	EpiScreen/OraSure -----
Safety	Poses risk of HIV infection through accidental needle sticks	Eliminates risk of needle-stick accidents
Invasiveness	Requires use of a needle or lancet	Uses noninvasive collection technique
Ease of use	Requires blood collection by a trained healthcare professional	Sample collection requires minimal training
Portability	Generally performed in a physician's office or other healthcare setting	Can be used rapidly and efficiently in almost any setting
Cost	Requires a nurse or other trained healthcare professional	Eliminates the need for and costs associated with a trained healthcare professional

Oral-based and Serum-based Western Blot Confirmatory Tests. Epitope Medical Products has also developed, and in June 1996 received FDA clearance to market, an oral-based HIV-1 Western blot confirmatory test. This test uses the original oral specimen to confirm positive results of initial EpiScreen/OraSure HIV-1 ELISA screening tests. Epitope Medical Products has also marketed EPIblot, a serum-based Western blot HIV-1 confirmatory test kit

since 1987. The kit is used to confirm the positive results of initial blood-based screening tests for HIV-1 infection.

Markets

Insurance Industry. Epitope Medical Products believes there is a significant need in the life insurance industry for an easy-to-administer, noninvasive and cost-effective HIV testing system such as EpiScreen. In the United States, approximately 5 million HIV tests were administered in 1995 by the life insurance industry in connection with the issuance of new policies. In addition, data from the American Council of Life Insurance and the Health Insurance Association of America indicate that over \$1.5 billion in AIDS-related death benefits were paid in 1994. The organizations also cautioned that, due to difficulty in identifying all AIDS-related claims, the data may significantly understate the financial impact of AIDS on the insurance industry.

Current HIV testing of life insurance applicants involves the use of a paramedic or other trained healthcare professional to obtain a blood sample. The cost to the insurance company for an HIV test includes the cost of the paramedic as well as the cost of the collection kit and laboratory testing services. These costs average approximately \$55 to \$70, of which \$35 to \$50 is the cost of the paramedic. As a result, insurance companies have generally limited HIV testing to policies with face amounts of \$100,000 or more. Based on industry statistics, Epitope Medical Products estimates that in 1994 over 9 million policies were issued for face amounts of less than \$100,000, representing 68 percent of all policies issued. Epitope Medical Products believes that the use of EpiScreen can significantly reduce the cost of HIV testing to the insurance industry because collection of an oral fluid specimen can be performed by insurance agents or other persons without professional medical training, eliminating the cost of the paramedic and making testing at policy levels below \$100,000 a cost-effective practice. Moreover, the Company believes that insurance companies may adopt EpiScreen for use in connection with applications for insurance policies with face amounts at and above \$100,000.

Epitope Medical Products also believes that the use of EpiScreen will allow the insurance industry to address "anti-selection." Anti-selection occurs when an individual who knows that he or she is infected with HIV intentionally applies for one or more life insurance policies that do not entail HIV testing. Epitope Medical Products believes that the availability of two recently approved over-the-counter ("OTC") HIV blood tests may increase the incidence of anti-selection. By allowing insurance companies to lower the policy level at which HIV testing is cost-effective, the use of EpiScreen may allow insurance companies to reduce their exposure to losses from anti-selection and thereby to lower overall claims costs.

An additional advantage of the EpiScreen testing system is that the oral specimen used for HIV testing can also be used to identify smokers and users of cocaine. Cotinine, a metabolite of nicotine, can be detected using OraSure/EpiScreen. The FDA has advised Epitope Medical Products that EpiScreen may be used for cocaine testing for the purpose of life insurance risk assessment while a 510(k) notice is undergoing final review, and may be used for cotinine testing generally. In a presentation at the 105th annual meeting of The American Academy of Insurance Medicine, a major life insurance company reported results of the use of the EpiScreen testing system in Canada and in the Bahamas from 1992 to 1995. The life insurance company reported that agent collection reduced its testing costs by \$65 per application. During the four-year study period, the insurer found that it saved \$1.7 million by using EpiScreen for HIV and cocaine testing. In addition, the life insurance company determined that it realized \$1.6 million in increased premiums as a result of identifying smokers who claimed on their applications that they were nonsmokers.

Physician and Clinical Market. Through SB, Epitope Medical Products is marketing its oral HIV testing system to the physician, hospital and other professional healthcare provider markets under the brand name OraSure. OraSure is now offered to physicians and hospitals in the United States by over 3,300

sales representatives in the SB distribution network. In connection with the introduction of OraSure to the physician community in August 1996, SB created the OraSure Confidential Testing Network, a nationwide network for consumers to identify doctors in their area who offer confidential HIV testing with OraSure. The Network is accessible to consumers through a toll-free number (1-800-OraSure) and on the Internet (www.OraSure.com). The SB product launch was accompanied by an advertising campaign featuring two-page spreads in major medical professional publications. The OraSure brand was also a major sponsor of the 1996 AIDS Candlelight March in Washington, D.C., conducted in connection with the display of the National AIDS Quilts.

OTC Market. A recent study published in the New England Journal of Medicine reported that 44 percent of Americans age 18 to 24 and 33 percent of Americans age 25 to 44 were "very or somewhat likely" to purchase over-the-counter home-collection HIV tests. According to the United States Census Bureau, as of July 1996 there were 24.7 million Americans in the 18 to 24 age group and 83.7 million in the 25 to 44 age group. Thus, based on the study, the number of people "very or somewhat likely" to purchase OTC home-collection HIV tests in the U.S. exceeds 35 million individuals.

Epitope Medical Products and SB are currently conducting clinical trials to support an application for FDA clearance to market OraSure as a home collection testing system. If FDA clearance is obtained, Epitope Medical Products and SB plan to market the OraSure device for OTC sale as part of an integrated system including laboratory testing and counseling. Epitope Medical Products believes the noninvasiveness and ease of use of OraSure represent significant benefits to the home user over traditional blood-based methods. There can be no assurance that Epitope Medical Products will receive FDA clearance to market OraSure to the OTC market on a timely basis, if at all. See "Description of Business--Epitope Medical Products--Government Regulation."

If Epitope Medical Products receives FDA clearance of the OraSure home collection system, a consumer could purchase OraSure at retail outlets such as pharmacies, drug stores, and other commercial facilities or through a mail order program. The consumer would collect the specimen and mail it in a postage prepaid envelope to an SB laboratory for testing. The consumer would obtain his or her test results and counseling by calling a toll-free number and providing a confidential identification number included with the test. SB has established an arrangement under which the American Social Health Association ("ASHA") would provide test results and counseling to the caller. ASHA is the leading provider of AIDS counseling services in the United States, handling over 4,000 calls per day on the National AIDS Hotline.

International. In light of the worldwide scope of the HIV epidemic, Epitope Medical Products believes there are significant opportunities for sale of EpiScreen/OraSure in international markets. Epitope Medical Products believes that the ease of use, portability, increased safety and lower cost of oral fluid testing will provide significant advantages over blood tests in international markets. Epitope Medical Products has initiated an international marketing program that offers a complete EpiScreen testing system. The program features direct assistance to distributors in establishing EpiScreen programs that include laboratory services, cooperation from screening test manufacturers, and provision of Western blot confirmatory kits in each country. Epitope is currently marketing EpiScreen to distributors in Canada, Thailand, Argentina and South Africa for use in professional markets. SB also markets OraSure to the professional market in several Latin American and African countries and the European Community through its network of distributors. See "Epitope Medical Products--Marketing."

Products Under Development

EpiScreen/OraSure. Oral mucosal transudate contains many constituents found in blood serum. Because of this feature, the Company believes EpiScreen/OraSure is a platform technology with a wide variety of potential applications beyond HIV testing. For example, the EpiScreen/OraSure device may be useful for the diagnosis of a variety of infectious diseases in

addition to HIV, such as viral hepatitis and a number of childhood diseases. The Company recently applied for regulatory clearance in Canada to market EpiScreen for the detection of measles, mumps and rubella. In addition, the Company believes that the use of oral specimens may allow physicians to diagnose diseases more readily in children without subjecting them to the discomfort of drawing a blood sample, thereby increasing the frequency of testing for diseases.

The Company believes the EpiScreen/OraSure device also has potential application in the detection of drugs of abuse, such as cocaine. A 510(k) notification for this use is currently undergoing FDA review and, if approved, will allow Epitepe Medical Products to market EpiScreen/OraSure to professional markets in addition to the life insurance industry. Under an agreement with STC Technologies, Inc., Epitepe Medical Products is conducting U.S. clinical trials for other drugs of abuse. Physicians may also find the device useful for monitoring levels and adjusting dosages of therapeutic drugs, such as those that are toxic at levels only slightly above the level at which they are effective. Monitoring of these drugs currently requires frequent blood tests to determine drug concentration. The Company believes oral fluid testing would eliminate the discomfort and inconvenience associated with this frequent blood testing.

OraQuick. Epitepe Medical Products is currently developing OraQuick(R) HIV, a one-step, rapid-format oral fluid testing system designed to provide test results within ten minutes. Epitepe Medical Products believes that OraQuick has significant potential as a rapid laboratory-based HIV test and as an OTC home-based HIV test. Epitepe Medical Products has substantially completed a prototype of OraQuick HIV. Like EpiScreen/OraSure, OraQuick is a platform technology with a variety of potential applications in addition to HIV testing. Modifications of the basic OraQuick technology may allow use of this approach for detection of antibodies against the ulcer-causing bacterium *Helicobacter pylori*, as well as for a variety of infectious diseases such as syphilis, viral hepatitis, and childhood infections. There can be no assurance that Epitepe Medical Products will complete development of any of these products or, in the event of successful development, will receive applicable regulatory clearances or will profitably market the products.

Marketing

Life Insurance Industry. Epitepe Medical Products currently markets its EpiScreen device for use in screening life insurance applicants for HIV, cocaine, and nicotine. The Company maintains a six-member direct sales force that markets and sells EpiScreen to the main insurance testing laboratories in the United States and Canada. The major laboratories currently using the EpiScreen device include LabOne, Inc., Osborn Laboratories, Clinical Reference Laboratory, Inc. and GIB Laboratories. Epitepe Medical Products also markets the use of EpiScreen directly to life insurance companies.

U.S. Professional and OTC. In February 1995, Epitepe Medical Products entered into a Development, License and Supply Agreement with SB (the "Agreement") for the OraSure HIV-1 oral specimen collection device and certain future diagnostic products. Under the Agreement, SB will sell the OraSure device to the professional markets in the United States. In addition, if and when regulatory clearance is received, SB will market the OraSure device to the U.S. OTC market. SB paid Epitepe Medical Products a one-time license fee of \$5 million for the rights granted under the Agreement.

The Agreement provides that SB generally has responsibility for advertising, promotion, distribution, and regulatory approval expenses in its markets. Epitepe Medical Products will manufacture the OraSure devices for sale to SB at predetermined transfer prices and will receive certain royalties on SB product sales. A portion of SB's costs in obtaining and maintaining regulatory approvals will be credited against royalties payable to Epitepe Medical Products.

The Agreement permits SB to fund Epitepe Medical Products' ongoing development of diagnostic products and technology for its term, which lasts

for a minimum of 15 years, subject to earlier termination on 60 days' notice if SB elects to stop marketing the products in all markets. SB has the option to market those products developed with SB funding, which Epitepe will initially manufacture for agreed-upon prices and royalties.

International. Epitepe Medical Products also employs a direct sales force for the marketing and sale of EpiScreen in certain international markets. The Company complements its direct sales efforts through the use of selected international distributors who have the expertise and capabilities appropriate for marketing EpiScreen. In addition, under the terms of the SB Agreement, SB will act as exclusive director of the OraSure HIV-1 oral specimen collection device in the professional markets in certain countries, including the European Economic Community and certain African, Middle Eastern, and Latin American countries. Epitepe Medical Products has retained all rights to distribute products in markets other than those reserved to SB.

Western Blot Distribution. Epitepe Medical Products has entered into supply and distribution agreements with Organon Teknika Corporation, a member of the Pharma Division of Akzo Nobel, NV, an international chemical and pharmaceutical manufacturer based in Arnhem, The Netherlands. The supply agreement provides that Organon Teknika will supply the HIV-1 antigen used to manufacture Western blot confirmatory test kits. The distribution agreement grants Organon Teknika the exclusive right to purchase Western blot confirmatory test kits from Epitepe Medical Products and to market them worldwide. Epitepe Medical Products and Organon Teknika are negotiating terms for continuing the supply and distribution arrangement after the existing agreements expire on March 31, 1997.

Competition

Competition in the emerging market for HIV testing is intense and is expected to increase. The Company believes that the principal competition will come from existing blood-based HIV assays and from urine-based testing assays. Epitepe Medical Products' competitors include specialized biotechnology firms as well as pharmaceutical companies with biotechnology divisions and medical diagnostic companies, many of which have considerably greater financial, technical, and marketing resources than Epitepe Medical Products. Competition may intensify as technological advances are made and become more widely known and as products reach the market in greater numbers. Furthermore, new testing methodologies could be developed in the future that render Epitepe Medical Products' oral-based HIV test impractical, uneconomical or obsolete. There can be no assurance that Epitepe Medical Products' competitors will not succeed in developing or marketing technologies and products that are more effective than those developed by Epitepe Medical Products or that would render its technologies or products obsolete or otherwise commercially unattractive. In addition, there can be no assurance that competitors will not succeed in obtaining regulatory approval for these products, or in introducing or commercializing them before Epitepe Medical Products. Such developments could have a material adverse effect on the Company's and Epitepe Medical Products' business, financial condition and results of operations.

Three companies have submitted applications to the FDA for OTC HIV blood testing: Direct Access Diagnostics, Home Access Health Corp., and ChemTrak Incorporated. The FDA has approved a home collection kit for HIV blood testing developed by Direct Access Diagnostics and another home collection kit for HIV blood testing developed by Home Access Health Corp.

Cambridge Biotech Corporation and BioRad Laboratories, Inc. manufacture HIV Western blot confirmatory tests, and Waldheim Pharmazeutika manufactures immunofluorescent HIV confirmatory tests, which compete with Epitepe Medical Products' EPIblot HIV-1 Western blot serum-based confirmatory test kits.

Several other companies market or have announced plans to market oral specimen collection devices and tests outside the United States and have announced plans to seek FDA approval of such tests in the United States. Epitepe Medical Products expects the number of devices competing with its EpiScreen/OraSure device to increase as the benefits of oral specimen-based

testing become more widely accepted. Epitepe Medical Products expects that FDA approval of the EpiScreen device will also encourage potential competitors to develop oral diagnostic products. No such devices have yet been approved by the FDA for HIV testing. See "Epitepe Medical Products--Government Regulation."

The United States Food and Drug Administration ("FDA") recently approved an HIV ELISA screening test for use with urine. However, no Western blot or other confirmatory test using urine has been approved by the FDA to date. The Company believes that absence of an FDA-approved confirmatory test for urine poses a significant disadvantage to urine testing because a patient who receives an initial positive screening result must return to give a second, blood-based sample for confirmatory testing. The Company also believes that urine collection can be difficult, inconvenient and potentially embarrassing for the patient, and that privacy and chain-of-custody issues are further impediments to routine use of urine-based HIV tests.

Government Regulation

General. Many of Epitepe Medical Products' proposed and existing diagnostic products are subject to regulation by the FDA, other federal, state, and local agencies, and comparable bodies in foreign countries. Such regulation governs almost all aspects of development and marketing, including the introduction, advertising, promotion, manufacturing practices, labeling, distribution, and record keeping for the products. In the United States, different types of diagnostic products are regulated differently by the FDA, as discussed below. As part of the FDA clearance process, Epitepe Medical Products often must demonstrate that its products are both safe and effective for a particular indication or application.

Drugs and Biological Products. Generally, drugs and biological products require FDA approval before marketing. The steps required before a drug or biological product may be marketed in the United States include: (1) preclinical laboratory and animal tests; (2) submission of an application for an investigational new drug or biological product, which must become effective before human clinical trials may commence; (3) human clinical trials; (4) submission of a Product License Application ("PLA") for the biological product or a New Drug Application ("NDA") for most other new drug products; and (5) approval of the PLA or NDA.

Preclinical safety and initial efficacy testing is usually undertaken in animals. Results of such preclinical and other laboratory tests are submitted to the FDA before human clinical trials can begin. Clinical trials are typically conducted in three phases. Phase I uses human subjects to determine safety and tolerance. Phase II uses a limited patient population to determine effectiveness and dosage and to identify side effects. Compounds found effective and safe in Phase II are further tested in Phase III with an expanded patient population at geographically dispersed clinical study sites. Each phase may last from one to two years or more.

Most products are not approved because of the failure to demonstrate safety, effectiveness, or both. The FDA may suspend clinical trials at any time if it is felt that subjects or patients are being exposed to an unacceptable health risk. Obtaining FDA approval requires substantial time and effort. There can be no assurance that any approval will be granted to Epitepe Medical Products on a timely basis, if at all. As part of the approval process, the FDA may require Epitepe Medical Products to initiate post-approval marketing studies.

Medical Devices. Medical devices are classified either in Class I, Class II, or Class III. Class I devices are subject only to general control provisions of the Federal Food, Drug, and Cosmetic Act, as amended (the "FDC Act"). These provisions include requirements that a device not be adulterated or misbranded. Class II devices are those for which general controls are insufficient to provide a reasonable assurance of safety and efficacy and for which a "generic" performance standard or other special controls are appropriate. Devices that do not meet the criteria for Class I or II are

placed in Class III. Class I and II devices, those Class III devices initially marketed prior to passage of the Medical Device Amendments of 1976 ("MDA") for which premarket approval applications ("PMAs") are not yet required, and devices substantially equivalent to such devices, may be marketed upon FDA clearance of a section 510(k) notification (a "510(k) Notice"). Other Class III devices may be commercially marketed only after FDA approval of a PMA. Generally, the process of obtaining FDA approval of a PMA is similar to that for obtaining approval of a biological or other drug product.

Based upon the information provided in a 510(k) Notice regarding the device's intended use and technological features, the FDA will determine whether the device is "substantially equivalent" to a predicate device, i.e., a device legally marketed which did not require a PMA. If a device is found to be substantially equivalent to a predicate device, it may be freely marketed in the United States so long as the device is otherwise in compliance with the FDC Act. If it is not so found, it will be considered a Class III device requiring a PMA. Substantial equivalence means that the FDA has found that the device has the same intended use as the predicate device, and either has the same technological characteristics or has different characteristics, but there is information in the 510(k) Notice that shows the device is as safe and effective as the predicate and does not present different questions of safety and effectiveness.

EpiScreen/OraSure Collection Device. Use of the EpiScreen/OraSure collection device for applications involving the detection of antibodies to HIV is regulated by the FDA as use of a Class III medical device requiring a PMA. In December 1994, the FDA approved Epitope Medical Products' PMA for use of the EpiScreen/OraSure device in HIV screening. Post-approval marketing studies are under way as required as part of the FDA's approval of the EpiScreen/OraSure device. In June 1996, the FDA approved the PMA for use of the OraSure oral specimen-based Western blot confirmatory test kit for HIV-1 diagnosis.

In February 1995, Epitope Medical Products submitted a 510(k) Notice for use of EpiScreen for cocaine testing. The submission is currently undergoing FDA review. See "Business--Epitope Medical Products--Products Under Development--EpiScreen." In the meantime, the FDA has advised Epitope Medical Products that EpiScreen may be used for cocaine testing for the purposes of life insurance risk assessment.

Western Blot Test Kits. Epitope Medical Products' HIV-1 Western blot serum-based confirmatory test kits are used to confirm whether individuals are infected with HIV-1. They are regulated by the FDA as biological products, unlike most other diagnostic tests which are regulated as medical devices. In March 1991, the FDA cleared the EPIblot HIV-1 serum-based confirmatory test kit for commercial distribution. As noted above, a PMA seeking permission to market the OraSure oral specimen-based Western blot confirmatory test kit for HIV-1 diagnosis was approved by the FDA in June 1996.

Manufacturing Regulations. Every company that manufactures drugs, biological products, or medical devices distributed in the United States is subject to inspections by the FDA and must comply with the FDA's Current Good Manufacturing Practices regulations. These regulations govern, among other matters, manufacture, testing, release, packaging, distribution, and documentation.

Other. Epitope Medical Products is also subject to regulation by the Occupational Safety and Health Administration and may be subject to regulation by the U.S. Environmental Protection Agency ("EPA") under the Toxic Substances Control Act ("TSCA"), the Resource Conservation and Recovery Act, and other legislation. Epitope Medical Products is also subject to foreign regulations governing, for example, human clinical trials and marketing with respect to products distributed outside the United States. Approval processes vary from country to country, and the length of time required for approval or to obtain other clearances may in some cases be longer than that required for U.S. governmental approvals. The extent of potentially adverse governmental regulation affecting Epitope Medical Products that might arise from future

legislative or administrative action cannot be predicted.

Agritope

Historically, Agritope has focused on the development and commercialization of novel agricultural products using plant genetic engineering and other modern methods. Through its acquisition of A&W and its majority ownership of Vinifera, Agritope positioned itself as a vertically integrated agribusiness with the production, distribution and marketing infrastructure necessary to realize better the value of its proprietary technology. Agritope's products now include a broad range of fruits, vegetables and plants produced using technologically advanced farming and plant propagation techniques designed to incorporate advances in biotechnology, plant breeding, and crop production.

Agritope consists of three major units: Agritope Research and Development, A&W, and Vinifera. Agritope Research and Development contributes biotechnology and product development efforts to A&W and Vinifera as well as to its other business partners. Through A&W, Agritope produces, markets, distributes and sells a wide variety of fruits and vegetables throughout North America. Through Vinifera, Agritope believes that it offers the most advanced grapevine plant propagation and disease screening and elimination programs available to the worldwide wine and table grape production industry.

Agritope Research and Development

Agritope's biotechnology research and development program is focused on using the tools and techniques of plant genetic engineering to regulate the synthesis of ethylene in ripening fruits and vegetables. Ethylene gas is a plant hormone which in higher plant species is responsible for fruit ripening and vegetable senescence as well as numerous other physiological effects. Agritope has identified and patented a single gene that can be inserted into plants and expressed to regulate the plant's ability to produce ethylene. In addition, Agritope is conducting research in the area of disease control, including screening plants for the presence of disease and creating genetically engineered plants with resistance to pathogens.

Ripening Control. The fresh produce industry is based largely upon rapid harvesting, processing and distribution of fruits and vegetables in order to prevent spoilage and ensure the arrival of product at retail outlets in acceptable condition for consumer purchase and use. The postharvest period for most fruits and vegetables is one of continuous ripening and senescence, as evidenced by rapid changes in color, texture, flavor, nutrient content, and other quality attributes. Product losses due to perishability during harvesting, processing, packing, shipping and distribution can reach substantial portions of overall crop yield. Growers frequently incur losses resulting from the abandonment of crops in the field or having shipments refused by receivers because the produce is overripe. In addition, wholesalers and retailers may be forced either to discard or sell overripe produce at reduced prices and consumers often must use produce shortly after purchase to avoid spoilage. Studies published in the United States Department of Agriculture ("USDA") Marketing Research Report have estimated postharvest losses of 30 percent and 40 percent for strawberries shipped from Florida to the Chicago and New York markets. In the U.S. fruit and vegetable markets, postharvest losses are estimated to amount to several billion dollars annually.

Postharvest losses are largely attributable to the effects of ethylene. Because ethylene is a gas, it not only affects the plant producing it, but also surrounding plants as well. The physiological effects of ethylene include initiation and enhancement of ripening, senescence, leaf abscission and drooping, and flower fading and wilting. Common examples include the ripening and subsequent rotting of tomatoes and apples, discoloration in lettuce and broccoli, and the short bloom life of cut flowers.

The importance of controlling ethylene production in plants has been recognized for decades, and has been addressed primarily through the use of controlled atmosphere storage, chemical treatment, and special packaging.

Conventional techniques for controlling ethylene production have serious disadvantages that include high cost, time-critical handling requirements and lack of consistent ripening. For example, the majority of product sold in the fresh tomato market today is composed of "gas-green" tomatoes. These tomatoes are picked and packed while still green and firm. Prior to shipping to wholesale customers, green tomatoes are exposed to ethylene gas in order to initiate ripening of the product. In general, gas-green tomatoes are perceived by consumers to have less desirable taste and texture than vine ripened tomatoes.

Agritope believes the ability to regulate ethylene and control ripening through genetic engineering represents an opportunity to provide a superior product to consumers while also improving profitability for growers and distributors. Growers may achieve higher marketable yields due to fewer losses to overripe product in the field and may lower labor costs by decreasing frequency of harvest. For packers/shippers, better control of product perishability may result in improved inventory flexibility and control, and more uniform product quality.

Agritope Technology. Agritope's ethylene control technology is focused on the use of a patented gene known as SAMase. The expression of SAMase in plants produces an enzyme that acts to degrade one of the important precursor compounds (S-adenosylmethionine or "SAM") necessary for the production of ethylene. Agritope has genetically engineered plants to express the SAMase gene only when certain levels of rising ethylene concentrations are reached in the tissues of the fruit or plant. This feature causes the production of greater levels of the enzyme that degrades SAM in response to a correspondingly higher level of ethylene. Agritope believes that this technology thus offers a major advantage over other approaches to ripening control in that the production of ethylene may be specifically reduced to levels that allow for the initiation of ripening but delay the spoiling effects of excess ethylene. Therefore, the fruit can be maintained at an optimal level of ripeness for an extended period of time. An additional benefit of Agritope's technology is that the enzyme produced by the SAMase gene degrades SAM into compounds normally found in plants. Agritope believes its SAMase technology can be utilized for the control of ethylene in any plant species where ethylene affects ripening or senescence.

Agritope's ripening control technology is protected by a U.S. patent covering the use of any gene that encodes S-adenosylmethionine hydrolase (the enzyme expressed by the SAMase gene) in any plant species. In addition to the patent on the SAMase gene, utility claims have been allowed on the promoter/gene combination used by Agritope in applications currently under development as well as potential applications in all other fruit-bearing plants. In the area of regulated ripening control, Agritope has four additional U.S. and foreign patents pending. In addition, Agritope has three U.S. and foreign patent applications pending in related areas. See "Description of Business--Epitope, Inc.--Patents and Proprietary Information."

Development Programs. Agritope's research and development programs are directed toward several highly perishable fruit and vegetable crops described below. The development program comprises five stages, including gene isolation, transformation, product evaluation, seed/plant production and commercialization.

The following chart shows the approximate progress Agritope has made to date with various crops, which are described in more detail below.

[Chart titled "Agritope Product Development Program" listing the stages of development (gene isolation, transformation, product evaluation, seed/plant production, and product launch). The chart shows that the following products are in the stages indicated:

Tomato	Product Evaluation
Raspberry	Product Evaluation
Melon	Transformation
Brassica	Transformation
Additional Crops	Gene Isolation]

Gene Isolation: The initial stage of genetic engineering. Gene isolation involves the identification and characterization of genes and gene promoters for use in Agritope's development programs. These genetic elements are then combined for use in genetically engineered plants.

Transformation: The stage at which the new genetic material is introduced into the plant. The transgenic plants which result are then available for product evaluation.

Product Evaluation: The analysis of transgenic plants in both laboratory and field settings to determine commercial utility. This stage also involves the plant breeding and selection process to develop commercially competitive new varieties that incorporate the Agritope technology. Regulatory data are also collected and submitted at this stage.

Seed/Plant Production: Propagation of selected plant material (either seed or plants) in quantities needed for commercial production.

Product Launch: Commercial production and sale, following regulatory clearance.

Tomato. The annual U.S. wholesale fresh market tomato business is estimated at \$1.7 billion. In order to facilitate the commercialization of its ethylene control technology into this market, Agritope and A&W formed Superior Tomato Associates, L.L.C. ("STA"), a joint venture with Sunseeds Company, the developer and producer of several leading fresh market tomato varieties.

Agritope provides genetic engineering technology and regulatory expertise, has responsibility for managing the joint venture, and owns a two-third equity ownership interest in STA. Sunseeds provides elite tomato germplasm and breeding expertise in the development of transgenic varieties. A&W contributes testing and production acreage and will oversee the production and wholesale distribution of fresh tomatoes to the fresh produce industry.

STA is currently in the process of developing and testing transgenic cherry, roma, and large fruited vine ripe tomato varieties. Agritope has developed lines of elite tomato germplasm provided by Sunseeds. Recent field trials have successfully demonstrated the transfer of Agritope's SAMase ripening control technology to a number of Sunseeds' elite breeding lines. Sunseeds is conducting further breeding and field trials of these transgenic lines. These trials will be followed by production scale trials to be conducted by A&W that, if successful, will lead to regulatory submissions and, if regulatory clearances are received, commercial-scale seed production. Subsequently, A&W would commence commercial tomato production and sales to the industry.

Prior to the formation of STA, Agritope submitted safety, nutritional, and environmental information on a prototype transgenic tomato line to both the USDA and the FDA. In March 1996, the USDA issued its finding that this line has no significant environmental impact and would no longer be considered a regulated article. During the same month the FDA determined that the variety did not raise issues that would require pre-market review or approval by that agency. In addition to receiving these U.S. regulatory clearances, Agritope is also conducting field evaluations of SAMase tomato lines in Mexico under permits granted by the Mexican Ministry of Agriculture. In order to commence sale of selected varieties, Agritope will be required to make supplemental submissions to the USDA and FDA that establish that such varieties are comparable to the previously cleared lines.

Raspberry. The wholesale raspberry market, estimated at \$48 million annually in the United States, has experienced limited growth because of the extreme perishability of the fruit. Agritope believes that the successful development of raspberries containing its ethylene control technology could

permit a significant expansion of the fresh raspberry market.

In a collaboration with Sweetbriar Development, Inc. ("Sweetbriar"), the largest fresh raspberry producer in the U.S., Agritope has engineered several of Sweetbriar's proprietary commercial raspberry varieties to contain the SAMase gene. Initial field trials of transgenic raspberries are currently underway at Sweetbriar facilities in California and Agritope facilities in Woodburn, Oregon. Agritope has already demonstrated the ability to reduce ethylene synthesis in the fruit. Successful development of a commercial transgenic raspberry will require further demonstration of improved shelf life as well as additional field trials to obtain the appropriate regulatory clearances. If these conditions are met, Sweetbriar would produce the new raspberries for distribution and marketing by Driscoll Strawberry Associates ("Driscoll"), the largest distributor of fresh raspberries and strawberries in the U.S. Agritope would receive royalties on wholesale product sales.

Separately, Agritope has integrated its ripening control technology into commercially successful public domain varieties. A&W would undertake commercial production and distribution of any improved raspberry products resulting from this program.

Melon. The U.S. wholesale fresh melon market is estimated at \$282 million annually. As with tomatoes, perishability results in substantial product losses during the processes of production, harvesting, and distribution. Agritope believes that melons represent a substantial market opportunity for implementation of its ripening control technology. Recent scientific reports have demonstrated a dramatic increase in shelf life for specialty type melons in which the ability to produce ethylene has been impaired. Using proprietary seed varieties supplied by two units of the French seed company Limagrain, Clause Semences, and its U.S. affiliate Harris Moran Seed Company ("Harris Moran"), Agritope is developing commercial melon varieties with controlled ripening and increased postharvest product life. Transgenic melons containing Agritope's ethylene control gene are currently being evaluated jointly by Harris Moran and Agritope technicians. If successfully developed, the melons will be distributed by A&W and third party distributors.

Brassica. Agritope has an agreement with Sakata Seed America ("Sakata") to develop new varieties of certain Brassica species (broccoli and cauliflower). Sakata is the leading hybrid broccoli and cauliflower seed supplier in the U.S. Sakata provided Agritope with germplasm from selected breeding lines and funds to develop broccoli and cauliflower plants integrating Agritope ripening control technology. Agritope received payment from Sakata upon the transfer of genetically engineered plants to be used for the production of hybrid seeds. If the seeds are commercialized, Agritope will receive a royalty on sales made by Sakata.

Additional Crops. Agritope is also pursuing research and development programs to incorporate its SAMase technology into other crops where perishability causes significant losses in the production and distribution process. These include strawberries, lettuce, bananas, peaches, pears, and apples. The estimated U.S. wholesale markets for these crops range from \$325 million for pears to \$2.4 billion for bananas.

Andrew and Williamson Sales, Co.

As part of its vertical integration strategy, Agritope acquired A&W on December 12, 1996. A&W is a wholly owned operating subsidiary based in San Diego, California with sales offices in San Diego and Bakersfield, California and Nogales, Arizona. A&W, founded in 1986, produces fruits and vegetables and provides sales and distribution services for growers from both mainland and Baja, Mexico and the San Joaquin Valley in California. A&W produces and distributes a diversified mix of fresh fruits and vegetables including vine ripe cherry, roma and fresh market tomatoes, strawberries, raspberries, melons, tree fruits, table grapes, cucumbers, squash, green, red and yellow peppers, Brussels sprouts and asparagus. In addition to fresh strawberries, A&W processes and sells frozen strawberry products. A&W ships fresh produce every day of the year from its facilities in San Diego and ships seasonally

from its other sites. A&W is one of the United States' largest distributors of vine ripe cherry and fresh market tomatoes. It is also a major shipper of fresh strawberries, melons and cucumbers throughout North America. In connection with its distribution operations, A&W also provides technical support and short-term loans to certain growers. See Note 13 to Financial Statements included herein.

The Company acquired A&W pursuant to an Acquisition and Merger Agreement with A&W and its shareholders, under which a subsidiary of the Company was merged into A&W. The Company issued 520,000 shares of common stock of Epitope, Inc., in exchange for all the outstanding common stock of A&W. A&W also repaid certain loans due to its shareholders. The acquisition was accounted for as a pooling of interest and qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Company has agreed to register for resale the shares issued to the shareholders of A&W, who have represented that they have no present intention to sell the shares. Fifteen percent of the shares will bear a legend prohibiting sale without the Company's consent. The shareholders have agreed that these shares will be returned to the Company to satisfy claims for breach of representations and/or warranties arising within approximately one year after closing.

The four principals of A&W have entered into three-year employment and five-year noncompetition agreements with the Company. Fred L. Williamson, president of A&W, is an executive officer of the Company.

Vinifera, Inc.

Vinifera, Inc. was incorporated in 1993 to participate in the grapevine nursery business. Through proprietary processes, Vinifera propagates and grafts grape plants for sale to vineyards and to growers of table grapes. Industry sources have estimated that 44 million grafted wine grape plants were produced in California in 1996. This number is expected to increase to between 70 and 90 million by the year 2000.

Traditionally, grapevine plants for sale to vineyards are produced seasonally using field grown, dormant cuttings that are grafted. In contrast, Vinifera uses year-round greenhouse propagation and a herbaceous grafting method that employs very young, actively growing cuttings. As a result of greenhouse propagation, Vinifera is able to develop in two years a quantity of new plants that is approximately ten times larger than can be produced with traditional techniques. In addition, herbaceous grafting with green cuttings could allow a vineyard to begin commercial production of grapes from a newly planted vineyard a year sooner than would otherwise be possible. This grafting process also produces sturdier unions than dormant grafting, resulting in significantly higher yields of successful grafts, both at the propagation stage and in the survival of actual plantings in the field. Agritope Research and Development provides disease testing services for Vinifera.

Vinifera is headquartered in Napa, California, with facilities in Woodburn, Oregon and Petaluma, California. Its library of grape plants includes 32 different phylloxera-resistant types of rootstock, 88 different wine varietal clones, and ten different table grape varietal clones. In addition, several French and Italian varieties are currently passing through quarantine and, when released, will be available to the U.S. market exclusively through Vinifera. Vinifera believes that this collection of different grapevine clones is one of the largest in the world. Vinifera's U.S. customer base consists of over 80 vineyards in California, Washington and Oregon. In 1995, Vinifera established a joint venture in Argentina (Vinifera Sudamericana S.A.) to begin the propagation of plant material in that country. The first vines produced are expected to be sold in 1997. Vinifera is currently in the process of establishing similar ventures in other countries with large grape and wine production industries.

Vinifera was formed in 1993 as a wholly owned subsidiary of Agritope, Inc. In June 1995, Agritope, Inc. agreed to sell its equity interest in

Vinifera to a purchaser which subsequently failed to make scheduled payments of the purchase price. As part of a settlement of claims based on the purchaser's default, the purchaser retained a minority interest in Vinifera and relinquished the majority interest to Agritope, Inc. in August 1996.

Competition

The agribusiness and plant biotechnology industry is highly competitive. Competitors include independent companies that specialize in agribusiness or biotechnology; chemical, pharmaceutical and food companies that have biotechnology laboratories; universities; and public and private research organizations. Agritope believes that many companies including companies with significantly greater financial resources, such as Monsanto Company, Calgene Inc., DNAP Holding and Zeneca Seeds are engaged in the development of mechanisms to control the ripening and senescence of fruit and vegetable products. Technological advances by others could render Agritope's products less competitive. The Company believes that, despite barriers to new competitors such as patent positions and substantial research and development lead time, competition will intensify, particularly from agricultural biotechnology firms and major agrichemical, seed and food companies with biotechnology laboratories. Agritope believes that it can compete successfully with companies in these markets by developing products that offer unique and desirable attributes with superior quality.

The produce markets in which Agritope sells its products are highly competitive. For example, competition in the fresh tomato market is expected to intensify as other companies introduce tomatoes developed through biotechnology and as existing "gas green" tomato producers react to competitive pressures by growing and marketing traditionally developed vine ripe tomatoes.

In other crops, competition may intensify as technological developments occur within the agricultural biotechnology industry. In competing with such companies, Agritope relies primarily on the experience of its production, sales and marketing staff at A&W, the qualifications of its scientific staff, and its technological capabilities.

Government Regulation

Regulation by federal, state and local government authorities in the U.S. and by foreign governmental authorities will be a significant factor in the future production and marketing of Agritope's genetically engineered fruit and vegetable products.

The federal government has implemented a coordinated policy for the regulation of biotechnology research and products. The USDA has primary federal authority for the regulation of specific research, product development and commercial applications of certain genetically engineered plants and plant products. The FDA has principal jurisdiction over plant products that are used for human or animal food. The EPA has jurisdiction over the field testing and commercial application of plants genetically engineered to contain pesticides. Other federal agencies have jurisdiction over certain other classes of products or laboratory research.

The USDA regulates the growing and transportation of most genetically engineered plants and plant products. In March 1996 following a request from Agritope, the USDA issued a determination that allows the growing and shipping of its prototype variety of ripening controlled cherry tomato anywhere in the U.S. in the same manner as conventionally developed tomatoes.

In May 1992, the FDA announced its policy on foods developed through genetic engineering (the "FDA Policy"). The FDA Policy provides that the FDA will apply the same regulatory standards to foods developed through genetic engineering as applied to foods developed through traditional plant breeding. Under the FDA Policy, the FDA will not ordinarily require premarket review of genetically engineered plant varieties of traditional foods unless their characteristics raise significant safety questions, such as elevated levels of

toxicants, the presence of allergens, or they are deemed to contain a food additive.

In March 1996, the FDA announced its determination, based on its review of food safety data submitted by Agritope, that its prototype variety of ripening controlled cherry tomato expressing the SAMase gene has not been significantly altered with respect to food safety or nutritive value when compared to conventional tomatoes.

The FDA has also issued a food additive regulation permitting the use of the kanr selectable marker gene, which encodes for the enzyme APH(3')II in genetically engineering tomatoes, cotton and canola. Agritope tomato products will fall under this regulation. It is uncertain whether additional food additive regulations will need to be issued to cover additional fruit and vegetable products which use the kanr selectable marker gene.

Currently, the FDA Policy does not require that genetically engineered products be labeled as such, provided that such products are as safe and have the same nutritional characteristics as conventionally developed products. However, there can be no assurance that the FDA will not reconsider its position, or that local, state or international authorities will not enact labeling requirements, any of which could have a material adverse effect on marketing of products derived using the tools and techniques of genetic engineering.

The FDA is currently considering modifying its policy on foods developed through genetic engineering to include a Premarket Notification ("PMN") procedure. This policy modification could require companies that develop genetically engineered foods to inform the FDA that its safety evaluation is complete and that the company intends to commercialize the product. The objective of the PMN is to make the FDA and the public aware of all new genetically engineered food products entering the market. Agritope believes that any future requirement for a PMN should not delay plans to commercialize its genetically engineered fruit and vegetable products.

Agritope's complete range of agribusiness and plant biotechnology activities are subject to general FDA food regulations and are, or may be, subject to regulation under various other laws and regulations. These include but are not limited to the Occupational Safety and Health Act, the Toxic Substances Control Act, the National Environmental Policy Act, other Federal water, air and environmental quality statutes, import/export control legislation, and other laws. At the present time most states are generally deferring to federal agencies (USDA or EPA) for the approval of genetically engineered plant field trials, although states are provided a review period prior to the issuance of a field trial permit. Failure to comply with applicable regulatory requirements could result in enforcement action, including withdrawal of marketing approval, seizure or recall of products, injunction or criminal prosecution.

The federal regulatory agencies most involved in the business of A&W, the production and marketing of fresh fruit and vegetables, are the USDA and the FDA. The USDA sets standards for raw produce and governs its inspection and certification. Under the Perishable Agricultural and Commodities Act ("PACA"), the USDA exercises broad control over the marketing of produce in domestic and foreign commerce, sets standards of fair conduct as to representations, sales, delivery, shipment and payment for goods and regulates the licensing of produce merchants and brokers.

Almost every aspect of federal regulation is accompanied by regulation on the state level. In addition, in its Mexican operations, A&W must comply with the requirements of Mexican law, most importantly Mexico's environmental protection law.

International regulatory policies for genetically engineered plants and plant products are not complete. Consequently, it is possible that additional data, labeling or other requirements will be required in countries where Agritope intends to grow and/or commercialize its genetically engineered products. Foreign regulatory agencies could require Agritope to conduct

further safety assessments and potentially delay product development programs or commercialization of resulting products.

To date, Agritope to the best of its knowledge has successfully functioned within the scope of applicable laws and regulations, including rules administered by the USDA, the FDA and the Mexican Ministry of Agriculture. Agritope believes it is in compliance with all applicable laws and regulations pertaining to the development and commercialization of its products.

Epitope, Inc.

Supplies

The HIV-1 antigen needed to manufacture Epitope Medical Products' Western blot HIV confirmatory test kits is available from only a limited number of sources. Organon Teknika, the exclusive distributor of the test kits, is required to supply Epitope Medical Products' requirements for antigen for the term of its distribution agreement with Epitope Medical Products, which ends in March 1997. The parties are negotiating terms for continuing the supply arrangement. If for any reason Organon Teknika should no longer be able to supply Epitope Medical Products' antigen needs, management believes Epitope Medical Products would be able to obtain or produce its own supply of antigen at a competitive cost. Epitope Medical Products has obtained a license from the National Technical Information Service which is required for the production of the HIV-1 antigen currently used in Epitope Medical Products' Western blot test kits.

Other materials used by Agritope and Epitope Medical Products in manufacturing, production, and research and development operations are widely available from a variety of sources.

Grants and Contracts

The Company participates in United States Small Business Innovation Research ("SBIR") programs sponsored by either the Department of Health and Human Services or the Department of Agriculture. The SBIR programs have two phases. Phase I covers a six-month project period and a total award not to exceed \$100,000. Phase II covers a two-year project period and a total award not to exceed \$750,000. Epitope Medical Products has received funds in the past from the National Institute of Allergy and Infectious Diseases ("NIAID") for work in developing a rapid test to detect HIV antibodies in oral fluid specimens and from the National Cancer Institute ("NCI") to fund research for the treatment of cancer by exploiting a deficiency of certain compounds in cancer cells.

Agritope was awarded from the USDA a Phase I grant of \$50,000 in 1994 and a Phase II grant of \$200,000 in 1995 for development of diagnostic tests for the detection of grapevine leafroll virus. Agritope has been awarded grant support in the past from the Oregon Strawberry Commission and Oregon Raspberry and Blackberry Commission for antifungal biocontrol research. The Company also receives funds for research and development programs from its strategic partners.

The Company intends to continue to participate in the SBIR programs, similar grant programs and projects with strategic partners, as it deems appropriate. The Company regularly makes applications for new grants, but there is no assurance that grant support will be continued.

Patents and Proprietary Information

Epitope Medical Products has obtained patents in the United States and certain foreign countries for the EpiScreen/OraSure and OraQuick devices and related technology. Epitope Medical Products has applied for additional patents, both in the United States and in certain foreign countries, on the EpiScreen/OraSure collection device and a number of other technologies and products. In 1995, Agritope received a U.S. patent relating to its ethylene control gene. Agritope has also applied for additional U.S. and foreign patent protection for its ethylene control technology. Agritope's ability to

commercialize products depends in part on the ownership or right to use relevant enabling technology as well as the ownership or right to use genes of interest. The Company anticipates filing patent applications for protection on future products and technology. United States patents generally have a maximum term of 20 years from the date an application is filed or 17 years from issuance, whichever is longer.

Much of the technology developed by the Company is subject to trade secret protection. To reduce the risk of loss of trade secret protection through disclosure, the Company requires its employees and consultants to enter into confidentiality agreements. The Company believes that patent and trade secret protection is important to its business. However, the issuance of a patent or existence of trade secret protection does not in itself ensure the Company's success. Competitors may be able to produce products competing with a patented Company product without infringing on the Company's patent rights. Issuance of a patent in one country generally does not prevent manufacture or sale of the patented product in other countries. The issuance of a patent to the Company or to a licensor is not conclusive as to validity or as to the enforceable scope of the patent. The validity or enforceability of a patent can be challenged by litigation after its issuance, and, if the outcome of such litigation is adverse to the owner of the patent, the owner's rights could be diminished or withdrawn. Trade secret protection does not prevent independent discovery and exploitation of the secret product or technique.

Personnel

At September 30, 1996, the Company and its subsidiaries had 113 full-time employees, including 66 persons in Epitepe Medical Products, 29 in Agritope, and 18 in corporate administration and support. Epitepe Medical Products employees included 18 persons in research and product development, eight in administration and marketing, 29 in manufacturing and production, and ten in regulatory affairs and quality assurance. Agritope employees included 19 in research and development and ten at the Vinifera grape plant nursery operation which also employs seasonal part-time employees as needed. The Company considers its relations with its employees to be excellent. None of its employees are represented by labor unions.

The Company employs nine persons holding Ph.D. or M.D. degrees with specialties in the following disciplines: analytical chemistry, bacteriology and public health, biochemistry, biophysics, hematology and internal medicine, immunology, molecular biology, organic chemistry, plant biology and plant pathology. From time to time, the Company also engages the services of scientists as consultants to augment the skills of its scientific staff.

Scientific Advisory Board

The Company also utilizes the services of a Scientific Advisory Board. The Scientific Advisory Board meets periodically to review the Company's research and development efforts and to apprise the Company of scientific developments pertinent to the Company's business. The Scientific Advisory Board comprises chair Eugene W. Nester, Ph.D., Professor and Chair, Department of Microbiology, University of Washington; Roger N. Beachy, Ph.D., Member, Scripps Family Chair, and Head, Division of Plant Biology, The Scripps Research Institute, and Co-Director of International Laboratory for Tropical Agricultural Biotechnology; Peter R. Bristow, Ph.D., Associate Plant Pathologist, Washington State University; J. Richard George, Ph.D., Vice President of Scientific Affairs of Epitepe Medical Products; Lesley M. Hallick, Ph.D., Vice President for Academic Affairs, Oregon Health Sciences University; Daniel Malamud, Ph.D., Professor and Chair, Department of Biochemistry, University of Pennsylvania School of Dental Medicine; and James I. Mullins, Ph.D., Professor of Microbiology and Medicine, University of Washington.

ITEM 2. Properties.

The Company leases approximately 35,600 square feet of office,

manufacturing, and laboratory space in Beaverton, Oregon, under two leases that terminate January 31, 2000. Each lease calls for fixed monthly payments over its term. The Company also entered into a five-year lease, effective October 1, 1996, for 2,265 square feet of warehouse space used to store inventory and equipment.

Agritope, Inc., owns a 15-acre farm which it leases to Vinifera, Inc., for use in connection with Vinifera, Inc.'s grapevine micropropagation operations. Greenhouse capacity at the farm currently totals 60,000 square feet. Agritope, Inc., also uses a portion of the Company's office space and research and development facilities in Beaverton, Oregon.

In addition to leasing Agritope, Inc.'s Oregon farm and greenhouse, Vinifera leases 2,000 square feet of office space in Napa, California under a lease that expires August 31, 1998 and 250,000 square feet of greenhouse space in Petaluma, California under a lease that expires January 31, 2001.

A&W leases its main distribution facility in San Diego, California, from Fred Andrew and Fred L. Williamson, under a lease agreement expiring August 31, 2001, with an option to extend the lease term for an additional five years. A&W also leases a 1,000 square foot sales office in Bakersfield, California, on a month-to-month basis. A&W utilizes 10,000 square feet of a cold storage facility in San Diego, California, for its frozen strawberry operations. A&W has the right to use the cold storage space through January 18, 1998.

ITEM 3. Legal Proceedings.

None.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

The Company's Common Stock is listed for trading on the American Stock Exchange ("AMEX") under the symbol EPT. High and low sales prices reported by AMEX during the periods indicated are shown below. The Company has applied for inclusion of the Common Stock on the national market tier of The Nasdaq Stock Market.

<TABLE>

<CAPTION>

Year ended September 30	1996		1995	
<S>	<C>	<C>	<C>	<C>
Sales price per share	High	Low	High	Low
First Quarter	\$ 18	\$ 9-1/2	\$ 26	\$ 18-1/2
Second Quarter	19-1/2	13-7/8	21-7/8	13-5/8
Third Quarter	22-7/8	15-1/2	18-3/8	13-5/8
Fourth Quarter	16-1/8	11-3/4	18	13-3/4

</TABLE>

On November 30, 1996, there were 1,080 holders of record of the Common Stock, and the closing price of the Common Stock was \$12-1/4. The Company has never paid any cash dividends, and the Board of Directors does not anticipate paying cash dividends in the foreseeable future. The Company intends to

retain any future earnings to provide funds for the operation and expansion of its business.

ITEM 6. Selected Financial Data.

The following table sets forth selected historical consolidated income and balance sheet data of Epitope, Inc. and its subsidiaries; selected historical combined income and balance sheet data of Epitope Medical Products; and selected historical combined income and balance sheet data of Agritope. The balance sheet data at September 30, 1996 and 1995 and the operating results data for the years ended September 30, 1996, 1995, and 1994 have been derived from audited consolidated financial statements and notes thereto included in this Annual Report on Form 10-K. The balance sheet data at September 30, 1994, 1993 and 1992 and operating results data for the years ended September 30, 1993 and 1992 are unaudited, but, in the opinion of management, include all adjustments necessary for fair presentation. The following historical financial information has not been restated to give effect to the merger with Andrew & Williamson Sales, Co. on December 12, 1996. The merger has been accounted for as a pooling of interests. See Supplemental Comparative Financial Data below.

<TABLE>
<CAPTION>

Historical Comparative Financial Data
(In thousands, except net profit (loss) per share)

<S>	<C>	<C>	<C>	<C>	<C>
Year ended September 30	1996	1995	1994	1993	1992
Epitope Medical Products					
Combined operating results					
Revenues	\$ 5,594	\$ 2,856	\$ 2,605	\$ 2,759	\$ 2,985
Operating costs and expenses	10,881	14,463	8,890	9,376	8,312
Other income (expense), net . . . . .	.6,027	756	236	(1,276)	221
Net profit (loss) . . . . .	.739	(10,851)	(6,048)	(7,893)	(5,106)
Pro forma net profit (loss) per share . . . . .	.06	(.91)	(.60)	(.89)	(.59)
Pro forma shares used in per share calculations					
	.13,440	11,886	10,050	8,828	8,628
Combined balance sheet data					
Working capital	\$ 20,366	\$ 15,449	\$ 13,474	\$ 7,029	\$ 5,255
Total assets . . . . .	.24,350	21,831	17,183	10,381	7,954
Accumulated deficit	(41,705)	(42,444)	(31,593)	(25,545)	(17,652)
Group equity . . . . .	.22,532	18,035	15,661	9,280	7,178
Agritope					
Combined operating results					
Revenues	\$ 585	\$ 2,110	\$ 2,213	\$ 524	\$ 58
Operating costs and expenses . . . . .	.2,821	9,920	11,703	7,331	2,790
Other income (expense), net . . . . .	.97	166	(94)	(29)	72
Net loss	(2,139)	(7,645)	(9,584)	(6,836)	(2,660)
Pro forma net loss per share	(.34)	(1.29)	(1.91)	(1.55)	(.62)
Pro forma shares used in per share calculations					
	.6,331	5,943	5,026	4,414	4,314
Combined balance sheet data					
Working capital	\$ 1,264	\$ 5,082	\$ 3,710	\$ 1,673	\$ 4,368
Total assets . . . . .	.10,097	8,303	7,372	3,764	6,177
Long-term debt	-	22	38	57	-
Convertible notes, due 1997 . . . . .	.3,620	3,620	4,070	4,630	5,495
Accumulated deficit	(31,280)	(29,141)	(21,497)	(11,912)	(5,076)
Group equity (deficit) . . . . .	.5,435	4,312	2,810	(1,310)	482
Epitope, Inc. and Subsidiaries					
Consolidated operating results					
Revenues	\$ 6,179	\$ 4,965	\$ 4,819	\$ 3,283	\$ 3,043
Operating costs and expenses . . . . .	.13,702	24,383	20,593	16,707	11,102
Other income (expense), net . . . . .	.6,123	922	141	(1,305)	293
Net loss	(1,400)	(18,496)	(15,633)	(14,729)	(7,765)
Net loss per share	(.11)	(1.56)	(1.56)	(1.67)	(.90)
Shares used in per share calculations					
	.12,661	11,886	10,050	8,828	8,628

Consolidated balance sheet data

Working capital	\$ 21,630	\$ 20,532	\$ 17,184	\$ 8,703	\$ 9,623
Total assets.	34,447	30,134	24,555	14,145	14,130
Long-term debt.	-	22	38	57	-
Convertible notes, due 1997	3,620	3,620	4,070	4,630	5,495
Accumulated deficit	(72,985)	(71,585)	(53,090)	(37,457)	(22,728)
Shareholders' equity.	27,967	22,347	18,470	7,970	7,660

</TABLE>

The following table sets forth selected supplemental consolidated income and balance sheet data of Epitope, Inc. and its subsidiaries; selected supplemental combined income and balance sheet data of Epitope Medical Products; and selected supplemental combined income and balance sheet data of Agritope. The balance sheet data at September 30, 1996 and 1995 and the operating results data for the years ended September 30, 1996, 1995, and 1994 have been derived from audited consolidated financial statements and notes thereto included in this Annual Report on Form 10-K. The balance sheet data at September 30, 1994, 1993 and 1992 and operating results data for the years ended September 30, 1993 and 1992 are unaudited, but, in the opinion of management, include all adjustments necessary for fair presentation. The following supplemental financial information has been restated to give effect to the merger with Andrew & Williamson Sales, Co. on December 12, 1996. The merger has been accounted for as a pooling of interests.

<TABLE>
<CAPTION>

Supplemental Comparative Financial Data

(In thousands, except net profit (loss) and dividends per share)

<S>	<C>	<C>	<C>	<C>	<C>
Year ended September 30	1996	1995	1994	1993	1992
Epitope Medical Products					
Combined operating results					
Revenues.	\$ 5,594	\$ 2,856	\$ 2,605	\$ 2,759	\$ 2,985
Operating costs and expenses.	10,881	14,463	8,890	9,376	8,311
Other income (expense), net . . . . .	.6,027	756	236	(1,276)	221
Net profit (loss). . . . .	.739	(10,851)	(6,048)	(7,893)	(5,106)
Pro forma net profit (loss) per share...05	(.87)	(.57)	(.84)	(.56)	
Pro forma shares used in per share calculations	13,960	12,406	10,570	9,348	9,148
Combined balance sheet data					
Working capital	\$ 20,366	\$ 15,449	\$ 13,474	\$ 7,030	\$ 5,255
Total assets.	24,350	21,831	17,182	10,381	7,953
Accumulated deficit	(41,705)	(42,444)	(31,593)	(25,545)	(17,652)
Group equity.	22,532	18,035	15,660	9,281	7,179
Agritope					
Combined operating results					
Revenues.	\$ 63,057	\$ 54,289	\$ 62,918	\$ 39,796	\$ 30,348
Operating costs and expenses.	63,390	62,059	71,024	45,503	32,745
Other income (expense), net	(.671)	(252)	(444)	(184)	(76)
Net loss.	(1,004)	(8,022)	(8,550)	(5,891)	(2,473)
Pro forma net loss per share.	(.15)	(1.29)	(1.62)	(1.26)	(.54)
Pro forma dividends per share . . . . .	.20	.05	.10	.15	.03
Pro forma shares used in per share calculations	6,591	6,203	5,285	4,674	4,574
Combined balance sheet data					
Working capital	\$ 754	\$ 5,764	\$ 5,185	\$ 2,553	\$ 4,845
Total assets.	20,861	15,597	11,500	9,554	10,103
Long-term debt.	528	1,648	1,714	1,648	1,080
Convertible notes, due 1997	3,620	3,620	4,070	4,630	5,495
Accumulated deficit	(30,584)	(28,255)	(19,900)	(10,809)	(4,219)
Group equity (deficit).	6,152	5,219	4,429	(186)	1,360

Epitope, Inc. and Subsidiaries
Consolidated operating results

Revenues. . . . .	.\$68,650	\$ 57,144	\$ 65,523	\$ 42,554	\$ 33,333
Operating costs and expenses. . . . .	.74,271	76,522	79,913	54,878	41,057
Other income (expense), net . . . . .	.5,356	504	(208)	(1,460)	145
Net loss. . . . .	.(265)	(18,874)	(14,598)	(13,784)	(7,578)
Net loss per share. . . . .	.(.02)	(1.52)	(1.38)	(1.47)	(.83)
Dividends per share . . . . .	..10	.03	.05	.07	.02
Shares used in per share calculations . . . . .	.13,181	112,406	10,570	9,348	9,148
Consolidated balance sheet data					
Working capital . . . . .	.\$ 21,120	\$ 21,213	\$ 18,659	\$ 9,583	\$ 10,100
Total assets. . . . .	.45,211	37,427	28,682	19,935	18,056
Long-term debt. . . . .	.528	1,648	1,714	1,648	1,080
Convertible notes, due 1997 . . . . .	.3,620	3,620	4,07	4,630	5,495
Accumulated deficit . . . . .	.(72,290)	(70,700)	(51,492)	(36,354)	(21,871)
Shareholders' equity. . . . .	.28,684	23,254	20,089	9,095	8,539

</TABLE>

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

At the 1997 annual meeting, the shareholders will vote on a proposal to create two new classes of common stock, one that will track the performance of the Company's agricultural operations and one that will track the performance of the Company's medical products business. The accompanying consolidated financial statements have been prepared to reflect the operating results and financial condition of the Company and its subsidiaries. In addition, combined proforma financial statements have been prepared to reflect, on a separate basis, assuming shareholder approval of the proposal, the operating results and financial condition of the two business groups.

Under the proposed plan, a new class of common stock called Agritope Common Stock (Agritope Stock) will be distributed to Epitope shareholders in the ratio of one-half share of Agritope Stock for each outstanding share of existing common stock. In addition, Epitope shareholders will retain their existing common stock which will be redesignated as Epitope Medical Products Common Stock (Epitope Medical Products Stock) on a share-for-share basis. The approval of the distribution will not result in any transfer of assets or liabilities of the Company. The Company and its subsidiaries will continue to hold title to all its assets and be responsible for all its liabilities. Holders of the Epitope Medical Products and Agritope common stock will have no specific claim against the assets attributed for financial statement presentation purposes to the group whose performance is associated with the class of stock they hold. Liabilities or contingencies of either group that affect the Company's resources or financial condition could affect the financial condition or results of operations of both groups.

The combined operating statements include the cost of certain services which are provided on a centralized basis for the benefit of both groups (Shared Services). Such expenses have been allocated to each group using activity indicators which, in the opinion of management, represent a reasonable measure of the respective group's utilization of or benefit from such Shared Services. Interest earned on investments has been allocated to each group in direct proportion to the allocation of Shared Services. See Note 2 to Historical Financial Statements.

On December 12, 1996, the Company merged with Andrew and Williamson Sales, Co. (A&W) in a transaction accounted for as a pooling of interests. Accordingly, this Annual Report on Form 10-K includes both historical financial statements and supplemental financial statements which are restated to include the financial position and results of operations of A&W as if the merger had occurred on the first day of the earliest period presented. See Note 13 to Supplemental Financial Statements.

The following discussion is a summary of key factors management considers necessary in reviewing the results of operations, liquidity and capital resources of the Company and its Epitope Medical Products and Agritope groups.

Epitope Medical Products

Results of Operations

The table below shows the percentage of Epitope Medical Products' total revenue contributed by each of its principal products and by grants and contracts.

Fiscal Year	1996	1995	1994
Percentage of Revenues from:			
Oral Specimen Collection Devices.	59%	34%	34%
HIV Confirmatory Tests.	28%	64%	65%
Grants and Contracts.	13%	2%	1%

Revenues. Epitope Medical Products' product sales increased 73% in 1996, to \$4.9 million, and 9% in 1995 as a result of expanded sales volume of its lead product, the EpiScreen/OraSure oral specimen collection device. Approximately 39% of 1996 sales were attributable to shipments in the fourth quarter. Grant and contract revenues amounted to \$729,000 in 1996 due to funding of research projects by the group's marketing partner, SmithKline Beecham plc. (SB). Revenues in 1994 were \$2.6 million.

The oral specimen collection device, which is sold by the Company under the trade name EpiScreen(R) and by SB under the trade name OraSure(TM), accounted for revenues of \$3.3 million in 1996, as compared to \$981,000 in 1995, and \$833,000 in 1994. The significant increase in sales volume resulted from FDA clearances for expanded use of EpiScreen/OraSure.

Epitope Medical Products' Western blot HIV confirmatory test produced sales revenues of \$1.5 million for 1996, 15% below prior year levels. Reduced sales to international markets accounted for the decline. In 1995, on the strength of increased market share in the U.S., confirmatory tests produced revenues of \$1.8 million, representing a 7% increase over the prior fiscal year.

As of September 30, 1996, Epitope Medical Products had firm orders totaling \$1.8 million and \$450,000, respectively, for delivery within 90 days of oral specimen collection devices and HIV confirmatory tests, as compared to \$488,000 and \$329,000, respectively, of firm orders for delivery within 90 days as of September 30, 1995.

Gross Margins. Gross margins on product sales improved to 44.9% of sales in 1996 as a result of increased sales volume of EpiScreen/OraSure devices. Margins on EpiScreen/OraSure sales were negative in 1995 and 1994.

Research and Development Expenses. Research and development expenses declined 31% to \$3.2 million in 1996 as a result of cost reductions associated with the Company's September 1995 restructuring program as well as lower levels of clinical trials activity. Research and development expenses increased from \$3.7 million in 1994 to \$4.6 million in 1995. The increase resulted primarily from increased research projects and clinical trial activities.

Selling, General and Administrative Expenses. Selling, general and administrative expenses declined 25% to \$5.0 million in 1996 primarily due to cost reductions implemented in the Company's restructuring program. Selling, general and administrative expenses increased by \$3.6 million to \$6.7 million in 1995 as a result of increased sales and marketing expenses associated with product launch following the December 1994 FDA approval of the EpiScreen/OraSure device for use in HIV screening. Selling, general and administrative expenses for 1995 included approximately \$607,000 for severance payments and other costs associated with implementing the restructuring program. Selling, general and administrative expenses also included \$3.0 million, \$3.6 million and \$1.9 million for the allocation of Shared Services in 1996, 1995 and 1994, respectively.

Other Income, Net. Other income for 1996 included \$5.2 million related to license fees earned from SB as a result of FDA approval of an extension of dating for the OraSure/EpiScreen device. Other income increased from \$236,000 in 1994 to \$756,000 in 1995, primarily from higher levels of investment income.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities allocated to Epitepe Medical Products as of year-end totaled \$19.6 million in 1996 and \$17.1 million in 1995. At September 30, 1996, Epitepe Medical Products had working capital of \$20.4 million, as compared to \$15.4 million at September 30, 1995.

In the combined financial statements, cash equal to 20% of the Company's cash, cash equivalents and marketable securities has been allocated to Agritope. Historically, cash was transferred to the Agritope operations in the form of intercompany loans. For the purpose of preparing the separate statements of Epitepe Medical Products and Agritope, such transfers and intercompany balances have been reflected as equity investments in Agritope. If the creation of a second class of common stock is approved, the Company will allocate at least \$5 million of cash to Agritope as additional contributed capital.

Proceeds from the issuance of equity securities of the Company, augmented by funding from strategic partners and other research grants, have represented the primary sources of funds for meeting Epitepe Medical Products' requirements for operations, working capital and business expansion.

Epitepe Medical Products anticipates that it will continue to need funds to support its operations and ongoing research and development projects as well as to provide additional manufacturing capacity and related increases in working capital. Epitepe Medical Products intends to utilize cash reserves, cash generated from sales of products and research funding from SB and other strategic partners to provide the necessary funds. Epitepe may also receive additional funds from the sale of equity securities or from the exercise of outstanding stock options and warrants.

Historical Financial Statements

Agritope

Results of Operations

The table below shows the percentage of Agritope's total revenue contributed by each of its principal products and by grants and contracts:

Fiscal Year	1996	1995	1994
Percentage of Revenues from:			
Grape Plants.	--%	4%	1%
Packaged Fresh Flowers.	--%	91%	97%
Grants and Contracts.	100%	5%	2%

Revenues. Revenues declined from \$2.1 million in 1995 to \$585,000 in 1996. Revenues for 1994 were \$2.2 million. Revenues in 1995 and 1994 included product sales of \$2.0 and \$2.2 million, respectively, from the Company's unprofitable wholesale fresh flower packaging and distribution operations which were divested in the third quarter of fiscal 1995. A grant from the U.S. Department of Agriculture plus grants from strategic partners accounted for the increase of grant and contract revenues from \$94,000 in 1995 to \$585,000 in 1996.

Research and Development Expenses. Research and development expenses in 1996, 1995 and 1994 totaled \$1.3 million, \$2.2 million and \$2.4 million, respectively. The decrease from 1995 to 1996 resulted from the divestiture of certain businesses. See Note 3 to Historical Financial Statements.

Selling, General and Administrative Expenses. Selling, general and

administrative expenses in 1996, 1995, and 1994 were \$1.5 million, \$4.5 million and \$4.8 million, respectively. The higher cost levels in 1995 and 1994 resulted from increased costs at Agritope's Agrimax and Vinifera business units. Selling, general and administrative expenses include \$1.1 million, \$1.9 million and \$1.7 million for the allocation of Shared Services in 1996, 1995 and 1994, respectively.

Liquidity and Capital Resources

Cash allocated to Agritope totaled \$4.9 million at September 30, 1996 and \$4.2 million at September 30, 1995. At September 30, 1996, Agritope had working capital of \$1.3 million, as compared to \$5.1 million at September 30, 1995. The decrease in working capital was principally attributable to the reclassification to current liabilities of \$3.6 million of convertible notes which are due June 30, 1997. In November 1996, the Company accepted an offer from a representative of the holders of \$3.4 million principal amount of such notes to convert them into 250,367 shares of common stock of the Company at a reduced conversion price of \$13.50 per share. Accordingly, the Company will recognize a charge of approximately \$1.1 million representing the conversion expense in the first quarter of fiscal year 1997. See Note 13 to Historical Financial Statements.

In the combined financial statements, cash equal to 20% of the Company's cash, cash equivalents and marketable securities has been allocated to Agritope. Historically, cash was transferred to the Agritope operations in the form of intercompany loans. For the purpose of preparing the separate statements of Epitepe Medical Products and Agritope, such transfers and intercompany balances have been reflected as equity investments in Agritope. If the creation of a second class of common stock is approved, the Company will allocate at least \$5 million of cash to Agritope as additional contributed capital.

Proceeds from the issuance of equity securities of the Company, augmented by funding from strategic partners and other research grants, have represented the primary sources of funds for meeting Agritope's requirements for operations, working capital and business expansion.

Agritope expects to continue to require funds to support its operations and research activities. Agritope intends to utilize cash reserves, cash generated from sales of products and research funding from strategic partners and other research grants to provide the necessary funds. Agritope may also receive additional funds from the sale of equity securities or the exercise of outstanding stock options and warrants.

Agritope's investments include the book value of the investment in two affiliates. Agritope holds an equity interest of approximately 9% in UAF, Limited Partnership, a fresh flower distributor in Tampa, Florida and a 19.5% interest in Petals, USA, Inc., which operates a similar business in St. Paul, Minnesota. These equity interests were obtained in connection with divestiture of the fresh flower distribution business. See Note 3 to Historical Financial Statements.

Historical Financial Statements

Epitepe, Inc. and Subsidiaries

Results of Operations

The Company reported revenues of \$6.2 million, \$5.0 million and \$4.8 million, respectively, for the years ended September 30, 1996, 1995 and 1994. Product sales in 1996 increased due to higher sales volume for Epitepe Medical Products, which more than offset a \$2.0 million reduction in product sales for Agritope. Grant and contract revenues increased \$681,000 for Epitepe Medical Products due to research funding received from SB and \$491,000 for Agritope which was attributable primarily to a Phase II SBIR grant.

Net losses for 1996, 1995 and 1994 amounted to \$1.4 million, \$18.5 million and \$15.6 million, respectively. The significant improvement in operating results

in 1996 was due to (1) increased sales volumes and improved gross margins for Epitepe Medical Products' EpiScreen/OraSure oral specimen collection device, (2) a \$5.2 million fee and accrued interest from SB to Epitepe Medical Products, (3) cost reductions realized as a result of a September 1995 restructuring program, and (4) reduced operating losses as a result of divestiture of two Agritope business units.

The Company incurred expenses of \$4.1 million, \$5.5 million and \$3.6 million in 1996, 1995 and 1994, respectively, to provide Shared Services to Epitepe Medical Products and Agritope. The decrease in such costs in 1996 represented cost savings realized from the restructuring program implemented in September 1995. Such costs increased in 1995 over 1994 levels as the Company increased its infrastructure to respond to current growth and anticipated levels of activity for both groups. See Note 2 to Historical Financial Statements.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities on hand as of September 30, 1996 and 1995 totaled \$24.5 million and \$21.3 million. At September 30, 1996, the Company had working capital of \$21.6 million, as compared to \$20.5 million at September 30, 1995.

Proceeds from the issuance of equity securities of the Company, augmented by funding from strategic partners and other research grants, have represented the primary sources of funds for meeting the Company's requirements for operations, working capital and business expansion. During 1996, the Company received proceeds of \$5.9 million from the exercise of warrants and options to purchase common stock, as compared to \$21.1 million in 1995.

The Company anticipates that it will continue to need funds to support ongoing research and development projects as well as to provide additional manufacturing capacity and related increases in working capital. The Company intends to utilize cash reserves, cash generated from sales of products and research funding from SB and other strategic partners to provide the necessary funds. The Company may also receive additional funds from the sale of equity securities or the exercise of outstanding stock options and warrants.

Supplemental Financial Statements

Epitepe Medical Products

The only modification to the Historical Financial Statements of Epitepe Medical Products appearing in the Supplemental Financial Statements are those required to reflect the agreed issuance of 520,000 shares of common stock of the Company in connection with the merger with A&W. The Supplemental Financial Statements are presented as if the shares were outstanding on the first day of the earliest period presented. See "Historical Financial Statements--Epitepe Medical Products."

Supplemental Financial Statements

Agritope

(merged with Andrew and Williamson Sales, Co. in a pooling of interests)

Results of Operations

The table below shows the percentage of Agritope's total revenue contributed by each of its principal products and by grants and contracts:

Fiscal Year	1996	1995	1994
Percentage of Revenues from:			
Fresh or Frozen Produce.	99%	96%	97%
Grape Plants.	--%	--%	--%
Packaged Fresh Flowers.	--%	4%	3%
Grants and Contracts.	1%	--%	--%

Revenues. Revenues increased to \$63.1 million in 1996 as compared to \$54.3 million in 1995 and \$62.9 in 1994, primarily attributable to produce sales of A&W. Produce sales increased 20% in 1996 due to increased sales volume of vine ripe tomatoes, peppers and strawberries. For 1995, produce sales declined as compared to 1994 as a result of scaling back volume of vine ripe tomatoes, coupled with the loss of one contract grower. Revenues in 1995 and 1994 also included packaged fresh flower sales of \$2.0 and \$2.2 million, respectively, from the Company's unprofitable wholesale fresh flower packaging and distribution operations which were divested in the third quarter of fiscal 1995. A grant from the U.S. Department of Agriculture plus grants from strategic partners accounted for the increase of grant and contract revenues from \$94,000 in 1995 to \$585,000 in 1996.

Gross Profits. A&W realized gross profit margins of 8%, 6% and 8% in 1996, 1995 and 1994, respectively. The decline in 1995 gross profits was due to a tomato crop failure experienced by one of A&W's contract growers. Gross profits in 1995 and 1994 were adversely affected by negative margins of Agritope's former fresh flower packaging operations.

Research and Development Expenses. Research and development expenses in 1996, 1995 and 1994 totaled \$1.3 million, \$2.2 million and \$2.4 million, respectively. The decrease from 1995 to 1996 resulted from the divestiture of certain businesses. See Note 3 to Supplemental Financial Statements.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in 1996, 1995 and 1994 were \$4.8 million, \$7.5 million and \$8.3 million, respectively. The higher cost levels in 1995 and 1994 resulted from increased costs at Agritope's Agrimax and Vinifera business units. Selling, general and administrative expenses include \$1.1 million, \$1.9 million and \$1.7 million for the allocation of Shared Services in 1996, 1995 and 1994, respectively.

Other Expense. The primary component of other expense is net interest expense of \$467,000, \$274,000 and \$440,000 in 1996, 1995 and 1994, respectively. Net interest expense in 1996 increased primarily due to an increase in borrowings under the A&W bank credit line. Net interest expense decreased in 1995 as compared to 1994 due to increased interest income.

Liquidity and Capital Resources

Cash allocated to Agritope totaled \$4.9 million at September 30, 1996 and \$4.2 million at September 30, 1995. At September 30, 1996, Agritope had working capital of \$0.8 million, as compared to \$5.8 million at September 30, 1995. The decrease in working capital was principally attributable to the reclassifications to current liabilities of \$3.6 million of convertible notes which are due June 30, 1997, and \$2.2 million of subordinated notes which the Company intends to repay in fiscal 1997. In November 1996, the Company entered into an agreement with holders of \$3.4 million of convertible notes to convert them into 250,367 shares of common stock of the Company at a reduced conversion price of \$13.50 per share. Accordingly, the Company will recognize a charge of approximately \$1.1 million representing the conversion expense in the first quarter of fiscal 1997. See Note 13 to Supplemental Financial Statements.

In the combined financial statements, cash equal to 20% of the Company's cash, cash equivalents and marketable securities has been allocated to Agritope. Historically, cash was transferred to the Agritope operations in the form of intercompany loans. For the purpose of preparing the separate statements of Epitope Medical Products and Agritope, such transfers and intercompany balances have been reflected as equity investments in Agritope. If the creation of a second class of common stock is approved, the Company will allocate at least \$5 million of cash to Agritope as additional contributed capital.

Proceeds from the issuance of equity securities of the Company, A&W cash flow from operations and A&W bank borrowings, augmented by funding from strategic partners and other research grants, have represented the primary sources of

funds for meeting Agritope's requirements for operations, working capital and business expansion.

Agritope expects to continue to require funds to support its operations and research activities. Agritope intends to utilize cash reserves, cash generated from sales of products and research funding from strategic partners and other research grants to provide the necessary funds. Agritope may also receive additional funds from the sale of equity securities or the exercise of outstanding stock options and warrants.

Agritope's investments include the book value of the investment in two affiliates. Agritope holds an equity interest of approximately 9% in UAF, Limited Partnership, a fresh flower distributor in Tampa, Florida and a 19.5% interest in Petals, USA, Inc., which operates a similar business in St. Paul, Minnesota. These equity interests were obtained in connection with divestiture of the fresh flower distribution business. See Note 3 to Supplemental Financial Statements.

Supplemental Financial Statements

Epitope, Inc. and Subsidiaries

(merged with Andrew and Williamson Sales, Co. in a pooling of interests)

Results of Operations

The Company reported revenues of \$68.7 million, \$57.1 million and \$65.5 million, respectively, for the years ended September 30, 1996, 1995 and 1994. A&W recorded sales of \$62.5 million, \$52.2 million and \$60.7 million, respectively for such periods. Grant and contract revenues increased \$681,000 for Epitope Medical Products due to research funding received from SB and \$491,000 for Agritope which was attributable primarily to a Phase II SBIR grant.

Net losses for 1996, 1995 and 1994 amounted to \$0.3 million, \$18.9 million and \$14.6 million, respectively. The significant improvement in operating results in 1996 was due to (1) increased sales volumes and improved gross margins for Epitope Medical Products' EpiScreen/OraSure oral specimen collection device, (2) a \$5.2 million fee and accrued interest from SB to Epitope Medical Products, (3) cost reductions realized as a result of a September 1995 restructuring program, (4) reduced operating losses as a result of divestiture of two Agritope business units and (5) operating profits from A&W. The Company incurred expenses of \$4.1 million, \$5.5 million and \$3.6 million in 1996, 1995 and 1994, respectively, to provide Shared Services to Epitope Medical Products and Agritope. The decrease in such costs in 1996 represented costs savings realized from the restructuring program implemented in September 1995. Such costs increased in 1995 over 1994 levels as the Company increased its infrastructure to respond to current growth and anticipated levels of activity for both groups. See Note 2 to Supplemental Financial Statements.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities on hand as of September 30, 1996 and 1995 totaled \$24.5 million and \$21.3 million. At September 30, 1996, the Company had working capital of \$21.1 million, as compared to \$21.2 million at September 30, 1995.

Proceeds from the issuance of equity securities of the Company, augmented by funding from strategic partners and other research grants, have represented the primary sources of funds for meeting the Company's requirements for operations, working capital and business expansion. During 1996, the Company received proceeds of \$5.9 million from the exercise of warrants and options to purchase common stock, as compared to \$21.1 million in 1995.

The Company anticipates that it will continue to need funds to support ongoing research and development projects as well as to provide additional manufacturing capacity and related increases in working capital. The Company intends to utilize cash reserves, cash generated from sales of products and research funding from SB and other strategic partners to provide the necessary

funds. The Company may also receive additional funds from the sale of equity securities or the exercise of outstanding stock options and warrants.

ITEM 8. Financial Statements and Supplementary Data.

Information with respect to this Item is (i) set forth below and (ii) contained in the Company's Consolidated Financial Statements included in Item 14 of this Annual Report on Form 10-K.

The following table presents summarized historical quarterly results of operations for each of the fiscal quarters in the Company's fiscal years ended September 30, 1996 and 1995. These quarterly results are unaudited, but, in the opinion of management, have been prepared on the same basis as the Company's audited financial information and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information set forth therein. The summarized historical quarterly results of operations have not been restated to give effect to the merger with Andrew & Williamson Sales, Co. on December 12, 1996. The merger has been accounted for as a pooling of interests. See Supplemental Quarterly Results of Operations below. The data should be read in conjunction with the Financial Statements and related notes included in Item 14 of this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

HISTORICAL QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)
(In thousands, except net income (loss) per share)

<S>	<C>	<C>	<C>	<C>	<C>
	First	Second	Third	Fourth	Total
	Quarter	Quarter	Quarter	Quarter	
Epitope Medical Products					
Year ended September 30, 1996					
Revenues.	\$ 1,225	\$ 1,207	\$ 1,107	\$ 2,055	\$ 5,594
Operating costs and expenses.	2,510	2,819	2,507	3,045	10,881
Other income, net. . . . .	.224	.218	5,345	240	6,027
Net income (loss).	(1,061)	(1,394)	3,945	(751)	739
Pro forma net income (loss)					
per share	(.08)	(.11)	.29	(.06)	.06
Year ended September 30, 1995					
Revenues.	\$ 715	\$ 722	873	546	2,856
Operating costs and expenses.	2,679	3,288	3,823	4,673	14,463
Other income net. . . . .	.101	.149	277	227	56
Net loss.	(1,863)	(2,417)	(2,673)	(3,898)	(10,851)
Pro forma net loss per share.	(.17)	(.21)	(.22)	(.31)	(.91)
Agritope					
Year ended September 30, 1996					
Revenues.	\$ 87	\$ 263	\$ 165	\$ 70	\$ 585
Operating costs and expenses. . . . .	.675	690	690	766	2,821
Other income (expense), net.	(.3)	5	79	16	97
Net loss.	(.591)	(423)	(446)	(679)	(2,139)
Pro forma net loss per share.	(.09)	(.07)	(.06)	(.11)	(.34)
Year ended September 30, 1995					
Revenues.	\$ 419	\$ 953	\$ 695	\$ 43	\$ 2,110
Operating costs and expenses.	2,891	3,433	2,201	1,395	9,920
Other income, net. . . . .	.33	65	31	37	166
Net loss.	(2,439)	(2,415)	(1,475)	(1,316)	(7,645)
Pro forma net loss per share.	(.44)	(.41)	(.24)	(.21)	(1.29)
Epitope, Inc. and Subsidiaries					
Year ended September 30, 1996					
Revenues.	\$ 1,311	\$ 1,470	\$ 1,272	\$ 2,126	\$ 6,179
Operating costs and expenses. . . . .	.3,185	3,510	3,197	3,810	13,702

Other income, net. . . . .	.222	223	5,425	253	6,123
Net income (loss).	(1,652)	(1,817)	3,500	(1,431)	(1,400)
Net income (loss) per share.	(.13)	(.14)	.25	(.11)	(.11)

Year ended September 30, 1995

Revenues.	\$ 1,135	\$ 1,675	\$ 1,569	\$ 586	\$ 4,965
Operating costs and expenses.	5,571	6,721	6,025	6,066	24,383
Other income, net. . . . .	.134	214	308	266	922
Net loss.	(4,302)	(4,832)	(4,148)	(5,214)	(18,496)
Net loss per share.	(.39)	(.41)	(.34)	(.42)	(1.56)

</TABLE>

The following table presents summarized supplemental quarterly results of operations for each of the fiscal quarters in the Company's fiscal years ended September 30, 1996 and 1995. These quarterly results are unaudited, but, in the opinion of management, have been prepared on the same basis as the Company's audited financial information and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information set forth therein. The summarized supplemental quarterly results of operations have been restated to give effect to the merger with Andrew and Williamson Sales, Co. on December 12, 1996. The merger has been accounted for as a pooling of interests. The data should be read in conjunction with the Financial Statements and related notes included in Item 14 of this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

SUPPLEMENTAL QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)
(In thousands, except net income (loss) per share)

<S>	<C>	<C>	<C>	<C>	<C>
	First	Second	Third	Fourth	Total
	Quarter	Quarter	Quarter	Quarter	
Year ended September 30, 1996					
Revenues	\$ 1,225	\$ 1,207	\$ 1,107	\$ 2,055	\$ 5,594
Operating costs and expenses	2,510	2,819	2,507	3,045	10,881
Other income, net	224	218	5,345	240	6,027
Net income (loss)	(1,061)	(1,394)	3,945	(751)	739
Pro forma net income (loss) per share	(.08)	(.11)	.27	(.06)	.05
Year ended September 30, 1995					
Revenues	\$ 715	\$ 722	\$ 873	\$ 546	\$ 2,856
Operating costs and expenses	2,679	3,288	3,823	4,673	14,463
Other income net	101	149	277	229	756
Net loss	(1,863)	(2,417)	(2,673)	(3,898)	(10,851)
Pro forma net loss per share	(.16)	(.20)	(.21)	(.30)	(.87)
Agritope					
	First	Second	Third	Fourth	Total
	Quarter	Quarter	Quarter	Quarter	
Year ended September 30, 1996					
Revenues	\$12,978	\$10,291	\$26,658	\$13,131	\$63,057
Operating costs and expenses	13,671	9,917	26,323	13,479	63,390
Other expense, net	(132)	(189)	(181)	(169)	(671)
Net income (loss)	(825)	184	154	(518)	(1,004)
Pro forma net income (loss) per share	(.13)	.03	.02	(.08)	(.15)
Year ended September 30, 1995					
Revenues	\$15,120	\$ 9,682	\$17,080	\$12,406	\$54,289
Operating costs and expenses	18,217	11,499	18,912	13,430	62,059
Other expense, net	(78)	(19)	(77)	(78)	(252)
Net loss	(3,175)	(1,836)	(1,909)	(1,102)	(8,022)
Pro forma net loss per share	(.55)	(.30)	(.30)	(.17)	(1.29)
	First	Second	Third	Fourth	

Epitope, Inc. and Subsidiaries Year ended September 30, 1996	Quarter	Quarter	Quarter	Quarter	Total
Revenues	\$14,202	\$11,498	\$27,765	\$15,185	\$68,650
Operating costs and expenses	16,181	12,737	28,830	16,523	74,271
Other income, net	93	29	5,165	70	5,356
Net income (loss)	(1,886)	(1,210)	4,100	(1,268)	(265)
Net income (loss) per share	(.14)	(.09)	.29	(.09)	(.02)

Year ended September 30, 1995	Quarter	Quarter	Quarter	Quarter	Total
Revenues	\$15,836	\$10,404	\$17,954	\$12,951	\$57,144
Operating costs and expenses	20,896	14,788	22,736	18,102	76,522
Other income, net	22	130	200	151	504
Net loss	(5,038)	(4,253)	(4,582)	(5,000)	(18,874)
Net loss per share	(.44)	(.35)	(.36)	(.39)	(1.52)

</TABLE>

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

The Company has omitted from Part III the information that will appear in the Company's definitive proxy statement for its 1997 annual meeting of shareholders (the "Proxy Statement"), which will be filed within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A.

ITEM 10. Directors and Executive Officers of the Registrant.

The information required by this Item is incorporated by reference to the information under the captions "Proposal 1: Election of Class 1 Directors" and "Executive Officers" in the Proxy Statement.

ITEM 11. Executive Compensation.

The information required by this Item is incorporated by reference to the information under the caption "Executive Compensation" in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item is incorporated by reference to the information under the caption "Principal Shareholders" in the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions.

The information required by this Item is incorporated by reference to the information under the caption "Certain Transactions" in the Proxy Statement.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) and (a) (2) Consolidated Financial Statements and Schedules.

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Historical Financial Statements

Report of Independent Accountants

To the Board of Directors and Shareholders of Epitepe, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in shareholders'/group equity, and of cash flows present fairly, in all material respects, the financial position of Epitepe Medical Products group and Agritope group (as described in Note 1 to these financial statements) and Epitepe, Inc. and its subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Portland, Oregon

October 28, 1996, except for Note 13 as to which the date is November 14, 1996, November 25, 1996, December 12, 1996, and December 26, 1996.

<TABLE>
<CAPTION>

Historical Financial Statements
Epitepe Medical Products
Combined Balance Sheets

<S>	<C>	<C>	1996	1995
SEPTEMBER 30				
Assets				
Current assets				
Cash and cash equivalents (Note 2)			\$ 795,787	\$ 13,210
Marketable securities (Note 2)			18,818,120	17,080,246
Trade accounts receivable, net (Note 2)			1,147,599	231,621
Other accounts receivable			174,083	382,753
Inventories (Note 2)			1,157,930	1,433,746
Prepaid expenses			89,518	103,399

Total current assets			22,183,037	19,244,975
Property and equipment, net (Notes 2 and 4)			1,542,757	1,989,769
Patents and proprietary technology, net (Note 2)			601,234	415,010
Investments in affiliated companies			-	142,510
Other assets and deposits (Note 5)			22,758	38,328

			\$24,349,786	\$21,830,592
Liabilities and Group Equity				
Current liabilities				
Accounts payable			\$ 449,170	\$ 819,424
Salaries, benefits and other accrued liabilities (Notes 2 and 9)			1,368,166	2,976,167

Total current liabilities			1,817,336	3,795,591
Commitments and Contingencies (Notes 6,8,9,10 and 11). .-			-	-
Group equity (Note 6)				

Contributed capital	64,237,350	60,479,315
Accumulated deficit	(41,704,900)	(42,444,314)
	-----	-----
	22,532,450	18,035,001
	-----	-----
	\$24,349,786	\$21,830,592

The accompanying notes are an integral part of these statements.
</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements
Epitope Medical Products
Combined Statements of Operations

<S>	<C>	<C>	<C>
FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
Revenues			
Product sales	\$ 4,864,378	\$ 2,806,850	\$ 2,580,798
Grants and contracts . . . . .	.729,271	48,672	24,560
	-----	-----	-----
	5,593,649	2,855,522	2,605,358
Costs and expenses			
Product costs . . . . .	.2,681,429	3,163,012	3,141,319
Research and development costs . . . . .	.3,165,838	4,617,246	3,681,326
Selling, general and administrative expenses	5,033,491	6,682,860	3,066,896
	-----	-----	-----
	10,880,758	14,463,118	8,889,541
Loss from operations	(5,287,109)	(11,607,596)	(6,284,183)
Other income, net . . . . .	.6,026,523	756,424	235,926
	-----	-----	-----
Net income (loss)	\$ 739,414	\$ (10,851,172)	\$ (6,048,257)
Pro forma net income (loss) per share . . . \$	.06	(\$.91)	(\$.60)
Pro forma weighted average number of shares outstanding . . . . .	.13,440,396	11,886,234	10,050,129

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
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Historical Financial Statements
Epitope Medical Products
Combined Statements of Changes in Group Equity

<S>	<C>	<C>	<C>
	Contributed capital	Accumulated deficit	Total
Balances at September 30, 1993.	\$34,167,582	\$(25,544,885)	\$ 8,622,697
Common stock issued upon exercise of options . . . . .	.636,293	-	636,293
Common stock issued as compensation. . . . .	.318,386	-	318,386
Compensation expense for stock option grants . . . . .	.823,350	-	823,350
Common stock issued upon exercise of warrants. . . . .	.9,718,259	-	9,718,259
Common stock issued in private placement . . . . .	.17,057,563	-	17,057,563
Equity issuance costs . . . . .	.(3,335,261)	-(3,335,261)	
Net cash to Agritope . . . . .	.(12,132,173)	(12,132,173)	

Net loss for the year-(6,048,257) (6,048,257)

Balances at September 30, 1994.47,253,999(31,593,142)15,660,857
 Common stock issued upon
 exercise of options2,145,673- 2,145,673
 Common stock issued as
 compensation.196,802 - 196,802
 Compensation expense for
 stock option grants1,056,335- 1,056,335
 Common stock issued upon
 exercise of warrants.18,892,750- 18,892,750
 Equity issuance costs(735,390)- (735,390)
 Net cash to Agritope.(8,330,854) (8,330,854)
 Net loss for the year-(10,851,172) (10,851,172)

Balances at September 30, 199560,479,315(42,444,314)18,035,001
 Common stock issued upon
 exercise of options4,886,118- 4,886,118
 Common stock issued as compensation.249,086 - 249,086
 Compensation expense for stock
 option grants.815,019 - 815,019
 Common stock issued upon
 exercise of warrants826,600 - 826,600
 Equity issuance costs.(152) - (152)
 Net cash to Agritope(3,018,636)-(3,018,636)
 Net income for the year.- 739,414 739,414

Balances at September 30, 1996. \$64,237,350\$ (41,704,900)\$22,532,450

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
 <CAPTION>

Historical Financial Statements
 Epitope Medical Products
 Combined Statements of Cash Flows

<S>	<C>	<C>	<C>
FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
Cash flows from operating activities			
Net income (loss)	\$ 739,414	\$(10,851,172)	\$(6,048,257)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	792,885	795,295	651,076
(Gain) loss on disposition of property	(1,098)	319	1,541
Increase in accounts receivable and other receivables	(707,308)	(76,549)	(180,767)
Increase (decrease) in inventories	275,816	(375,640)	(272,279)
Decrease in prepaid expenses	13,881	38,031	43,354
Decrease (increase) in other assets and deposits	15,570	(42,658)	(6,227)
Increase (decrease) in accounts payable and accrued liabilities	(2,151,110)	2,273,364	329,875
Common stock issued as compensation for services	249,086	196,802	318,386
Compensation expense for stock option grants and deferred salary increases	815,019	1,056,335	915,351
Net cash provided by (used in) operating activities	42,155	(6,985,873)	(4,247,947)
Cash flows from investing activities			
Investment in marketable securities	(47,608,270)	(16,194,994)	(5,603,414)
Proceeds from sale of marketable securities	45,870,396	4,718,162-	
Additions to property and equipment	(180,112)	(1,112,292)	(461,914)
Proceeds from sale of property	7,432	1,085	1,000
Expenditures for patents and proprietary technology	(358,319)	(126,927)	(185,805)

Investment in affiliated companies	142,51042,552	64,938

Net cash used in investing activities	(2,126,363)	(12,672,414) (6,185,195)
Cash flows from financing activities		
Proceeds from issuance of common stock	5,885,57321,060,91224,387,702	
Cost of common stock issuance	(152) (757,877) (310,849)	
Cash to Agritope	(3,018,636)	(8,330,854) (12,132,173)

Net cash provided by financing activities	2,866,78511,972,18111,944,680	
Net increase (decrease) in cash and cash equivalents . . . . .	.782,577 (7,686,106) 1,511,538	
Cash and cash equivalents at beginning of year	13,2107,699,3166,187,778	

Cash and cash equivalents at end of year	\$ 795,787\$	13,210\$7,699,316

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements

Agritope

Combined Balance Sheets

<S>	<C>	<C>
SEPTEMBER 30	1996	1995
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 4,903,476	\$ 4,246,687
Trade accounts receivable, net (Note 2)	264,986	135,866
Other accounts receivable	32,337	993,790
Inventories (Note 2)	509,745-	
Prepaid expenses	812	56,064

Total current assets	5,711,356	5,432,407
Property and equipment, net (Notes 2 and 4)		
Patents and proprietary technology, net (Note 2)	1,286,196	555,003
Investment in affiliated companies (Note 3)	510,244	140,757
Other assets and deposits (Note 5)	2,448,623	1,974,833
	140,513	200,430

	\$10,096,932	\$ 8,303,430
Liabilities and Group Equity		
Current liabilities		
Current portion of installment notes payable	\$	-\$ 17,758
Convertible notes, due 1997 (Notes 5 and 13)	3,620,003-	
Accounts payable	91,474	125,971
Salaries, benefits and other accrued liabilities (Notes 2 and 9)	735,478	206,349

Total current liabilities	4,446,955	350,078
Long-term portion of installment notes payable		
Convertible notes, due 1997 (Notes 5 and 13)	-21,749	
Commitments and Contingencies (Notes 6,8,9, and 10)	-3,620,003	
Minority interest	-	-
	215,407-	
Group equity (Note 6)		
Contributed capital	36,714,932	33,452,632
Accumulated deficit	(31,280,362)	(29,141,032)

	5,434,570	4,311,600

 \$10,096,932 \$ 8,303,430

The accompanying notes are an integral part of these statements.

</TABLE>

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Historical Financial Statements
 Agritope
 Combined Statements of Operations

<S>	<C>	<C>	<C>
FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
Revenues			
Product sales	\$ -	\$ 2,015,318	\$ 2,179,742
Grants and contracts	585,485	94,370	33,642
	-----	-----	-----
	585,485	2,109,688	2,213,384
Costs and expenses			
Product costs	-	3,235,675	4,575,149
Research and development costs	1,338,703	2,204,993	2,368,880
Selling, general and administrative expenses	1,482,694	4,479,498	4,759,219
	-----	-----	-----
	2,821,397	9,920,166	11,703,248
Loss from operations	(2,235,912)	(7,810,478)	(9,489,864)
Other income (expense), net	96,582	165,822	(94,467)
	-----	-----	-----
Net loss	\$ (2,139,330)	\$ (7,644,656)	\$ (9,584,331)
Pro forma net loss per share	\$ (.34)	\$ (1.29)	\$ (1.91)
Pro forma weighted average number of shares			
Outstanding	6,330,710	5,943,117	5,025,064

The accompanying notes are an integral part of these statements.

</TABLE>

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Historical Financial Statements
 Agritope
 Combined Statements of Changes in Group Equity

<S>	<C>	<C>	<C>
	Contributed capital	Accumulated deficit	Total
Balances at September 30, 1993	\$11,259,717	\$(11,912,045)	\$ (652,328)
Common stock issued as compensation	50,392	- 50,392	
Compensation expense for stock option grants	343,922	- 343,922	
Common stock issued upon exchange of convertible notes	559,964	- 559,964	
Equity issuance costs	(40,267)	- (40,267)	
Net cash from Epitope Medical Products	12,132,173	- 12,132,173	
Net loss for the year	(9,584,331)	(9,584,331)	
	-----	-----	-----
Balances at September 30, 1994	24,305,901	(21,496,376)	2,809,525
Common stock issued as compensation	69,998	- 69,998	
Compensation expense for			

stock option grants	318,375-318,375
Common stock issued upon	
exchange of convertible notes	449,991-449,991
Equity issuance costs	(22,487)-(22,487)
Net cash from Epitepe Medical Products	8,330,854-8,330,854
Net loss for the year	(7,644,656) (7,644,656)

Balances at September 30, 1995	33,452,632 (29,141,032) 4,311,600
Common stock issued as compensation	14,500- 14,500
Compensation expense for stock	
option grants	229,164-229,164
Net cash from Epitepe Medical Products	3,018,636-3,018,636
Net loss for the year	-(2,139,330) (2,139,330)

Balances at September 30, 1996	36,714,932\$ (31,280,362)\$ 5,434,570

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements

Agritope

Combined Statements of Cash Flows

<S>	<C>	<C>	<C>		
FOR THE YEAR ENDED SEPTEMBER 30			1996	1995	1994
Cash flows from operating activities					
Net loss	\$(2,139,330)	\$(7,644,656)	\$(9,584,331)		
Adjustments to reconcile net loss to net cash					
used in operating activities:					
Depreciation and amortization	294,045	663,380	505,135		
Loss on disposition of property	- 500	74,130			
Decrease (increase) in accounts receivable and					
other receivables	832,333	(945,501)	(140,268)		
Decrease (increase) in inventories	(509,745)	88,737	(385,928)		
Decrease (increase) in prepaid expenses	55,252	(55,639)	36,965		
Decrease (increase) in other assets and deposits	(36,219)	9,137	6,562		
Increase (decrease) in accounts payable and					
accrued liabilities	494,632	(104,680)	67,457		
Common stock issued as compensation for services	14,500	69,998	50,392		
Compensation expense for stock option grants and					
deferred salary increases	229,164	318,375	343,922		

Net cash used in operating activities	(765,368)	(7,600,349)	(9,025,964)		
Cash flows from investing activities					
Additions to property and equipment	(886,646)	(238,558)	(2,128,835)		
Proceeds from sale of property	13,258				
Expenditures for patents and proprietary					
technology	(411,943)	(178,208)	135		
Investment in affiliated companies	(473,790)	610,146			
Minority Interest in affiliated companies	215,407-	-			

Net cash (used in) provided by investing					
activities	(1,556,972)	206,638	(2,128,700)		
Cash flows from financing activities					
Principal payments under installment purchase					
and capital lease obligations	(39,507)	(16,137)	(20,726)		
Cash from Epitepe Medical Products	3,018,636	330,854	12,173		

Net cash provided by financing activities	2,979,129	314,717	12,111,447		
Net increase (decrease) in cash and cash					
equivalents	656,789	921,006	956,783		

Cash and cash equivalents at beginning of year . . .4,246,6873,325,6812,368,898

Cash and cash equivalents at end of year . . . \$4,903,476\$4,246,687\$3,325,681

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Balance Sheets

SEPTEMBER 30 1996 1995
<S> <C> <C>

Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 5,699,263	\$ 4,259,897
Marketable securities (Note 2)	18,818,120	17,080,246
Trade accounts receivable, net (Note 2)	1,412,585	367,487
Other accounts receivable	206,420	1,376,543
Inventories (Note 2)	1,667,675	1,433,746
Prepaid expenses	90,330	159,463

Total current assets	27,894,393	24,677,382
Property and equipment, net (Notes 2 and 4)	2,828,953	2,544,772
Patents and proprietary technology, net (Note 2)	1,111,478	555,767
Investment in affiliated companies (Note 3)	2,448,623	2,117,343
Other assets and deposits (Note 5)	163,271	238,758

	\$34,446,718	\$30,134,022

Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of installment notes payable	\$-	\$ 17,758
Convertible notes, due 1997 (Notes 5 and 13)	3,620,003	-
Accounts payable	540,644	945,395
Salaries, benefits and other accrued liabilities (Notes 2 and 9)	2,103,644	3,182,516

Total current liabilities	6,264,291	4,145,669
Long-term portion of installment notes payable	-21,749	
Convertible notes, due 1997 (Notes 5 and 13)	-3,620,003	
Commitments and contingencies (Notes 6, 8, 9, 10 and 11)-	-	
Minority Interest	215,407	-

Shareholders' equity (Note 6)		
Preferred stock, no par value - 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, no par value - 30,000,000 shares authorized; 12,937,383 and 12,485,130 shares issued and outstanding, respectively	100,952,282	93,931,947
Accumulated deficit	(72,985,262)	(71,585,346)

	27,967,020	22,346,601

	\$34,446,718	\$30,134,022

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Statements of Operations

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994	
<S>		<C>	<C>	<C>
Revenues				
Product sales	\$ 4,864,378	\$ 4,822,168	\$ 4,760,540	
Grants and contracts	1,314,756	143,042	58,202	
	-----	-----	-----	
	6,179,134	4,965,210	4,818,742	
Costs and expenses				
Product costs	2,681,429	6,398,687	6,716,468	
Research and development costs	4,504,541	6,822,239	6,050,206	
Selling, general and administrative expenses	6,516,185	11,162,358	7,826,115	
	-----	-----	-----	
	13,702,155	24,383,284	20,592,789	
Loss from operations	(7,523,021)	(19,418,074)	(15,774,047)	
Other income, net	6,123,105	922,246	141,459	
	-----	-----	-----	
Net loss	\$ (1,399,916)	\$ (18,495,828)	\$ (15,632,588)	
Net loss per share	\$ (.11)	\$ (1.56)	\$ (1.56)	
Weighted average number of shares outstanding	12,661,420	11,886,234	10,050,129	

The accompanying notes are an integral part of these statements.
</TABLE>

<TABLE>
<CAPTION>

Historical Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock Shares	Accumulated Dollars deficit	Total	
<S>		<C>	<C>	<C>
Balances at September 30, 1993	9,091,922	\$ 45,427,299	\$ (37,456,930)	\$ 7,970,369
Common stock issued upon exercise of options . . . . .	.52	488,636,293	-	636,293
Common stock issued as compensation . . . . .	.19	678,368,778	-	368,778
Compensation expense for stock option grants	-	1,167,272	-	1,167,272
Common stock issued upon exercise of warrants . . . . .	.618	291,718,259	-9,718,259	
Common stock issued upon exchange of convertible notes . . . . .	.28	672,559,964	-	559,964
Common stock issued in private placement . . . . .	.1	115,500,17,057,563	-7,057,563	
Equity issuance costs	-	(3,375,528)	-	(3,375,528)
Net loss for the year	-	-	(15,632,588)	(15,632,588)
	-----	-----	-----	
Balances at September 30, 1994	10,926,551	171,559,900	(53,089,518)	18,470,382
Common stock issued upon exercise of options . . . . .	.183	525,214,673	-2,145,673	
Common stock issued as compensation . . . . .	.16	013,266,800	-	266,800

Compensation expense for stock option grants	-1,374,710	- 1,374,710
Common stock issued upon exercise of warrants . . . . .	.1,336,000	18,892,750-18,892,750
Common stock issued upon exchange of convertible notes . . . . .	.23,041	449,991 - 449,991
Equity issuance costs	-(757,877)	-(757,877)
Net loss for the year	-(18,495,828)	(18,495,828)

Balances at September 30, 1995 . . . . .	.12,485,130	93,931,947 (71,585,346) 22,346,601
Common stock issued upon exercise of options . . . . .	.386,550	4,886,118-4,886,118
Common stock issued as compensation . . . . .	.19,353	263,586 - 263,586
Compensation expense for stock option grants	-.1,044,183	- 1,044,183
Common stock issued upon exercise of warrants . . . . .	.46,350	826,600 - 826,600
Equity issuance costs	-(152)	-(152)
Net loss for the year	-(1,399,916)	(1,399,916)

Balances at September 30, 199612,937,383	\$ 100,952,282\$ (72,985,262)\$ 27,967,020

The accompanying notes are an integral part of these statements.

</TABLE>

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<CAPTION>

Historical Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net loss	\$(1,399,916)	\$(18,495,828)	\$(15,632,588)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization . . . . .	.1,086,930	1,458,675	1,156,211
(Gain) loss on disposition of property . . . . .	.(1,098)	819	75,671
Decrease (increase) in accounts receivable and other receivables . . . . .	.125,025	(1,022,050)	(321,035)
Increase in inventories . . . . .	.(233,929)	(286,903)	(658,207)
Decrease (increase) in prepaid expenses . . . . .	.69,133	(17,608)	80,319
Decrease (increase) in other assets and deposits . . . . .	.20,649	(33,521)	335
Increase in accounts payable and accrued liabilities . . . . .	.(1,656,478)	2,168,684	397,332
Common stock issued as compensation for services	263,586	266,800	368,778
Compensation expense for stock option grants and deferred salary increases . . . . .	.1,044,183	1,374,710	1,259,273

Net cash used in operating activities . . . . .	.(723,213)	(14,586,222)	(13,273,911)
Cash flows from investing activities			
Investment in marketable securities . . . . .	.(47,608,270)	(16,194,994)	(5,603,414)
Proceeds from sale of marketable securities . . . . .	.45,870,396	4,718,162-	
Additions to property and equipment . . . . .	.(1,066,758)	(1,350,850)	(2,590,751)
Proceeds from sale of property . . . . .	.7,432	14,343	1,000
Expenditures for patents and proprietary technology . . . . .	.(770,262)	(305,135)	(185,670)
Investment in affiliated companies . . . . .	.(331,280)	652,698	64,938
Minority interest in affiliated companies . . . . .	.215,407-	-	

Net cash used in investing activities . . . . .	.(3,683,335)	(12,465,776)	(8,313,897)

Cash flows from financing activities			
Principal payments under installment purchase and capital lease obligations	(39,507)	(16,137)	(20,724)
Proceeds from issuance of common stock	5,885,573	21,060,912	24,387,702
Cost of common stock issuance	(152)	(757,877)	(310,849)

Net cash provided by financing activities	5,845,914	20,286,898	24,056,129
Net increase (decrease) in cash and cash equivalents	1,439,366	(6,765,100)	2,468,321
Cash and cash equivalents at beginning of year	4,259,897	11,024,997	6,766,676

Cash and cash equivalents at end of year	\$ 5,699,263	\$ 4,259,897	\$ 11,024,997

The accompanying notes are an integral part of these statements.

</TABLE>

Notes to Historical Financial Statements

Note 1 The Company

Epitope, Inc. (the Company or Epitope) is an Oregon corporation utilizing biotechnology to develop and market medical diagnostic products through its Epitope Medical Products group (Epitope Medical Products) and superior new plants and related products through its Agritope group (Agritope). Upon approval of the proposal to create a new class of common stock (the Agritope Stock Proposal), the capital structure of Epitope will be modified to include two classes of common stock, Epitope Medical Products Common Stock and Agritope Common Stock. The Epitope Medical Products group (Epitope Medical Products) will include the medical products business conducted by the Company. The Agritope group (Agritope) will include the agribusiness and agricultural biotechnology operations of the Company.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Assets and liabilities of majority-owned subsidiaries are included in these statements. Minority-owned investments and joint ventures are accounted for using the equity method. Investments of less than 20% are carried at cost.

The accompanying combined financial statements of the Epitope Medical Products and Agritope groups have been prepared using the amounts included in the consolidated financial statements of the Company. Assets and liabilities directly attributable to each group are included in the respective balance sheets of the applicable group. Cash, cash equivalents and marketable securities have been allocated 80% to Epitope Medical Products and 20% to Agritope. Cash advanced and allocated by the Company to business units of the Agritope group has been reflected as paid-in-capital in the accompanying combined financial statements.

Certain services such as accounting, finance, general management, human resources, investor relations, information systems and payroll are provided by the Company on a centralized basis for the benefit of both groups (Shared Services). Such expenses have been allocated between Epitope Medical Products and Agritope in the accompanying combined financial statements using activity indicators which, in the opinion of management, represent a reasonable measure of the respective group's utilization of such shared services. The activity measurement indicators will be reviewed periodically and adjusted to reflect changes in utilization. The accompanying combined financial statements also include an adjustment to allocate interest income in the same proportion as the allocation of Shared Services between the two groups. Future interest income will be based on amounts earned by each group. Shared Services are included under the caption "Selling, general and administrative expenses" as

follows:
<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>
Epitope Medical Products . . .	\$3,028,181	\$3,575,069	\$1,899,969
Agritope	1,069,249	1,892,370	1,735,688

Consolidated	\$4,097,430	\$5,467,439	\$3,635,657

The allocation of interest income is included under the caption "Other income, net" as follows:
</TABLE>

<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>
Epitope Medical Products . . .	\$1,025,030	\$ 756,743	\$ 237,467
Agritope	361,938	408,097	216,934

Consolidated	\$1,386,968	\$1,164,840	\$ 454,401

</TABLE>

If the Agritope Stock Proposal is approved, the Company will provide holders of Epitope Medical Products and Agritope common stock separate financial statements, management's discussion and analysis of financial condition and results of operations, descriptions of businesses and other relevant information for each group. Notwithstanding the attribution of assets and liabilities (including contingent liabilities) to each group for the purposes of preparing their respective historical and future financial statements, this attribution and the change in capitalization contemplated in the Agritope Stock Proposal will not affect legal title to such assets or responsibility for such liabilities of the Company or any of its subsidiaries. Holders of each class of common stock will be common shareholders of the Company and would be subject to risks associated with an investment in the Company and all its businesses, assets, and liabilities. Liabilities or contingencies of either group that affect the Company's resources or financial condition could affect the financial condition and results of operations of either group.

Under the Agritope Stock Proposal, dividends to be paid to the holders of either class of common stock will be limited to the lesser of funds of the Company legally available for the payment of dividends or the Available Medical Products Dividend Amount or Available Agritope Dividend Amount as defined in the Company's Articles of Incorporation. The Company has never paid any cash dividends on shares of Epitope common stock. The Company currently intends to retain any of its earnings to finance future growth and, therefore, does not anticipate paying any cash dividends on either class of common stock in the foreseeable future.

Except as stated in the amended Articles of Incorporation, the accounting policies applicable to preparation of financial statements of either group may be modified or rescinded at the sole discretion of the Board of Directors of the Company without the approval of shareholders, although there is no intention to do so. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the previous policy.

Cash and Cash Equivalents; Marketable Securities. For purposes of the consolidated balance sheets and statements of cash flows, the Company considers all highly liquid investments with maturities at time of purchase of three months or less to be cash equivalents. At September 30, 1996,

marketable securities consisted of commercial paper and U.S. Treasury securities with an original maturity period greater than three months, but generally less than 12 months. The Company's policy is to invest its excess cash in securities that maximize (a) safety of principal, (b) liquidity for operating needs, and (c) after-tax yields.

Effective October 1, 1994, the Company adopted Financial Accounting Standards Board Statement No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Pursuant to SFAS 115, the Company has categorized all of its investments as available-for-sale securities and, accordingly, unrealized gains and losses on such investments, if material, will be carried as a separate component of shareholders' equity. Such unrealized gains and losses were immaterial as of September 30, 1996 and 1995.

Inventories. Inventories are recorded at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. Inventory components are summarized as follows:

September 30	1996	1995
Epitope Medical Products		
Raw materials	\$ 522,824	\$ 657,568
Work-in-process	389,642	379,470
Finished goods	192,882	295,032
Supplies	52,582	101,676

	\$1,157,930	\$ 1,433,746
Agritope		
Work-in-process	\$ 471,208	-
Finished goods	38,537	-

	\$ 509,745	\$ -
Consolidated		
Raw materials	\$ 522,824	\$ 657,568
Work-in-process	860,850	379,470
Finished goods	231,419	295,032
Supplies	52,582	101,676

	\$1,667,675	\$ 1,433,746

Depreciation and Capitalization Policies. Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to operating expense as incurred. Expenditures for renewals and betterments are capitalized.

Depreciation and amortization of property and equipment are calculated primarily under the straight-line method over the estimated lives of the related assets (three to seven years). Leasehold improvements are amortized over the shorter of estimated useful lives or the terms of related leases. When assets are sold or otherwise disposed, cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in operations.

Accounting for Long-Lived Assets. The Company periodically reviews its long-lived assets for impairment or as events or circumstances indicate that the carrying amount of long-lived assets may not be recoverable. If the estimated net cash flows are less than the carrying amount of the long-lived assets, the Company recognizes an impairment loss in an amount necessary to write down long-lived assets to fair value as determined from expected discounted future cash flows. This accounting policy is consistent with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." There has been no significant impact to the Company's financial position or results of operations as the carrying amount of all long-lived assets is recoverable.

Patents and Proprietary Technology. Direct costs associated with patent submissions and acquired technology are capitalized and amortized over their minimum estimated economic useful lives, generally five years.

In August 1996, the Company amended an agreement pursuant to which it acquired Agritope's patented ethylene control technology in 1987. A co-inventor of the technology relinquished all rights to future compensation under the agreement in exchange for a one-time cash payment, a research grant and a limited non-exclusive license to use the technology for one crop. The total consideration of \$365,000 is included in Agritope's combined balance sheet under the caption "Patents and Proprietary Technology" and is being amortized over 15 years, the remaining life of the related patent.

Amortization and accumulated amortization are summarized as follows:

	1996	1995	1994
Amortization for the year ended September 30,			
Epitope Medical Products	\$ 172,095	\$ 130,313	\$ 101,339
Agritope	42,456	23,964	13,487

Consolidated	\$ 214,551	\$ 154,277	\$ 114,826
Accumulated Amortization at September 30,			
Epitope Medical Products	\$ 621,110	\$ 449,015	\$ 318,702
Agritope	79,907	37,451	13,487

Consolidated	\$ 701,017	\$ 486,466	\$ 332,189

Investments in Affiliated Companies. Investments in affiliated companies are stated at cost. For reductions in the value of its investments in affiliated companies that are more than temporary, the Company will write down the value of its investments in affiliated companies to its recoverable value.

Revenue Recognition. Product revenues are generally derived from the sale of products and are recognized as revenue when the related products are shipped. Grant and contract revenues include funds received under research and development agreements with various entities. Such revenues are recognized in accordance with contract terms.

Accounts receivable are stated net of an allowance for doubtful accounts as follows:

SEPTEMBER 30	1996	1995
Epitope Medical Products	\$ 6,872	\$ 6,872
Agritope	19,571	65,172

Consolidated	\$ 26,443	\$ 72,044

Research and Development. Research and development expenditures are comprised of those costs associated with the Company's own ongoing research and development activities including the costs to prepare for, obtain and compile clinical studies and other information to support product license applications. Expenditures for research and development also include costs incurred under contracts to develop certain products, including those contracts resulting in grant and contract revenues. All research and development costs are expensed as incurred.

Income taxes. The Company accounts for certain revenue and expense items differently for income tax purposes than for financial reporting purposes. These differences arise principally from methods used in accounting for stock options and depreciation rates. The Company accounts for income taxes under SFAS No. 109 "Accounting for Income Taxes," (SFAS 109) which requires the use of the asset and liability method approach for accounting for income taxes. Under SFAS 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to reverse.

To date, both Epitope Medical Products and Agritope have experienced operating losses. Actual tax payment is a liability of Epitope as a whole. The Agritope Stock Proposal provides that either group may be allocated the tax benefit of such losses and future losses to reduce current or deferred tax expense and that such losses will not be carried forward to reduce the losses of the group which incurred such losses. Accordingly, either group may report lower earnings than if such losses had been retained for the benefit of the group which incurred such losses.

Net Income (Loss) Per Share. Net income (loss) per share has been computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents consist of the number of shares issuable upon exercise of outstanding warrants, options and convertible notes less the number of shares assumed to have been purchased for the treasury with the proceeds from the exercise of such. Net income (loss) per share for Epitope Medical Products and Agritope is presented on a proforma basis assuming that the distribution of Agritope common stock and redesignation of Epitope, Inc. common stock as Epitope Medical Products common stock pursuant to the Agritope Stock Proposal had occurred on October 1, 1993.

Common stock equivalents are excluded from the computation if their effect is anti-dilutive. Primary and fully diluted net income (loss) per share are the same.

Supplemental Cash Flow Information. Non-cash financing and investing activities not included in the consolidated statements of cash flows are summarized as follows:

<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30	1996	1995	1994	<C>
<S>		<C>	<C>	
Epitope Medical Products				
Discount on private placement of common stock	-	-	3,024,413	
Agritope				
Conversion of notes to equity (Note 5)		-\$ 427,496	\$ 600,231	
Investment in nonconsolidated subsidiary		-2,584,979	-	

</TABLE>

Supplemental Profit and Loss Information. In September 1995, management announced a company-wide reduction in work force whereby 48 employees were terminated. The Company charged \$607,000 to results of operations for severance payments and related expenses for this program. As of September 30, 1996 and 1995, \$55,000 and \$475,000, respectively, of these charges remain accrued and are included in the accompanying balance sheets of the Company and Epitope Medical Products under the caption "Salaries, benefits and other accrued liabilities."

Management Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates.

Note 3 Investment in Affiliated Companies

In June 1995, Agritope agreed to sell its wholly owned subsidiary, Vinifera, Inc. to VF Holdings, Inc. ("VF"), an affiliate of a Swiss investment group, pursuant to a stock purchase agreement. VF subsequently failed to make all the payments required under the VF Agreement. As part of a settlement of claims based on VF's default, VF retained a minority interest in Vinifera and relinquished the majority interest to Agritope in August 1996.

In May 1995, Agrimax Floral Products, Inc. (Agrimax), a wholly owned subsidiary, transferred control of its Charlotte facility to Universal American Flowers, Inc. (UAF), a privately held importer of high quality fresh flowers engaged in distribution to customers in the eastern U.S. from facilities in Tampa, Florida and Hammond, Louisiana. As of October 27, 1995, Agrimax merged the Charlotte fresh flower operation with those of UAF in return for an equity interest of approximately 18% in the merged entity, UAF, Limited Partnership. In addition to tangible operating assets, Agrimax transferred to UAF, Limited Partnership, the rights to use its proprietary floral preservative as well as the Fresche Blossoms(R), Everguard(R) and Fresche Blossoms Express(TM) trademarks. In May 1996, the equity interest of Agrimax was reduced to 9% as a result of a recapitalization of UAF, Limited Partnership.

The St. Paul, Minnesota, facility of Agrimax ceased operations in June 1995. In June 1996, Agrimax contributed inventory and operating assets to Petals USA, Inc. ("Petals"), a newly formed affiliate of a Canadian fresh flower wholesaler, in return for a 19.5% equity interest in Petals.

The investments by Agrimax are included in the accompanying consolidated balance sheets of the Company and combined balance sheets of Agritope under the caption "Investment in affiliated companies." See Note 13.

For the years ended September 30, 1995, 1994 respectively, the accompanying financial statements of the Company and Agritope include revenues of \$2.0 million and \$2.2 million, and operating losses of \$3.8 million, and \$6.4 million attributable to the Agrimax and Vinifera business units. The accompanying statements of operations of the Company and Agritope for the year ended September 30, 1995, includes the results of operations of Agrimax and Vinifera through May and also includes a charge of \$500,000 primarily attributable to the disposition of Agrimax which is included in the accompanying consolidated balance sheets of the Company and combined balance sheets of Agritope as of September 30, 1995 under the caption "Salaries, benefits and other accrued liabilities."

Note 4 Property and Equipment

Property and equipment are summarized as follows:

<TABLE>
<CAPTION>

SEPTEMBER 30	1996	1995	<C>	<C>
<S>				
Epitope Medical Products				
Research and development laboratory equipment . . .	\$ 1,056,883	\$ 898,716		
Manufacturing equipment	1,291,546	1,296,416		
Office furniture and equipment.	1,899,948	1,041,897		
Leasehold improvements.	1,084,660	1,084,660		
Construction in progress.	134,557	70,961		
	-----	-----		
	5,467,594	5,392,650		
Less accumulated depreciation and amortization. . .	(3,924,837)	(3,402,881)		
	-----	-----		
	\$ 1,542,757	\$1,989,769		
Agritope				
Land.		\$ 30,020	\$ 30,020	
Buildings and improvements. . . . .	.717	508	717,508	
Research and development laboratory equipment . . .	.220	919	196,255	
Manufacturing equipment . . . . .	.351	538	-	
Office furniture and equipment. . . . .	.140	452	95,338	
Leasehold improvements. . . . .	.23	962	23,962	
Construction in progress. . . . .	.499	980	34,650	
	-----	-----		
	1,984,379	1,097,733		
Less accumulated depreciation and amortization . . .	(698,183)	(542,730)		
	-----	-----		

	\$ 1,286,196	\$ 555,003
Consolidated		
Land	\$ 30,020	\$ 30,020
Buildings and improvements	717,508	717,508
Research and development laboratory equipment	1,277,802	1,094,971
Manufacturing equipment	1,643,084	1,296,416
Office furniture and equipment	2,040,400	2,137,235
Leasehold improvements	1,108,622	1,108,622
Construction in progress	634,537	1,105,611
	-----	-----
	7,451,973	6,490,383
Less accumulated depreciation and amortization	(4,623,020)	(3,945,611)
	-----	-----
	\$ 2,828,953	\$ 2,544,772

</TABLE>

Note 5 Long-Term Debt

On June 30, 1992, Agritope completed a private placement with several European institutional investors pursuant to which \$5,495,000 of convertible notes were issued. The notes are unsecured, mature on June 30, 1997 and bear interest at the rate of 4% per annum which is payable on each June 30 and December 31 until all outstanding principal and interest on the notes have been paid in full. The notes are convertible into common stock of the Company at a conversion price of \$19.53 per share. In the event of an initial public offering of Agritope common stock, the notes would be automatically converted to shares of Agritope common stock at 90% of the public offering price.

During the years ended September 30, 1995 and 1994, respectively, investors exchanged \$449,991 and \$559,964 principal amount of convertible notes for the Company's common stock at a price of \$19.53 per share. In conjunction with the exchanges, unamortized debt issuance costs of \$22,487 and \$40,267 related to such notes were recognized as equity issuance costs during 1995 and 1994, respectively. Debt issuance costs are included in other assets and are being amortized over the five-year life of the notes. Amortization expense of debt issuance costs for the years ended September 30, 1996, 1995 and 1994, respectively, totaled \$108,257, \$96,136 and \$91,715, leaving an unamortized balance of \$88,821 and \$197,077 at September 30, 1996 and 1995, respectively.

Note 6 Shareholders' Equity

Authorized Capital Stock. The Company's amended articles of incorporation authorize 1,000,000 shares of preferred stock and 30,000,000 shares of common stock. The Company's Board of Directors has authority to determine preferences, limitations and relative rights of the preferred stock.

Common Stock Reserved for Future Issuance. As of September 30, 1996, the following shares of the Company's common stock were reserved for future issuance, as more fully described below:

Purpose	Shares
Outstanding warrants	2,000,640
Outstanding stock options	3,365,726
Employee Stock Purchase Plan subscriptions	42,820
Conversion of notes (Note 5)	185,356

	5,594,542

If the Agritope Stock Proposal is approved, the Company will issue to the holders of the above rights to purchase shares of Epitope common stock or to convert notes into such shares, as applicable, the equivalent rights with respect to Agritope common stock on the basis of one-half share of Agritope common stock for each right to purchase one share of Epitope common stock.

Common Stock Warrants. As of September 30, 1996, the following warrants to purchase shares of common stock were outstanding:

Date of Issuance	Shares	Price	Expiration Date
September 26, 1991	. . . . .159,150	\$16.00	September 30, 1997
December 23, 1992	. . . . .988,390	18.50	September 30, 1997
July 20, 1993	. . . . .375,000	20.00	September 30, 1997
August 1, 1993	. . . . .200,000	18.50	September 30, 1997
October 17, 1994	. . . . .50,000	18.50	September 30, 1997
November 22, 1994	. . . . .228,100	18.50	September 30, 1997

2,000,640

Stock Award Plans. The Company's 1991 Stock Award Plan (the 1991 Plan) was approved by the shareholders during 1991, replacing the Company's Incentive Stock Option Plan (ISOP). The 1991 Plan provides for stock-based awards to employees, outside directors and members of scientific advisory committees or other consultants. Awards which may be granted under the 1991 Plan include qualified incentive stock options, nonqualified stock options, stock appreciation rights, restricted awards, performance awards and other stock-based awards.

Under the terms of the 1991 Plan, qualified incentive stock options on shares of common stock may be granted to eligible employees, including officers, of the Company at an exercise price not less than the fair market value of the stock on the date of grant. The maximum term during which any option may be exercised is ten years from the date of grant. To date, options have been granted with four-year vesting schedules.

Options issued to employees under the Incentive Stock Option Plan (ISOP) were issued at prices not less than the fair market value of a share of common stock on the date of grant. The options are exercisable after one year from the date of grant at the rate of 25% per year cumulatively and expire ten years from the date of grant.

The Agritope, Inc. 1992 Stock Award Plan (the 1992 Plan) was adopted by Agritope and approved by the Company in 1992. The 1992 Plan, which has provisions similar to those of the Company's 1991 Plan, authorizes issuance of 2,000,000 shares of Agritope common stock. Until Agritope is no longer a wholly owned subsidiary of the Company, shares issued pursuant to exercise of options under the 1992 Plan will be converted into shares of the Company's common stock based on the ratio of the fair market value of the Company's common stock to the fair market value of Agritope common stock on the date of the grant.

The 1991 Plan and 1992 Plan also provide that nonqualified options may be granted at a price not less than 75% of the fair market value of a share of common stock on the date of grant. The option term and vesting schedule of such awards may either be unlimited or have a specified period in which to vest and be exercised. For the discounted nonqualified options issued, the Company amortizes, on a straight-line basis over the vesting period of the options, the difference between the exercise price and the fair market value of a share of stock on the date of grant. As of September 30, 1996, 197,181 shares of Epitope common stock remain available for grant under the Company's stock award plans.

In October 1995, the Financial Accounting Standards Board issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 allows companies which have stock-based compensation arrangements with employees to adopt a fair-value basis of accounting for stock options and other equity instruments or to continue to apply the existing accounting rules under APB Opinion 25, "Accounting for Stock Issued to Employees," but with additional financial statement disclosure. The Company plans to elect the disclosure-only alternative commencing in fiscal 1997 and therefore does not anticipate that SFAS 123 will have a material impact on its financial position or results of operations.

Options granted and outstanding under the Company's stock option plans are summarized as follows:

<TABLE>

<CAPTION>

	1996		1995		1994			
<S>	Shares	Price	Shares	Price	Shares	Price	<C>	<C>
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period	3,636,103	\$1.09-\$24.94	3,483,432	\$1.09-\$24.94	3,052,653	\$1.09-\$24.94		
Granted	901,379	9.81-18.13	802,050	14.94-18.88	589,850	14.38-22.94		
Exercised	(386,550)	1.09-17.13	(183,525)	1.84-22.50	(52,488)	12.43-22.50		
Canceled	(785,206)	14.38-24.00	(465,854)	7.38-22.94	(106,583)	8.50-22.94		

Outstanding at end of period	3,365,726	\$3.50-\$24.94	3,636,103	\$1.09-\$24.94	3,483,432	\$1.09-\$24.94		
Exercisable	2,302,212	\$3.50-\$24.94	2,002,925	\$1.09-\$24.94	1,557,505	\$1.09-\$24.94		

</TABLE>

Pursuant to the 1991 Plan, 973, 3,680 and 11,741 shares of common stock were also awarded to consultants and members of the Company's scientific advisory committees during 1996, 1995, and 1994, respectively.

Employee Stock Purchase Plans. In 1991, the shareholders approved the Company's adoption of the 1991 Employee Stock Purchase Plan (1991 ESPP) covering a maximum of 100,000 shares of common stock for subscription over two offering periods. The purchase price for stock purchased under the 1991 ESPP for each of the two 24-month subscription periods was the lesser of 85% of the fair market value of a share of common stock at the commencement of the subscription period or the fair market value at the close of each subscription period. An employee may also elect to withdraw at any time during the subscription period and receive the amounts paid plus interest at the rate of 6%. During April 1994, 676 shares, at a purchase price of \$14.00 per share, were issued to employees for the second 1991 ESPP purchase period which closed March 31, 1994.

The 1993 Employee Stock Purchase Plan (1993 ESPP), as amended and restated effective February 1, 1993, covers a maximum of 250,000 shares of common stock for subscription over established offering periods. The Company's Board of Directors was granted authority to determine the number of offering periods, the number of shares offered, and the length of each period, provided that no more than three offering periods (other than Special Offering Subscriptions as described below) may be set during each fiscal year of the Company. Other provisions of the 1993 ESPP are similar to the 1991 ESPP. During April, 1996, 10,106 shares were issued at a price of \$11.90 per share. As of September 30, 1996, 42,820 shares of common stock were subscribed for during two offerings under the 1993 ESPP. Shares subscribed for under these 1993 ESPP offerings may be purchased over 24 months and have initial subscription prices of \$12.33 and \$8.77 per share for the various offerings.

The 1993 ESPP was amended to allow the Company, at its discretion, to provide Special Offering Subscriptions whereby an employee's annual increase in compensation could be deferred for a one-year period. At the end of the one-year period, the employee can elect to receive the deferred compensation amount in the form of cash or shares of the Company's common stock. The purchase price for stock issued under a Special Offering Subscription is the lesser of 85% of the fair market value of a share of common stock on the first day of the calendar month the employee's increase was effective or the fair market value at the close of the one-year subscription period. During 1995 and 1994, respectively, 5,569 and 2,314 Special Offering Subscription shares were issued to employees at an average price of \$15.26 and \$15.24 per share.

Note 7 Income Taxes

As of September 30, 1996, the Company had net operating loss carryforwards of approximately \$66.7 million and \$50.0 million, respectively, to offset federal and state taxable income. Approximately \$6.9 million of the Company's net operating loss carryforwards were generated as a result of deductions related to the exercise of stock options. When utilized, such carryforwards, as tax

effected, will be reflected in the Company's financial statements as an increase in shareholders' equity rather than a reduction of the provision for income taxes.

As of September 30, 1996 the Company had total gross deferred tax assets of approximately \$28.4 million, consisting primarily of \$24.5 million of net operating loss carryforwards, \$1.1 million of research and development tax credit carryforwards and \$2.0 million of accrued deferred compensation costs. No benefit for these assets has been reflected in the accompanying consolidated financial statements as they do not satisfy the recognition criteria set forth in Statement of Financial Accounting Standards No. 109 (SFAS 109). Accordingly, a valuation allowance of \$28.4 million, representing a \$1.1 million decrease since the prior fiscal year end, has been recorded.

The expected tax benefit of approximately \$476,000 for the year ended September 30, 1996 is increased by approximately \$61,000 for the effect of state and local taxes (net of federal impact), \$1.1 million for the effect of the decrease in valuation allowance, and \$840,000 for the effect of stock option deductions included in the valuation allowance and is reduced by approximately \$2.5 million for the effect of Vinifera Inc.'s net operating loss carryforwards and certain state net operating loss carryforwards being removed from the consolidated tax group.

Note 8 Research and Development Arrangements

In February 1995, the Company entered into a Development, License and Supply Agreement with SmithKline Beecham, plc (SB) pursuant to which the Company will conduct research and development projects funded by SB. Agritope also performed research work in 1995 with respect to raspberries which was partially funded by Sweetbriar Development, Inc. under a License Agreement dated October 18, 1994 and with respect to grapevine disease diagnostics funded by a Phase I grant from the U.S. Department of Agriculture under the Small Business Innovation Research Program.

During 1994, the Company participated in a National Cancer Institute program whereby the Company received funding for research toward the treatment of cancer. Agritope has also received grant support from the U.S. Department of Agriculture, Oregon Strawberry Commission, and Oregon Raspberry & Blackberry Commission for antifungal biocontrol research and from several strategic partners.

Revenues from research and development arrangements are included in the accompanying consolidated statements of operations under the caption "Grants and Contracts."

Note 9 Distribution and Supply Contracts

The Company has entered into several contractual arrangements, including those discussed in the following paragraphs, for distribution of certain of its products to customers.

The Company continues to maintain supply and distribution agreements with Organon Teknika Corporation (Organon Teknika), whereby Organon Teknika supplies the Company's antigen requirements and exclusively distributes the Company's EPIblot HIV confirmatory tests (EPIblot) on a worldwide basis. As of April 1, 1994, the Company renewed the agreements which have an initial termination date of March 31, 1997 (with successive one-year renewal periods thereafter) and include pricing incentives based on volumes purchased by Organon Teknika and penalties for failure to purchase specified minimum quarterly volumes. For the years ended September 30, 1996, 1995 and 1994, respectively, revenues generated from sales of EPIblot to Organon Teknika were \$1,539,164, \$1,808,431, and \$1,688,200, including export sales of \$62,539, \$72,369 and \$320,700. The Company has notified Organon Teknika that it intends to renew the agreements on mutually acceptable, but revised, terms prior to the scheduled termination date.

LabOne, Inc. (previously Home Office Reference Laboratory, Inc.) purchases oral specimen devices from the Company for use in insurance testing in return

for non-exclusive distribution rights in the United States and Canada under an agreement which expires on March 13, 2000, with an automatic five-year renewal, unless either party notifies the other of intent not to renew at least 180 days prior to the initial expiration date. For the years ended September 30, 1996, 1995 and 1994, respectively, revenue generated from product sales to LabOne, Inc. was \$1,327,544, \$525,628 and \$477,186 including export sales of \$394,747, \$58,500 and \$110,933.

SB has an exclusive agreement to market the Company's oral specimen collection device worldwide, except in several foreign countries and to the insurance industry in the U.S., Canada and Japan.

In 1995, SB made an initial license fee payment of \$1 million to the Company. SB also placed \$5 million in escrow for future payment to the Company, of which \$1 million was designated for reimbursement of future research project work and \$4 million was designated as an additional license fee to be paid upon FDA approval of a pending request to amend the labeling of the Company's oral specimen collection device to indicate a two-year shelf life. The initial \$1 million license fee was included as deferred revenue under the caption "Salaries, benefits and other accrued liabilities" in the accompanying consolidated balance sheets as of September 30, 1995. The escrowed funds are not reflected in the Company's financial statements.

In April 1996, the FDA granted the Company's request for extended dating and SB disbursed \$4 million plus interest from escrow. Accordingly the Company recognized income of \$5 million in 1996 operating results.

Note 10 Commitments

The Company leases office, manufacturing, warehouse and laboratory facilities under operating lease agreements which require minimum annual payments as follows:

<TABLE>
<CAPTION>

YEAR ENDING SEPTEMBER 30	Epitope Medical Products	Agritope	Consolidated	
<S>		<C>	<C>	<C>
1997.	\$ 345,577	\$189,551	\$ 535,128	
1998.	345,576	185,394	530,970	
1999.	346,356	150,000	496,356	
2000.	109,992	150,000	259,992	
2001.	--	50,000	50,000	
	-----	-----	-----	
	\$1,147,501	\$724,945	\$1,872,446	

</TABLE>

Under the agreements for the lease of its office and laboratory facilities, the Company is obligated to the lessor for its share of certain expenses related to the use, operation, maintenance and insurance of the property. These expenses, payable monthly in addition to the base rent, are not included in the amounts shown above. Rent expense aggregated \$538,665, \$749,530 and \$616,750 for the years ended September 30, 1996, 1995 and 1994, respectively.

The Company is also contingently liable for a lease of which has been assigned to UAF, Limited Partnership and the lease of property which has been subleased to Petals USA, Inc. in the following amounts:

YEAR ENDING SEPTEMBER 30	
1997.	\$ 328,953
1998.	341,304
1999.	347,184

	\$1,017,441

Note 11 Profit Sharing and Savings Plan

The Company established a profit sharing and deferred salary savings plan in 1986 and restated the plan in 1991. All employees are eligible to participate in the plan. In addition, the plan permits certain voluntary employee contributions to be excluded from the employees' current taxable income under the provisions of Internal Revenue Code Section 401(k) and the regulations thereunder. Effective October 1, 1991, the Company replaced a discretionary profit sharing provision with a matching contribution (either in cash, shares of Epitope common stock, or partly in both forms) equal to 50% of an employee's basic contribution, not to exceed 2.5% of an employee's compensation. The Board of Directors has the authority to increase or decrease the 50% match at any time. During 1996, 1995 and 1994, respectively, the Company contributed \$73,315 (4,653 shares totaling \$73,279 and the remainder in cash), \$97,631 (5,562 shares totaling \$97,607 and the remainder in cash), and \$79,981 (4,632 shares totaling \$79,807 and the remainder in cash to the plan. As of September 30, 1996, 17,035 shares are held by the plan.

Note 12 Geographic Area Information

The Company's products are included in the medical products and agricultural products industry segments. (See Note 1 for a description of the Company's business.) The Company's products are sold principally in the United States, Canada and Europe. Operating loss represents revenues less operating expenses. In computing operating loss, allocated corporate administration expenses have been included; however, other income and expense items such as interest expense, miscellaneous income, and other charges have not been added or deducted. Other assets primarily represent cash and cash equivalents, marketable securities, and prepaid insurance.

<TABLE>
<CAPTION>

Epitope Medical Products

In thousands

Geographic Areas	Revenues			Operating Loss			Identifiable Assets			
	1996	1995	1994	1996	1995	1994	1996	1995	1994	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
United States . . .	\$4,903	\$2,630	\$2,062	\$ (5,287)	\$ (11,608)	\$ (6,284)	\$4,604	\$3,768	\$3,464	
Canada . . .	.404	78	111		--	--		--	--
Latin America . .	.100	-	-		--	--		--	--	
Europe . . .	.65	72	329		--	--		--	--
Other . . .	.122	76	103		--	--		--	--
	\$5,594	\$2,856	\$2,605	\$ (5,287)	\$ (11,608)	\$ (6,284)	\$4,604	\$3,768	\$3,464	

Agritope

In thousands

Geographic Areas	Revenues			Operating Loss			Identifiable Assets		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
United States . . .	\$585	\$2,110	\$2,213	\$ (2,236)	\$ (7,810)	\$ (9,490)	\$5,351	\$3,923	\$4,050
	\$585	\$2,110	\$2,213	\$ (2,236)	\$ (7,810)	\$ (9,490)	\$5,351	\$3,923	\$4,050

Epitope, Inc. Consolidated

In thousands

Geographic Area	Revenues			Operating Loss			Identifiable Assets		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
United States . . .	\$5,488	\$4,739	\$4,276	\$ (7,523)	\$ (19,418)	\$ (15,774)	\$9,955	\$7,691	\$7,514
Canada . . .	.404	78	111		--	--		--	--
Latin									

America . .100	-	-	--	--	--	--
Europe . . . 65	72	329	--	--	--	--
Other . . . 122	76	103	--	--	--	--

\$6,179 \$4,965 \$4,819 \$(7,523) \$(19,418) \$(15,774) \$9,955 \$7,691 \$7,514

</TABLE>

Note 13 Subsequent Events

On October 25, the Company received an offer from a representative of the holders of the \$3.6 million convertible notes due June 30, 1997, whereby the holders proposed to convert such notes into common stock of the Company at a reduced exchange price. On November 14, 1996, the Company agreed to exchange \$3,380,000 principal amount of Agritope notes for 250,367 shares of common stock of the Company at an exchange price of \$13.50 per share. Accordingly, the Company will recognize a charge to income of approximately \$1.1 million representing the conversion expense in the first quarter of fiscal 1997.

On November 25, 1996, the Company negotiated an extension to the bank line of credit previously maintained by Andrew and Williamson Sales, Co. (A&W). Under terms of the commitment letter, the \$6.5 million revolving credit line will be extended until February 5, 1998, and will bear interest at prime or LIBOR plus 2.5% at the Company's option. The new line will be secured by A&W's accounts receivable, inventory and equipment and will be guaranteed by Epitepe, Inc. The new line will also contain various financial covenants including minimum working capital and tangible net worth levels and maximum debt to net worth ratios.

On December 12, 1996, the Company merged with A&W. A&W is a producer and wholesale distributor of fruits and vegetables based in San Diego, California. Under the terms of the merger, the Company issued 520,000 shares of common stock of Epitepe, Inc. in exchange for all of the outstanding common stock of A&W. The merger has been accounted for as a pooling of interests and will qualify as a tax-free reorganization (see supplemental financial statements).

Based on information available on December 26, 1996, and due to continued operating losses at UAF, Limited Partnership in the four months ended October 31, 1996, coupled with a shortfall in sales and larger operating loss than expected at Petals USA, Inc. in the fourth quarter of calendar 1996, the Company believes that the value of its investment in affiliated companies has more than temporarily declined as both companies are now expected to show operating losses in fiscal 1997. Accordingly, the Company anticipates a charge to results of operations of \$1,900,000 in the first quarter of 1997, reflecting the permanent impairment in the value of its investment in affiliated companies.

Supplemental Financial Statements

Report of Independent Accountants

To the Board of Directors and Shareholders of
Epitepe, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in shareholders'/group equity, and of cash flows present fairly, in all material respects, the financial position of Epitepe Medical Products group and Agritope group (as described in Note 1 to these financial statements) and Epitepe, Inc. and its subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described in Note 13, on November 6, 1996, Epitope, Inc. agreed to a merger with Andrew and Williamson Sales, Co. in a transaction to be accounted for as a pooling of interests. The accompanying supplemental financial statements give retroactive effect to the merger.

In our opinion, based upon our audits and the report of other auditors, the accompanying supplemental balance sheets and the related supplemental statements of operations, of changes in shareholders'/group equity and of cash flows present fairly, in all material respects, the financial position of Epitope Medical Products group, Agritope group and Epitope, Inc. and its subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. 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 did not audit the financial statements of Andrew and Williamson Sales, Co., which statements reflect total assets of \$10,774,100 and \$7,293,256 at September 30, 1996 and 1995, respectively, and total revenues of \$62,471,119, \$52,178,973 and \$62,704,601 for the years ended September 30, 1996, 1995 and 1994, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it related to the amounts included for Andrew and Williamson Sales, Co., is based solely on the report of the other auditors. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Portland, Oregon

October 28, 1996, except for Note 13 as to which the date is November 14, 1996, November 25, 1996, December 12, 1996, and December 26, 1996.

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope Medical Products
Combined Balance Sheets

SEPTEMBER 30	1996	1995	<C>	<C>
<S>				
Assets				
Current assets				
Cash and cash equivalents (Note 2)		\$795,787	\$13,210	
Marketable securities (Note 2)		18,818,120	17,080,246	
Trade accounts receivable, net (Note 2)		1,147,599	231,621	
Other accounts receivable		174,083	382,753	
Inventories (Note 2)		1,157,930	1,433,746	
Prepaid expenses		89,518	103,399	

Total current assets		22,183,037	19,244,975	
Property and equipment, net (Notes 2 and 4)		1,542,757	1,989,769	
Patents and proprietary technology, net (Note 2)		601,234	415,010	
Investments in affiliated companies		-142,510		
Other assets and deposits (Note 5)		22,758	38,328	

\$24,349,786\$21,830,592

Liabilities and Group Equity	
Current liabilities	
Accounts payable . . . . .	.\$449,170\$819,424
Salaries, benefits and other accrued liabilities (Notes 2 and 9) . . . . .	.1,368,1662,976,167

Total current liabilities . . . . .	.1,817,3363,795,591
Commitments and contingencies (Notes 6, 8, 9, 10 and 11)--	
Group equity (Note 6)	
Contributed capital . . . . .	.64,237,35060,479,315
Accumulated deficit	(41,704,900)(42,444,314)

	22,532,45018,035,001

	\$24,349,786\$21,830,592

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope Medical Products
Combined Statements of Operations

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994	
<S>		<C>	<C>	<C>
Revenues				
Product sales . . . . .	.\$ 4,864,378	\$ 2,806,850	\$ 2,580,798	
Grants and contracts . . . . .	.729,271	148,672	24,560	

	5,593,649	2,855,522	2,605,358	
Costs and expenses				
Product costs . . . . .	.2,681,429	3,163,012	2,141,319	
Research and development costs . . . . .	.3,165,838	4,617,246	3,681,326	
Selling, general and administrative expenses	5,033,491	6,682,860	3,066,896	

	10,880,758	14,463,118	8,889,541	
Loss from operations	(5,287,109)	(11,607,596)	(6,284,183)	
Other income, net . . . . .	.6,026,523	756,424	235,926	

Net income (loss) . . . . .	.\$ 739,414	\$(10,851,172)	\$(6,048,257)	
Pro forma net income (loss) per share . . . . .	.\$ .05	\$(.87)	\$. (.57)	
Pro forma weighted average number of shares outstanding				
	.13,960,396	12,406,234	10,570,129	

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope Medical Products

Combined Statements of Changes in Group Equity

<S>	Contributed capital	Accumulated deficit <C>	Total <C>	<C>
Balances at September 30, 1993.	\$34,167,582	\$(25,544,885)	\$ 8,622,697	
Common stock issued upon				
exercise of options . . . . .	.636,293	-	636,293	
Common stock issued as				
compensation. . . . .	.318,386	-	318,386	
Compensation expense for				
stock option grants . . . . .	.823,350	-	823,350	
Common stock issued upon				
exercise of warrants. . . . .	.9,718,259	-	9,718,259	
Common stock issued in				
private placement . . . . .	.17,057,563	-	17,057,563	
Equity issuance costs	(3,335,261)	-	(3,335,261)	
Net cash to Agritope	(12,132,173)	(12,132,173)		
Net loss for the year	-	(6,048,257)	(6,048,257)	

Balances at September 30, 1994. . . . .	.47,253,999	(31,593,142)	15,660,857	
Common stock issued upon				
exercise of options . . . . .	.2,145,673	-	2,145,673	
Common stock issued as				
compensation. . . . .	.196,802	-	196,802	
Compensation expense for				
stock option grants . . . . .	.1,056,335	-	1,056,335	
Common stock issued upon				
exercise of warrants. . . . .	.18,892,750	-	18,892,750	
Equity issuance costs	(735,390)	-	(735,390)	
Net cash to Agritope.	(8,330,854)	(8,330,854)		
Net loss for the year	-	(10,851,172)	(10,851,172)	

Balances at September 30, 1995 . . . . .	.60,479,315	(42,444,314)	18,035,001	
Common stock issued upon				
exercise of options. . . . .	.4,886,118	-	4,886,118	
Common stock issued as compensation. . . . .	.249,086	-	249,086	
Compensation expense for stock				
option grants. . . . .	.815,019	-	815,019	
Common stock issued upon				
exercise of warrants . . . . .	.826,600	-	826,600	
Equity issuance costs.	(152)	-	(152)	
Net cash to Agritope	(3,018,636)	(3,018,636)		
Net income for the year.	-	739,414	739,414	

Balances at September 30, 1996.	\$64,237,350	\$(41,704,900)	\$22,532,450	

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope Medical Products
Combined Statements of Cash Flows

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net income (loss)	\$ 739,414	\$(10,851,172)	\$(6,048,257)
Adjustments to reconcile net income (loss)			
to net cash used in operating activities:			
Depreciation and amortization . . . . .	.792,885	795,295	651,076
(Gain) loss on disposition of property	(1,098)	319	1,541
Increase in accounts receivable and			
other receivables	(707,308)	(76,549)	(180,767)

Increase (decrease) in inventories	275,816	(375,640)	(272,279)
Decrease in prepaid expenses	13,881	38,031	43,354
Decrease (increase) in other assets and deposits	15,570	(42,658)	(6,227)
Increase (decrease) in accounts payable and accrued liabilities	(2,151)	(110)2,273	3,643
Common stock issued as compensation for services	249,086	196,802	318,386
Compensation expense for stock option grants and deferred salary increases . . . . .	.815	0,191	0,56,335

Net cash provided by (used in) operating activities . . . . .	.42	155(6,985)	873(4,247)
Cash flows from investing activities			
Investment in marketable securities	(47,608)	(270)(16,194)	(994)(5,603)
Proceeds from sale of marketable securities	45,870	3964,718	1,62-
Additions to property and equipment	(180,112)	(1,112,292)	(461,914)
Proceeds from sale of property . . . . .	.7	4321,085	1,000
Expenditures for patents and proprietary technology	(358,319)	(126,927)	(185,805)
Investment in affiliated companies . . . . .	.142	51042,552	64,938

Net cash used in investing activities	(2,126)	(363)(12,672)	(414)(6,185)
Cash flows from financing activities			
Principal payments under installment purchase and capital lease obligations			
Proceeds from issuance of common stock . . . . .	.5	885,573	21,060,912
Cost of common stock issuance	(152)	(757,877)	(310,849)
Cash to Agritope	(3,018)	(636)(8,330)	(854)(12,132)

Net cash provided by financing activities . . . . .	.2	866,785	11,972,181
Net increase (decrease) in cash and cash equivalents . . . . .	.782	577(7,686)	(106)1,511
Cash and cash equivalents at beginning of year . . . . .	.13	2107,699	3166,187

Cash and cash equivalents at end of year	\$.795	787\$	13,210\$7,699

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>

<CAPTION>

Supplemental Financial Statements
Agritope
Combined Balance Sheets

SEPTEMBER 30	1996	1995	
<S>		<C>	<C>
Assets			
Current assets			
Cash and cash equivalents (Note 2)	\$.4	903,476	\$4,246,687
Trade accounts receivable, net (Note 2) . . . . .	.3	123,172	1,995,244
Other accounts receivable . . . . .	.32	3371,249	554
Inventories (Note 2) . . . . .	.6	570,187	239,441
Prepaid expenses . . . . .	.90	656	143,792

Total current assets . . . . .	.14	719,828	10,874,718
Property and equipment, net (Notes 2 and 4) . . . . .	.2	658,655	2,068,931
Patents and proprietary technology, net (Note 2) . . . . .	.510	244	140,757
Investment in affiliated companies (Note 3) . . . . .	.2	651,294	2,185,630
Other assets and deposits (Note 5) . . . . .	.321	0,113	26,650

Liabilities and Group Equity

Current liabilities

Borrowings under bank line of credit (Note 5)	\$ 4,125,000	\$ 3,150,000
Subordinated notes (Note 5)	2,236,628-	
Current portion of long-term debt (Note 5)	98,368	196,134
Convertible notes, due 1997 (Notes 5 and 13)	3,620,003-	
Accounts payable	2,677,881	1,488,940
Salaries, benefits and other accrued liabilities (Notes 2 and 9)	1,208,136	274,959

Total current liabilities 13,966,016 5,110,033

Long-term debt, less current portion (Note 5)	527,973	632,515
Convertible notes, due 1997 (Notes 5 and 13)	-3,620,003	
Subordinated notes (Note 5)	-1,015,461	
Commitments and contingencies (Notes 6, 8, 9, 10 and 11)--		
Minority interest	215,407-	

Group equity (Note 6)

Contributed capital	36,736,343	33,474,043
Accumulated deficit	(30,584,707)	(28,255,369)

6,151,636 5,218,674

\$20,861,032\$15,596,686

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>

<CAPTION>

Supplemental Financial Statements

Agritope

Combined Statements of Operations

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>

Revenues

Product sales	\$62,471,119	\$54,194,291	\$62,884,343
Grants and contracts	585,485	94,370	33,642
	63,056,604	54,288,661	62,917,985

Costs and expenses

Product costs	57,262,340	52,337,266	60,374,171
Research and development costs	1,338,703	2,204,993	2,368,880
Selling, general and administrative expenses	4,789,096	7,516,458	8,280,756
	63,390,139	62,058,717	71,023,807

Loss from operations (333,535) (7,770,056) (8,105,822)

Other expense, net (670,803) (252,406) (443,962)

Net loss \$ (1,004,338) \$ (8,022,462) \$ (8,549,784)

Pro forma net loss per share \$ (.15) \$ (1.29) \$ (1.62)

Pro forma weighted average number of shares

Outstanding 6,590,710 6,203,117 5,285,064

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Agritope
Combined Statements of Changes in Group Equity

	Contributed capital	Accumulated deficit	Total	
<S>	<C>	<C>	<C>	<C>
Balances at September 30, 1993	\$11,281,128	\$(10,809,123)	\$	472,005
Common stock issued as compensation . . . . .	.50,392-			50,392
Compensation expense for stock option grants . . . . .	.343,922-			343,922
Common stock issued upon exchange of convertible notes . . . . .	.559,964 -			559,964
Equity issuance costs	(40,267)-			(40,267)
Net cash from Epitepe Medical Products	12,132,173	-		12,132,173
Dividends	-(540,000)			(540,000)
Net loss for the year	(8,549,784)			(8,549,784)

Balances at September 30, 1994 . . . . .	.24,327,312	(19,898,907)		4,428,405
Common stock issued as compensation . . . . .	.69,998-			69,998
Compensation expense for stock option grants . . . . .	.318,375-			318,375
Common stock issued upon exchange of convertible notes . . . . .	.449,991 -			449,991
Equity issuance costs	(22,487)-			(22,487)
Net cash from Epitepe Medical Products . . . . .	.8,330,854	-8,330,854		
Dividends	-(334,000)			(334,000)
Net loss for the year	(8,022,462)			(8,022,462)

Balances at September 30, 1995 . . . . .	.33,474,043	(28,255,369)		5,218,674
Common stock issued as compensation	14,500	-		14,500
Compensation expense for stock option grants . . . . .	.229,164 -			229,164
Net cash from Epitepe Medical Products . . . . .	.3,018,636-			3,018,636
Dividends	-(1,325,000)			(1,325,000)
Net loss for the year	(1,004,338)			(1,004,338)

Balances at September 30, 1996	\$36,736,343	\$(30,584,707)		\$ 6,151,636

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Agritope
Combined Statements of Cash Flows

	1996	1995	1994	
<S>	<C>	<C>	<C>	<C>
Cash flows from operating activities				
Net loss	\$(1,004,338)	\$(8,022,462)	\$(8,549,784)	
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization . . . . .	.474,256	859,641	714,420	
Loss on disposition of property and investments	64,126	29,560	74,130	
Decrease (increase) in accounts receivable and other receivables	(166,475)	(630,054)	1,306,977	
Decrease (increase) in inventories	(3,330,746)	222,991	(5,260,547)	

Decrease (increase) in prepaid expenses . . .53,136(100,940)31,402
Decrease (increase) in other assets and deposits(36,219)9,1376,562
Increase (decrease) in accounts payable and
accrued liabilities2,122,118(12,991)1,678,494
Common stock issued as compensation for services14,50069,99850,392
Compensation expense for stock option grants and
deferred salary increases229,164318,375343,922

Net cash used in operating activities(1,580,478)(7,256,745)(9,604,032)

Cash flows from investing activities
Additions to property and equipment(925,388)(308,136)(2,240,743)
Proceeds from sale of property-13,258 -
Expenditures for patents and proprietary
technology(411,943)(178,208)135
Investment in affiliated companies(529,790)548,876(81,750)
Minority Interest in affiliated companies . . .215,407- -
Other investments(54,278)48,990(99,122)

Net cash (used in) provided by investing
activities(1,705,992)124,780(2,421,480)

Cash flows from financing activities
Net borrowings under bank line of credit . . .975,000500,0001,075,000
Issuance of long-term debt15,57583,03478,760
Principal payments on long-term debt(217,883)(166,955)(116,020)
Dividends(1,325,000)(334,000)(540,000)
Net borrowings from stockholders1,476,931(359,962)352,382
Cash from Epitope Medical Products3,018,6368,330,85412,132,173

Net cash provided by financing activities . . .3,943,2598,052,97112,982,295

Net increase (decrease) in cash and cash
equivalents656,789921,006956,783
Cash and cash equivalents at beginning of year .4,246,6873,325,6812,368,898

Cash and cash equivalents at end of year . .\$4,903,476\$4,246,687\$3,325,681

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Balance Sheets

SEPTEMBER 30	1996	1995
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 5,699,263	\$ 4,259,897
Marketable securities (Note 2) . . . . .	.18,818,120	17,080,246
Trade accounts receivable, net (Note 2) . . . . .	.4,270,771	226,865
Other accounts receivable . . . . .	.206,420	1,632,307
Inventories (Note 2) . . . . .	.7,728,117	4,673,187
Prepaid expenses . . . . .	.180,174	247,191

Total current assets . . . . .	.36,902,865	30,119,693
Property and equipment, net (Notes 2 and 4) . . . . .	.4,201,412	4,058,700
Patents and proprietary technology, net (Note 2) . . . . .	.1,111,478	555,767
Investment in affiliated companies (Note 3) . . . . .	.2,651,294	2,328,140
Other assets and deposits (Note 5) . . . . .	.343,769	364,978

	\$45,210,818	\$37,427,278
Liabilities and Shareholders' Equity		

Current liabilities	
Borrowings under bank line of credit (Note 5)	\$ 4,125,000\$ 3,150,000
Subordinated notes (Note 5) . . . . .	.2,236,628-
Current portion of long-term debt . . . . .	.98,368196,134
Convertible notes, due 1997 (Notes 5 and 13) . . . . .	.3,620,003-
Accounts payable . . . . .	.3,127,0512,308,364
Salaries, benefits and other accrued liabilities (Notes 2 and 9) . . . . .	.2,576,3023,251,126

Total current liabilities . . . . .	.15,783,3528,905,624
Long-term debt, less current portion (Note 5) . . . . .	.527,973632,515
Convertible notes, due 1997 (Notes 5 and 13)	-.3,620,003
Subordinated notes (Note 5)	-.1,015,461
Commitments and contingencies (Notes 6, 8, 9, 10 and 11)--	
Minority Interest . . . . .	.215,407-
Shareholders' equity (Note 6)	
Preferred stock, no par value - 1,000,000 shares authorized; no shares issued or outstanding	- -
Common stock, no par value - 30,000,000 shares authorized; 13,457,383 and 13,085,130 shares issued and outstanding, respectively . . . . .	.100,973,69393,953,358
Accumulated deficit . . . . .	.(72,289,607) (70,699,683)
	28,684,086 23,253,675

	\$45,210,818 \$37,427,278

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>

<CAPTION>

Supplemental Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Statements of Operations

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994
<S>	<C>	<C>	<C>
Revenues			
Product sales	\$ 67,335,497	\$ 57,001,141	\$ 65,465,141
Grants and contracts . . . . .	.1,314,756	143,042	58,202

	68,650,253	57,144,183	65,523,343
Costs and expenses			
Product costs . . . . .	.59,943,769	55,500,278	62,515,490
Research and development costs . . . . .	.4,504,541	6,822,239	6,050,206
Selling, general and administrative expenses	9,822,587	14,199,318	11,347,652

	74,270,897	76,521,835	79,913,348
Loss from operations	(5,620,644)	(19,377,652)	(14,390,005)
Other income (expense), net . . . . .	.5,355,720	504,018	(208,036)

Net loss . . . . .	.\$ (264,924)	\$(18,873,634)	\$(14,598,041)
Net loss per share . . . . .	.\$ (.02)	\$(1.52)	\$(1.38)
Weighted average number of shares outstanding . . . . .	.13,181,420	12,406,234	10,570,129

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Shares	Common Stock Dollars	deficit	Accumulated Total	
<S>	<C>	<C>	<C>	<C>	<C>
Balances at September 30, 1993.	.9,611,922	\$ 45,448,710	\$ (36,354,008)	\$ 9,094,702	
Common stock issued upon					
exercise of options . . . . .	.52,488	636,293	-	636,293	
Common stock issued as					
compensation. . . . .	.19,678	368,778	-	368,778	
Compensation expense for					
stock option grants	-.1,167,272		- 1,167,272		
Common stock issued upon					
exercise of warrants. . . . .	.618,291	9,718,259	- 9,718,259		
Common stock issued upon					
exchange of convertible notes . . . . .	.28,672	559,964	-	559,964	
Common stock issued in					
private placement . . . . .	.1,115,500	17,057,563	-17,057,563		
Equity issuance costs	-(3,375,528)		- (3,375,528)		
Dividends	-		(540,000)	(540,000)	
Net loss for the year	-		- (14,598,041)	(14,598,041)	

Balances at September 30, 1994.	.11,446,551	71,581,311	(51,492,049)	20,089,262	
Common stock issued upon					
exercise of options . . . . .	.183,525	2,145,673	- 2,145,673		
Common stock issued as					
compensation. . . . .	.16,013	266,800	-	266,800	
Compensation expense for					
stock option grants	-.1,374,710		- 1,374,710		
Common stock issued upon					
exercise of warrants. . . . .	.1,336,000	18,892,750	-18,892,750		
Common stock issued upon					
exchange of convertible notes . . . . .	.23,041	449,991	-	449,991	
Equity issuance costs	-(757,877)		- (757,877)		
Dividends	-		(334,000)	(334,000)	
Net loss for the year	-		- (18,873,634)	(18,873,634)	

Balances at September 30, 1995.	.13,005,130	93,358	(70,699,683)	23,253,675	
Common stock issued upon					
exercise of options . . . . .	.386,550	4,886,118	- 4,886,118		
Common stock issued as compensation	19,353	263,586	-	263,586	
Compensation expense for stock					
option grants	-.1,044,183		- 1,044,183		
Common stock issued upon					
exercise of warrants. . . . .	.46,350	826,600	-	826,600	
Equity issuance costs	-(152)		- (152)		
Dividends	-		(1,325,000)	(1,325,000)	
Net loss for the year	-		- (264,924)	(264,924)	

Balances at September 30, 1996.	.13,457,383	\$ 100,973,693	\$ (72,289,607)	\$ 28,684,086	

The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

Supplemental Financial Statements
Epitope, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

FOR THE YEAR ENDED SEPTEMBER 30	1996	1995	1994	
<S>		<C>	<C>	<C>
Cash flows from operating activities				
Net loss	\$ (264,924)	\$(18,873,634)	\$(14,598,041)	
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization . . . . .	.1,267,141	1,654,936	1,365,496	
(Gain) loss on disposition of property . . . . .	.63,028	29,879	75,671	
Decrease (increase) in accounts receivable and other receivables . . . . .	.(873,783)	(706,603)	1,126,210	
Increase in inventories . . . . .	.(3,054,930)	(152,649)	(5,532,826)	
Decrease (increase) in prepaid expenses . . . . .	.67,017	(62,909)	74,756	
Decrease (increase) in other assets and deposits	(20,649)	(33,521)	335	
Increase in accounts payable and accrued liabilities . . . . .	.(28,992)	2,260,373	2,008,369	
Common stock issued as compensation for services	263,586	266,800	368,778	
Compensation expense for stock option grants and deferred salary increases . . . . .	.1,044,183	1,374,710	1,259,273	

Net cash used in operating activities . . . . .	.(1,538,323)	(14,242,618)	(13,851,979)	
Cash flows from investing activities				
Investment in marketable securities . . . . .	.(47,608,270)	(16,194,994)	(5,603,414)	
Proceeds from sale of marketable securities . . . . .	.45,870,396	4,718,162	-	
Additions to property and equipment . . . . .	.(1,105,500)	(1,420,428)	(2,702,657)	
Proceeds from sale of property . . . . .	.7,432	14,343	1,000	
Expenditures for patents and proprietary technology . . . . .	.(770,262)	(305,135)	(185,670)	
Investment in affiliated companies . . . . .	.(387,280)	591,428	(16,812)	
Other investments . . . . .	.(54,278)	48,990	(99,122)	
Minority interest in affiliated companies . . . . .	.215,407	-	-	

Net cash used in investing activities . . . . .	.(3,832,355)	(12,547,634)	(8,606,675)	
Cash flows from financing activities				
Net borrowings under bank line of credit . . . . .	.975,000	500,000	1,075,000	
Issuance of long-term debt . . . . .	.15,575	83,034	78,760	
Principal payments on long-term debt . . . . .	.(217,883)	(166,955)	(116,020)	
Proceeds from issuance of common stock . . . . .	.5,885,573	21,060,912	24,387,702	
Cost of common stock issuance . . . . .	.(152)	(757,877)	(310,849)	
Net borrowings from stockholders . . . . .	.1,476,931	(359,962)	352,382	
Dividends . . . . .	.(1,325,000)	(334,000)	(540,000)	

Net cash provided by financing activities . . . . .	.6,810,044	20,225,152	24,926,975	
Net increase (decrease) in cash and cash equivalents . . . . .	.1,439,366	(6,765,100)	2,468,321	
Cash and cash equivalents at beginning of year . . . . .	.4,259,897	11,024,997	8,556,676	

Cash and cash equivalents at end of year . . . . .	.\$ 5,699,263	\$ 4,259,897	\$ 11,024,997	

The accompanying notes are an integral part of these statements.

</TABLE>

Notes to Supplemental Financial Statements

Note 1 The Company

Epitope, Inc. (the Company or Epitope) is an Oregon corporation utilizing biotechnology to develop and market medical diagnostic products through its Epitope Medical Products group (Epitope Medical Products) and superior new plants and related products through its Agritope group (Agritope). Agritope is also in the business of growing, marketing, selling, and distributing fresh and frozen produce, primarily tomatoes and strawberries. Upon approval of the proposal to create a new class of common stock (the Agritope Stock Proposal), the capital structure of Epitope will be modified to include two classes of

common stock, Epitepe Medical Products Common Stock and Agritope Common Stock. The Epitepe Medical Products group (Epitepe Medical Products) will include the medical products business conducted by the Company. The Agritope group (Agritope) will include the agribusiness and agricultural biotechnology operations of the Company.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Assets and liabilities of majority-owned subsidiaries are included in these statements. Minority-owned investments and joint ventures are accounted for using the equity method. Investments of less than 20% are carried at cost.

The accompanying combined financial statements of the Epitepe Medical Products and Agritope groups have been prepared using the amounts included in the consolidated financial statements of the Company. Assets and liabilities directly attributable to each group are included in the respective balance sheets of the applicable group. Cash and marketable securities have been allocated 80% to Epitepe Medical Products and 20% to Agritope. Cash advanced and allocated by the Company to business units of the Agritope group has been reflected as paid-in-capital in the accompanying combined financial statements.

On November 6, 1996 the Company agreed to merge with Andrew and Williamson Sales, Co. (A&W) in a transaction to be accounted for as a pooling of interests (Note 13). The accompanying consolidated financial statements and the combined financial statements of the Agritope Group have been restated to reflect the merger as if it had occurred at the beginning of the earliest period presented.

Certain services such as accounting, finance, general management, human resources, investor relations, information systems and payroll are provided by the Company on a centralized basis for the benefit of both groups (Shared Services). Such expenses have been allocated between Epitepe Medical Products and Agritope in the accompanying combined financial statements using activity indicators which, in the opinion of management, represent a reasonable measure of the respective group's utilization of such shared services. The activity measurement indicators will be reviewed periodically and adjusted to reflect changes in utilization. The accompanying combined financial statements also include an adjustment to allocate interest income in the same proportion as the allocation of Shared Services between the two groups. Future interest income will be based on amounts earned by each group. Shared Services are included under the caption "Selling, general and administrative expenses" as follows:

<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30	1996	1995	1994	
<S>		<C>	<C>	<C>
Epitepe Medical Products . . .	\$3,028,181	\$3,575,069	\$1,899,969	
Agritope	1,069,249	1,892,370	1,735,688	

Consolidated	\$4,097,430	\$5,467,439	\$3,635,657	

</TABLE>

The allocation of interest income is included under the caption "Other income, net" as follows:

YEAR ENDED SEPTEMBER 30	1996	1995	1994
-------------------------	------	------	------

Epitope Medical Products . . .	\$1,025,030	756,743	237,467
Agritope . . . . .	.361,938408,097	216,934	

Consolidated	\$.1,386,968	\$1,164,840	454,401

If the Agritope Stock Proposal is approved, the Company will provide holders of Epitope Medical Products and Agritope common stock separate financial statements, management's discussion and analysis of financial condition and results of operations, descriptions of businesses and other relevant information for each group. Notwithstanding the attribution of assets and liabilities (including contingent liabilities) to each group for the purposes of preparing their respective historical and future financial statements, this attribution and the change in capitalization contemplated in the Agritope Stock Proposal will not affect legal title to such assets or responsibility for such liabilities of the Company or any of its subsidiaries. Holders of each class of common stock will be common shareholders of the Company and would be subject to risks associated with an investment in the Company and all its businesses, assets, and liabilities. Liabilities or contingencies of either group that affect the Company's resources or financial condition could affect the financial condition and results of operations of either group.

Under the Agritope Stock Proposal, dividends to be paid to the holders of either class of common stock will be limited to the lesser of funds of the Company legally available for the payment of dividends or the Available Medical Products Dividend Amount or Available Agritope Dividend Amount as defined in the Company's Articles of Incorporation. The Company has never paid any cash dividends on shares of Epitope common stock. The Company currently intends to retain any of its earnings to finance future growth and, therefore, does not anticipate paying any cash dividends on either class of common stock in the foreseeable future. The dividends reflected in these financial statements were paid by A&W to its shareholders prior to the merger of A&W with the Company.

Except as stated in the amended Articles of Incorporation, the accounting policies applicable to preparation of financial statements of either group may be modified or rescinded at the sole discretion of the Board of Directors of the Company without the approval of shareholders, although there is no intention to do so. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the previous policy.

Cash and Cash Equivalents; Marketable Securities. For purposes of the consolidated balance sheets and statements of cash flows, the Company considers all highly liquid investments with maturities at time of purchase of three months or less to be cash equivalents. At September 30, 1996, marketable securities consisted of commercial paper and U.S. Treasury securities with an original maturity period greater than three months, but generally less than 12 months. The Company's policy is to invest its excess cash in securities that maximize (a) safety of principal, (b) liquidity for operating needs, and (c) after-tax yields.

Effective October 1, 1994, the Company adopted Financial Accounting Standards Board Statement No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Pursuant to SFAS 115, the Company has categorized all of its investments as available-for-sale securities and, accordingly, unrealized gains and losses on such investments, if material, will be carried as a separate component of shareholders' equity. Such unrealized gains and losses were immaterial as of September 30, 1996 and 1995.

Inventories. Medical products inventories are recorded at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. Growing crops (included in work-in-process) are valued at the lower of cost or estimated market. Frozen strawberry inventories (included in finished goods) are valued at the lower of average cost or market. Inventory components are summarized as follows:

September 30	1996	1995
--------------	------	------

Epitope Medical Products		
Raw materials	\$ 522,824	\$ 657,568
Work-in-process	389,642	379,470
Finished goods	192,882	295,032
Supplies	52,582	101,676
	-----	-----
	\$1,157,930	\$ 1,433,746
Agritope		
Work-in-process	\$4,466,880	\$2,201,073
Finished goods	1,740,689	741,424
Supplies	362,618	296,944
	-----	-----
	\$6,570,187	\$3,239,441
Consolidated		
Raw materials	\$ 522,824	\$ 657,568
Work-in-process	4,856,522	2,580,543
Finished goods	1,933,571	1,036,456
Supplies	415,200	398,620
	-----	-----
	\$7,728,117	\$ 4,673,187

The Company grows crops primarily in Mexico in cooperation with various Mexican farmers. Under the agreements, the Company generally shares in the costs of growing, picking, packing, and distribution. The Company recovers its costs plus a gross profit percentage of approximately ten percent from the sale of the crops in the United States. Cost of sales is charged for costs in excess of estimated market. During 1996, 1995, and 1994, the Company charged to cost of sales growing costs in excess of estimated market of approximately \$1,811,000, \$2,544,037, and \$2,106,181, respectively.

Depreciation and Capitalization Policies. Land is stated at cost. Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to operating expense as incurred. Expenditures for renewals and betterments are capitalized.

Depreciation and amortization of property and equipment are calculated primarily under the straight-line method over the estimated lives of the related assets (three to seven years). Leasehold improvements are amortized over the shorter of estimated useful lives or the terms of related leases. When assets are sold or otherwise disposed, cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in operations.

Accounting for Long-Lived Assets. The Company periodically reviews its long-lived assets for impairment or as events or circumstances indicate that the carrying amount of long-lived assets may not be recoverable. If the estimated net cash flows are less than the carrying amount of the long-lived assets, the Company recognizes an impairment loss in an amount necessary to write down long-lived assets to fair value as determined from expected discounted future cash flows. This accounting policy is consistent with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." There has been no significant impact to the Company's financial position or results of operations as the carrying amount of all long-lived assets is recoverable.

Patents and Proprietary Technology. Direct costs associated with patent submissions and acquired technology are capitalized and amortized over their minimum estimated economic useful lives, generally five years.

In August 1996, the Company amended an agreement pursuant to which it acquired Agritope's patented ethylene control technology in 1987. A co-inventor of the technology relinquished all rights to future compensation under the agreement in exchange for a one-time cash payment, a research grant and a limited non-exclusive license to use the technology for one crop. The total consideration of \$365,000 is included in Agritope's combined balance sheet under the caption "Patents and Proprietary Technology" and is being amortized over 15 years, the remaining life of the related patent.

Amortization and accumulated amortization are summarized as follows:

	1996	1995	1994
Amortization for the year ended			
September 30,			
Epitope Medical Products	\$ 172,095	\$ 130,313	\$ 101,339
Agritope	42,456	23,964	13,487

Consolidated	\$ 214,551	\$ 154,277	\$ 114,826

Accumulated Amortization at			
September 30,			
Epitope Medical Products	\$ 621,110	\$ 449,015	\$ 318,702
Agritope	79,907	37,451	13,487

Consolidated	\$ 701,017	\$ 486,466	\$ 332,189

Investments in Affiliated Companies. Investments in affiliated companies are stated at cost. For reductions in the value of its investments in affiliated companies that are more than temporary, the Company will write down the value of its investments in affiliated companies to its recoverable value.

Revenue Recognition. Product revenues are generally derived from the sale of products and are recognized as revenue when the related products are shipped. Grant and contract revenues include funds received under research and development agreements with various entities. Such revenues are recognized in accordance with contract terms.

Accounts receivable are stated net of an allowance for doubtful accounts as follows:

September 30	1996	1995
Epitope Medical Products	\$ 6,872	\$ 6,872
Agritope	64,571	119,172

Consolidated	\$ 71,443	\$ 126,044

Research and Development. Research and development expenditures are comprised of those costs associated with the Company's own ongoing research and development activities including the costs to prepare for, obtain and compile clinical studies and other information to support product license applications. Expenditures for research and development also include costs incurred under contracts to develop certain products, including those contracts resulting in grant and contract revenues. All research and development costs are expensed as incurred.

Income Taxes. The Company accounts for certain revenue and expense items differently for income tax purposes than for financial reporting purposes. These differences arise principally from methods used in accounting for stock options and depreciation rates. The Company accounts for income taxes under SFAS No. 109 "Accounting for Income Taxes," (SFAS 109) which requires the use of the asset and liability method approach for accounting for income taxes. Under SFAS 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to reverse.

As a separate company, A&W had elected S-Corporation tax treatment. As an S-Corporation, income or losses passed through to A&W's shareholders, and no provision for federal income taxes was reflected in the financial statements. State income taxes applicable to A&W were provided at a reduced rate under S-Corporation status. Following the merger (see Note 13), A&W will be taxed as a C-Corporation and will join with the Company in filing a consolidated federal income tax return.

To date, both Epitope Medical Products and Agritope have experienced operating

losses. Actual tax payment is a liability of Epitope as a whole. The Agritope Stock Proposal provides that either group may be allocated the tax benefit of such losses and future losses to reduce current or deferred tax expense and that such losses will not be carried forward to reduce the losses of the group which incurred such losses. Accordingly, either group may report lower earnings than if such losses had been retained for the benefit of then group which incurred such losses.

Net Income (Loss) Per Share. Net income (loss) per share has been computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents consist of the number of shares issuable upon exercise of outstanding warrants, options and convertible notes less the number of shares assumed to have been purchased for the treasury with the proceeds from the exercise of such. Net income (loss) per share for Epitope Medical Products and Agritope is presented on a proforma basis assuming that the distribution of Agritope common stock and redesignation of Epitope, Inc. common stock as Epitope Medical Products common stock pursuant to the Agritope Stock Proposal had occurred on October 1, 1993.

Common stock equivalents are excluded from the computation if their effect is anti-dilutive. Primary and fully diluted earnings per share are the same.

Supplemental Cash Flow Information. Non-cash financing and investing activities not included in the consolidated statements of cash flows are summarized as follows:

<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30	1996	1995	1994	
<S>		<C>	<C>	<C>
Epitope Medical Products				
Discount on private placement of common stock-		-	\$3,024,413	
Agritope				
Conversion of notes to equity (Note 5). . .-	\$ 427,496		\$600,231	
Investment in nonconsolidated subsidiary. .-	2,584,979		-	

In addition, Agritope paid \$568,835; \$455,783; and \$407,929, for interest during the years ended September 30 1996, 1995, and 1994, respectively.

Supplemental Profit and Loss Information. In September 1995, management announced a company-wide reduction in work force whereby 48 employees were terminated. The Company charged \$607,000 to results of operations for severance payments and related expenses for this program. As of September 30, 1996 and 1995, \$55,000 and \$475,000, respectively, of these charges remain accrued and are included in the accompanying balance sheets of the Company and Epitope Medical Products under the caption "Salaries, benefits and other accrued liabilities."

Management Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates.

Note 3 Investment in Affiliated Companies

In June 1995, Agritope agreed to sell its wholly owned subsidiary, Vinifera, Inc. to VF Holdings, Inc. ("VF"), an affiliate of a Swiss investment group, pursuant to a stock purchase agreement. VF subsequently failed to make all the payments required under the VF Agreement. As part of a settlement of claims based on VF's default, VF retained a minority interest in Vinifera and

relinquished the majority interest to Agritope in August 1996.

In May 1995, Agrimax Floral Products, Inc. (Agrimax), a wholly owned subsidiary, transferred control of its Charlotte facility to Universal American Flowers, Inc. (UAF), a privately held importer of high quality fresh flowers engaged in distribution to customers in the eastern U.S. from facilities in Tampa, Florida and Hammond, Louisiana. As of October 27, 1995, Agrimax merged the Charlotte fresh flower operation with those of UAF in return for an equity interest of approximately 18% in the merged entity, UAF, Limited Partnership. In addition to tangible operating assets, Agrimax transferred to UAF, Limited Partnership, the rights to use its proprietary floral preservative as well as the Fresche Blossoms(R), Everguard(R) and Fresche Blossoms Express(TM) trademarks. In May 1996, the equity interest of Agrimax was reduced to 9% as a result of a recapitalization of UAF, Limited Partnership.

The St. Paul, Minnesota, facility of Agrimax ceased operations in June 1995. In June 1996, Agrimax contributed inventory and operating assets to Petals USA, Inc. ("Petals"), a newly formed affiliate of a Canadian fresh flower wholesaler, in return for a 19.5% equity interest in Petals.

The investments by Agrimax are included in the accompanying consolidated balance sheets of the Company and combined balance sheets of Agritope under the caption "Investment in affiliated companies." See Note 13.

For the years ended September 30, 1995, 1994 respectively, the accompanying financial statements of the Company and Agritope include revenues of \$2.0 million and \$2.2 million, and operating losses of \$3.8 million, and \$6.4 million attributable to the Agrimax and Vinifera business units. The accompanying statements of operations of the Company and Agritope for the year ended September 30, 1995, includes the results of operations of Agrimax and Vinifera through May and also includes a charge of \$500,000 primarily attributable to the disposition of Agrimax which is included in the accompanying consolidated balance sheets of the Company and combined balance sheets of Agritope as of September 30, 1995 under the caption "Salaries, benefits and other accrued liabilities."

Note 4 Property and Equipment

Property and equipment are summarized as follows:

SEPTEMBER 30	1996	1995
Epitepe Medical Products		
Research and development laboratory equipment	.\$ 1,056,883	\$ 898,716
Manufacturing equipment . . . . .	.1,291,546	1,296,416
Office furniture and equipment. . . . .	.1,899,948	2,041,897
Leasehold improvements. . . . .	.1,084,660	1,084,660
Construction in progress. . . . .	.134,557	770,961

	5,467,594	5,392,650
Less accumulated depreciation and amortization	(3,924,837)	(3,402,881)

	\$ 1,542,757	1,989,769
Agritope		
Land. . . . .	.\$ 420,817	\$ 420,817
Buildings and improvements. . . . .	.717,508	717,508
Research and development laboratory equipment	.220,919	196,255
Manufacturing and transportation equipment . . . . .	.2,088,669	1,789,933
Office furniture and equipment. . . . .	.188,251	196,119
Leasehold improvements. . . . .	.166,398	173,262
Construction in progress. . . . .	.499,980	34,650

	4,302,542	3,528,544
Less accumulated depreciation and amortization	(1,643,887)	(1,459,613)

	\$ 2,658,655	\$ 2,068,931

Consolidated		
Land	\$ 420,817	\$ 420,817
Buildings and improvements	717,508	717,508
Research and development laboratory equipment	1,277,802	1,277,802
Manufacturing and transportation equipment	3,380,215	3,380,215
Office furniture and equipment	2,088,192	2,088,192
Leasehold improvements	1,251,058	1,251,058
Construction in progress	634,537	634,537
	-----	-----
	9,770,136	9,770,136
Less accumulated depreciation and amortization (5,568,724)	(4,862,494)	(4,862,494)
	-----	-----
	\$ 4,201,412	\$ 4,058,700

Note 5 Debt

Bank Line of Credit. At September 30, 1996, the Company had a bank line of credit which provided for borrowings of up to \$6,500,000 and was to expire in August 1997. Borrowings under the line bore interest at the bank's prime interest rate plus .5%; were collateralized by substantially all of the assets of A&W; and were guaranteed by A&W's shareholders. The Company had the option to fix the interest rate for a specified period of time at the LIBOR rate for such period. See Note 13, Subsequent Events.

Convertible Notes. On June 30, 1992, Agritope completed a private placement with several European institutional investors pursuant to which \$5,495,000 of convertible notes were issued. The notes are unsecured, mature on June 30, 1997 and bear interest at the rate of 4% per annum which is payable on each June 30 and December 31 until all outstanding principal and interest on the notes have been paid in full. The notes are convertible into common stock of the Company at a conversion price of \$19.53 per share. In the event of an initial public offering of Agritope common stock, the notes would be automatically converted to shares of Agritope common stock at 90% of the public offering price.

During the years ended September 30, 1995 and 1994, respectively, investors exchanged \$449,991 and \$559,964 principal amount of convertible notes for the Company's common stock at a price of \$19.53 per share. In conjunction with the exchanges, unamortized debt issuance costs of \$22,487 and \$40,267 related to such notes were recognized as equity issuance costs during 1996 and 1995, respectively. Debt issuance costs are included in other assets and are being amortized over the five-year life of the notes. Amortization expense of debt issuance costs for the years ended September 30, 1996, 1995 and 1994, respectively, totaled \$108,257, \$96,136 and \$91,715, leaving an unamortized balance of \$88,821 and \$197,077 at September 30, 1996 and 1995, respectively. See Note 13, Subsequent Events.

LONG-TERM DEBT. Long-term debt is summarized as follows:

SEPTEMBER 30	1996	1995
Agritope		
Note payable, interest at 7%, due on demand, unsecured	\$ -	\$ 50,000
Installment notes, interest at 5.9% to 12.75% due various, secured by equipment	59,824	138,976
Installment note, interest at 9.25%, due June 1997, secured by equipment	263,717	319,973
Note payable, interest at prime, due October 1997, unsecured	100,000	100,000
Bank installment note, interest at prime plus 1.25%, due March 1998, secured by property	202,800	219,700
	-----	-----
	626,341	828,649
Less current portion	(98,368)	(196,134)
	-----	-----
	\$ 527,973	\$ 632,515

The installment note payable of \$263,717 at September 30, 1996 has a balloon

payment of \$217,989 due in June 1997. The amount of the balloon payment has been classified as long-term based on the Company's intent and ability to refinance this borrowing on a long-term basis. Certain of the notes above have been guaranteed by the shareholders of A&W. Certain of the note agreements provide various financial and other covenants including minimum working capital and net worth levels and restricted capital expenditures.

As of September 30, 1996, maturities for long-term debt are as follows:

YEAR ENDING SEPTEMBER 30	
1997. . . . .	.\$ 98,368
1998. . . . .	.525,532
1999. . . . .	.2,441

	\$626,341

Subordinated Notes. The Company has notes payable to shareholders which are subordinated to the claims of its bank. These notes are due on demand and bear interest at 10%. The Company intends to pay these notes in full following the effective date of the merger (see Note 13).

Note 6 Shareholders' Equity

Authorized Capital Stock. The Company's amended articles of incorporation authorize 1,000,000 shares of preferred stock and 30,000,000 shares of common stock. The Company's Board of Directors has authority to determine preferences, limitations and relative rights of the preferred stock.

Common Stock Reserved for Future Issuance. As of September 30, 1996, the following shares of the Company's common stock were reserved for future issuance, as more fully described below:

Purpose	Shares
Outstanding warrants. . . . .	.2,000,640
Outstanding stock options . . . . .	.3,365,726
Employee Stock Purchase Plan subscriptions.	42,820
Conversion of notes (Notes 5 and 13). . . . .	.185,356

	5,594,542

If the Agritope Stock Proposal is approved, the Company will issue to the holders of the above rights to purchase shares of Epitope common stock or to convert notes into such shares, as applicable, the equivalent rights with respect to Agritope common stock on the basis of one-half share of Agritope common stock for each right to purchase one share of Epitope common stock.

Common Stock Warrants. As of September 30, 1996, the following warrants to purchase shares of common stock were outstanding:

<TABLE>
<CAPTION>

DATE OF ISSUANCE	Shares	Price	Expiration Date
<S>	<C>	<C>	<C>
September 26, 1991. . . . .	.159,150	\$16.00	September 30, 1997
December 23, 1992 . . . . .	.988,390	18.50	September 30, 1997
July 20, 1993 . . . . .	.375,000	20.00	September 30, 1997
August 1, 1993. . . . .	.200,000	18.50	September 30, 1997
October 17, 1994. . . . .	.50,000	18.50	September 30, 1997
November 22, 1994 . . . . .	.228,100	18.50	September 30, 1997

	2,000,640		

</TABLE>

Stock Award Plans. The Company's 1991 Stock Award Plan (the 1991 Plan) was approved by the shareholders during 1991, replacing the Company's Incentive Stock Option Plan (ISOP). The 1991 Plan provides for stock-based awards to employees, outside directors and members of scientific advisory committees or other consultants. Awards which may be granted under the 1991 Plan include qualified incentive stock options, nonqualified stock options, stock appreciation rights, restricted awards, performance awards and other stock-based awards.

Under the terms of the 1991 Plan, qualified incentive stock options on shares of common stock may be granted to eligible employees, including officers, of the Company at an exercise price not less than the fair market value of the stock on the date of grant. The maximum term during which any option may be exercised is ten years from the date of grant. To date, options have been granted with four-year vesting schedules.

Options issued to employees under the Incentive Stock Option Plan (ISOP) were issued at prices not less than the fair market value of a share of common stock on the date of grant. The options are exercisable after one year from the date of grant at the rate of 25% per year cumulatively and expire ten years from the date of grant.

The Agritope, Inc. 1992 Stock Award Plan (the 1992 Plan) was adopted by Agritope and approved by the Company in 1992. The 1992 Plan, which has provisions similar to those of the Company's 1991 Plan, authorizes issuance of 2,000,000 shares of Agritope common stock. Until Agritope is no longer a wholly owned subsidiary of the Company, shares issued pursuant to exercise of options under the 1992 Plan will be converted into shares of the Company's common stock based on the ratio of the fair market value of the Company's common stock to the fair market value of Agritope common stock on the date of the grant.

The 1991 Plan and 1992 Plan also provide that nonqualified options may be granted at a price not less than 75% of the fair market value of a share of common stock on the date of grant. The option term and vesting schedule of such awards may either be unlimited or have a specified period in which to vest and be exercised. For the discounted nonqualified options issued, the Company amortizes, on a straight-line basis over the vesting period of the options, the difference between the exercise price and the fair market value of a share of stock on the date of grant. As of September 30, 1996, 197,181 shares of Epitope common stock remain available for grant under the Company's stock award plans.

In October 1995, the Financial Accounting Standards Board issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 allows companies which have stock-based compensation arrangements with employees to adopt a fair-value basis of accounting for stock options and other equity instruments or to continue to apply the existing accounting rules under APB Opinion 25, "Accounting for Stock Issued to Employees," but with additional financial statement disclosure. The Company plans to elect the disclosure-only alternative commencing in fiscal 1997 and therefore does not anticipate that SFAS 123 will have a material impact on its financial position or results of operations.

Options granted and outstanding under the Company's stock option plans are summarized as follows:

<TABLE>
<CAPTION>

	1996		1995		1994	
	Shares	Price	Shares	Price	Shares	Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period	.3,636,103	\$1.09-\$24.94	3,483,432	\$1.09-\$24.94	3,052,653	\$1.09-\$24.94
Granted . . . . .	.901,379	9.81-18.13	802,050	14.94-18.88	589,850	14.38-22.94
Exercised	(386,550)	1.09-17.13	(183,525)	1.84-22.50	(52,488)	12.43-22.50
Canceled	(785,206)	14.38-24.00	(465,854)	7.38-22.94	(106,583)	8.50-22.94
	-----	-----	-----	-----	-----	-----

Outstanding at
end of period3,365,726\$3.50-\$24.943,636,103\$1.09-\$24.943,483,432\$1.09-\$24.94

Exercisable.2,302,212\$3.50-\$24.942,002,925\$1.09-\$24.941,557,505\$1.09-\$24.94

</TABLE>

Pursuant to the 1991 Plan, 973, 3,680 and 11,741 shares of common stock were also awarded to consultants and members of the Company's scientific advisory committees during 1996, 1995, and 1994, respectively.

Employee Stock Purchase Plans. In 1991, the shareholders approved the Company's adoption of the 1991 Employee Stock Purchase Plan (1991 ESPP) covering a maximum of 100,000 shares of common stock for subscription over two offering periods. The purchase price for stock purchased under the 1991 ESPP for each of the two 24-month subscription periods was the lesser of 85% of the fair market value of a share of common stock at the commencement of the subscription period or the fair market value at the close of each subscription period. An employee may also elect to withdraw at any time during the subscription period and receive the amounts paid plus interest at the rate of 6%. During April 1994, 676 shares, at a purchase price of \$14.00 per share, were issued to employees for the second 1991 ESPP purchase period which closed March 31, 1994.

The 1993 Employee Stock Purchase Plan (1993 ESPP), as amended and restated effective February 1, 1993, covers a maximum of 250,000 shares of common stock for subscription over established offering periods. The Company's Board of Directors was granted authority to determine the number of offering periods, the number of shares offered, and the length of each period, provided that no more than three offering periods (other than Special Offering Subscriptions as described below) may be set during each fiscal year of the Company. Other provisions of the 1993 ESPP are similar to the 1991 ESPP. During April, 1996, 10,106 shares were issued at a price of \$11.90 per share. As of September 30, 1996, 42,820 shares of common stock were subscribed for during two offerings under the 1993 ESPP. Shares subscribed for under these 1993 ESPP offerings may be purchased over 24 months and have initial subscription prices of \$12.33 and \$8.77 per share for the various offerings.

The 1993 ESPP was amended to allow the Company, at its discretion, to provide Special Offering Subscriptions whereby an employee's annual increase in compensation could be deferred for a one-year period. At the end of the one-year period, the employee can elect to receive the deferred compensation amount in the form of cash or shares of the Company's common stock. The purchase price for stock issued under a Special Offering Subscription is the lesser of 85% of the fair market value of a share of common stock on the first day of the calendar month the employee's increase was effective or the fair market value at the close of the one-year subscription period. During 1995 and 1994, respectively, 5,569 and 2,314 Special Offering Subscription shares were issued to employees at an average price of \$15.26 and \$15.24 per share.

Note 7 Income Taxes

As of September 30, 1996, the Company had net operating loss carryforwards of approximately \$66.7 million and \$50.0 million, respectively, to offset federal and state taxable income. Approximately \$6.9 million of the Company's net operating loss carryforwards were generated as a result of deductions related to the exercise of stock options. When utilized, such carryforwards, as tax effected, will be reflected in the Company's financial statements as an increase in shareholders' equity rather than a reduction of the provision for income taxes.

As of September 30, 1996 the Company had total gross deferred tax assets of approximately \$28.4 million, consisting primarily of \$24.5 million of net operating loss carryforwards, \$1.1 million of research and development tax credit carryforwards and \$2.0 million of accrued deferred compensation costs. No benefit for these assets has been reflected in the accompanying consolidated financial statements as they do not satisfy the recognition criteria set forth in Statement of Financial Accounting Standards No. 109

(SFAS 109). Accordingly, a valuation allowance of \$28.4 million, representing a \$1.1 million decrease since the prior fiscal year end, has been recorded.

The expected tax benefit of approximately \$476,000 for the year ended September 30, 1996 is increased by approximately \$61,000 for the effect of state and local taxes (net of federal impact), \$1.1 million for the effect of the decrease in valuation allowance, and \$840,000 for the effect of stock option deductions included in the valuation allowance and is reduced by approximately \$2.5 million for the effect of Vinifera Inc.'s net operating loss carryforwards and certain state net operating loss carryforwards being removed from the consolidated tax group.

Note 8 Research and Development Arrangements

In February 1995, the Company entered into a Development, License and Supply Agreement with SmithKline Beecham, plc (SB) pursuant to which the Company will conduct research and development projects funded by SB. Agritope also performed research work in 1995 with respect to raspberries which was partially funded by Sweetbriar Development, Inc. under a License Agreement dated October 18, 1994 and with respect to grapevine disease diagnostics funded by a Phase I grant from the U.S. Department of Agriculture under the Small Business Innovation Research Program.

During 1994, the Company participated in a National Cancer Institute program whereby the Company received funding for research toward the treatment of cancer. Agritope has also received grant support from the U.S. Department of Agriculture, Oregon Strawberry Commission, and Oregon Raspberry & Blackberry Commission for antifungal biocontrol research and from several strategic partners.

Revenues from research and development arrangements are included in the accompanying consolidated statements of operations under the caption "Grants and Contracts."

Note 9 Distribution and Supply Contracts

The Company has entered into several contractual arrangements, including those discussed in the following paragraphs, for distribution of certain of its products to customers.

The Company continues to maintain supply and distribution agreements with Organon Teknika Corporation (Organon Teknika), whereby Organon Teknika supplies the Company's antigen requirements and exclusively distributes the Company's EPIblot HIV confirmatory tests (EPIblot) on a worldwide basis. As of April 1, 1994, the Company renewed the agreements which have an initial termination date of March 31, 1997 (with successive one-year renewal periods thereafter) and include pricing incentives based on volumes purchased by Organon Teknika and penalties for failure to purchase specified minimum quarterly volumes. For the years ended September 30, 1996, 1995 and 1994, respectively, revenues generated from sales of EPIblot to Organon Teknika were \$1,539,164, \$1,808,431, and \$1,688,200, including export sales of \$62,539, \$72,369 and \$320,700. The Company has notified Organon Teknika that it intends to renew the agreements on mutually acceptable, but revised, terms prior to the scheduled termination date.

LabOne, Inc. (previously Home Office Reference Laboratory, Inc.) purchases oral specimen devices from the Company for use in insurance testing in return for non-exclusive distribution rights in the United States and Canada under an agreement which expires on March 13, 2000, with an automatic five-year renewal, unless either party notifies the other of intent not to renew at least 180 days prior to the initial expiration date. For the years ended September 30, 1996, 1995 and 1994, respectively, revenue generated from product sales to LabOne, Inc. was \$1,327,544, \$525,628 and \$477,186 including export sales of \$394,747, \$58,500 and \$110,933.

SB has an exclusive agreement to market the Company's oral specimen collection device worldwide, except in several foreign countries and to the insurance industry in the U.S., Canada and Japan.

In 1995, SB made an initial license fee payment of \$1 million to the Company. SB also placed \$5 million in escrow for future payment to the Company, of which \$1 million was designated for reimbursement of future research project work and \$4 million was designated as an additional license fee to be paid upon FDA approval of a pending request to amend the labeling of the Company's oral specimen collection device to indicate a two-year shelf life. The initial \$1 million license fee was included as deferred revenue under the caption "Salaries, benefits and other accrued liabilities" in the accompanying consolidated balance sheets as of September 30, 1995. The escrowed funds are not reflected in the Company's financial statements.

In April 1996, the FDA granted the Company's request for extended dating and SB disbursed \$4 million plus interest from escrow. Accordingly the Company recognized income of \$5 million in 1996 operating results.

Note 10 Commitments and Contingencies

The Company leases office, manufacturing, warehouse and laboratory facilities, and equipment under operating lease agreements which require minimum annual payments as follows:

<TABLE>
<CAPTION>

YEAR ENDING SEPTEMBER 30	Epitope Medical Products	Agritope	Consolidated	
<S>		<C>	<C>	<C>
1997. . . . .	.\$ 345,577	\$399,731	\$ 745,308	
1998. . . . .	.345,576	317,394	662,970	
1999. . . . .	.346,356	282,000	628,356	
2000. . . . .	.109,992	282,000	391,992	
2001.	-.182,000	182,000		
	-----	-----	-----	
	\$1,147,501	\$1,463,125	\$2,610,626	

Under the agreements for the lease of its office and laboratory facilities, the Company is obligated to the lessor for its share of certain expenses related to the use, operation, maintenance and insurance of the property. These expenses, payable monthly in addition to the base rent, are not included in the amounts shown above. The Company also incurs rent expense for the short-term storage of produce. Rent expense aggregated \$1,466,368, \$1,336,021 and \$1,441,940 for the years ended September 30, 1996, 1995 and 1994, respectively. Rent expense and the future minimum lease commitments above include rent of \$132,000 for facilities leased from certain shareholders. The Company is also contingently liable for a lease of which has been assigned to UAF, Limited Partnership and the lease of property which has been subleased to Petals USA, Inc. in the following amounts:

YEAR ENDING SEPTEMBER 30	
1997.	\$ 328,953
1998.	341,304
1999.	347,184

	\$ 1,017,441

Certain produce growers in the United States have alleged that Mexican growers of tomatoes are illegally dumping their crops into United States markets. United States regulatory authorities are investigating the allegations. Although it is not possible to determine the final outcome of this matter, the Company believes that its resolution will not have a material adverse effect on its operations or financial position.

Note 11 Profit Sharing and Savings Plan

The Company established a profit sharing and deferred salary savings plan in 1986 and restated the plan in 1991. All employees are eligible to participate in the plan. In addition, the plan permits certain voluntary employee contributions to be excluded from the employees' current taxable income under the provisions of Internal Revenue Code Section 401(k) and the regulations thereunder. Effective October 1, 1991, the Company replaced a discretionary profit sharing provision with a matching contribution (either in cash, shares of Epitepe common stock, or partly in both forms) equal to 50% of an employee's basic contribution, not to exceed 2.5% of an employee's compensation. The Board of Directors has the authority to increase or decrease the 50% match at any time. During 1996, 1995 and 1994, respectively, the Company contributed \$73,315 (4,653 shares totaling \$73,279 and the remainder in cash), \$97,631 (5,562 shares totaling \$97,607 and the remainder in cash), and \$79,981 (4,632 shares totaling \$79,807 and the remainder in cash) to the plan. As of September 30, 1996, 17,035 shares are held by the plan.

Note 12 Geographic Area Information

The Company's products are included in the medical products and agricultural products industry segments. (See Note 1 for a description of the Company's business.) The Company's products are sold principally in the United States, Canada and Europe. Operating loss represents revenues less operating expenses. In computing operating loss, allocated corporate administration expenses have been included; however, other income and expense items such as interest expense, miscellaneous income, and other charges have not been added or deducted. Other assets primarily represent cash and cash equivalents, marketable securities, and prepaid insurance.

</TABLE>
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Epitepe Medical Products

In thousands

Geographic

Areas	Revenues			Operating Loss			Identifiable Assets			
	1996	1995	1994	1996	1995	1994	1996	1995	1994	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
United States . . .	\$4,903	\$2,630	\$2,062	\$ (5,287)	\$ (11,608)	\$ (6,284)	\$4,604	\$3,768	\$3,464	
Canada . . .	.404	78	111	--	--	--	--	--	--	
Latin America . . .	.100	-	-	--	--	--	--	--	--	
Europe . . .	.65	72	329	--	--	--	--	--	--	
Other . . .	.122	76	103	--	--	--	--	--	--	

	\$5,594	\$2,856	\$2,605	\$ (5,287)	\$ (11,608)	\$ (6,284)	\$4,604	\$3,768	\$3,464	

Agritope

In thousands

Geographic

Areas	Revenues			Operating Loss			Identifiable Assets			
	1996	1995	1994	1996	1995	1994	1996	1995	1994	
United States . . .	\$63,057	\$54,289	\$62,918	\$ (333)	\$ (7,770)	\$ (8,106)	\$16,875	\$13,396	\$8,197	
Latin America . . .	-	-	-	-	-	-	3,996	2,201	3,303	

	\$63,057	\$54,289	\$62,918	\$ (333)	\$ (7,770)	\$ (8,106)	\$20,871	\$15,597	\$11,500	

Epitepe, Inc. Consolidated

In thousands

Geographic

Areas	Revenues			Operating Loss			Identifiable Assets		
	1996	1995	1994	1996	1995	1994	1996	1995	1994

United States	\$67,959	\$56,918	\$64,981	\$ (5,621)	\$ (19,377)	\$ (14,390)	\$41,825	\$35,226	\$25,379
Canada . . . .	.404	78	111	-	-	-	-	-	-
Latin America . . . .	.100	-	-	-	-	-	3,396	2,201	3,303
Europe . . . .	.65	72	329	-	-	-	-	-	-
Other . . . .	.122	76	103	-	-	-	-	-	-

	\$68,650	\$57,144	\$65,523	\$ (5,621)	\$ (19,377)	\$ (14,390)	\$45,221	\$37,427	\$28,682

</TABLE>

Note 13 Subsequent Events

On October 25, the Company received an offer from a representative of the holders of the \$3.6 million convertible notes due June 30, 1997, whereby the holders proposed to convert such notes into common stock of the Company at a reduced exchange price. On November 14, 1996, the Company agreed to exchange \$3,380,000 principal amount of Agritope notes for 250,367 shares of common stock of the Company at an exchange price of \$13.50 per share. Accordingly, the Company will recognize a charge to income of approximately \$1.1 million representing the conversion expense in the first quarter of fiscal 1997.

On November 25, 1996, the Company negotiated an extension to the bank line of credit previously maintained by Andrew and Williamson Sales, Co. (A&W). Under terms of the commitment letter, the \$6.5 million revolving credit line will be extended until February 5, 1998, and will bear interest at prime or LIBOR plus 2.5% at the Company's option. The new line will be secured by A&W's accounts receivable, inventory and equipment and will be guaranteed by Epitepe, Inc. The new line will also contain various financial covenants including minimum working capital and tangible net worth levels and maximum debt to net worth ratios.

On December 12, 1996, the Company merged with A&W. A&W is a producer and wholesale distributor of fruits and vegetables based in San Diego, California. Under the terms of the merger, the Company issued 520,000 shares of common stock of Epitepe, Inc. in exchange for all of the outstanding common stock of A&W. The merger has been accounted for as a pooling of interests in the accompanying financial statements which have been restated as if the merger occurred on the first day of the earliest period presented. The merger will qualify as a tax-free reorganization for income tax purposes.

Based on information available on December 26, 1996, and due to continued operating losses at UAF, Limited Partnership in the four months ended October 31, 1996, coupled with a shortfall in sales and larger operating loss than expected at Petals USA, Inc. in the fourth quarter of calendar 1996, the Company believes that the value of its investment in affiliated companies has more than temporarily declined as both companies are now expected to show operating losses in fiscal 1997. Accordingly, the Company anticipates a charge to results of operations of \$1,900,000 in the first quarter of 1997, reflecting the permanent impairment in the value of its investment in affiliated companies.

No schedules are included with the foregoing financial statements because the required information is inapplicable or is presented in the financial statements or related notes thereto.

(a) (3) Exhibits.

See Index to Exhibits following the signature pages of this report.

(b) Reports on Form 8-K. None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 26, 1996.

EPITOPE, INC.

By /s/ GILBERT N. MILLER
Gilbert N. Miller
Executive Vice President and Chief
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934,
this report has been signed on December 26, 1996, by the following persons on
behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
*ADOLPH J. FERRO, PH.D. Adolph J. Ferro, Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)
/S/ GILBERT N. MILLER Gilbert N. Miller	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
*MARK V. ALLRED Mark V. Allred	Controller (Principal Accounting Officer)
*W. CHARLES ARMSTRONG W. Charles Armstrong	Director
*RICHARD K. DONAHUE Richard K. Donahue	Director
*ANDREW S. GOLDSTEIN Andrew S. Goldstein	Director
*MARGARET H. JORDAN Margaret H. Jordan	Director
*R. DOUGLAS NORBY R. Douglas Norby	Director
*MICHAEL J. PAXTON Michael J. Paxton	Director
*ROGER L. PRINGLE Roger L. Pringle	Director
*G. PATRICK SHEAFFER G. Patrick Sheaffer	Director
By*/S/ GILBERT N. MILLER Gilbert N. Miller (Attorney-in-Fact)	

INDEX TO EXHIBITS

Exhibit Number	Exhibit
-----	-----
2.1	Stock Purchase Agreement among Vinifera, Inc., Agritope, Inc., Epitope, Inc., and VF Holding, Inc., dated May 31, 1995. Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated June 1, 1995.

- 2.2 Operating and Transition Agreement dated as of May 1, 1995, among Agrimax Floral Products, Inc., William C. McClure, Gary W. Butler, Dorothea J. Owens, Timothy C. Finn, John W. Suber, and Anthony J. Wright. Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated June 1, 1995.
- 2.3 Agreement and Plan of Reorganization dated as of October 27, 1995, by and among Fresche Blossoms L.L.C., UAF, L.P., Agrimax Floral Products, Inc., Universal American Flowers, Inc., William C. McClure, Gary W. Butler, Dorothea J. Owens, Timothy C. Finn, John W. Suber, Jr., Anthony J. Wright, Doug Bauer, and Roxanne E. Bakula. Incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995 (the "1995 10-K").
- 2.4 Acquisition and Merger Agreement among Epitepe, Inc., Thamscoe, Inc., Andrew and Williamson Sales, Co., and the shareholders of Andrew and Williamson Sales, Co., dated November 6, 1996. Incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K dated November 6, 1996.
- 3.1 Restated Articles of Incorporation, as amended, of Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 29, 1991.
- 3.2 Restated Bylaws of Registrant.
- 4.1 Stock Purchase Agreement dated November 9, 1990, between certain investors and Registrant. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Instruction 2 of Item 601 of Regulation S-K ("Item 601, Instruction 2"). Incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 1994 (the "1994 10-K").
- 4.2 Unit Purchase Agreement dated September 1991 between certain investors and Registrant. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Item 601, Instruction 2. Incorporated by reference to Exhibits 4.1 and 4.2 to the Registrant's Current Report on Form 8-K dated September 17, 1991.
- 4.3 Note Purchase Agreement dated June 10, 1992, among Agritope, Inc., Registrant, and certain investors. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Item 601, Instruction 2. Incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1992.
- 4.4 Warrant Purchase Agreement dated as of November 25, 1992, between certain investors and Registrant. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Item 601, Instruction 2. Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 1992 (the "1992 10-K").
- 4.5 1993 Technology Transfer Warrant Issuance Agreement dated as of June 15, 1993, between certain investors and Registrant. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Item 601, Instruction 2. Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (No. 33-68510) ("Registration Statement No. 33-68510").
- 4.6 Form of Letter dated August 1, 1993, from Registrant regarding modification of the terms of the 1993 Technology Transfer Warrants. Incorporated by reference to Exhibit 4.5 to

- 4.7 1993 Warrant Purchase Agreement dated as of July 6, 1993, between certain investors and Registrant. Copies of the agreements with individual investors shall be filed with the Commission upon request pursuant to Item 601, Instruction 2. Incorporated by reference to Exhibit 4.6 to Registration Statement No. 33-68510.
- 4.8 Forms of Notice to Warrantholders and Agreement Regarding Extension of Expiration Date. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 29, 1995.
- 4.9 Notice to warrant holders and current form of warrant certificate for warrants issued in September 1991 offering, reflecting extension of expiration date. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 17, 1996.
- 4.10 Notice to warrant holders and current form of warrant certificate for warrants issued in December 1992 offering, reflecting extension of expiration date. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 17, 1996.
- 4.11 Notice to warrant holders and current form of warrant certificate for warrants issued in July 1993 offering, reflecting extension of expiration date. Incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated September 17, 1996.
- 4.12 Notice to warrant holders and current form of warrant certificate for warrants issued in August 1993 offering, reflecting extension of expiration date. Incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated September 17, 1996.
- 10.1 Incentive Stock Option Plan of Registrant, as amended. Incorporated by reference to Exhibit 10.1 to the 1994 10-K.*
- 10.2 Amended and Restated Epitope, Inc., 1991 Stock Award Plan. Incorporated by reference to Exhibit 10.2 to the 1994 10-K.*
- 10.3 Agritope, Inc., 1992 Stock Award Plan. Incorporated by reference to Exhibit 10.3 to the 1992 10-K.*
- 10.4 Form of Nonqualified Stock Option Agreement to be issued to certain officers and directors of Registrant pursuant to Agritope, Inc., 1992 Stock Award Plan. Incorporated by reference to Exhibit 10.4 to the 1992 10-K.*
- 10.5 Lease dated July 17, 1990, among Registrant, Koll Woodside Associates, a California general partnership, and Petula Associates, Ltd., an Iowa corporation. Incorporated by reference to Exhibit 10.5 to the 1994 10-K.
- 10.6 Fourth Amendment dated May 20, 1994, to Lease dated July 17, 1990, among Registrant, Koll Woodside Associates, a California general partnership, and Petula Associates, Ltd., an Iowa corporation. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1994 ("June 1994 10-Q").
- 10.7 Business Park Lease dated May 5, 1994, among Registrant, Koll Woodside Associates, a California general partnership, and Petula Associates, Ltd., an Iowa corporation. Incorporated by reference to Exhibit 10.2 to the June 1994 10-Q.
- 10.8 Business Park Lease dated as of December 16, 1994, among

Registrant, Petula Associates Ltd., an Iowa corporation, and Koll Portland Associates, a California general partnership. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarterly period ended December 31, 1994.

- 10.9 Lease Agreement dated as of October 15, 1993, between Kathryne L. Brown and Agrimax Floral Products, Inc. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarterly period ended December 31, 1993 ("December 1993 10-Q").
- 10.10 Building Lease dated as of October 1, 1993, between Hermes Land Company and Agrimax Floral Products, Inc. Incorporated by reference to Exhibit 10.2 to the December 1993 10-Q.
- 10.11 Office/Warehouse Lease dated as of August 25, 1994, between Tonka Bay Associates as agent for M Corp. of Illinois and Agrimax Floral Products, Inc. Incorporated by reference to Exhibit 10.10 to the 1994 10-K.
- 10.12 Lease dated as of December 12, 1996, between Williamson and Andrew and Andrew and Williamson Sales, Co.*
- 10.13 Agreement dated December 9, 1987, between Registrant and Adolph Ferro, Ph.D. Incorporated by reference to Exhibit 4.3 to the 1988 S-1.*
- 10.14 Amendment to Agreement of December 9, 1987, dated November 11, 1996, between Registrant and Adolph J. Ferro, Ph.D.*
- 10.15 Agreement dated October 3, 1989, between Sakata Seed America, Inc. and Agritope, Inc. Incorporated by reference to Exhibit 10.13 to the 1994 10-K.
- 10.16 Distribution Agreement dated as of April 1, 1994, between Registrant and Organon Teknika Corporation. Incorporated by reference to Exhibit 10.3 to the June 1994 10-Q.
- 10.17 Supply Agreement dated as of April 1, 1994, between Registrant and Organon Teknika Corporation. Incorporated by reference to Exhibit 10.4 to the June 1994 10-Q.
- 10.18 Superior Tomato Associates, L.L.C. Operating Agreement dated as of February 19, 1996, among Sunseeds Company, Andrew and Williamson Sales, Co., and Agritope, Inc.
- 10.19 Development and Marketing Agreement dated as of February 19, 1996, among Superior Tomato Associates, L.L.C., Agritope, Inc., Sunseeds Company, and Andrew and Williamson Sales, Co.
- 10.20 Form of Indemnification Agreement for directors and officers. Incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-4 (No. 333-15705).*
- 10.21 Amended and Restated Employment Agreement dated January 8, 1991 between Andrew S. Goldstein and Registrant. Incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 1991 (the "1991 10-K").*
- 10.22 Amended and Restated Employment Agreement dated January 9, 1991, between Adolph J. Ferro, Ph.D., and Registrant. Incorporated by reference to Exhibit 10.29 to the 1991 10-K.*
- 10.23 Employment Agreement dated January 28, 1990, between Gilbert N. Miller and Registrant. Incorporated by reference to Exhibit 10.19 to the 1994 10-K.*

- 10.24 Employment Agreement dated July 1, 1990, between John H. Fitchen, M.D. and Registrant. Incorporated by reference to Exhibit 10.20 to the 1994 10-K.*
- 10.25 Employment Agreement dated July 15, 1995, between Byron A. Allen, Jr., and Registrant. Incorporated by reference to Exhibit 10.23 to the 1995 10-K.*
- 10.26 Employment Agreement dated August 17, 1992, between Richard K. Bestwick, Ph.D., and Agritope, Inc. Incorporated by reference to Exhibit 10.21 to Registrant's Registration Statement on Form S-4 (No. 333-15705).*
- 10.27 Employment Agreement dated May 31, 1995, between Joseph A. Bouckaert and Vinifera, Inc. Incorporated by reference to Exhibit 10.20 to Registrant's Registration Statement on Form S-4 (No. 333-15705).*
- 10.28 Employment Agreement dated December 12, 1996, between Fred L. Williamson and Andrew and Williamson Sales, Co.*
- 10.29 Credit Agreement dated August 5, 1996, between Wells Fargo Bank, National Association and Andrew and Williamson Sales, Co.
- 10.30 Development, License and Supply Agreement between Registrant and SmithKline Beecham plc dated February 24, 1995, as amended. Portions of this agreement have been granted confidential treatment. Incorporated by reference to Exhibit 10.1 to Amendment No. 2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1995.
21. The Registrant's subsidiaries are Agritope, Inc., an Oregon corporation, Vinifera, Inc., an Oregon corporation, Andrew and Williamson Sales, Co., a California corporation, and Agrimax Floral Products, Inc., a Minnesota corporation. The Registrant also owns a 67 percent interest in Superior Tomato Associates, L.L.C., a Delaware limited liability company, and a 60 percent interest in Epitepe KK, a Japanese limited liability company.
- 23.1 Consent of Price Waterhouse LLP.
- 23.2 Consent of Boros and Farrington, APC.
24. Powers of Attorney.
27. Financial Data Schedules.
99. Report of Boros and Farrington, APC, dated November 6, 1996.

* Management contract or compensatory plan or arrangement.

EXHIBIT 3.2

RESTATED BYLAWS OF EPITOPE, INC.

ARTICLE I Shareholders

Section 1. Annual Meeting. The annual meeting of the shareholders of the corporation shall be held each year on a date designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. In case of incomplete financial or other information, unavailability of shareholders, directors, officers or other persons whose attendance at the annual meeting would be desirable, or other similar circumstances, the president in his discretion may postpone the annual meeting. If the annual meeting is postponed, or if the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, a special meeting shall be held as soon as may be convenient as determined by the president, either in lieu of the annual meeting if the annual meeting was postponed or for the election of directors if the election was not held at the annual meeting or at any adjournment thereof. Written or printed notice, stating the place, day, hour and purpose of the special meeting shall be delivered not less than ten nor more than sixty days before the date of the special meeting, either personally or by mail, by the president or, at the direction of the president, by the secretary to each shareholder of record entitled to vote at the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mails addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

Section 2. Special Meetings. Special meetings of the shareholders may be called for any purpose or purposes by the president, the Board of Directors, the holders of not less than one-tenth (1/10) of all the shares entitled to vote at the meeting or as provided in the Oregon Business Corporation Act. Notice of special meetings shall be given by the president or, at the direction of the president, by the secretary or assistant secretary to each shareholder of record entitled to vote at such meetings in the same manner as hereinabove provided in Section 1 of this Article.

Section 3. Place of Meeting. Meetings, annual or special, of the shareholders shall be held at such place either within or without the state of Oregon as shall be designated by the Board of Directors, or in the absence of such a designation, at the main office of the corporation.

Section 4. Quorum; Waiver of Notice. A proposal voted upon by the shareholders, other than the election of directors, shall be approved if the votes cast favoring the matter exceed the votes cast opposing the matter,

unless the corporation's articles of incorporation, bylaws, or applicable provisions of the Oregon Business Corporation Act require a greater number of affirmative votes. If a quorum be not present at any annual or special meeting, a majority of the shareholders present, either in person or by proxy, may adjourn to such time and place as may be decided upon by the holders of the majority of the shares present, and notice of such adjournment shall be given in accordance with Section 4 of this Article; but if a quorum be present, adjournment may be taken from day to day or to such time and place as may be decided by the holders of the majority of the shares present, and no notice of such adjournment need be given. No business shall be transacted at an adjourned meeting that could not have been transacted at the meeting from which the adjournment was taken. Whenever any notice is required to be given pursuant to statute, to the articles of incorporation, or to these bylaws, a waiver thereof signed by the shareholder entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Any shareholder attending a meeting without objection thereof shall be deemed to have waived notice of such meeting. Notice otherwise complying with the terms hereof may be given by prepaid telegram as the equivalent of notice by mail.

Section 5. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy.

ARTICLE II Board of Directors

Section 1. Board of Directors. The business and affairs of the corporation shall be managed by a Board of Directors.

Section 2. Meetings. A regular annual meeting of the Board of Directors shall be held immediately after, and at the same place as, the annual meeting of shareholders. No notice of the annual meeting other than this bylaw need be given unless the meeting is to be held at a place other than the main office of the corporation, in which case the notice shall be given in the manner provided in Section 1 of Article I of these restated bylaws. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution. Special meetings of the Board of Directors may be called by or at the request of the president or any director. Notice of any special meeting shall be given at least three (3) days prior thereto by oral notice given in person, by telephone, or by other means of oral electronic two-way communication, or by written notice delivered personally or sent by mail, courier, fax, or similar means to the director's residential or business address. Directors may waive notice of meetings of the Board of Directors, and a waiver thereof signed by the director entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where the

director attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 3. Quorum and Voting. A majority of the elected and acting directors shall constitute a quorum for the transaction of business. If at any meeting of the Board of Directors there shall be less than a quorum present, a majority of the directors present may adjourn to such time and place as may be decided upon by the majority of the directors present, and notice of such adjournment shall be given in accordance with Section 2 of this Article; but if a quorum be present, adjournment may be taken from day to day or to such time and place as may be decided by the majority of the directors present, and no notice of such adjournment need be given. When a quorum exists, action may be taken by a majority vote of the directors present.

Section 4. Notification of Nominations. Nominations for the election of directors may be made by the Board of Directors or a proxy committee appointed by the Board of Directors or by a shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (a) with respect to an election to be held at an annual meeting of shareholders, 60 days in advance of the date of the previous year's annual meeting of shareholders, and (b) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, and the related proxy regulations of the Securities and Exchange Commission promulgated thereunder, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (v) the consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

ARTICLE III
Executive Committee

The majority of the Board of Directors may designate two or more directors to constitute an executive committee, which committee between meetings of the Board of Directors shall have and may exercise all of the authority and powers of the Board of Directors in the management of the business and affairs of the corporation, except that the committee may not:

- (a) authorize distributions, except as permitted by clause (g) below;
- (b) approve or propose to shareholders actions that the Oregon Business Corporation Act requires to be approved by shareholders;
- (c) fill vacancies on the board of directors or on any of its committees;
- (d) amend the articles of incorporation, except as permitted by the Oregon Business Corporation Act;
- (e) adopt, amend, or repeal bylaws;
- (f) approve a plan of merger not requiring shareholder approval;
- (g) authorize or approve reacquisition of shares, except within limits prescribed by the board of directors;
- (h) authorize or approve the issuance or sale or contract for sale of shares or determine the designation and relative rights, preferences and limitations of a class or series of shares, except as permitted by the Oregon Business Corporation Act;
- or (i) appoint or remove officers of the corporation.

ARTICLE IV Officers and Agents

Section 1. Executive Officers.

(a) Number: The officers of the corporation shall consist of a chairman of the board, president, chief executive officer, that number of vice presidents which the Board of Directors may from time to time determine and with such designations and seniority as the directors may assign, a secretary and a treasurer. Any two or more offices may be held by one person.

(b) Election and Tenure: The officers of the corporation shall be elected at the organizational meeting and thereafter at each regular annual meeting. In the event of a failure to hold the annual meeting as herein provided, officers may be elected at any time thereafter at a special meeting of directors called for that purpose. Each officer shall hold office for the term of one year and until his successor shall be elected except where expressly provided to the contrary in a contract authorized by the Board of Directors. All officers and agents shall be subject to removal at any time by the vote of a majority of the entire Board of Directors whenever in the judgment of the directors the best interests of the corporation will be served by such removal, without prejudice, however, to any contract rights of the person so removed.

(c) Vacancies: A vacancy in any office shall be filled by the Board of Directors at any regular meeting, or at any special meeting called for that purpose.

(d) Additional Officers and Agents: The Board of Directors may also elect one or more assistant secretaries, one or more

assistant treasurers, and such other officers or agents as it may deem necessary, with such authority and duties as from time to time may be prescribed by the Board of Directors.

Section 2. Chairman of the Board. The chairman of the board, if one is elected by the Board of Directors, shall preside at and conduct all meetings of the shareholders and directors. The Chairman shall exercise such other powers and perform such other duties as shall be prescribed by the directors from time to time.

Section 3. Chief Executive Officer. The chief executive officer shall have general and active charge of the business and management of the corporation, subject to control by the Board of Directors. When present, he shall preside at all meetings of the shareholders and directors. He is authorized to sign all certificates of stock, and all deeds, leases, notes, mortgages and contracts, including those in any way affecting real property or interests therein, as the same may be required in the regular course of the corporation's business. He shall have the power to appoint and discharge agents and employees, subject to approval of the Board of Directors.

Section 4. President. The president shall exercise such powers and perform such duties as may be prescribed by the Board of Directors or by the chief executive officer. In the absence or incapacity of the chief executive officer, and at the direction of the Board of Directors, he is authorized to sign all certificates of stock, and all deeds, leases, notes, mortgages and contracts, including those in any way affecting real property or interests therein, as the same may be required in the regular course of the corporation's business.

Section 5. Vice Presidents. The vice presidents, in the order of seniority as designated by the Board of Directors, shall in the absence or disability of the president exercise the powers and perform the duties of the president. Each vice president shall also exercise such other powers and perform such other duties as shall be prescribed by the directors, and such powers and duties of the president as may be designated by the president.

Section 6. Secretary. The secretary shall give such notices of meetings of the shareholders and of the Board of Directors as required by these restated bylaws, and shall keep a record of the proceedings of all such meetings. Such record shall be kept at the principal or registered office of the corporation. He shall have custody of all books and records and papers of the company except those which are in the care of the treasurer or some other person authorized to have custody and possession thereof by resolution of the Board of Directors. He shall, with the president, sign all certificates of stock of the corporation and shall affix the seal of the corporation to such certificates of stock. He is authorized to sign with the president or vice president in the name of the corporation all deeds, notes, mortgages and contracts including those in any way affecting real property or interests therein and shall affix the seal of the corporation thereto when required in the regular course of business. He shall submit such reports to the Board of Directors as may be requested by them from time to time.

Section 7. Assistant Secretary. The assistant secretary shall, in the absence or disability of the secretary, exercise the powers and perform the duties of the secretary. He shall also exercise such other powers and perform such other duties as may be prescribed by the Board of Directors and such powers and duties of the secretary as may be designated by the president or secretary.

Section 8. Treasurer. The treasurer shall from time to time make such reports to the officers, Board of Directors and shareholders as may be required, and shall perform such other duties as the Board of Directors shall from time to time delegate to him.

Section 9. Assistant Treasurer. The assistant treasurer shall, in the absence or disability of the treasurer, exercise the powers and perform the duties of the treasurer. He shall also exercise such other powers and perform such other duties as may be prescribed by the Board of Directors and such powers and duties of the treasurer as may be designated by the president or treasurer.

ARTICLE V

Section 1. Right to Indemnification. The corporation shall indemnify any director or former director of the corporation or any person who may have served at its request as a director of another corporation in which it owns shares of capital stock or of which it is a creditor against expenses and liability actually and necessarily incurred by such director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, in which such director is a party by reason of being or having been such director, except in relation to matters as to which indemnification is prohibited by the Oregon Business Corporation Act as it shall be amended from time to time (the "Act"); but such indemnification shall not be deemed exclusive of any other rights to which such director may be entitled, under any bylaw, agreement, general or specific action of the Board of Directors, vote of shareholders or otherwise. As used herein, "expenses" shall include, without limitation, expenses of investigations, arbitrations, mediations, judicial or administrative proceedings or appeals, attorney fees and disbursements and any expenses of establishing a right to indemnification. "Liability" shall include the obligation to pay a judgment, settlement, penalty, fine, including an excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred with respect to an arbitration, mediation, action, suit or proceeding in which a director is entitled to indemnification hereunder.

Section 2. Procedure for Indemnification. After the final disposition of any threatened, pending or completed arbitration, mediation, action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, in which a director may be entitled to indemnification, such director may send to the corporation a written request

for indemnification. The corporation shall, in accordance with the provisions of the Act regarding the determination and authorization of indemnification, make a finding whether the indemnification requested is permitted by the laws of the state of Oregon no later than 60 days following receipt by the corporation of such request. The corporation shall cause the indemnification requested to be authorized and paid unless the corporation finds that the indemnification requested is not so permitted. The director shall be given an opportunity to be heard and to present evidence in connection with the consideration of the party or parties determining the right to indemnification under the Act. If the corporation does not authorize indemnification hereunder, the director shall have the right to seek court-ordered indemnification in accordance with the provisions of the Act. In any such action, neither the making of, nor the failure to make, any finding by the corporation that indemnification of the director is proper or not proper in the circumstances shall be a defense to such action or create a presumption that the director has not met the standard of conduct required by the Act. In making its determination and in any court proceeding, the corporation shall have the burden of proving that the director has not met the standards of conduct required by the Act to authorize indemnification.

Section 3. Procedure for Advancement of Expenses. The corporation shall pay for or reimburse the reasonable expenses incurred by a director as a result of being party to a threatened, pending or completed arbitration, mediation, action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, in advance of final disposition of such arbitration, mediation, action, suit or proceeding promptly upon receipt of a written request for payment of such expenses that is in accordance with requirements of the Act for such written statement. Such written statement shall also include or be accompanied by documentation of the expenses incurred and, when available, such documentation of expenses shall include copies of bills or statements evidencing the expenses incurred. If the requirements of this provision are met, the corporation shall pay the amount requested promptly notwithstanding the absence of a final disposition of the arbitration, mediation, action, claim or proceeding.

Section 4. Indemnification of Officers, Employees and Agents. The corporation may, by action of its Board of Directors from time to time, provide indemnification and pay expenses in advance of the final disposition of a proceeding to officers, employees and agents of the corporation to the same extent and effect as provided in this Article with respect to the indemnification and advancement of expenses of directors of the corporation or pursuant to rights granted pursuant to, or provided by, the Act or otherwise.

Section 5. Insurance. The corporation may, but shall not be required to, purchase and keep in force a policy or policies of liability insurance on behalf of its officers and directors against liability and expenses incurred in any arbitration, mediation, action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

Section 6. Nonexclusivity; Nature of Rights. The indemnification provided herein shall not be deemed exclusive of any other rights consistent

with the laws of the state of Oregon to which a director may be entitled under the corporation's articles of incorporation, bylaws or any other agreement, vote of shareholders, or otherwise, both as to action in the director's official capacity and as to action in another capacity while holding office, and shall continue notwithstanding that the director may have ceased to be connected with the corporation. The right of indemnification provided for herein shall be deemed to create contractual rights in favor of directors entitled to indemnification hereunder and shall be applicable to claims commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The right of indemnification provided for herein may not be amended or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to any such amendment or repeal.

ARTICLE VI

Action Without a Meeting

Section 1. Written Consent. Any action required to be taken or which may be taken at a meeting of the shareholders or directors may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all of the shareholders or directors entitled to vote; and such consent shall have the same force and effect as a unanimous vote of such shareholders or directors.

Section 2. Electronic Communications. The Board of Directors, or any committee designated by the directors, may hold any meeting of the directors or committee, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can simultaneously hear each other. Participation in such a meeting shall constitute presence in person at the meeting.

ARTICLE VII

Section 1. Certificates. Shares of stock of the corporation shall be represented by stock certificates which shall be in a form adopted by the Board of Directors, provided all such stock certificates within one series of the same class of stock shall be consecutively numbered, and shall express upon their face the number thereof, the date of issuance, the number of shares for which and the person to whom issued and the class and series, if any, thereof, and all such stock certificates shall be signed by the president or a vice president and by the secretary or assistant secretary and may be sealed with the corporate seal, if any. In addition, each certificate shall express upon its face that the corporation is organized under the laws of the state of Oregon and shall also express the par value of the shares represented by the certificate, or shall state that the shares are without par value, as may be appropriate. Each certificate shall state upon the face or back thereof, in full or in summary, all of the designations, preferences, limitations, restrictions on transfer and relative rights of the shares of each class and series authorized to be issued, or shall indicate where such information may

be found.

Section 2. Subscriptions. Subscriptions for shares of stock of the corporation shall be paid in full at such time, or in such installments and at such times, as the Board of Directors may determine. In case of default in the payment of any installment or call when such payment is due, the Board of Directors may declare the shares and all previous payments thereon forfeited for the use of the corporation, in the manner prescribed by the Oregon Business Corporation Act.

Section 3. Transfer of Shares. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be owner thereof for all purposes. All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the Board of Directors may prescribe. The record of shareholder and stock transfer books shall be kept at the principal or registered office of the corporation or at the office of its transfer agent or registrar, if any.

ARTICLE VIII
Amendments

Bylaws may be adopted, altered, amended or repealed, in whole or in part, at any regular or special meeting of the Board of Directors.

Approved by the Board of Directors December 17, 1996.

EXHIBIT 10.12

LEASE

This lease is entered into by and between Williamson & Andrew, hereinafter referred to as "Lessor", and Andrew and Williamson Sales, Co., a California corporation, hereinafter referred to as "Lessee."

ARTICLE I

DEFINITIONS

As used in this Lease:

1.1 "Lease": The term "Lease" refers to this Lease Agreement consisting of fourteen (14) Articles, subdivided into numbered sections.

1.2 "Leased Premises": The term "Leased Premises" refers to that certain real property, including the building located thereon, together with all appurtenances thereto, constituting the property located at 9940 Marconi Drive, San Diego, California.

1.3 "Lease Term": The term "Lease Term" refers to the period commencing, commencing on the date of this Lease and continuing through August 31, 2001, unless sooner terminated as hereinafter provided.

1.4 "Total Taking, Partial Taking": The term "Total Taking" refers to the taking of the entire Leased Premises by public authority under the power of eminent domain, or a taking of so much of the Leased Premises, or of Lessee's interest therein, as to prevent or substantially prevent the Lessee from operating the Leased Premises for the uses authorized in Article III. The term, "Partial Taking," refers to the taking of a portion only of the Leased Premises, or of Lessee's interest therein, which taking does not constitute a Total Taking.

1.5 "Real Property Taxes": The term "Real Property Taxes" refers to all real property taxes and general and special assessments levied and assessed against the Leased Premises. The term shall also include any tax which may at any time be levied or imposed upon rentals under this Lease or otherwise in respect of the Leased Premises in lieu of, in addition to, or as an off-set to a real estate tax.

1.6 "Party", "Parties": The term "party" refers to either Lessor or Lessee, while the term "parties" refers to Lessor and Lessee.

ARTICLE II

DEMISE OF LEASED PREMISES: ESSENTIAL TERMS

2.1 Demise of Leased Premises: Lessor leases to Lessee, and Lessee hires from Lessor, the Leased Premises for the Lease Term, unless sooner terminated as provided in this Lease or by law.

2.2 Rent: Lessee shall pay rent to Lessor in advance, on or before the first day of each calendar month during the Lease Term, without abatement, deduction or offset, in the sum of Eleven Thousand Dollars (\$11,000).

2.3 Lessee's Option to Extend Term: Lessee is given the option to extend the term on all provisions contained in this lease, except for the monthly rent, for a five (5) year period ("Extended Term"), by giving written notice of exercise of the option ("option notice") to Lessor at least six (6) months but not more than one (1) year before the expiration of the term. Provided that, if Lessee is in default on the date of giving the option notice, the option notice shall be totally ineffective, or if Lessee is in default on the date the Extended Term is to commence, the Extended Term shall not commence and this lease shall expire at the end of the initial term. The amount of Rent to be paid by Lessee during the period of the Extended Term shall be determined by Section 2.4. After the exercise of the option, all references in this Lease to the "Lease Term" shall be considered to mean the Extended Term. Lessee shall have no right to extend the Lease Term beyond the Extended Term.

2.4 Rent for Extended Term to be Negotiated by Parties or Determined by Appraisal:

If Lessee exercises the option granted by Lessor in Section 2.3, the parties shall have thirty (30) days after Lessor receives the option notice in which to agree on the monthly rent during the Extended Term. If the parties agree on the monthly rent for the Extended Term during that period, they shall immediately execute an amendment to this Lease stating the monthly rent.

If the parties do not agree on the monthly rent for the Extended Term within thirty (30) days after notice of election to renew, the rent shall be determined by a qualified, independent real property appraiser familiar with commercial rental values in the area. The appraiser shall be chosen by the Lessee from a list of not fewer than five such individuals submitted by the Lessor. If Lessee does not make the choice within five days after submission of the list, Lessor may do so. If the Lessor does not submit such a list within ten (10) days after a written request from the Lessee to do so, Lessee may name as an arbitrator any individual with the qualifications noted above. Within thirty (30) days after appointment, the appraiser shall return his decision, which shall be final and binding upon both parties. The cost of the appraisal shall be borne equally by both the Lessee and the Lessor.

ARTICLE III

USE

3.1 Permitted Use: During the Lease Term, Lessee shall use and occupy the Leased Premises for office, warehousing, processing, and distribution of produce, fruits, and berries, and for purposes incidental thereto, or for such other use or purpose as shall first be approved in writing by Lessor, which approval shall not be unreasonably withheld.

3.2 Limits on Use: During the Lease Term:

a. Lessee shall use the Leased Premises only as permitted in this Article;

b. Lessee shall at all times conform to, and cause all persons using or occupying any part of the Leased Premises to comply with, all public laws, ordinances and regulations from time to time applicable to the Leased Premises, or to operations thereon, including the laws relating to nuisance;

c. Lessee shall not commit waste or suffer any waste to be committed upon the Leased Premises;

d. Lessee shall not, by action or inaction, conduct any activity that would make it impossible to insure the Leased Premises against casualty.

3.3 Contest of Validity of Law: Lessee shall have the right to contest by appropriate legal proceedings, without cost or expense to Lessor, the validity of any law, ordinance or regulation which limits or restricts the uses permitted in this Article.

ARTICLE IV

TAXES

4.1 Real Property Taxes: Lessee shall pay, before delinquency, all Real Property Taxes and assessments levied and assessed against the Leased Premises during the Lease Term. If permitted by applicable law, Lessee shall be entitled to pay Real Property Taxes in installments. On demand by Lessor, Lessee shall furnish Lessor with satisfactory evidence of these payments.

Lessee's obligation to pay assessments as provided in this Section shall be calculated on the basis of the amount due if the Lessor allows the assessment to go to bond and the assessment is to be paid in installments, even if Lessor pays the assessment in full.

Lessor shall use its best efforts to cause the tax bills to be sent directly to Lessee from the tax collector.

4.2 Assessments: Lessee shall pay, before delinquency, all assessments, including but not limited to water assessments, levied against the Leased

Premises during the Lease Term. If permitted by applicable law, Lessee shall be entitled to pay assessments in installments. On demand by Lessor, Lessee shall furnish Lessor with satisfactory evidence of these payments.

Lessor shall use its best efforts to cause the assessment bills to be sent directly to Lessee from the tax collector.

4.3 Personal Property Taxes: Lessee shall pay, before delinquency, all taxes, assessments, license fees and other charges that are levied and assessed against Lessee's personal property installed or located in or on the Leased Premises, and that become payable during the Lease Term. On demand by Lessor, Lessee shall furnish Lessor with satisfactory evidence of these payments.

Lessor shall use its best efforts to cause the tax bills to be sent directly to Lessee from the tax collector.

ARTICLE V

MAINTENANCE, REPAIRS, ALTERATIONS AND UTILITIES

5.1 Maintenance and Repairs: Lessee, at its cost, shall maintain, in good condition, all portions of the Leased Premises, and shall repair, replace, repaint, and clean all portions of the Leased Premises as may be necessary in order to keep the Leased Premises in good condition. Lessor shall have no responsibility for repairing or maintaining any portion of the Leased Premises.

5.2 Alterations: Except as provided in this Section, Lessee shall not make any structural or material alterations or improvements to the Leased Premises without Lessor's written consent, which consent shall not be unreasonably withheld. With the exception of Lessee's moveable furniture, furnishings, inventory, equipment, trade fixtures and signs, any alterations or improvements made shall remain on and be surrendered with the Leased Premises on expiration or termination of the Lease Term, and shall belong to Lessor without the payment of any additional consideration. Lessee, at its cost, shall have the right to make, without Lessor's consent, nonstructural alterations and improvements to the Leased Premises that Lessee requires in order to conduct its business on the Leased Premises, including, without limitation, the installation of trade fixtures and signs advertising Lessee's business. If Lessee makes any alterations or improvements to the Leased Premises with the Lessor's consent as provided in this Section, the alterations or improvements shall not be commenced until thirty (30) days after Lessor has received notice from Lessee stating the date the installation of the alterations or improvements is to commence so that Lessor may post and record an appropriate notice of nonresponsibility.

5.3 Mechanics' Liens: Lessee shall pay all costs for construction done by it or caused to be done by it on the Leased Premises as permitted by this Lease. Lessee shall keep the Leased Premises free and clear of all mechanics'

liens resulting from construction done by or for Lessee. Lessee shall have the right to contest the correctness or the validity of any such lien, if, within ten (10) days after demand by Lessor, Lessee procures and records a lien release bond issued by a corporation authorized to issue surety bonds in California in an amount equal to one and one-half (1-1/2) times the amount of the claim of lien. The bond shall meet the requirements of Civil Code Section 3143 and shall provide for the payment of any sum that the claimant may recover on the claim (together with costs of suit, if it recovers in the action). Nothing in this Lease shall be deemed or construed as in any way constituting the consent or request of Lessor, express or implied, by inference or otherwise, to any contractor, subcontractor, laborer or materialman for the performance of any labor or for the furnishing of any materials for any specific improvement, alteration or repair of, or to, the Leased Premises, or any part thereof. Lessor shall have the right to post and keep posted on the Leased Premises such notices of nonresponsibility as Lessor may deem necessary for the protection of Lessor and the fee of the Leased Premises from mechanics' liens.

5.4 Utilities and Services: Lessee shall make all arrangements for, and shall pay for, all utilities and services furnished to the Leased Premises, including, without limitation, gas, electricity, water, telephone service and trash collection, and for all connection charges.

ARTICLE VI

INSURANCE AND INDEMNIFICATION

6.1 Liability and Property Damage Insurance: Lessee, at its cost, shall maintain comprehensive general liability insurance with limits of not less than \$300,000 for injury to one person, \$1,000,000 for injury to two or more persons in one occurrence, and \$300,000 for damage to property or commercial general liability insurance (occurrence version) with coverage for bodily injury and property damage liability, personal and advertising injury liability, and medical payment with a general aggregate limit of not less than \$3,000,000 and a per occurrence limit of not less than \$1,000,000, insuring against all liability of Lessee and its officers, agents, employees or independent contractors, arising out of and in connection with Lessee's use or occupancy of the Leased Premises. All insurance shall insure performance by Lessee of the indemnity provisions of Section 6.7. Lessor shall be named as an additional insured, and the policy shall contain cross-liability endorsements.

6.2 Fire Insurance on the Leased Premises: Lessee at its cost, shall maintain on the building and other improvements that are a part of the Leased Premises, a policy of standard fire and extended coverage insurance, with vandalism and malicious mischief endorsements, to the extent of at least full replacement value.

The insurance policy shall be issued in the names of the Lessor and Lessee, as their interests appear. The insurance policy shall provide that any

payments shall be made payable to Lessor.

6.3 Determination of Full Replacement Value: The "full replacement value" of the Leased Premises, and of Lessee's personal property, fixtures, improvements and alterations, shall be determined by the company issuing the insurance policy at the time the policy is initially obtained.

6.4 Waiver of Subrogation: Each party releases the other, and the other's officers, employees, agents and independent contractors, from any claims for damage or injury to any person or to the Leased Premises, or to the fixtures, personal property, improvements and alterations of either Lessor or Lessee in or on the Leased Premises, that are caused by or result from risks insured against under any insurance policies carried by either party and in force for the benefit of the releasing party at the time of any such damage, but only to the extent of such insurance coverage. Each party shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by that policy. Nothing in this Section shall be deemed a waiver of any provision of Article VII.

6.5 Other Insurance Matters: All the insurance required under this Lease shall:

a. Be issued by insurance companies authorized to do business in the State of California, with a financial rating of at least an A+3 status as rated in the most recent edition of Best's Insurance Reports;

b. Contain an endorsement requiring thirty (30) days' written notice from the insurance company to both parties before cancellation or change in the coverage, scope, or amount of any policy.

c. Be issued as a primary policy.

Each policy, or a certificate of the policy, together with evidence of payment of premiums, shall be deposited with the Lessor at the commencement of the Lease Term, or as soon thereafter as is reasonably practicable, and on renewal of the policy not less than fifteen (15) days before expiration of the term of the policy.

6.6 Exculpation of Lessee and Indemnity: Lessee shall not be liable to Lessor for any death, injury, deterioration or loss sustained by Lessor, its officers, agents, employees and independent contractors or Lessor's property from any cause other than the willful misconduct or active negligence of Lessee. Lessor shall indemnify and hold Lessee harmless, and shall defend Lessee against any and all liability, losses, penalties, damages, costs, expenses (including, without limitation, reasonable attorneys' fees), causes of action, claims or judgments arising out of or related to:

a. The failure or refusal by Lessor to comply with any of the provisions of this Lease, including, without limitation, those provisions relating to taxes, mechanics' liens, utilities, repairs, insurance, and use of

the Leased Premises; or,

b. Any death, injury, loss or deterioration sustained by any person or property on or adjoining the Leased Premises, occasioned by any willful or negligent act or omission, whether passive or active, of Lessor, or Lessor's agents, employees, officers, independent contractors, invitees, sublessees, assignees or licensees.

6.7 Exculpation of Lessor and Indemnity: Lessor shall not be liable to Lessee for any death, injury, deterioration or loss sustained by Lessee, its officers, agents, employees and independent contractors, or Lessee's property from any cause other than the willful misconduct or active negligence of Lessor. Lessee shall indemnify and hold Lessor harmless, and shall defend Lessor against any and all liability, losses, penalties, damages, costs, expenses (including, without limitation, reasonable attorneys' fees), causes of action, claims or judgments arising out of or related to:

a. The failure or refusal by Lessee to comply with any of the provisions of this Lease, including, without limitation, those provisions relating to taxes, mechanics' liens, utilities, repairs, insurance, and use of the Leased Premises; or

b. Any death, injury, loss or deterioration sustained by any person or property on or adjoining the Leased Premises, occasioned by any willful or negligent act or omission, whether passive or active, of Lessee or Lessee's agents, employees, officers, independent contractors, invitees, sublessees, assignees or licensees.

ARTICLE VII

DAMAGE OR DESTRUCTION

7.1 Destruction Due to Risk Covered by Insurance

If, during the term, the premises are totally or partially destroyed from a risk covered by the insurance described in Section 6.2, rendering the premises totally or partially inaccessible or unusable, Lessee shall restore the Leased Premises to substantially the same condition as they were in immediately before destruction, provided that the insurance proceeds are sufficient to cover the actual cost of restoration. Such destruction shall not terminate the Lease so long as the insurance proceeds are sufficient to cover the actual costs of restoration, provided that if any insufficiency in coverage is caused by any act or omission of Lessee or Lessee's agents, employees, officers, independent contractors, invitees, sublessees, assignees, or licensees, the Lessee shall not have the option of terminating the Lease and, instead, shall restore the Leased Premises to substantially the same condition as they were in immediately before the destruction. If the existing laws do not permit the restoration, either party can terminate this lease immediately by giving notice to the other party.

7.2 Destruction Due to Risk Not Covered by Insurance

If, during the term, the Leased Premises are totally or partially destroyed from a risk not covered by the insurance described in Section 6.2, rendering the Leased Premises totally or partially inaccessible or unusable, Lessee shall either restore the Leased Premises to substantially the same condition as they were in immediately before destruction or terminate the lease. If, however, the destruction is caused by any act or omission of Lessee or Lessee's agents, employees, officers, independent contractors, invitees, sublessees, assignees, or licensees, such destruction shall not terminate the Lease and, instead, Lessee shall restore the Leased Premises to substantially the same condition as they were in immediately before the destruction. If the existing laws do not permit the restoration, either party can terminate this lease immediately by giving notice to the other party.

7.3 Procedure for Lessee's Restoration of Leased Premises

Within thirty (30) days after the date that Lessee is obligated to restore the premises, Lessee at its cost shall prepare final plans and specifications and working drawings complying with applicable laws that will be necessary for restoration of the premises. The plans and specifications and working drawings must be approved by Lessor. Lessor shall have thirty (30) days after receipt of the plans and specifications and working drawings to either approve or disapprove the plans and specifications and working drawings and return them to Lessee. If Lessor disapproves the plans and specifications and working drawings, Lessor shall notify Lessee of its objections and Lessor's proposed solution to each objection. Lessee acknowledges that the plans and specifications and working drawings shall be subject to approval of the appropriate government bodies and that they will be prepared in such a manner as to obtain that approval.

The restoration shall be accomplished as follows:

1. Lessee shall complete the restoration within ninety (90) working days after final plans and specifications and working drawings have been approved by the appropriate government bodies and all required permits have been obtained (subject to a reasonable extension for delays resulting from causes beyond Lessee's reasonable control).
2. Lessee shall retain a licensed contractor that is bondable. The contractor shall be required to carry public liability and property damage insurance, standard fire and extended coverage insurance, with vandalism and malicious mischief endorsements, during the period of construction. Such insurance shall contain waiver of subrogation clauses in favor of Lessor and Lessee in accordance with the provisions of Section 6.4.
3. Lessee shall notify Lessor of the date of commencement of the restoration not later than two (2) days before the commencement of the restoration to enable Lessor to post and record notices of nonresponsibility. The contractor retained by Lessee shall not commence construction until a completion bond and a labor and materials bond have been delivered to Lessor

to insure completion of the construction.

4. Lessee shall accomplish the restoration in a manner that will cause the least inconvenience, annoyance, and disruption at the premises.

5. On completion of the restoration Lessee shall immediately record a notice of completion in the county in which the premises are located.

7.4 Abatement or Reduction of Rent

In case of destruction, there shall be no abatement or reduction of rent unless the destruction was caused by Lessor.

7.5 Loss During Last Part of Term

If destruction to the premises occurs during the last one (1) year of the term, either Lessor or Lessee can terminate this lease by giving notice to the other party not more than fifteen (15) days after the destruction.

7.6 Waiver of Civil Code Sections

Lessee waives the provisions of Civil Code Section 1932(2) and Civil Code Section 1933(4) with respect to any destruction of the premises.

ARTICLE VIII

CONDEMNATION

8.1 Effect of Total Taking: If there is a Total Taking during the Lease Term, the Lease shall terminate on the date that the condemnor has the right to take actual physical possession of the Leased Premises. At that time and thereafter, Lessee shall be discharged from all of Lessee's future obligations under this Lease.

8.2 Effect of Partial Taking: If there is a Partial Taking during the Lease Term, then this Lease shall continue in full force and effect as to the remainder of the Leased Premises, except that Lessee can elect to terminate this Lease if one-third (33.33) or more of the Leased Premises is taken. If Lessee elects to terminate this Lease, Lessee must exercise its right to terminate pursuant to this Section by giving notice to Lessor within ten (10) days after the nature and the extent of the taking have been finally determined. If Lessee elects to terminate this Lease as provided in this Section, Lessee also shall notify Lessor of the date of termination, which date shall not be earlier than ten (10) days nor later than thirty (30) days after Lessee has notified Lessor of its election to terminate; except that this Lease shall terminate on the date of taking if the date of taking falls on a date before the date of termination as designated by Lessee. If Lessee does not terminate this Lease within the ten (10) day period, this Lease shall continue in full force and effect, except that on the date that the condemnor becomes entitled to take actual physical possession of the Leased Premises,

the rent shall be reduced by an amount that is in the same ratio to the rent as the value of the area of the portion of the Leased Premises taken bears to the total value of the Leased Premises immediately before that date. All replacements, repairs, alterations or modifications to the Leased Premises required by reason of a Partial Taking shall be made by Lessee to the extent condemnation proceedings are available. If the Leased Premises are taken for less than the remainder of the Lease Term, the rent shall cease to be abated or reduced on the date that the condemnor surrenders or abandons the Leased Premises.

Each party waives the provisions of Code of Civil Procedure Section 1265.130 allowing either party to petition the superior court to terminate this lease in the event of a partial taking of the premises.

8.3 Distribution of Condemnation Award: The condemnation award shall be divided as the respective interests of the Lessor and Lessee are determined pursuant to California Code of Civil Procedure Section 1260.220(a); provided, however, that if Lessee is in default under the terms of this Lease at the time of the condemnation award, Lessee shall not receive any part of the award; and provided further that the award shall be applied toward restoration of the Leased Premises necessitated by a Partial Taking.

ARTICLE IX

DEFAULT AND REMEDIES

9.1 Lessee's Default Defined: The occurrence of any of the following shall constitute a default by Lessee:

a. Failure to make payment of any sum of money, including rent, to Lessor when due, if the failure continues for ten (10) days after notice has been given to Lessee.

b. Failure to perform any of the provisions of Sections 6.1 through 6.2 of this Lease, if the failure continues for ten (10) days after notice has been given to Lessee.

c. Failure to perform any other provision of this Lease if the failure to perform is not cured within thirty (30) days after notice has been given to Lessee. If the default cannot reasonably be cured within thirty (30) days, Lessee shall not be in default under this Lease if Lessee commences to cure the default within the thirty (30) day period and diligently and in good faith continues to cure the default.

d. An assignment or subletting of the premises, either voluntary or involuntary, in violation of Sections 10.2 and 10.3 of this lease.

e. Any condition defined as an "Event of Default" in Section 12.9.

f. The filing by Lessee of a voluntary petition in bankruptcy; the adjudication of Lessee as a bankrupt; or the filing of any involuntary petition of bankruptcy and failure of Lessee to secure dismissal of the petition within forty-five (45) days after filing.

9.2 Notice of Default: Notices given pursuant to Section 9.1 shall be in writing and shall specify the alleged default and the applicable Lease provisions, and shall demand that Lessee perform the provisions of this Lease or pay the rent or other monies that are in arrears, as the case may be, within the applicable period of time, or quit the premises. No such notice shall be deemed a forfeiture or a termination of this Lease unless Lessor expressly so elects in the notice.

9.3 Lessor's Remedies for Default by Lessee: In the event that Lessee is in default under Section 9.1, Lessor shall be entitled to resort to any and all remedies provided by California law or in this Lease.

ARTICLE X

SALE, TRANSFER, OR ASSIGNMENT OF LEASED PREMISES

10.1 Effect on Lease of Sale by Lessor: If Lessor sells or transfers all or any portion of the Leased Premises, Lessor, on consummation of the sale or transfer, shall be released from any liability accruing under this Lease if Lessor's successor has assumed in writing, for the benefit of Lessee, Lessor's obligations under this Lease.

10.2 Prohibition Against Voluntary Assignment, Subletting, and Encumbering: Lessee shall not voluntarily assign or encumber its interest in this lease or in the premises, or sublease all or any part of the premises, or allow any other person or entity (except Lessee's authorized representatives) to occupy or use all or any part of the premises, without first obtaining Lessor's consent, which consent shall not be unreasonably withheld. Any assignment, encumbrance, or sublease without Lessor's consent shall be voidable and, at Lessor's election, shall constitute a default. No consent to any assignment, encumbrance, or sublease shall constitute a further waiver of the provisions of this Section.

Lessee immediately and irrevocably assigns to Lessor, as security for Lessee's obligations under this lease, all rent from any subletting of all or part of the premises as permitted by this lease, and Lessor, as assignee and as attorney-in-fact for Lessee, or a receiver for Lessee appointed on Lessor's application, may collect such rent and apply it toward Lessee's obligations under this lease; except that, until the occurrence of an act of default by Lessee, Lessee shall have the right to collect such rent.

If Lessee requests Lessor to consent to a proposed assignment or subletting, Lessee shall pay to Lessor, whether or not consent is ultimately given, Lessor's reasonable attorneys' fees incurred in connection with each such request.

10.3 Involuntary Assignment: Except for assignments that occur in conjunction with a merger or acquisition of Lessee, no interest of Lessee in this lease shall be assignable by operation of law (including, without limitation, the transfer of this lease by testacy or intestacy). Each of the following acts shall be considered an involuntary assignment:

1. If Lessee is or becomes bankrupt or insolvent, makes an assignment for the benefit of creditors, or institutes a proceeding under the Bankruptcy Act in which Lessee is the bankrupt; or, if Lessee is a partnership or consists of more than one person or entity, if any partner of the partnership or other person or entity is or becomes bankrupt or insolvent, or makes an assignment for the benefit of creditors;

2. If a writ of attachment or execution is levied on this lease;

3. If, in any proceeding or action to which Lessee is a party, a receiver is appointed with authority to take possession of the premises.

An involuntary assignment shall constitute a default by Lessee and Lessor shall have the right to elect to terminate this lease, in which case this lease shall not be treated as an asset of Lessee.

If a writ of attachment or execution is levied on this lease, Lessee shall have ten (10) days in which to cause the attachment or execution to be removed. If any involuntary proceeding in bankruptcy is brought against Lessee, or if a receiver is appointed, Lessee shall have sixty (60) days in which to have the involuntary proceeding dismissed or the receiver removed.

ARTICLE XI

SURRENDER AND REMOVAL

11.1 Surrender of Leased Premises: Upon the expiration of the Lease Term, or any earlier termination of the Lease, Lessee shall surrender the Leased Premises to Lessor in as good a condition as they were in at the time Lessee took possession of the Leased Premises, including all improvements and alterations to the Leased Premises except as otherwise specified in Section 11.2.

11.2 Removal of Lessee's Personal Property: Upon the expiration of the Lease Term or any earlier termination of the Lease if Lessee is not in default, Lessee may remove or cause to be removed all movable furniture, furnishings, inventory, equipment, trade fixtures and signs installed or located on the Leased Premises. Any such property that is not removed from the Leased Premises within sixty (60) days after the date of any expiration or termination of this Lease, shall thereafter belong to Lessor without the payment of any consideration. Lessee shall promptly repair any damage to the Leased Premises caused by the removal of Lessee's property.

11.3 Lessee's Quitclaim: Upon the expiration of the Lease Term or any

earlier termination of this Lease, Lessee shall execute, acknowledge and deliver to Lessor a proper instrument in writing, releasing and quitclaiming to Lessor all right, title and interest of Lessee in and to the Leased Premises, including all alterations and improvements which Lessee is not entitled to remove.

ARTICLE XII

ENVIRONMENTAL MATTERS

12.1 Definition of "Environmental Condition": As used in this Agreement, the term "Environmental Condition" shall mean the presence of any "hazardous substance" as defined in Section 12.2.

12.2 Definition of "Hazardous Substances.": As used in this Agreement, the term "Hazardous Substances" shall mean any hazardous, toxic, or radioactive substances, materials or wastes, pollutants, or contaminants as defined, listed, or regulated by any federal, state, or local law, regulation, or order, or by common law decision applicable to the Leased Premises, excluding those used for "Everyday Uses" as defined in Section 12.4.

12.3 Definition of "Remediate" and "Remedial Work": "Remediate" and "Remedial Work" shall include all activities for the cleanup of contamination or Environmental Conditions on the property, including excavation, removal, replacement, or reinjection of contaminated soils and groundwater; installation, maintenance, and replacement of other facilities for soil and ground water decontamination; monitoring and reporting; and final site restoration for the remediation activities.

12.4 Definition of "Everyday Uses": "Everyday Uses" shall mean the normal use of (i) fuel oil and natural gas for heating; (ii) lubricating, cleaning, coolant, and other compounds customarily used in building maintenance; (iii) materials routinely used in the day-to-day operations of an office project, such as copier toner; (iv) consumer products; (v) materials reasonably necessary and customarily used in construction and repair of the Leased Premises; and (vi) fertilizers, pesticides and herbicides commonly used for routine office landscaping.

12.5 Use of Hazardous Substances: Lessee shall not cause, or allow any guest, invitee, employee, or agent of Lessee to cause, any Hazardous Substances (as defined in Section 12.2, above) to be used, generated, stored, or disposed of on or about the Premises, other than Everyday Uses, without the prior written consent of Lessor, which consent may be withheld in the reasonable discretion of Lessor, and which consent may be revoked at any time.

12.6 Hazardous Discharges or Environmental Complaints:

(a) If Lessee receives any notice of the happening of any event involving an emission, spill, release, or discharge into or upon (i) the air, (ii) soils or any improvements located thereon, (iii) surface water or ground water, or (iv) the sewer, septic system or waste treatment, storage or

disposal system servicing the Leased Premises, of any toxic or hazardous substances or wastes (intended hereby and hereafter to include any and all such material listed in any federal, state or local law, code and ordinance and all rules and regulations promulgated thereunder, as hazardous or potentially hazardous) (any of which is hereafter referred to as a "Hazardous Discharge"), or any complaint, order, directive, claim, citation or notice by any governmental authority or any other person or entity with respect to (v) air emissions, (vi) spills, releases or discharges to soils or any improvements located thereon, surface water, ground water or the sewer, septic system or waste treatment, storage or disposal systems servicing the Leased Premises, (vii) noise emissions, (viii) solid or liquid waste disposal, (ix) the use, generation, storage, transportation or disposal of toxic or hazardous substances or wastes or (x) or other environmental, health or safety matters affecting Lessee, the Leased Premises, any improvements located thereon, or the business therein conducted (any of which is hereafter referred to as an "Environmental Complaint"), then Lessee shall give immediate oral and written notice of same to Lessor, detailing all relevant facts and circumstances.

(b) Without limitation on the foregoing, Lessor shall have the option, but shall not be obligated, to exercise any of its rights as provided in this Agreement and may enter onto the Leased Premises and take any actions as it deems necessary or advisable to cleanup, remove, resolve or minimize the impact of, or otherwise deal with, any Hazardous Discharge or Environmental Complaint upon Lessor's receipt of any notice from any person or entity asserting the happening of a Hazardous Discharge or an Environmental Complaint on or pertaining to the Leased Premises. All costs and expenses incurred by Lessor in the exercise of any such rights shall be deemed to be additional rent hereunder and shall be payable to Lessor upon demand.

12.7 Environmental Indemnification:

Lessee agrees to indemnify, defend by counsel acceptable to Lessor and hold harmless Lessor, its subsidiaries, affiliates, successors, and assigns and their respective directors, officers, employees, shareholders, representatives and agents (hereinafter referred to collectively as "Lessor") from and against and in respect of any and all claims, damages (including, without limitation, diminution in value), losses, liabilities and expenses, lawsuits, deficiencies, interest, penalties, attorneys' fees, and all amounts paid in defense or settlement of the foregoing whether or not arising out of third-party claims, which may be imposed upon or incurred by Lessor or asserted against Lessor by any other party or parties (including Governmental Entities), in connection with any Environmental Conditions or the remediation of any Environmental Conditions (whether now known or hereafter discovered), or any Environmental Noncompliance arising out of, resulting from, or attributable to, the assets, business, or operations of Lessee at the Leased Premises, including without limitation any claims, expenses, losses, liabilities, etc. resulting from the alleged exposure of any person to Environmental Conditions, if resulting from activities of Lessee or Lessee's agents, representatives, employees or independent contractors, and the breach of any of Lessee's representations and warranties below. Lessee's obligations pursuant to this Article shall exist regardless of whether Lessor is alleged

or held to be strictly or jointly and severally liable.

Lessor agrees to indemnify, defend by counsel acceptable to Lessee and hold harmless Lessee, its subsidiaries, affiliates, successors, and assigns and their respective directors, officers, employees, shareholders, representatives and agents (hereinafter referred to collectively as "Lessee") from and against and in respect of any and all claims, damages (including, without limitation, diminution in value), losses, liabilities and expenses, lawsuits, deficiencies, interest, penalties, attorneys' fees, and all amounts paid in defense or settlement of the foregoing whether or not arising out of third-party claims, which may be imposed upon or incurred by Lessee or asserted against Lessee by any other party or parties (including Governmental Entities), in connection with any Environmental Conditions or the remediation of any Environmental Conditions (whether now known or hereafter discovered), or any Environmental Noncompliance arising out of, resulting from, or attributable to, the assets, business, or operations of Lessor at the Leased Premises, including without limitation any claims, expenses, losses, liabilities, etc. resulting from the alleged exposure of any person to Environmental Conditions, if resulting from activities of Lessor or Lessor's agents, representatives, employees or independent contractors, and the breach of any of Lessor's representations and warranties below. Lessor's obligations pursuant to this Article shall exist regardless of whether Lessee is alleged or held to be strictly or jointly and severally liable.

12.8 Reporting Requirements: Lessee shall promptly supply Lessor with copies of all notices, reports, correspondence, and submissions made by Lessee to EPA, the United States Occupational Safety and Health Administration or any other local, state, or federal authority which requires submission of any information concerning environmental matters or hazardous or toxic wastes or substances.

12.9 Events of Default: The occurrence of any of the following events shall constitute an Event of Default under this Lease, entitling Lessor to all of the rights and remedies provided in Article IX;

(a) If Lessor receives its first notice of a Hazardous Discharge or Environmental Complaint from a source other than Lessee, and the Lessor does not receive notice (which may be given in oral form, provided same is followed with all due dispatch by written notice given by Certified Mail, Return Receipt Requested) of such Hazardous Discharge or Environmental Complaint from Lessee within twenty-four (24) hours of the time Lessor first receives said notice from a source other than Lessee; or

(b) If any federal, state, or local agency asserts or creates a lien upon the Leased Premises or any portion thereof by reason of the occurrence of a Hazardous Discharge or Environmental Complaint and such lien is not released within ten (10) days of its creation; or

(c) If any federal, state, or local agency asserts a claim against Lessee or Lessor for damages or cleanup costs relating to a Hazardous Discharge or Environmental Complaint; provided, however, such claim shall not

constitute a default if, within five (5) days of the occurrence giving rise to the claim;

(i) Lessee can prove to Lessor's satisfaction that Lessee has commenced and is diligently pursuing either (1) a cure or correction of the event which constitutes the basis for the claim and continues diligently to pursue such cure or correction to completion or (2) proceedings for an injunction, a restraining order or other appropriate emergent relief preventing such agency or agencies from asserting such claim, which relief is granted within ten (10) days of the occurrence giving rise to the claim and the injunction, order, or emergent relief is not thereafter dissolved or reversed on appeal; and

(ii) In either of the foregoing events, Lessee has posted a bond, letter of credit, or other security satisfactory in form, substance, and amount to Lessor and the agency or entity asserting the claim to secure the proper and complete cure or correction of the event which constitutes the basis for a claim.

12.10 Lessee's Remedial Action Responsibility:

(a) With respect to any known or subsequently discovered Environmental Noncompliance or Environmental Condition caused by Lessee, and without in any way limiting the scope of Lessee's obligations under the Environmental Indemnification provisions of this Article, including Section 12.7 above, as between Lessee and Lessor, Lessee will be responsible for all investigations, studies, cleanup, corrective action, or response or remedial action required by any local, state, or federal government agency now or hereafter authorized to regulate environmental matters (hereinafter "Government Entities"), or by any consent decree, or court or administrative order now or hereafter applicable to the Leased Premises, or by any federal, state, or local law, regulation, rule, or ordinance now or hereafter in effect.

(b) As between Lessor and Lessee, Lessee will pay all costs in connection with any investigations, studies, cleanup, repair, and remedial action relating to the matters acknowledged in Section 12.10, paragraph (a) above including, without limitation, all capital improvements, installation, operation, maintenance, testing, monitoring costs, preparation of plans, designs, applications, studies, and reports by or for Governmental Entities or other regulating agencies, the preparation of closure or other required plans, the retention of legal counsel, engineers, and other expert consultants.

(c) As between Lessor and Lessee, Lessee shall have the responsibility and right to participate in the management and control of all investigations and any environmental cleanup, remediation, or related activities relating to matters acknowledged in Section 12.10, paragraph (a) above. Lessee, however, may not negotiate with, fulfill any requirements or claims made by a Governmental Entity or third party, settle or contest such requirement or third-party claim without the express approval of Lessor, and Lessor shall have the right to participate fully in any and all meetings,

negotiations, or decisions relevant to the investigation or remediation of Environmental Conditions at the Leased Premises.

(d) In the event that Environmental Conditions are discovered at the Leased Premises subsequent to the date hereof, Lessee shall promptly notify Lessor of the condition, and if Lessor determines in its sole discretion that such Environmental Conditions are attributable to the activities of Lessee's predecessors in interest, Lessor shall have the exclusive right to manage and control all investigations and any environmental cleanup, remediation, or related activities, and the exclusive right to negotiate with and to fulfill any requirements or claims made by a Governmental Entity or third party related to such Environmental Conditions, including the right to settle or contest such requirement or third-party claim. Lessee shall maintain the confidentiality of, and not disclose to others, any information provided to it by Lessor, pursuant to the terms and conditions specified by Lessor. Lessor's rights pursuant to this section do not alter or diminish Lessee's indemnity obligations pursuant to this Article, including Section 12.7 above.

(e) In the event that Environmental Noncompliance is discovered or alleged to exist at the Leased Premises subsequent to the date hereof caused by Lessee, Lessee will pay all reasonable costs incurred by Lessor in defending and correcting the conditions which constitute Environmental Noncompliance. Lessor shall promptly notify Lessee of any such Environmental Noncompliance, but Lessor shall have the exclusive right to manage and control the resolution of such issues. The provisions of this section do not diminish Lessee's obligations under this Article, including Section 12.7 above.

12.11 Inspection Rights: Notwithstanding any other provision of this lease to the contrary, Lessor shall have the right to enter and inspect the Leased Premises, including but not limited to all structures thereon and the business operations of Lessee, upon reasonable notice and in a manner so as not to interfere unreasonably with the conduct of Lessee's business, to investigate the possibility of any Environmental Condition or Environmental Noncompliance at, upon, about, or under the Leased Premises. Lessor may exercise this right at its sole discretion. During such inspection, landlord shall have the right to take such samples and conduct such tests as it may determine in its sole discretion to be necessary or advisable. Lessee shall have the right to split samples of any samples so taken. The incurrence by Lessor of any expense under the provisions of this shall not impair any claim for indemnification Lessor may have under the provisions of this Article, including Section 12.7 above.

12.12 Environmental Assessment: Lessee shall have the right, at its expense, to conduct an environmental assessment of the Leased Premises at any time during the Lease Term or Extended Term; provided that, if the environmental assessment would require any structural or material alterations to the Leased Premises, Lessee shall obtain the written consent of the Lessor prior to conducting such an assessment, which consent shall not be unreasonably withheld; and provided further that the Leased Premises are restored to their pre-assessment condition by Lessee, at its expense, upon the

completion of the environmental assessment.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 Lessee's Taking of Possession: Prior to taking possession of the Leased Premises, Lessee shall have the right to physically inspect the Leased Premises, including all common areas, to make sure it is in good working order and condition. Lessee's taking possession of the Leased Premises shall constitute Lessee's acknowledgement that Lessee is satisfied with the condition of the Leased Premises. Lessee shall be entitled to take possession of the Leased Premises upon the execution hereof.

13.2 Lessor's Right of Entry and Inspection: Lessor, and its authorized agents and representatives, shall, upon reasonable notice, have the right to enter the Leased Premises at all reasonable times for any of the following purposes:

a. To determine whether the Leased Premises are in good condition and whether Lessee is complying with its obligations under this Lease;

b. To do any necessary maintenance and to make any restoration, replacement or repair of the Leased Premises that Lessor has the right or obligation to perform;

c. To serve, post or keep posted any notices required or allowed by this Lease;

d. To post "for sale" signs at any time during the Lease Term, to post "for rent" or "for lease" signs during the last three months of the Lease Term, or during any period when Lessee is in default;

e. To show the Leased Premises to prospective brokers, agents, buyers, tenants, or persons interested in an exchange, at any time during the Lease Term.

Lessor shall conduct its activities on the Leased Premises as allowed in this in a manner that will not cause unreasonable inconvenience, annoyance or disturbance to Lessee.

13.3 Time of Essence: Time is of the essence of each provision of this Lease.

13.4 Entire Agreement: This Lease contains the entire agreement of the parties with respect to the matters covered by this Lease, and no other agreement, statement or promise made by any party, or to any employee, officer or agent of any party, which is not contained in this Lease shall be binding or valid.

13.5 Partial Invalidity: If any term, covenant, condition or provision

of this Lease is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, covenants, conditions and provisions of this Lease shall remain in full force and effect and shall not be invalidated.

13.6 Interpretation and Headings: The language in all parts of this Lease shall in all cases be simply construed according to its fair meaning and not strictly for or against Lessor or Lessee. Captions of the articles and sections of this Lease are for the purposes of convenience only, and the words contained in said captions shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Lease.

13.7 Attorneys' Fees: In the event that either Lessor or Lessee bring any action or proceeding for damages or for an alleged breach or default of any provision of this Lease, or to recover rents, or to enforce, protect or establish any right or remedy of either party, the prevailing party shall be entitled to recover as a part of such action or proceeding reasonable attorney's fees and court costs.

13.8 Modification: This Lease is not subject to modification except in a writing signed by Lessor and Lessee.

13.9 Notices: All notices, demands or requests from one party to another may be personally delivered or sent by mail, certified or registered, postage prepaid, to the addresses stated in this Section, and shall be deemed to have been given at the time of personal delivery, or forty-eight (48) hours after mailing. Each party shall have the right, from time to time, to designate a different address by notice given in conformity with this Section.

Lessee: Andrew and Williamson Sales, Co.
Attention: President
9940 Marconi Drive
San Diego, California 92173
Fax: (619) 661-6007

Copy to: Epitope, Inc.
Attention: President
8505 S.W. Creekside Place
Beaverton, Oregon 97008
Fax: (503) 641-8665

Lessor: Williamson & Andrew
Attention: Fred L. Williamson
9940 Marconi Drive
San Diego, California 92173
Fax: (619) 661-6007

Copy to: Fred W. Andrew
P.O. Box 9993
Bakersfield, California 93389

13.10 Successors, Heirs and Assigns: Each and all of the covenants, conditions and restrictions contained in this Lease shall be deemed to run with the land, and shall be binding on and inure to the benefit of the parties and their successors, heirs, assignees, transferees and subtenants.

13.11 California Law to Govern: The rights and obligations of each of the parties to this Lease, and the terms of the Lease itself, shall be interpreted, enforced and governed by the laws of the State of California.

13.12 Real Estate Brokers: Each party represents that it has not had dealings with any real estate broker, finder or other such person, with respect to this Lease in any manner. Each party shall indemnify and hold harmless the other party from all damages resulting from any claims that may be asserted against the other party by any broker, finder or other person with whom the indemnifying party has dealt.

13.13 Corporate Authority: Lessee shall deliver to Lessor on execution of this Lease a certified copy of a resolution of its board of directors authorizing the execution of this Lease and naming the officers that are authorized to execute this Lease on behalf of Lessee.

ARTICLE XIV

FORMALITIES

14.1 Recordation: Neither party shall record this Lease without the written consent of the other party. However, upon the request of either party, the other party shall join in the execution of a memorandum or "short form" of this Lease for the purpose of recordation. The memorandum shall, at the minimum, describe the parties, the Leased Premises and the Lease Term, and shall incorporate this Lease by reference, and shall be in a form satisfactory to both parties.

14.2 Counterparts: This Lease, consisting of twenty-two (23) pages, may be executed by the parties in several counterparts, each of which shall be deemed to be an original copy.

This Lease was executed by the parties on the dates shown next to the respective signatures of each of the parties.

LESSOR

WILLIAMSON & ANDREW

Dated: December 12, 1992

By: /s/Fred W. Andrew
Title: Partner

LESSEE

ANDREW AND WILLIAMSON SALES,
CO.

Dated: December 12, 1992

By: /s/ Fred L. Williamson
Title: President

EXHIBIT 10.14

AMENDMENT TO AGREEMENT

Ferro: Adolph J. Ferro, Ph.D., 5868 Suncreek, Lake Oswego, Oregon 97034

Epitope: Epitope, Inc., 8505 S.W. Creekside Place, Beaverton, Oregon
97008

Agritope: Agritope, Inc., 8505 S.W. Creekside Place, Beaverton, Oregon
97008

SAMase
Technology: SAMase ethylene control technology described and claimed in
United States patent 5,416,250, issued May 16, 1995, for an
invention titled "Genetic Control of Ethylene Biosynthesis in
Plants using S-Adenosylmethionine Hydrolase," invented by
Adolph J. Ferro, Richard K. Bestwick, and Lyle R. Brown.

Date: November 11, 1996

BACKGROUND

Ferro is a co-inventor of the SAMase Technology, which was transferred to Agritope in 1987 upon the merger of Agricultural Genetic System, Inc., into Agritope. On December 9, 1987, Ferro and Epitope entered into an Agreement (the "1987 Agreement") providing for payment of a royalty on the SAMase Technology to Ferro in connection with the acquisition of the SAMase Technology by Agritope. The parties wish to amend the 1987 Agreement to provide for a one-time payment.

AGREEMENT

Payment. Upon execution of this agreement, Epitope shall pay Ferro \$590,000 as the final payment for the acquisition of the SAMase Technology.

Amendment and Release. Ferro accepts the foregoing payment in full satisfaction of Epitope's remaining obligations with respect to acquisition of the SAMase Technology under the 1987 Agreement, and agrees that the 1987 Agreement is superseded by this agreement. Ferro hereby releases Epitope from any further obligations under the 1987 Agreement. Ferro warrants that he has not assigned any interest in the 1987 Agreement to any other party.

Miscellaneous. This agreement is the entire agreement with respect to its subject matter, is governed by Oregon law, and shall be binding upon and inure to the benefit of the parties and their permitted successors and assigns.

EPITOPE, INC.

Adolph J. Ferro, Ph.D.

By

Gilbert N. Miller
Executive Vice President
and Chief Financial Officer

AGRITOPE, INC.

By

Gilbert N. Miller
Executive Vice President
and Chief Financial Officer

EXHIBIT 10.18

SUPERIOR TOMATO ASSOCIATES, L.L.C.

OPERATING AGREEMENT

February 19, 1996

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SUPERIOR TOMATO ASSOCIATES, L.L.C.

OPERATING AGREEMENT

This Operating Agreement (the "Agreement") is made as of the 19th day of February, 1996, by and among Agritope, Inc., a Delaware corporation ("Agritope"), Sunseeds Company, a ----- corporation ("Sunseeds"), and Andrew and Williamson Sales Company, Inc., a ----- corporation ("A&W") with respect to the operation of Superior Tomato Associates, L.L.C., a Delaware limited liability company (the "Company").

Whereas, Superior Tomato Associates is being formed, pursuant to the provisions of the Delaware Limited Liability Company Act (the "Delaware Act"), upon the filing of a Certificate of Formation with the Secretary of State of the State of Delaware;

Whereas, the purpose of the Company is to combine Sunseeds' tomato seed

genetics and know-how with Agritope's SAMase technology and know-how and A&W's growing, packing and distribution know-how to produce and commercialize in North America economically superior tomatoes for the fresh market; the product (the "Product") shall be fresh market cherry, roma and vine ripened large fruited tomato varieties using seed developed by the Company;

Whereas, the Members have entered into this Agreement, setting forth their respective ownership interests in the Company and the principles by which it will be operated and governed;

Whereas, concurrently with the execution and delivery of this Agreement, the parties are entering into a Development and Marketing Agreement, under which:

Agritope will grant to the Company a non-exclusive license to Agritope's proprietary technology of regulating ethylene production in tomato (hereinafter "SAMase");

Sunseeds will grant to the Company a non-exclusive license to Sunseeds' proprietary tomato germplasm and associated know-how;

Agritope and Sunseeds will collaborate to develop seed for the Product; and

A&W will supply the production acreage and distribution infrastructure for the development and testing of the Product, will arrange for the growing of the Product and will pack and distribute the Product.

Whereas, the parties recognize that there exist significant risks associated with the business to be carried on by the Company, including without limitation: the risk that the Product might not be successfully developed, or if successfully developed, might not receive regulatory approval, the risk that the Product might not generate savings, the risk that the Product might not achieve market acceptance, the risk of crop failure, the risk associated with the highly volatile tomato market, the credit risk that growers may not make the payments due from the growers with respect to the Product, the risk created by the existence of numerous patents held by different parties in the field of plant genetics and the possibility that development or marketing of the Product might be impinged by the existence of any of such patents.

Now, Therefore, in consideration of mutual covenants and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

Article I Certain Definitions

1.1 Certain Definitions. For purposes of this Agreement, certain terms used in this Agreement shall be defined as follows:

(a) Accounting Period. An Accounting Period shall be (i) the Fiscal Year, if there are no changes in the Members' respective interests in Company income, gain, loss or deductions during such Fiscal Year except on the first day thereof, or (ii) any other period beginning on the first day of a Fiscal Year, or any other day during the Fiscal Year upon which occurs a change in such respective interests, and ending on the last day of a Fiscal Year, or on the day preceding an earlier day upon which any change in such respective interest shall occur.

(b) Additional Member. Additional Member shall mean any person or entity, other than Agritope, Sunseeds or A&W, who or which is admitted to the Company as a Member pursuant to the terms of this Agreement.

(c) Adjusted Asset Value. Adjusted Asset Value is defined in Exhibit B to this Agreement.

(d) Affiliate. An Affiliate of a Member is a person or entity controlling, controlled by, or under common control with, a Member.

(e) Capital Account. The Capital Account of each Member shall consist of such Member's original capital contribution (i) increased by any additional capital contribution, such Member's share of Company Income that is allocated to it pursuant to this Agreement, and the amount of any Company liabilities that are assumed by such Member or that are secured by any Company property distributed to such Member, and (ii) decreased by the amount of any distributions to, or withdrawals by, such Member, such Member's share of any Company Loss that is allocated pursuant to this Agreement, and the amount of any liabilities of such Member that are assumed by the Company or that are secured by any property contributed by such Member to the Company. The foregoing provision relating to the maintenance of Capital Accounts is intended to comply with Treasury Regulation Section 1.704-1(b)(2)(iv) and shall be interpreted and applied in a manner consistent with such Regulations. Capital contributions may be made in cash or, to the extent agreed to by a Majority in Interest of the Members, by an in kind contribution of property or services at the value agreed to by such Members.

(f) Capital Commitment. A Member's Capital Commitment, if any, shall mean the amount that such Member has agreed to contribute to the capital of the Company upon such Member's admission to the Company and from time to time thereafter, as set forth opposite such Member's name on Exhibit A hereto.

(g) Code. The Code, or the Internal Revenue Code, is the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

(h) Company Income Or Loss. Company Income or Loss is defined on Exhibit B to this Agreement.

(i) Company Percentage. The Company Percentage for each Member shall be as set forth on Exhibit A hereto, as amended from time to time in accordance with the terms of this Agreement.

(j) Depreciation. Depreciation is defined on Exhibit B to this Agreement.

(k) Development And Marketing Agreement. Development and Marketing Agreement means the agreement referred to in the fourth Whereas clause of the Agreement.

(l) Fiscal Year. The Company's Fiscal Year for the period between the date hereof and March 1, 1996 shall be such period, and for all years thereafter shall commence on March 1 of each year and end on February 28 or February 29, as the case may be, of the following year except for the final Fiscal Year of the Company, which shall begin on March 1 of such final Fiscal Year and end on the date of termination of the Company.

(m) in interest; Majority In Interest. The term "in interest" shall mean a specified fraction or percentage of the Company Percentages of all Members (including the Manager) or of designated Members (including the Manager if within the class of designated Members). A Majority in Interest shall mean more than 50% in interest.

(n) Manager. Manager shall mean a Member designated or elected by the Members as Manager pursuant to the terms of this Agreement. As of the effective date of this Agreement, Agritope is hereby designated as the Manager pursuant to Section 18-101(10) of the Delaware Act.

(o) Member. Member shall mean each of the Initial Members and Additional Members as of a given time.

(p) Members' Council. Members' Council shall mean a council comprised of three individuals, one of whom is appointed by each Initial Member, for the purpose of providing advice and counsel on the management of the Company to the Manager. As of the effective date of this Agreement, the three members of the Members' Council are Adolph Ferro, who is appointed by Agritope, David Atkinson, who is appointed by Sunseeds, and Fred Williamson, Sr., who is appointed by A&W, or their respective designees. Each member of the Members' Council may be removed and replaced at any time by the Member that appointed such individual.

(q) Officers. Officer shall mean one or more individuals designated as such by the Manager pursuant to this Agreement.

(r) Treasury Regulations. Treasury Regulations shall mean the Income Tax Regulations promulgated under the Code, as such Regulations may be amended from time to time (including corresponding provisions of succeeding Regulations).

Article II

Name, Purposes And Place Of Business Of Company

2.1 Company Name. The Company shall conduct its activities under the name Superior Tomato Associates, L.L.C. or such other name as the Manager may designate.

2.2 Company Purposes. The purpose of the Company is to (i) combine Sunseeds' tomato seed genetics and know-how with Agritope's SAMase technology and know-how and A&W's growing, packing and distribution know-how to produce and commercialize in North American economically superior tomatoes for the fresh market; the Product shall be fresh market cherry, roma and vine ripened large fruited tomato varieties using seed developed by the Company, (ii) engage in any lawful act or activity for which a limited liability company may be organized under the laws of the State of Delaware and (iii) engage in all activities necessary, customary, convenient or incident to any of the foregoing. The Company shall have the power to make and perform all contracts and to engage in all actions and transactions necessary or advisable to carry out the purposes of the Company and shall possess all other powers available to it as a limited liability company under the laws of the State of Delaware.

2.3 Principal Place Of Business. The principal place of business of the Company shall be at 8505 SW Creekside Drive, Beaverton, Oregon 97008, or at such other place or places as the Manager may from time to time determine.

2.4 Registered Agent And Office. The name of the registered agent for service of process of the Company and the address of the Company's registered office in the State of Delaware shall be The Prentice-Hall Corporation Services, 1013 Centre Road, Wilmington, Delaware 19805, or such other agent or office in the State of Delaware as a Majority in Interest of the Members may from time to time designate.

Article III Period Of Duration

3.1 Period Of Duration. The Company's existence commences upon of the filing with the Secretary of State of the State of Delaware of the Company's Certificate of Formation and shall continue for a period of thirty (30) years, unless sooner dissolved as provided in Section 11.1 below.

Article IV Names, Admission, Rights And Obligations

4.1 Names And Addresses. The names and addresses of the Members, the amount of their respective Capital Commitments to the Company, if any, and their respective Company Percentages are set forth on Exhibit A hereto. The Manager shall cause Exhibit A to be amended from time to time to reflect the admission of any Additional Member, the withdrawal of any Member, receipt by the Company of notice of any change of address of a Member, the change in any Member's Capital Commitment, the change in any Member's Company Percentage, or the occurrence of any other event requiring amendment of Exhibit A.

4.2 Admission Of Members. Additional Members may be admitted to the

Company upon the written consent of the Manager and with the approval of a Majority in Interest of the Members.

4.3 Limitation Of Liability. Each Member's liability shall be limited as set forth in the Delaware Act and other applicable law.

4.4 Company Debt Liability. No Member shall personally be liable for any debts or losses of the Company beyond such Member's respective Capital Commitment.

4.5 Restrictions On Transfers Of Company Interests.

(a) Without the written consent of a Majority in Interest of the non-transferring Members, no Member shall sell, assign, transfer, or otherwise dispose of such Member's share in the Company.

(b) In the event of any voluntary or involuntary transfer of a Member's interest in the Company, or any part thereof, the transferee shall receive only the transferor's economic interest in the Company, and the transferee shall not be admitted as a Member or have any right as a result of such transfer to participate in the affairs of the Company, except as provided by written consent of a Majority in Interest of the non-transferring Members which consent may be withheld for any reason or for no reason.

4.6 Withdrawal Of Member. A Member may not withdraw or resign without the consent of a Majority in Interest of the non-resigning or non-withdrawing Members to such withdrawal and the terms thereof.

Article V Management, Duties And Restrictions

5.1 Management. Except as otherwise set forth herein, the Manager shall have the sole right to manage, control, and conduct the affairs of the Company and to do any and all acts on behalf of the Company, subject to the provisions of this Agreement which may require the consent of the Members.

5.2 Officers. Subsequent to the date of this Agreement, one or more Officers may be designated and appointed by the Manager, in consultation with the members of the Members' Council. The Manager may delegate a portion of its day-to-day management responsibilities to any such Officers, and such Officers shall have the authority to execute documents for, contract for, negotiate on behalf of and otherwise represent, the interests of the Company as authorized by the Manager in any job description created by the Manager. Any number of offices may be held by the same person.

5.3 The Members' Council.

(a) The purpose of The Member's Council is to review and advise concerning the direction and progress of the Company.

(b) Meetings of the Members' Council may be held at any time and

place within or without the State of Delaware whenever called by the Manager or any Member.

(c) Written notice of the time and place of all meetings of the Members' Council shall be given by the Manager (or any Member) upon ten (10) day's notice, unless the Manager, in its sole discretion, determines that a lesser period of notice is appropriate.

(d) Any member of the Members' Council may participate in a meeting thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

5.4 Resignation Of Manager, Officers And Members Of Members' Council; Removal of Manager. Any Manager, Officer or member of the Members' Council may resign at any time by giving written notice to each of the Members. The Manager may be removed, with or without cause, upon the written direction of a Majority in Interest of the Members.

5.5 Determination By The Manager. All matters concerning allocations, distributions and tax elections (except as may otherwise be required by the income tax laws) and accounting procedures not expressly and specifically provided for by the terms of this Agreement shall be determined in good faith by the Manager. Such determination shall be final and conclusive as to all of the Members.

5.6 Restrictions On The Members. Members other than the Manager shall not have any power or authority to act for or on behalf of the Company.

5.7 Manager's And Officers' Standard Of Care. In discharging duties, the Manager or an Officer shall be fully protected in relying in good faith upon any such records and upon such information, opinions, reports or statements by any other person, as to matters the Manager or any Officer reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits or losses of the Company or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid. Unless fraud, deceit or a wrongful taking shall be proved by a nonappealable court order, judgment, decree or decision, neither the Manager nor an Officer shall be liable or obligated to the Members for any mistake of fact or judgment or for the doing of any act or the failure to do any act by the Manager or any Officer in conducting the business, operations and affairs of the Company, which may cause or result in any loss or damage to the Company or its Members. The Manager or an Officer does not, in any way, guarantee the return of the Member's Capital Commitment or a profit for the Members from the operations of the Company. Neither the Manager nor an Officer shall be responsible to any Member because of a loss of investments or a loss in operations, unless the loss shall have been the result of fraud, deceit or a wrongful taking by the Manager or an Officer proved as set forth in this Section 5.7. Neither the

Manager nor an Officer shall incur liability to the Company or to any of the Members as a result of engaging in any other business or venture.

5.8 No Exclusive Duty To Company. Neither the Manager nor an Officer shall be required to manage the Company as such party's sole and exclusive function, and such party and any Member may have other business interests and may engage in other activities (including, without limitation, activities in development, production and marketing of tomatoes) in addition to those relating to the Company. Neither the Company nor any Member shall have any right, by virtue of this Agreement, to share or participate in such other investments or activities of the Manager or other Member or to the income or proceeds derived therefrom.

5.9 Indemnity Of The Manager And Officers.

(a) The Manager (and the directors, officers, employees and agents of such Manager) or an Officer of the Company (and the heirs, executors, personal representatives or administrators of such Manager or Officer) who was or is made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Manager (or a person acting on behalf of such Manager) or an Officer of the Company ("Indemnitee"), shall be indemnified and held harmless by the Company to the fullest extent permitted under Section 18-108 of the Delaware Act, as the same exists or may hereafter be amended. In addition to the indemnification conferred in this Article, the Indemnitee shall also be entitled to have paid directly by the Company the expenses reasonably incurred in defending any such proceeding against such Indemnitee in advance of its final disposition, to the fullest extent authorized by applicable law, as the same exists or may hereafter be amended. The right to indemnification conferred in this Article shall be a contract right.

(b) The rights and authority conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the articles of organization or operating agreement of the Company, agreement, vote of Members, or otherwise.

(c) Any repeal or amendment of this Article by the Members of the Company shall not adversely affect any right or protection of a Manager or Officer existing at the time of such repeal or amendment.

Article VI

Capital Accounts; Capital Commitment

6.1 Capital Accounts. An individual Capital Account shall be maintained on the Company's books for each Member.

6.2 Initial Capital Contributions.

(a) Agritope and Sunseeds will each make capital contributions to the Company up to \$100,000. Said contributions shall be made in the form

of invoices submitted to the Company by Agritope and Sunseeds with Agritope and Sunseeds receiving capital account credits for the amount of such invoices up to \$100,000 each. Each invoice shall represent the cost of Agritope or Sunseeds, as applicable, of performing its assigned work under the Development and Marketing Agreement as determined based on generally accepted cost accounting principles, to include: (i) direct labor, payroll and related costs, including taxes and benefits, (ii) direct material costs, and (iii) an additional amount, not to exceed 30% of direct labor costs, for indirect costs (i.e., overhead). Invoices submitted in excess of \$100,000 by either Agritope or Sunseeds shall be paid out of contributions made by A&W to the extent provided for in subsection (b).

(b) A&W will contribute capital to the Company at the level of \$8,000 per month, with the first contribution due on the signing of this Agreement, and each subsequent contribution due on the fifteenth day of each month thereafter (the final contribution being \$4,000) up to a total of \$100,000. Invoices submitted in excess of \$100,000 by either Agritope or Sunseeds shall be reimbursed out of cash contributions made by A&W as per the budget approved by the Members' Council.

6.3 Additional Capital Commitments. Within ten (10) days of a written notice of the Manager, each Member shall contribute to the Company by wire transfer or check the amount set forth opposite such Member's name under the heading "Additional Capital Commitment" on Exhibit A hereto, which amount shall be credited to each Member's Capital Account. The Manager may give the notice for the first \$100,000 of each Members's Additional Capital Commitment at any time after January 1, 1997 and may give the notice for the second \$100,000 of each Member's Additional Capital Commitment at any time after January 1, 1998.

6.4 Noncontributing Members. The Company will be entitled to enforce the obligations of each Member to make the contributions to capital specified in Sections 6.2 and 6.3 above, including the obligations of Agritope and Sunseeds to perform their assigned work under the Development and Marketing Agreement and submit invoices therefor, and the Company will have all remedies available at law or in equity in the event any such contribution is not so made. If any legal proceedings relating to the failure of a Member to make such a contribution are commenced, such Member shall pay all costs and expenses incurred by the Company, including attorneys' fees, in connection with such proceedings, but the payment of such costs and expenses shall not be treated as a capital contribution to the Company. Without limiting the foregoing remedies, if a Member fails to make a Capital Contribution within the time period set forth in Sections 6.2 above, then, at the election of a Majority in Interest of the other Members, the Company Percentage of the defaulting Member shall be reduced to zero (0) and the Company Percentages of the non-defaulting Members shall be increased by an equal amount and in proportion to their Company Percentages prior to the default. In addition, a defaulting Member whose Company Percentage has been so reduced to zero (0) shall no longer be entitled to receive distribution pursuant to this Agreement, except distribution as provided in Article XI upon dissolution of the Company.

6.5 Additional Capital Contributions; Right Of First Refusal.

(a) Each Member shall have a right of first refusal to make its pro rata share of all capital contributions that the Company may, from time to time, propose to accept after the date of this Agreement from any other Member, or from a proposed new Member. Each Member's pro rata share of capital contributions is the Member's Company Percentage immediately prior to such new capital contribution.

(b) If the Company proposes to accept additional capital contributions, it shall give each Member written notice of its intention, the amount of the capital contribution and the Company Percentage that will be allocated to the contributor(s) in consideration of such capital contribution. Each other Member shall have twenty (20) days from the giving of such notice to agree to contribute its pro rata share of such capital contribution upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the amount to be contributed.

(c) If any Member fails to exercise in full the rights of first refusal within such twenty (20) day period, (i) the Company shall have sixty (60) days thereafter to accept the capital contributions in respect of which such Member's rights were not exercised upon terms and conditions no more favorable to the contributors thereof than specified in the Company's notice to the Members pursuant to this Section 6.5. If the Company has not accepted the capital contributions within such sixty (60) days, the Company shall not thereafter accept any additional capital contributions, without first offering such interests to the Member in the manner provided above.

6.6 Allocations To New Members. No Additional Member shall be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company. The Manager may, at its option, at the time an Additional Member is admitted, close the Company books (as though the Company's tax year had ended) or make pro rata allocations of loss, income and expense deductions to an Additional Member for that portion of the Company's tax year in which an Additional Member was admitted, in accordance with the provisions of Section 706(d) of the Code and the Treasury Regulations promulgated thereunder.

Article VII Allocations

7.1 Allocation Of Company Income Or Loss. Subject to the "Qualified Income Offset" provisions set forth in Exhibit B, Company Income or Loss for each Accounting Period shall be allocated one hundred percent (100%) to the Capital Accounts of the Members in proportion to their respective Company Percentages.

7.2 Income Tax Allocations. Except as otherwise required by the Code and the rules and Treasury Regulations promulgated thereunder, a Member's distributive share of Company income, gain, loss, deduction, or credit for

income tax purposes shall be the same as is entered in the Member's Capital Account pursuant to this Agreement.

Article VIII Fees And Expenses

8.1 Management Compensation. The Manager shall be entitled to compensation on the basis of its reasonable costs for all management services it provides to the Company as Manager, as approved by a Majority in Interest of the Members.

Article IX Distributions To And Withdrawals By Members

9.1 Interest. No interest shall be paid to any Member on account of its interest in, or Capital Commitment to, the Company.

9.2 Withdrawals By Members. Except as provided herein, no Member may withdraw any amount from the Company without the consent of all of the other Members, except upon dissolution of the Company.

9.3 Distributions. At the end of each Fiscal Year, each Member shall promptly (and in no event later than ninety (90) days after the end of each Fiscal Year) be paid in cash, fifty percent (50%) of the Company's taxable income allocable to such Member for the Fiscal Year then ended; provided, however, the foregoing percentage can be changed by the Manager with the consent of a Majority in Interest of the Members. In addition to the foregoing distributions, the Company may ratably distribute cash, securities and other assets to each of the Members at such times and on such terms and conditions as the Manager shall deem appropriate if the Manager determines that such assets are not needed for use (or retained for reasonable reserves) in the business of the Company. Any such distributions shall be distributed to the Members pro rata in accordance with Company Percentages, but in no event shall exceed the cumulative undistributed net income from operations. A Member's right to participate in distributions under this Section 9.3 shall be restricted to the extent provided for in Sections 6.4 and 6.5(c).

9.4 Members' Obligation To Repay Or Restore. Except as required by law, no Member shall be obligated at any time to repay or restore to the Company all or any part of any distribution made to it from the Company in accordance with the terms of this Article IX.

Article X Protective Rights

10.1 Approval By Members. The following will require approval by two-thirds in interest of the Members.

(a) Any amendment of the Certificate of Formation of the Company or this Agreement;

- (b) The filling of a vacancy in the position of the Manager;
- (c) Admission of a new Member;
- (d) Approval of the budget on an annual basis, and any modification to the budget;
- (e) Any agreement committing the Company to an obligation in excess of \$10,000;
- (f) Any single expenditure or related expenditures in excess of \$5,000;
- (g) Creation of any lien or encumbrance on the assets of the Company;
- (h) An alteration of the primary purpose of the Company;
- (i) A vote to dissolve the Company;
- (j) The sale, exchange or other disposition of all, or substantially all, of the Company's assets as part of a single transaction or plan;
- (k) The merger of the Company with another limited liability company, a limited partnership, a general partnership or other entity;
- (l) Determination of transfer prices or royalties to be paid to the Company; and
- (m) Approval of growers.

10.2 Approval By Other Members.

- (a) A transaction between the Company and any Member, or any party related to that Member, will require approval of a Majority in Interest of other Members; and
- (b) A decision to compromise the obligation of a Member to return money or property paid or distributed unlawfully will require approval of a Majority in Interest of other Members.

Article XI Dissolution Of Company

11.1 Early Termination Of The Company. The Company shall dissolve and the affairs of the Company shall be wound up prior to the term provided in Section 3.1

- (a) one hundred eighty (180) days following the death, dissolution, insanity, retirement, resignation, bankruptcy or expulsion of any

Member or the occurrence of any other event which terminates the continued membership of a Member, unless two-thirds in interest of the remaining Members, within ninety (90) days of such event, agree to continue the Company;

(b) upon the vote or written consent of all the Members; or

(c) upon the entry of a decree of judicial dissolution under Section 18-802 of the Delaware Act;

11.2 Dissolution Procedures. Upon dissolution of the Company at the expiration of the Company term or as set forth in Section 11.1:

(a) The affairs of the Company shall be wound up and terminated under the direction of the Manager or the remaining Members in event of the withdrawal of the Manager. All matters relating to the dissolution and liquidation of the Company shall be determined by the Manager, or the remaining Members, as the case may be.

(b) The proceeds of liquidation shall be distributed by the Company in payment of its liabilities in the following order:

(i) to creditors, other than Members, in the order of priority established by law;

(ii) to Members in repayment of loans made to the Company;
and

(iii) to all the Members in accordance with the positive balances in their Capital Accounts and if any Member's Capital Account has a deficit balance such Member shall not be required to contribute capital to the Company with respect to such deficit balance.

Article XII Reports And Financial Accounting

12.1 Financial Records. The books of the Company shall be kept in accordance with the terms of this Agreement and otherwise in accordance with generally accepted accounting principles. The records and books of account of the Company shall be kept at the principal place of business of the Company.

12.2 Annual Reports.

(a) The Company shall transmit to each Member and to each person (or such Member's or person's legal representative) who was a Member during any part of the Fiscal Year in question within ninety (90) days after the end of each Fiscal Year of the Company the following: (1) a balance sheet for the Company as of the close of the Fiscal Year and a profit and loss statement for the Fiscal Year then ended, all in reasonable detail; and (2) a report setting forth the Capital Accounts of each Member and a description of the manner of their calculation.

(b) The Company shall also transmit within such ninety (90) day

period to each Member then a member of the Company and to each person (or such Member's or person's legal representative) who was a Member during any part of the Fiscal Year in question a Schedule K-1 showing such Member's taxable income from the Company for such Fiscal Year.

(c) The Manager will be responsible to prepare such reports, at the expense of the Company.

12.3 Tax Matters Member. The Manager shall be the Company's tax matters member under the Code and under any comparable provision of state law (the "Tax Matters Member"). A Majority in Interest of the Members may remove, with or without cause, the Tax Matters Member, and may appoint a new Tax Matters Member. The Tax Matters Member shall have the same rights and obligations as the Manager pursuant to Sections 5.7, 5.8 and 5.9 hereof.

12.4 Inspection. Each Member will have the right, at its own expense, to inspect the books and records of the Company during reasonable business hours at any time, provided that inspections in excess of once per fiscal year will be at the inspecting Member's expense.

12.5 Audit. The Manager will arrange, at the Company's expense, for an audit of the books of the Company as a Majority in Interest of the Members shall instruct the Manager in writing, and with such accounting firm as a Majority in Interest of the Members shall approve in writing.

Article XIII Amendment

13.1 Amendment. This Agreement may be amended by two-thirds in interest of the Members, provided that, except as provided in Section 6.3 (1) any reduction of a Member's Company Percentage, except in connection with the contribution of additional capital by one or more Members or addition of a new Member, (2) any increase in the Capital Commitment of any Member or other increase in the liabilities, duties, obligations or responsibility of any member, (3) any modification to the allocation provisions of this Agreement or (4) any reduction of a Member's Capital Account may only be made with the consent of such Member.

Article XIV Other Provisions

14.1 Loans. Subject to Section 10.2 of this Agreement, Members may make loans to the Company upon such terms and conditions as the Manager may prescribe.

14.2 Notice. All notices given hereunder shall be in writing. Any notice herein required to be given to the Company by any of the Members shall be deemed to have been given when delivered by hand or upon transmission by telefax or receipt by U.S. Mail or upon confirmed delivery by commercial air courier at the address set forth in Section 2.3. Any written notice herein required to be given to a Member shall be deemed to have been given when

delivered by hand or upon transmission by telefax or receipt by U.S. mail or upon confirmed delivery by commercial air courier at such Member's address set forth on the signature page hereof, or such other address as may subsequently be recorded in the records of the Company.

14.3 Counterparts. This Agreement may be executed in more than one counterpart with the same effect as if the Members executing the several counterparts had all executed one counterpart.

14.4 Binding Agreement. This Agreement shall be binding on the assignees and legal successors of the Members.

14.5 Entire Agreement; Captions. This Agreement constitutes the entire agreement of the parties and supersedes all prior written and verbal agreements among the Members with respect to the Company. Descriptive titles are used herein for convenience only and shall not be considered in the interpretation of this Agreement.

14.6 Governing Law. This Agreement, and the application and interpretation hereof, shall be governed exclusively by the terms of the Delaware Limited Liability Company Act.

14.7 Waiver Of Action For Partition. Each Member irrevocably waives during the term of the Company any right that it may have to maintain any action for partition with respect to the property of the Company.

14.8 Execution Of Additional Instruments. Each Member hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

14.9 Waivers. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

14.10 Rights And Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative, and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other remedies. Such rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

14.11 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

14.12 Heirs, Successors And Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by the

Agreement, their respective heirs, legal representatives, successors and assigns.

14.13 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company.

In Witness Whereof, the parties hereto have executed this Agreement as of the date first above written.

Members:

Agritope, Inc.

By: Adolph J. Ferro
Title: President/CEO
Address: 8505 SW Creekside Place
Beaverton, OR 97008
Attn: Chief Executive Officer

Sunseeds Company

By: David Atkinson
Title: President/CEO
Address: 18640 Sutter Blvd.
Morgan Hill, CA 95038
Attn: Chief Executive Officer

Andrew and Williamson Sales Company, Inc.

By: Fred Williamson
Title: President/CEO
Address: 9940 Marconi Drive
San Diego, CA 92173
Attn: Chief Executive Officer

Exhibit A

SCHEDULE OF MEMBERS

Name and Address	Initial Capital Contribution	Additional Capital Commitment	Company Percentage
Agritope, Inc.	\$100,000	\$200,000	33 1/3%

Sunseeds Company	\$100,000	\$200,000	33 1/3%
Andrew and Williamson	\$100,000	\$200,000	33 1/3%
Total	\$300,000	\$600,000	100%

* Exclusive of initial capital contribution

Exhibit B

CERTAIN DEFINITIONS AND ALLOCATION PROVISIONS

Adjusted Asset Value. The Adjusted Asset Value with respect to any Company asset shall be the asset's adjusted basis for federal income tax purposes, except as follows:

(i) The initial Adjusted Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset at the time of contribution, as determined by the contributing Member and the Company.

(ii) In the discretion of the Manager, the Adjusted Asset Values of all Company assets may be adjusted to equal their respective gross fair market values and the resulting unrecognized Company Income or Loss allocated to the Capital Accounts of the Members, as of the following times: (i) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis capital contribution; and (ii) the distribution by the Company to a Member of more than a de minimis amount of Company assets, unless all Members receive simultaneous distributions of either undivided interests in the distributed property or identical Company assets in proportion to their interests in Company distributions as provided in Sections 9.3 and 11.2.

(iii) The Adjusted Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values and the resulting unrecognized Company Income or Loss allocated to the Capital Accounts of the Members, as of the following times: (i) the termination of the Company for federal income tax purposes pursuant to Code Section 708(b)(1)(B); and (ii) the termination of the Company, either by expiration of the Company's term or in accordance with Section 10.1.

Company Income or Loss. Company Income or Loss shall be an amount computed for each Accounting Period as of the last day thereof that is equal to the Company's taxable income or loss for such Accounting Period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(i) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Company Income or Loss

pursuant to this paragraph shall be added to such taxable income or loss;

(ii) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) of the Code expenditures pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(i) and not otherwise taken into account in computing Company Income or Loss pursuant to this paragraph shall be subtracted from such taxable income or loss.

(iii) In the event the Adjusted Asset Value of any Company asset is adjusted to clause (ii) or (iii) of this definition of Adjusted Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Company Income or Loss.

(iv) Gain or loss resulting from any disposition property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Adjusted Asset Value of the property disposed of; and

(v) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Accounting Period.

Depreciation. Depreciation means, for each Accounting Period, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Accounting Period, except that if the Adjusted Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Accounting Period, Depreciation shall be an amount which bears the same ratio to such beginning Adjusted Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Accounting Period bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Accounting Period is zero, Depreciation shall be determined with reference to such beginning Adjusted Asset Value using any reasonable method selected by the Manager.

Qualified Income Offset. The allocations provided for in Article VII shall be subject to the following exceptions:

(i) Any loss or expense otherwise allocable to a Member that exceeds the balance in such Member's Capital Account shall instead be allocated first to all Members who have positive balances in their Capital Accounts in proportion to such positive balances, and when all Members' Capital Accounts have been reduced to zero (0), then to all Members in proportion to Company Percentages.

(ii) In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4) through (d)(6), that causes the balance in such Member's Capital Account to be reduced below zero (0), items of Company income and gain

shall be specially allocated to such Member in an amount and manner sufficient to eliminate the deficit balance in its Capital Account created by such adjustments, allocations, or distributions as quickly as possible.

(iii) For purposes of the foregoing, the balance in a Member's Capital Account shall take into account the adjustments provided in Treasury Regulation Section 1.704-1(b) (2) (ii) (d) (4) through (d) (6).

(iv) Any special allocations of items of profit, income, gain, loss or expense pursuant to subparagraphs (i) and (ii) shall be taken into account in computing subsequent allocations, so that the net amount of any items so allocated and the profit, gain, loss, income, expense, and all other items allocated to each Member shall, to the extent possible, be equal to the net amount that would have been allocated to each such Member if such special allocations pursuant to subparagraphs (i) and (ii) had not occurred.

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DEVELOPMENT AND MARKETING AGREEMENT

THIS AGREEMENT ("Agreement") between SUPERIOR TOMATO ASSOCIATES, L.L.C., a Delaware limited liability company ("STA"), AGRITOPE, INC., a Delaware corporation ("Agritope"), SUNSEEDS COMPANY, a _____ corporation ("Sunseeds"), and ANDREW AND WILLIAMSON SALES COMPANY, INC., a _____ corporation ("A&W") is effective as of the 19th day of February, 1996 ("Effective Date").

1. Background.

1.1 Concurrently with this Agreement, Agritope, Sunseeds and A&W are entering into an Operating Agreement of even date (the "Operating Agreement") for Superior Tomato Associates, L.L.C.

1.2 The parties desire to combine Sunseeds' tomato seed genetics and know-how with Agritope's SAMase technology and know-how and A&W's growing, packing and distribution know-how to produce and commercialize in North America economically superior tomatoes for the fresh market; the product shall be fresh market cherry, roma and vine-ripened large fruited tomato varieties using seed developed by STA.

2. Definition Of Terms.

The words appearing in capitalized form throughout this Agreement shall have the meanings assigned to them in this Section 2.

Affiliate means, for the company, an entity controlling, controlled by, or under common control with such company. "Control" for the purposes of this definition shall mean ownership of fifty percent (50%) or more of voting securities.

Agritope Know-How means unpatented inventions, data, processes, compositions, techniques and other technical information proprietary to Agritope, which is solely owned by Agritope or which Agritope has the right to control the use of, relating to methods for ethylene regulation in the Field.

Agritope Licensed Know-How means all Agritope Know-How in existence as of the Effective Date or created or acquired during the term of the Cooperative Development Work.

Agritope Licensed Patents means all Agritope Patents in existence as of the Effective Date of this Agreement, or claiming an invention conceived or discovery made, or which are acquired, during the term of the Cooperative

Development Work.

Agritope Patents means all those United States and foreign patent applications and patents (a) listed on Schedule B to this Agreement to the extent of claims reading on methods for regulation of ethylene production, (b) all United States and foreign patent applications and patents, including continuations and divisions, claiming an invention conceived or discovery made (including any discovery or breeding of a Novel Variety) solely by employees and/or agents of Agritope pursuant to the Cooperative Development Work, that is necessary or useful to apply inventions in clause (a) to the Field, and (c) any reissues, re-examinations and foreign counterparts of the foregoing. As used in this definition, the word "patent" includes a certificate issued under the U.S. Plant Protection Act (and foreign counterparts thereof) and the words "patent application" includes an application for such certificate.

Applicable Royalty Percentage for a particular variety of Product means the royalty percentage established pursuant to Section 6.1 of this Agreement as a function of the Savings Per Box for such variety of Product that is determined pursuant to Section 3.2 of this Agreement.

Approved Grower means a grower approved pursuant to Section 10.1 of the Operating Agreement.

Box means, for any variety of tomatoes, a box of a size in which such variety of tomatoes is most customarily packed.

Comparison Tomato has the meaning set forth in Section 3.2.

Cooperative Development Work means the Cooperative Development Work described in Section 3 of this Agreement.

Cost of Goods for a product means the full cost of producing or acquiring the product, as determined by generally accepted cost accounting procedures. Cost of Goods shall not include general corporate allocations or other allocations which are not directly related to production of the item and shall not include amortization of development expenditures. In the event any item is acquired by a party from an Affiliate of such party, "cost of manufacturing or acquiring" shall be deemed to mean such Affiliate's cost of manufacturing or acquiring.

The Field means seeds and fruit for fresh market cherry, roma and vine-ripened large fruited tomato varieties, which seeds and fruit contain recombinant genetic material that regulates production of ethylene.

Joint Patents means all United States and foreign patent applications and patents, including continuations and divisions, claiming an invention conceived or discovery made (including any discovery or breeding of a Novel Variety) jointly by employees and/or agents of both Agritope and Sunseeds, including any reissues, re-examinations and all foreign counterparts thereof. Ownership of an invention shall conclusively be considered "joint" when one or more employees or agents from Agritope and one or more employees or agents

from Sunseeds must be indicated as co-inventors or joint breeders under United States laws on the patent application. As used in this definition, the word "patent" includes a certificate issued under the U.S. Plant Protection Act (and foreign counterparts thereof) and the words "patent application" includes an application for such certificate.

Net Sales means the gross invoice price of each variety of Product sold by A&W or its agents, on A&W's own behalf or on behalf of any growers, less the following items, but only insofar as such items are separately invoiced and included in the gross selling prices: (i) customs duties, import, export, excise, and sales taxes directly imposed with reference to particular sales; (ii) costs of transportation; and (iii) credit for returns of defective Products. In the event of any transfer of Product in other than a bona fide arm's-length transaction exclusively for money, or any transfer of Product which otherwise does not result in customary sales revenue, such transfer shall be (unless the parties agree otherwise) deemed to constitute a sale at the then current average selling price for the Product.

Novel Variety shall mean "novel variety", as such term is defined in the U.S. Plant Protection Act (7 U.S.C. Section 2541), as the same may be amended from time to time.

Product means any product in the Field developed through the Cooperative Development Work under this Agreement.

Project means the Cooperative Development Work performed by the Parties to develop, obtain regulatory approval and market a particular variety within the Field.

Regulatory Approval means (1) in the United States, deregulation from the U.S.D.A. (or successor agency) and completion of food safety consultations with the FDA (or successor agency) for production and sales of the Product, or (2) outside of the United States, analogous order(s) by non-U.S. governmental agencies which require regulatory approval prior to production and sales of a Product in such non-U.S. country.

Savings Per Box has the meaning set forth in Section 3.2.

Sharing Payment means any payment provided for in Section 6 hereof.

Sunseeds Know-How means unpatented inventions, data, processes, compositions, techniques and other technical information proprietary to Sunseeds, and biological material, which is solely owned by Sunseeds or which Sunseeds has the right to control the use of, relating to use of tomato varieties potentially applicable to the Field, including without limitation proprietary germplasm.

Sunseeds Licensed Know-How means all Sunseeds Know-How in existence as of the Effective Date or created or acquired during the term of the Cooperative Development Work.

Sunseeds Licensed Patents means all Sunseeds Patents in existence as of the effective date of this Agreement, or claiming an invention created, or discovery made, or which are acquired, during the term of the Cooperative Development Work.

Sunseeds Patents means all those United States and foreign patent applications and patents (a) listed on Schedule C to this Agreement, (b) all United States and foreign patent applications and patents, including continuations and divisions, claiming an invention conceived or discovery made (including any discovery or breeding of a Novel Variety) solely by employees and/or agents of Sunseeds pursuant to the Cooperative Development Work that is necessary or useful to apply the inventions in clause (a), and any other matter included within the definition of Sunseeds Patents, to the Field, and (c) any reissues, re-examinations and foreign counterparts of the foregoing. Sunseeds Patents also includes Sunseeds' biological material, including proprietary germplasm, to the extent it is covered by a patent or patent application. Without limiting the foregoing, Sunseeds Patents shall include all patent applications and patents on those varieties of tomatoes that may become the subject of Projects under this Agreement. As used in this definition, the word "patent" includes a certificate issued under the U.S. Plant Protection Act (and foreign counterparts thereof) and the words "patent application" includes an application for such certificate.

Territory means the United States and Canada.

3. Cooperative Development Work.

3.1 Period; Objective. From the Effective Date, Agritope, Sunseeds and A&W shall work together to develop and obtain any required Regulatory Approval for Products for STA. STA shall from time-to-time approve specific Projects for different varieties of Product within the Field. In connection with such efforts, Sunseeds will furnish to Agritope tomato germplasm for the particular varieties to be developed in the Projects. Agritope will implant its genetic material into such germplasm. Sunseeds will make the foundation seed and hybrid seed. Sunseeds will conduct the breeding activities. Agritope and A&W will participate in the breeding activities, including selection of hybrid seed from foundation seed. A&W will supply the production acreage and distribution infrastructure for the development and testing of the Product.

3.2 Production Testing; Agreement On Cost Savings. At such time as Agritope and Sunseeds conclude that a particular variety of Product is ready for production testing, they will so notify A&W. Using seeds provided by Sunseeds, A&W will then provide approximately 3-5 acres for production testing of such variety (covering as broad a range of growers and as many locations as possible) and will grow, or cause Approved Growers to grow, fruit under conditions resembling as nearly as possible the conditions of large scale commercial growing. STA will keep detailed records of the cost of growing, picking and packing such fruit, of the quantity produced, and of shrinkage, and will furnish such records to Agritope and Sunseeds. A&W will cooperate, and will obtain the cooperation of each Approved Grower, to furnish to STA information that STA may reasonably require for such record keeping. A&W will

also grow, or cause Approved Growers to grow, and furnish to STA the same information concerning the cost of growing, picking and packing, and shrinkage of, an equivalent quantity of fruit of similar variety using seeds of the type A&W is then using most commonly in its commercial operations (the "Comparison Tomato"). Based upon such information (and other industry information as is available concerning growing, picking and packing of such tomato varieties) STA will determine in good faith the dollar amount per Box that may be reasonably expected to be saved by use of such Product, instead of the Comparison Tomato, in large scale commercial growing, picking and packing. Such dollar amount per Box, will be referred to in this Agreement as the "Savings Per Box." STA will inform Agritope, Sunseeds and A&W of such determination and provide them with the data supporting such determination.

3.3 Exchange Of Information. During the term of the Cooperative Development Work, Agritope and Sunseeds will exchange with each other and share with STA all material information developed pursuant to the Cooperative Development Work, excluding the exchange of Agritope Know-How and information concerning Agritope Patents and Sunseeds Know-How and information concerning Sunseeds Patents, relating to the Field. Agritope and Sunseeds will also furnish to A&W all information concerning the Product that is pertinent to its production testing. A&W will share with STA and the other parties all material information concerning the Product developed by A&W in the course of growing, picking and packing the Product, including quantity and cost.

3.4 Funding.

(a) STA shall fund the Cooperative Development Work for each Project on a full cost-reimbursement basis in accordance with budgets pre-approved by STA. STA will have no obligations to fund any expenditures that are not within such approved budgets. STA will not reimburse parties for any costs incurred prior to the date of this Agreement.

(b) Each party shall maintain detailed records which accurately identify costs and expenses incurred and paid in connection with the Cooperative Development Work for each specific Project. Each party shall submit this information to STA as of the last day of each month (or such alternative dates as STA may establish) for the preceding month and shall submit to STA on January 15 and July 15 of each year an estimate of expenses to be incurred during the current six months.

4. Production And Supply Of Seeds.

4.1 Sunseeds Responsibilities. Sunseeds will produce and store seeds for Product and ship such seeds on behalf of and at the direction of STA. STA will remit to Sunseeds Sunseeds' Cost of Goods for such seeds from STA's proceeds of sale of such seeds. Sunseeds shall at all times use its best efforts to supply STA's demand for seeds for Product.

4.2 Seed Allocations.

(a) A&W will have the first right each season to obtain its

requirements of seeds for Product. A&W will provide to STA A&W's forecasts for seed six months prior to anticipated shipment, and firm orders for seed (which will not deviate from forecast by more than twenty percent (20%)) 60 days prior to shipment, which orders must be placed by June 1 and December 1 of each year. To the extent firm orders are not received by such dates, STA may allocate available seeds to third parties. A&W will pay to STA, no later than thirty (30) days after invoice, STA's Cost of Goods for such seeds, plus fifteen percent (15%) of such Cost of Goods.

(b) If seeds remain in excess of A&W's requirements, STA may supply such seeds to third party Approved Growers on the such terms as STA deems advisable.

4.3 Seed Specifications. Sunseeds shall supply seed for Product that shall meet the specifications for such seed as approved in writing by STA.

4.4 Failure Of Sunseeds To Meet STA Requirements. To the extent that Sunseeds cannot meet STA's requirements for seed for Product, STA shall be free to obtain such seeds from a third party or parties. Sunseeds agrees to provide the third party that STA selects with the necessary information and Sunseeds Know-How to allow the third party to produce the seeds. As a condition to the disclosure to the third party, the third party will execute a non-disclosure agreement substantially in the form of Exhibit A of this Agreement.

4.5 Restricted Rights; Labels. A&W will have the right to use the seed furnished under this Agreement solely to produce fruit in accordance with the terms of this Agreement and shall require Approved Growers not to propagate the seed or use it for other purposes. Sunseeds and A&W shall insure that all seeds provided under Section 4 and under Section 3.2 shall be provided under a label containing either the words "Unauthorized Propagation Prohibited" or "Unauthorized Seed Multiplication Prohibited" and, after a certificate issues under the U.S. Plant Protection Act, words such as "U.S. Protected Variety". Seeds transferred outside the United States will be transferred under comparable labels appropriate in the country to which the seeds are transferred.

5. Marketing And Distribution Rights.

5.1 Commercialization. A&W shall use best efforts to arrange for Approved Growers to grow fresh tomato Product, and to market and sell fresh tomato Product in the Territory. STA will not fund or reimburse any growing, picking, packing or distribution costs for production or sale of Product (including those expenses incurred pursuant to Section 3.2). A&W will market and sell all tomato Product under a trade name and mark to be determined by STA, which trade name and mark will be owned solely by STA.

5.2 Reserved Right To Compete. Each party expressly reserves the right to research, develop and market products (expressly including tomato products) which compete indirectly or directly with the Products developed and marketed under this Agreement.

6. Sharing Of Savings And Premium.

6.1 Applicable Royalty Percentage. STA, in consultation with the other parties to this Agreement, and with the concurrence of at least two of the three other parties, will establish an Applicable Royalty Percentage for each variety of Product based on the Savings Per Box established pursuant to Section 3.2. In conjunction with its commercialization efforts, A&W will require each Approved Grower to agree in writing to pay to STA, the Applicable Royalty Percentage. Any exceptions to the standard Applicable Royalty Percentage must be approved in writing by STA. In the event that A&W desires to act as an Approved Grower, the Applicable Royalty Percentage for A&W will be the Applicable Royalty Percentage established by STA or such other Applicable Royalty Percentage as STA and A&W shall negotiate. Notwithstanding any other provision hereof, no Approved Grower (including A&W) will receive any seed for Product, until such Approved Grower has entered into an agreement in form and substance satisfactory to STA committing to pay the Applicable Royalty Percentage.

6.2 Sharing Payments. In consideration of the Cooperative Development Work to be undertaken and other obligations set forth herein, A&W agrees to pay STA as follows: No later than thirty (30) days after the first and all subsequent calendar months following the first sale of Product, A&W shall pay to STA for each variety of Product an amount equal to the Applicable Royalty Percentage multiplied by Net Sales of such variety of Product shipped in such month by A&W and by Approved Growers arranged by A&W. The Sharing Payments due and payable hereunder shall be computed for each calendar month in the currency in which the sale was made, but shall be definitively discharged by payment to STA in U.S. dollars converted from such currency using the closing spot exchange rate between the two currencies quoted in the Wall Street Journal (or, if not available, such other mutually agreeable financial publication of international circulation) in effect on the last business day of the calendar quarter to which the payment relates.

7. Patents, Know-How, License Grants.

7.1 Agritope Sole Ownership. Agritope shall own all Agritope Patents and Agritope Know-How.

7.2 Sunseeds Sole Ownership. Sunseeds shall own all Sunseeds Patents and Sunseeds Know-How.

7.3 A&W Sole Ownership. A&W shall own all A&W patents, trademarks and labels.

7.4 Joint Patents; Rights In Product.

(a) STA shall own, and is hereby assigned, all Joint Patents on inventions created or discoveries made in the Cooperative Development Work.

(b) Within the Field STA shall use any Joint Patents solely for

the development and sale of Products pursuant to this Agreement.

(c) Whether or not any Product qualifies as a Joint Patent, the Product shall be owned by STA, and each party hereby assigns all rights in the Product to STA.

7.5 Agritope License To STA. Subject to the terms and conditions of this Agreement, for Product whose production or sale is covered by a claim of an Agritope Licensed Patent, or which use Agritope Licensed Know-How, Agritope hereby grants STA a non-exclusive, paid-up, royalty free (except as provided herein), license, with the right to sublicense with the prior written approval of Agritope (not to be unreasonably withheld), under Agritope Licensed Patents and Agritope Licensed Know-How to produce or have produced and use, sell or have sold such Products, in the Territory.

7.6 Sunseeds License To STA. Subject to the terms and conditions of this Agreement, for Product whose production or sale is covered by a claim of a Sunseeds Licensed Patent, or which use Sunseeds Licensed Know-How, Sunseeds hereby grants STA a non-exclusive, paid-up, royalty free (except as provided herein), license, with the right to sublicense with the prior written approval of Sunseeds (not to be unreasonably withheld), under Sunseeds Licensed Patents and Sunseeds Licensed Know-How to produce or have produced and use, sell or have sold such Products, in the Territory.

7.7 Notice Of Sole Rights. After the Effective Date of this Agreement, a party asserting sole ownership of any patent rights or know-how in the Field developed pursuant to the Cooperative Development Work shall provide reasonable notice to STA of its intention to seek patent protection or to assert proprietary interest in such Know-How. STA shall have the right to a reasonable opportunity to review and comment on such assertions prior to patent applications being filed. Any dispute among the parties to this Agreement concerning such assertion shall be resolved by arbitration pursuant to Section 17.8 hereof.

7.8 Regulatory Files. STA, Agritope and Sunseeds shall each have full access to all materials filed and correspondence with the U.S.D.A., FDA and other regulatory agencies in connection with the Cooperative Development Work and each Product, and shall be entitled to use and rely on such materials with respect to any regulatory approvals for a product sought by either, whether or not such product relates to this Agreement.

7.9 Cooperation In Filings, Prosecution and Enforcement. Each party agrees to take such action and execute such documents as shall be necessary or appropriate for the filing of notices, certificates and acknowledgments of the licenses granted and assignments made hereunder, for the prosecution of all Joint Patents, and for the enforcement against third parties of all intellectual property rights of STA arising under this Agreement. Each party hereby grants to STA an irrevocable power-of-attorney coupled with an interest to undertake such activities and to execute and file all instruments necessary or appropriate in connection with such activities.

8. Prosecution Of Patent Rights.

8.1 Agritope Patents. Agritope shall have the right, but no obligation, to timely prepare, file, prosecute and maintain, under its exclusive control and at its expense, Agritope Patents.

8.2 Sunseeds Patents. Sunseeds shall have the right, but no obligation, to timely prepare, file, prosecute and maintain, under its exclusive control and at its expense, Sunseeds patents.

8.3 Joint Patents. STA shall employ counsel acceptable to Agritope and Sunseeds for the purpose of timely preparing, filing, prosecuting and maintaining Joint Patents. The reasonable expenses of preparing, filing, prosecuting and maintaining corresponding Joint Patents shall be borne by STA.

8.4 Prior Art; Review And Comment. Agritope and Sunseeds shall each cooperate with the other to ensure that all prior art that is pertinent to the examination of a Joint Patent is brought to the attention of the other party. Each of the parties shall have the right to review and comment on substantive documents prepared in connection with the preparation, filing, prosecution and maintenance of the Joint Patents prior to the filing of such papers; however, such review and comment shall be performed expeditiously so as not to negatively affect patent rights.

9. Trademarks.

No party to this Agreement shall have the right to use any trademark of any other party without such party's prior written consent.

10. Confidential Information.

10.1 Confidentiality Agreement. The use and disclosure of proprietary information shall be governed by the attached Schedule A Non-Disclosure Agreement. The Schedule A Non-Disclosure Agreement shall survive termination of this Agreement.

10.2 Use Of Consultants. The parties contemplate that from time to time during the term of this Agreement third party technical consultants may be employed by either party in connection with the development of Products. The parties agree that information designated as confidential may be disclosed to such consultants provided that the other party is given reasonable notice of the circumstances and nature of the intended disclosure and that the disclosure is limited to information necessary to enable the technical consultant to provide technical consulting services. The consultant will be required to sign an agreement committing the consultant to protect such confidential information.

11. Reports.

11.1 Quarterly Sales Reports. Each monthly payment made to STA under Section 6 shall be accompanied by a full and accurate accounting by A&W. Each

such report shall include at least the following information for each type of Product as to each country during the month:

(a) The gross invoice price of each variety of Product shipped;

(b) The applicable deductions from such invoice price to yield Net Sales for each variety of Product shipped; and

(c) Computation of the sharing payment due to STA pursuant to Section 6.1 of this Agreement.

11.2 Cost Of Goods. Sunseeds will furnish to STA, and STA will furnish A&W, reports on such party's Cost of Goods for seed Product shipped to such party.

12. Books And Records.

12.1 Records. Each party shall keep full and accurate books of account containing all particulars that may be necessary for the purpose of calculating all amounts owing to the other parties. Books of account maintained by the parties shall be kept at their principal place of business. All such reports and data shall be open for inspection on a confidential basis at all reasonable times and either Party may conduct at its own expense, once every year during normal business hours through an independent certified public accountant, an examination of the accounts contemplated above. If any audit shall show that the selling party underpaid the amounts due under this Agreement herein as to the period subject of the audit, then the party which underpaid shall immediately pay such deficiency with interest thereon in accordance with Section 12.3. If the underpayment shall exceed five percent (5%) of the amount owed for any calendar year, the party underpaying shall also reimburse the other for costs related to such audit.

12.2 Retention. Books and records required to be maintained by the Parties hereunder shall be retained for at least three (3) years from the date of the payment to which they pertain.

12.3 Interest. All payments due hereunder that are not paid when due and payable hereunder shall bear interest at an annual rate equal to 4% (four percent) above the U.S. dollar reference rate ("prime rate") charged from time to time by Bank of America N.T. & S.A. from the date due until paid or at such lower rate as shall be the maximum rate permitted by law.

13. Term.

This Agreement shall continue so long as any Product is being developed or marketed under this Agreement, unless terminated earlier pursuant to Section 14.

14. Breach.

14.1 Material Breach. STA may terminate this Agreement as to any party

for any material breach by such party of this Agreement or the Operating Agreement thirty (30) days after providing the other party with written details of the breach if the breach remains uncured at the end of the thirty (30) day notice period. Any party may terminate its obligations under this Agreement for any material breach by STA thirty (30) days after providing STA with written details of the breach if the breach remains uncured at the end of such thirty (30) day notice period. In the event of any such termination as to a party, except arising from a material breach by STA, such party shall immediately deliver to STA all information and work in process developed under the Cooperative Development Work.

15. Representations And Indemnities.

15.1 Agritope Representations. Agritope represents and warrants that as of the Effective Date:

(a) It has granted no prior license or assignment of rights under the Agritope Patents in the Field.

(b) There are no foreign or United States administrative, judicial or Patent and Trademark Office proceedings contesting the inventorship or ownership of any Agritope Patent that is likely to be embodied or used in a Product;

(c) Neither the execution and delivery of this Agreement, nor the performance of the obligations of Agritope hereunder shall result in a violation, breach or event of default (or any event or condition which with notice or the passage of time or both would constitute an event of default) of or with respect to any agreement, mortgage, indenture or order of any court of competent jurisdiction binding upon Agritope or upon the property of Agritope;

(d) It is party to no contract materially adverse to the obligations undertaken and rights granted in this Agreement;

(e) It holds a patent to the SAMase gene and has obtained a license to the binary vector system to be used in developing the Product; it has consulted with patent counsel concerning the patent rights of third parties and, to the best of its knowledge, it is free to operate using its technology as contemplated in this Agreement without infringement of the rights of third parties. There is no assurance, however, that rights of third parties will not impinge on such freedom to operate.

EXCEPT AS SET FORTH IN THIS SECTION 15.1, AGRITOPE MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF NON-INFRINGEMENT.

15.2 Agritope Indemnification -- Representations And Warranties. Agritope shall indemnify STA for any losses sustained or expenses incurred by STA as a result of a breach by Agritope of any of the foregoing representations and warranties.

15.3 Sunseeds Representations. Sunseeds represents and warrants to STA that as of the Effective Date:

(a) It has granted no prior license or assignment of rights under the Sunseeds Patents that would materially impair its ability to develop, manufacture or sell Products.

(b) There are no foreign or United States administrative, judicial or Patent and Trademark Office proceedings contesting the inventorship or ownership of any Sunseeds Patent that is likely to be embodied or used in a Product.

(c) Neither the execution and delivery of this Agreement, nor the performance of the obligations of Sunseeds hereunder shall result in a violation, breach or event of default (or any event or condition which with notice or the passage of time or both would constitute an event of default) of or with respect to any agreement, mortgage, indenture, or order of any court of competent jurisdiction binding upon Sunseeds or upon the property of Sunseeds.

(d) It is party to no contract materially adverse to the obligations undertaken in this Agreement.

(e) It owns all rights in the tomato varieties and germplasm to be used in developing the Product; it has consulted with patent counsel concerning the patent rights of third parties and, to the best of its knowledge, it is free to operate using its technology as contemplated in this Agreement without infringement of the rights of third parties. There is no assurance, however, that rights of third parties will not impinge on such freedom to operate.

EXCEPT AS SET FORTH IN THIS SECTION 15.3, SUNSEEDS MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF NON-INFRINGEMENT OF THE RIGHTS OF THIRD PARTIES.

15.4 Sunseeds Indemnification -- Representations And Warranties. Sunseeds shall indemnify STA for losses sustained or expenses incurred by STA as a result of a breach by Sunseeds of the foregoing representations and warranties.

15.5 A&W Representations. A&W represents and warrants to STA that as of the Effective Date:

(a) Neither the execution and delivery of this Agreement, nor the performance of the obligations of A&W hereunder shall result in a violation, breach or event of default (or any event or condition which with notice or the passage of time or both would constitute an event of default) of or with respect to any agreement, mortgage, indenture, or order of any court of competent jurisdiction binding upon A&W or upon the property of A&W.

(b) It is party to no contract materially adverse to the

obligations undertaken in this Agreement.

EXCEPT AS SET FORTH IN THIS SECTION 15.5, A&W MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

15.6 A&W Indemnification -- Representations And Warranties. A&W shall indemnify STA for losses sustained or expenses incurred by STA as a result of a breach by A&W of the foregoing representations and warranties.

15.7 STA Warranty Disclaimer. STA MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF NON-INFRINGEMENT OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

16. Infringement; Third Party Licenses.

16.1 Defense Of Third Party Infringement Suits. In the event that a third party shall make any claim or sue any party alleging that the production or sale of a Product (including, without limitation, seeds), infringes a patent of such third party, then STA shall have the option to control the defense of such suit. The parties shall provide reasonable cooperation in the defense of such suit and furnish all evidence in their control. All attorneys' fees as well as any judgments, settlements, or damages payable with respect to such claim or suit shall be the responsibility of STA. Notwithstanding the foregoing, if the claim or suit alleges that the third party's rights are infringed solely by technology licensed to STA by one of the three other parties to this Agreement, such party will indemnify, hold harmless and defend the other two of such parties from and against any judgments, settlements or damages they may be required to pay with respect to such suit. The indemnifying party will have the sole right to control the defense of such claim or suit. No party shall enter into any settlement that materially affects the other party's rights or interests without such other party's prior written consent, which consent shall not be unreasonably withheld.

16.2 Suits For Infringement By Others. In the event any party becomes aware of any actual or threatened infringement in the Field of the Agritope Licensed Patents or the Agritope Licensed Know-How, or the Sunseeds Licensed Patents or Sunseeds Licensed Know-How, that party shall promptly notify STA and STA shall determine the most appropriate action to take. In the event STA does not take action against such alleged infringer within a reasonable period, not to exceed one hundred eighty (180) days, the owner of such patent rights or know-how shall be entitled to take action against the alleged infringer.

16.3 Third Party Licenses. In the event that STA determines that it is necessary or advisable to obtain a license from a third party with respect to development, production or sale of Products, Agritope, Sunseeds and A&W will make equal contributions to the capital of STA to pay the amount of any lump sum license fee payable to such third party and the Applicable Royalty Percentage will be increased by the amount of royalty payable to such third

party on the sale of Products.

17. General.

17.1 Entire Agreement. This Agreement, the Operating Agreement and the Schedules hereto and thereto contain the entire agreement between the parties relating to the subject matter hereof and all prior understandings, representations and warranties between the parties are superseded; provided, however, that this Agreement does not limit any agreement restricting disclosure or use of confidential or proprietary information previously entered into between the parties. None of the terms of this Agreement shall be deemed to be waived or amended by any party unless such a waiver or amendment specifically references this Agreement and is in writing signed by the party to be bound.

17.2 Relationship Of Parties. Each party acknowledges that it is not an agent of any other party to this Agreement and has no authority to speak for, represent, or obligate such other party in any way (except in the case of Agritope, acting in its capacity as Manager of STA). This Agreement does not and shall not be deemed to create any relationship of a joint venture or a partnership.

17.3 Severability. The parties do not intend to violate any public policy or statutory or common law. However, if any sentence, paragraph, clause or combination of this Agreement is in violation of any law or is found to be otherwise unenforceable by a court from which there is no appeal, or no appeal is taken, such sentence, paragraph, clause, or combination of the same shall be deleted and the remainder of this Agreement shall remain binding, provided that such deletion does not alter the basic structure of this Agreement. In such event, the parties shall renegotiate this Agreement in good faith, but should such negotiations not result in a new agreement within ninety (90) days of the initiation of such negotiations, then this Agreement may be terminated by any party by thirty (30) days notice to the other.

17.4 Force Majeure. Any party shall be excused from the performance of its obligations under this Agreement and shall not be liable for damages to the other if such performance is prevented by circumstances beyond its effective control. Such excuse from performance shall continue so long as the condition responsible for such excuse continues and for a thirty (30) day period thereafter. For the purposes of this Agreement, circumstances beyond the control of a party which excuse that party from performance shall include, but shall not be limited to, acts of God, acts, regulations or laws of any government including currency controls, war, civil commotion, commandeering, destruction of facility or materials by fire, earthquake, storm or other casualty, labor disturbances, judgment or injunction of any court, epidemic, and failure of public utilities or common carrier.

17.5 Notices. All notices and demands required or permitted to be given or made pursuant to this Agreement shall be in writing and shall be effective when personally given or made or when placed in an envelope and deposited in the United States certified mail postage prepaid, return receipt requested,

addressed as follows:

If to STA:
c/o Agritope, Inc.
8505 SW Creekside Pl.
Beaverton, OR 97008
Attention: Chief Executive Officer

If to Agritope, in care of:
Agritope, Inc.
8505 SW Creekside Pl.
Beaverton, OR 97008
Attention: Chief Executive Officer

with a copy to:

Howard G. Ervin
Cooley Godward Castro Huddleson
& Tatum
One Maritime Plaza, 20th Floor
San Francisco, CA 94111-3580

with a copy to:

Howard G. Ervin
Cooley Godward Castro Huddleson
& Tatum
One Maritime Plaza, 20th Floor
San Francisco, CA 94111-3580

If to Sunseeds:
Sunseeds Company
18640 Sutter Blvd.
Morgan Hill, CA 95038
Attention: Chief Executive Officer

If to A&W:
Andrew and Williamson Sales Company,
Inc.
9940 Marconi Drive
San Diego, CA 92173
Attention: Chief Executive Officer

or to such other address as to which either party may notify the other.

17.6 Binding. This Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. This Agreement shall be assignable: (1) by either party without the consent of the other to any Affiliate of the party or more of the voting securities); (2) by either party with the written consent of the other; or (3) by either party without the consent of the other in connection with the purchase of substantially all the assets of its business to which this Agreement relates. Any attempted assignment which does not comply with the terms of this Section shall be void.

17.7 Governing Law. This Agreement is deemed to have been executed in and shall be governed by and construed according to the laws of the State of California.

17.8 Arbitration. Any disputes under this Agreement will be resolved by binding arbitration in San Francisco, California, in accordance with the commercial arbitration rules of the American Arbitration Association. Full discovery will be accorded in accordance with the California Code of Civil Procedure. The parties shall bear equally the costs and fees of the arbitration; however, the arbitrator shall be authorized to determine whether a party is the prevailing party, and if so, to award to that prevailing party reimbursement for its reasonable attorneys' fees, disbursements (including, for example, expert witness fees and expenses, photocopy charges, travel

expenses, etc.), and costs arising from the arbitration.

In Witness Whereof, this Agreement is signed by duly authorized representatives of each party as of the Effective Date.

SUPERIOR TOMATO ASSOCIATES, L.L.C.

AGRITOPE, INC.

By: Agritope, Inc.
Its Manager

By: /s/ Adolph J. Ferro
President/CEO

By: /s/ Adolph J. Ferro
President/CEO

Date: February 19, 1996

Date: February 19, 1996

SUNSEEDS COMPANY

ANDREW AND WILLIAMSON SALES COMPANY,
INC.

By: /s/ David Atkinson
President/CEO

By: /s/ Fred L. Williamson
Pres.

Date: February 21, 1996

Date: February 29, 1996

Exhibit A

NON-DISCLOSURE AGREEMENT

(MUTUAL DISCLOSURE)

This Agreement is incorporated by reference in the Development and Marketing Agreement by and among, Superior Tomatoes Association, L.L.C. ("STA"), Agritope, Inc., Sunseeds, Inc. and Andrew and Williamson Sales Company, Inc. to assure the protection and preservation of the confidential and or proprietary nature of information to be disclosed or made available to each other in connection with the activities under such Development and Marketing Agreement and the business of STA.

Whereas, the parties desire to assure the confidential status of the information which may be disclosed to each other;

Now Therefore, in reliance upon and in consideration of the following undertakings, the parties agree as follows:

1. Subject to the limitations set forth in Paragraph 2, all information disclosed to another party to this Agreement shall be deemed to be "Proprietary Information." The term "Proprietary Information" shall include trade secrets, confidential knowledge, data or any other proprietary information. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, trade secrets, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, compounds, cell lines, know-how, improvements, discoveries, developments, test results, designs and techniques; and (b) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and information regarding the skills and compensation of employees of a party.

2. The term "Proprietary Information" shall not be deemed to include information which the receiving party can demonstrate by competent written proof: (i) is now, or hereafter becomes, through no act or failure to act on the part of the receiving party, generally known or available; (ii) is known by the receiving party at the time of receiving such information as evidenced by its records; (iii) is hereafter furnished to the receiving party by a third party, as a matter of right and without restriction on disclosure; or (iv) is independently developed by the receiving party without any breach of this Agreement.

3. Each party shall maintain in trust and confidence and not disclose to any third party, or use for any purpose other than activities under such Development and Marketing Agreement and the business of STA, any Proprietary Information received from the other party. Proprietary Information shall not be used for any purpose or in any manner that would constitute a violation of any laws or regulations, including without limitation the export control laws of the United States. No other rights or licenses to trademarks, inventions, copyrights, or patents are implied or granted under this Non-Disclosure Agreement.

4. Proprietary Information supplied shall not be reproduced in any form except as required to accomplish the intent of this Agreement.

5. The responsibilities of the parties are limited to using their reasonable and best efforts to protect the Proprietary Information received with the same degree of care used to protect their own Proprietary Information from unauthorized use or disclosure. Each party shall advise its employees or agents who might have access to such Proprietary Information of the confidential nature thereof. No Proprietary Information shall be disclosed to any officer, employee or agent of either party who does not have a need for such information.

6. All Proprietary Information (including all copies thereof) shall remain the property of the disclosing party, and shall be returned to the disclosing party after the receiving party's need for it has expired, or upon request of the disclosing party, and in any event, upon completion or termination of this Agreement.

7. Notwithstanding any other provision of this Agreement, disclosure of Proprietary Information shall not be precluded to the extent such disclosure is required to be disclosed by the Receiving Party by judicial action provided that the receiving party shall immediately notify the disclosing party of any such action and the disclosing party shall have the opportunity to pursue all reasonable legal remedies to maintain such information in secret.

8. This Agreement shall continue in full force and effect for so long as the parties continue to exchange Proprietary Information. The termination of this Agreement shall not relieve either party of the obligations imposed by this Agreement with respect to Proprietary Information disclosed prior to the effective date of such termination, and the provisions of these paragraphs shall survive the termination of this Agreement.

9. This Agreement shall be governed by the laws of the State of California as those laws are applied to contracts entered into and to be performed entirely in California by California residents.

10. This Agreement contains the entire agreement of the parties concerning use and protection of Proprietary Information and may not be changed, modified, amended or supplemented except by a written instrument signed by each party.

11. Each party hereby acknowledges and agrees that in the event of any breach of this Agreement by another party, including, without limitation, the actual or threatened disclosure of a disclosing party's Proprietary Information without the prior express written consent of the disclosing party, the disclosing party will suffer an irreparable injury, such that no remedy at law will afford it adequate protection against, or appropriate compensation for, such injury. Accordingly, each party hereby agrees that such other party shall be entitled to specific performance of a receiving party's obligations under this Agreement, as well as such further injunctive relief as may be granted by a court of competent jurisdiction.

EMPLOYMENT AGREEMENT

This Agreement, dated as of December 12, 1996, is between Andrew and Williamson Sales, Co., a California corporation ("A&W"), and Fred L. Williamson ("Employee").

RECITALS

A.A&W desires to obtain the services of Employee and Employee desires to secure employment from A&W upon the following terms and conditions.

B.A&W considers the services of Employee to be provided under this Agreement to be unique, extraordinary, and of intellectual character.

C.A&W is a subsidiary of Epitope, Inc. ("Epitope"), an Oregon corporation. Epitope, its direct and indirect subsidiaries (whether majority or wholly owned by Epitope), any other entity controlling, controlled by, or under common control with Epitope, and any joint venture in which any of the foregoing has an interest are referred to collectively herein as the "the Company."

D.The Company has spent significant time, effort, and money to develop Proprietary Information (as defined below), which the Company considers vital to its business and goodwill. Certain Proprietary Information will necessarily be communicated to or acquired by Employee in the course of his employment with A&W, and A&W desires to obtain the services of Employee, only if, in doing so, it can protect the Proprietary Information and goodwill.

AGREEMENT

The parties therefore agree as follows:

1.Period of Employment. A&W employs Employee to render services to A&W as President, with the duties and responsibilities described in Section 2, for the period (the "Period of Employment") commencing on the date of this Agreement and ending upon the earlier of (i) December 12, 1999 (the "Termination Date") or (ii) the date upon which the Period of Employment is terminated in accordance with Section 4.

2.Position and Responsibilities.

(a)Position. Employee accepts employment with A&W as President and shall perform all services appropriate to that position, as well as such other

services as may be assigned by the Board of Directors of A&W. Employee shall devote his best efforts and full-time attention to the performance of his duties. Employee shall be subject to the direction of the Board of Directors of A&W, who shall retain full control of the means and methods by which he performs the above services and of the place(s) at which all services are rendered. Employee shall report to the Board of Directors of A&W. Employee shall be expected to travel if necessary or advisable in order to meet the obligations of his position.

(b)Other Activity. Except with the prior written consent of A&W, Employee shall not during the Period of Employment (i) accept any other employment; or (ii) engage, directly or indirectly, in any other business, commercial, or professional activity (whether or not pursued for pecuniary advantage) that is or may be competitive with the business of the Company, that might create a conflict of interest with the Company, or that otherwise might interfere with the business of the Company.

3.Compensation and Benefits.

(a)Compensation. In consideration of the services to be rendered under this Agreement, A&W shall pay Employee no less than one hundred eighty thousand dollars (\$180,000) per year, payable monthly during the Period of Employment in accordance with A&W's usual payroll procedures. A&W shall review Employee's compensation annually in accordance with A&W's usual procedure for adjusting salaries for similarly situated employees. All amounts to be paid to Employee under this Agreement shall be less withholdings required by law and other customary payroll deductions.

(b)Benefits. During the Period of Employment, Employee shall be entitled to receive substantially the same benefits that Employee received from A&W immediately prior to the date of this Agreement; provided, however, that A&W will not after the date of this Agreement make any further payments in connection with the Key Man Life Insurance Policy issued in the name of Employee. Employee may elect to pay his own premiums to continue the policy. Upon any distribution of benefits under the policy, A&W shall be paid either directly from the insurance company or from Employee the cash surrender value of the policy as reflected on A&W's balance sheet as of September 30, 1996. Employee shall have the right to participate in and to receive benefits from all present and future benefit plans specified in A&W's policies and generally made available to similarly situated employees of A&W. The amount and extent of benefits to which Employee is entitled shall be governed by the specific benefit plan. No statement concerning benefits or compensation to which Employee is entitled shall alter in any way the term of this Agreement, any renewal thereof, or its termination.

(c)Expenses. A&W shall reimburse Employee for reasonable travel and other business expenses incurred by Employee in performing his duties, in accordance with A&W's standard policies.

4. Termination of Employment.

(a) By Death. The Period of Employment shall terminate automatically upon the death of Employee. A&W shall pay to Employee's beneficiaries or estate, as appropriate, any compensation then due and owing. Thereafter, all obligations of A&W under this Agreement shall cease. Nothing in this Section shall affect any entitlement of Employee's heirs to the benefits of any life insurance plan or other applicable benefits.

(b) By Disability. If, by reason of any physical or mental incapacity, Employee has been or will be prevented from properly performing his duties under the Agreement for more than ninety (90) consecutive days, then, to the extent permitted by law, A&W may terminate the Period of Employment upon two (2) weeks' advance written notice. A&W shall pay Employee all compensation to which he is entitled through the last business day of the notice period; thereafter, all obligations of A&W under this Agreement shall cease. Nothing in this Section shall affect Employee's rights under any applicable A&W disability plan.

(c) By Employer For Cause. At any time, A&W may terminate Employee for Cause (as defined below) on immediate notice. A&W shall pay Employee all compensation then due and owing; thereafter, all A&W's obligations under this Agreement shall cease. Termination shall be for "Cause" if Employee:

- (i) acts in bad faith and to the detriment of A&W;
- (ii) refuses or fails to act in accordance with any specific direction or order of A&W;
- (iii) exhibits in regard to his employment unfitness or unavailability for service, unsatisfactory performance, misconduct, dishonesty, habitual neglect, or incompetence;
- (iv) is convicted of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person;
- (v) is selected for layoff pursuant to a bona fide reduction-in-force; or
- (vi) breaches any material term of this Agreement.

If termination is due to Employee's disability, subsection 4(b) above shall control, and not this subsection on termination for cause.

(d) By Employee for Good Reason. Employee may terminate, without liability, the Period of Employment for Good Reason (as defined below), provided Employee gives A&W thirty (30) days' advance written notice of the reason for termination and his intent to terminate the Agreement. During this period, A&W shall have an opportunity to correct the condition constituting Good Reason. If the condition is remedied within this period, Employee's notice to terminate shall be rescinded automatically; if not remedied, termination shall become effective upon expiration of the above notice period. In this event, A&W shall pay Employee all compensation due and owing through the last day actually worked; thereafter all A&W's obligations under this Agreement shall cease. A&W shall also have the option, in its complete discretion, to make Employee's termination effective at any time prior to the end of the notice period, provided that A&W pays Employee all compensation due and owing through the balance of the notice period (not to exceed thirty (30) days). Employee shall be entitled to exercise his right to terminate the Agreement for Good Reason only if he gives the required notice not more than forty-five (45) days after the occurrence of the event that is the basis for the Good Reason.

(e) "Good Reason" Defined. Termination shall be for "Good Reason" if:
(i) there is a material and adverse change in Employee's position, duties, responsibilities, or status with A&W; (ii) there is a reduction in Employee's salary then in effect, other than a reduction comparable to reductions generally applicable to similarly situated employees of A&W; (iii) there is a material reduction in Employee's benefits, other than a reduction comparable to reductions generally applicable to similarly situated employees of A&W; or (iv) A&W materially breaches this Agreement. Employee shall not be entitled to terminate this Agreement for Good Reason if an event occurs that would otherwise constitute Good Reason, but results from a change in A&W's status as defined in the next subsection.

(f) Change in Employer Status. To the extent permitted by law, A&W, in its sole discretion, may terminate the Period of Employment (in which case all A&W's obligations under this Agreement shall cease after payment of all compensation due and owing) upon any formal action of A&W's management to terminate A&W's existence or otherwise wind up its affairs, to sell all or substantially all of its assets, or to merge with or into another entity.

(g) Termination Obligations.

(i) Employee acknowledges and agrees that all personal property, including, without limitation, all tangible Proprietary Information (as defined below), books, manuals, records, reports, notes, contracts, lists, documents, computer disks (or other computer-generated files, data, or information), materials, or copies thereof, created on any medium and furnished to, obtained by, or prepared by Employee in the course of or incident to his employment, and all equipment and property furnished to Employee in the course of his employment, belong to A&W and shall be returned promptly to A&W upon termination of the Period of Employment.

(ii) All benefits to which Employee is otherwise entitled shall cease upon Employee's termination, unless explicitly continued either under this Agreement, under any specific written policy or benefit plan of A&W, or as otherwise required by law.

(iii) Upon termination of the Period of Employment, Employee shall be deemed to have resigned from all offices and directorships then held with A&W or any other member of the Company.

(iv) Employee's obligations under this subsection on Termination Obligations, Section 5 on Proprietary Information, and Section 6 on Inventions shall survive the termination of the Period of Employment and the expiration of this Agreement.

(v) Following any termination of the Period of Employment, Employee shall fully cooperate with A&W in all matters relating to the winding up of pending work on behalf of A&W and the orderly transfer of work to other employees of A&W.

5. Proprietary Information.

(a)Defined. Proprietary Information is all information in any form, tangible or intangible, pertaining in any manner to the business of the Company or the employees, clients, consultants, or business associates of the Company, which was produced by any employee of the Company in the course of his or her employment or otherwise produced or acquired by or on behalf of the Company, which derives independent economic value, actual or potential, from not being generally known to the public who can obtain economic value from its disclosure or use and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. All Proprietary Information not generally known outside of the Company, and all Proprietary Information so known only through improper means, is "Confidential Information." Employee must consult and follow any A&W procedures instituted to identify and protect certain types of Confidential Information, which are considered by A&W to be safeguards in addition to the protection provided by this Agreement. Nothing contained in those procedures or in this Agreement is intended to limit the effect of the other.

(b)General Restrictions on Use. During the Period of Employment, Employee shall use Proprietary Information, and shall disclose Confidential Information, only for the benefit of A&W and as is necessary to carry out his responsibilities under this Agreement. Following termination, Employee shall neither, directly or indirectly, use any Proprietary Information nor disclose any Confidential Information, except as expressly and specifically authorized in writing by A&W. The publication of any Proprietary Information through literature or speeches must be approved in advance in writing by A&W.

(c)Third Party Information. Employee acknowledges that the Company may receive from third parties their confidential information subject to a duty to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees that he owes the Company and such third parties, during the Period of Employment and thereafter, a duty to hold all such confidential information in the strictest confidence and not to disclose or use it except as necessary to perform his obligations hereunder and as is consistent with any confidentiality agreement with such third parties.

6.Inventions.

(a)Defined. The term "Inventions" includes any and all ideas, processes, inventions, technology, computer hardware or software, formulas, discoveries, patents, products, trademarks, service marks, original works of authorship, designs, copyrights, and all improvements, know-how, rights, and claims related to the foregoing. Any Inventions that are conceived, developed, or reduced to practice by Employee, alone or with others, after the date of this Agreement shall be deemed "Work-Related Inventions," except to the extent that California Labor Code Section 2870 lawfully prohibits the assignment of rights in such Inventions.

(b)Statutory Notice. Employee acknowledges that the definition of Work-Related Inventions includes only those Inventions that may be lawfully

assigned pursuant to California Labor Code Section 2870, which provides:

"(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

"(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

"(2) Result from any work performed by the employee for the employer.

"(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable."

Nothing in this Agreement is intended to expand the scope of protection provided Employee by Sections 2870 through 2872 of the California Labor Code.

(c) Disclosure. Employee agrees to maintain adequate and current written records on the development of all Inventions and to disclose promptly to A&W all Work-Related Inventions and relevant records, which records will remain the sole property of A&W. Employee further agrees that all information and records pertaining to any Invention that Employee does not believe to be a Work-Related Invention, but that is conceived, developed, or reduced to practice by Employee (alone or with others) during the Period of Employment (or during the post-employment period set forth in Section 6(f) below), shall be disclosed promptly to A&W (such disclosure to be received in confidence). A&W shall examine the information disclosed to determine if in fact the Invention is a Work-Related Invention subject to this Agreement.

(d) Assignment. Employee agrees to assign to A&W, and hereby does assign to A&W, his entire right, title, and interest throughout the United States and in all foreign countries, free and clear of all liens and encumbrances, in and to each Work-Related Invention, which shall be the sole property of A&W, whether or not patentable. In the event any Work-Related Invention shall be deemed by A&W to be patentable or otherwise registerable, Employee shall assist A&W (at its expense) in obtaining letters patent or other applicable registrations thereon and shall execute all documents and do all other things necessary or proper (including testifying at A&W's expense) to vest in A&W, or any entity or person specified by A&W, full title or interest therein. Employee shall also take any action necessary or advisable in connection with any continuations, renewals, or reissues thereof or in connection with any related proceedings or litigation. Should A&W be unable to secure Employee's signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright, or other right or protection relating to any Work-Related Invention, whether due to Employee's mental or physical

incapacity or any other cause, Employee irrevocably designates and appoints A&W and each of its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead and to execute and file any such document, and to do all other lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protections with the same force and effect as if executed, delivered, and done by Employee.

(e)Exclusions. Employee represents that there are no Inventions that he desires to exclude from the operation of this Agreement. Employee is not a party to any existing contract in conflict with this Agreement or contract to assign Inventions to any other party.

(f)Post-Termination Period. Because of the difficulty of establishing when any Invention is first conceived or developed by Employee, or whether it results from access to Confidential Information or the Company's equipment, supplies, facilities, or data, Employee agrees that any Invention shall be presumed to be a Work-Related Invention, if reduced to practice by Employee or with the aid of Employee within one (1) year after termination of the Period of Employment. Employee can rebut the above presumption if he proves that the Invention (i) was developed entirely on Employee's own time without using the Company's equipment, supplies, facilities, or trade secret information; (ii) was not conceived or reduced to practice during the Period of Employment, or, if conceived or reduced to practice during the Period of Employment, did not, at the time of conception or reduction to practice, relate to the Company's business or actual or demonstrably anticipated research or development; and (iii) did not result from any work performed by Employee for the Company.

7.Arbitration.

(a)Arbitrable Claims. All disputes between Employee (and his successors and permitted assigns) and A&W (and the Company and the shareholders, directors, officers, employees, agents, successors, attorneys, and assigns of each) relating in any manner whatsoever to the employment or termination of Employee, including without limitation, all disputes arising under this Agreement ("Arbitrable Claims") shall be resolved by arbitration. Arbitrable Claims shall include, but are not limited to, contract (express or implied) and tort claims of all kinds, as well as all claims based on any federal, state, or local law, statute, regulation, or ordinance, excepting only claims under applicable workers' compensation law. Arbitration shall be final and binding upon the parties and shall be the exclusive remedy for all Arbitrable Claims, except that A&W may, at its option, seek injunctive relief and damages in court for any breach of Section 5 or 6 of this Agreement.

(b)Procedure. Arbitration of Arbitrable Claims shall be in accordance with the Rules and Procedures for Mediation/Arbitration of Employment Disputes of JAMS/Endispute ("JAMS Rules"), except as provided otherwise in this Agreement. Arbitration shall be initiated by providing written notice to the other party with a statement of the claim(s) asserted and the facts upon which the

claim(s) are based. In any arbitration, the burden of proof shall be allocated as provided by applicable law. Either party may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award.

(c) Arbitrator Selection and Authority. All disputes involving Arbitrable Claims shall be decided by a single arbitrator. The arbitrator shall be selected in accordance with the JAMS Rules. The arbitrator shall have the authority to award equitable relief, damages, costs, and fees as provided by law for the particular claim(s) asserted, except that the arbitrator shall have no authority to award punitive damages. The fees of the arbitrator shall be paid by the losing party, as identified by the arbitrator. The arbitrator shall have exclusive authority to resolve all Arbitrable Claims, including, but not limited to, any claim that all or any part of this Agreement is void or unenforceable.

(d) Confidentiality. All proceedings in connection with any Arbitrable Claim shall be confidential and shall not be disclosed to any person other than the parties to the proceeding, their counsel and experts, the arbitrator, and, if involved, the court and court staff. All documents filed with the arbitrator or with a court shall be filed under seal. The parties shall stipulate to all arbitration and court orders necessary to effectuate fully the provisions of this subsection concerning confidentiality.

(e) Continuing Obligations. The rights and obligations of Employee and A&W set forth in this Section 7 shall survive the termination of Employee's employment and the expiration of this Agreement.

8. Notices. All notices under this agreement shall be in writing and shall be deemed given when delivered personally, when sent by fax (with prompt confirmation by mail), four business days after mailed by certified mail (return receipt requested), or one business day after being sent by a recognized overnight courier, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to A&W, to:

Andrew and Williamson Sales, Co.
c/o Epitepe, Inc.
8505 S.W. Creekside Place
Beaverton, Oregon 97005
Attention: Adolph J. Ferro, Ph.D.

If to Employee, to:

Fred L. Williamson
Andrew and Williamson Sales, Co.
9940 Marconi Drive
San Diego, California 92173

9.Action by A&W. All actions required or permitted to be taken under this Agreement by A&W, including without limitation, exercise of discretion, consents, waivers, and amendments to this Agreement, shall be made and authorized only by the Chairman of the Board of Directors or by his or her representative specifically authorized to act under this Agreement, unless Employee holds that position, in which case an officer designated by the Board of Directors shall have such authority.

10.Entire Agreement. This Agreement is intended to be the final, complete, and exclusive statement of the terms of Employee's employment by A&W. This Agreement may not be contradicted by evidence of any prior or contemporaneous agreement. To the extent that policies and procedures of A&W apply to Employee and are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

11.Amendments; Waivers. This Agreement may not be modified or amended except by an instrument in writing, signed by Employee and by A&W. No failure to exercise and no delay in exercising any right, remedy, or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, or power under this Agreement preclude any other or further exercise thereof, or the exercise of any other right, remedy, or power provided herein or by law or in equity.

12.Assignment; Successors and Assigns. Employee may not assign any rights or delegate any obligations under this Agreement. Any purported assignment or delegation shall be null and void. Nothing in this Agreement shall prevent the consolidation of A&W with, or its merger into, any other entity, or the sale by A&W of all or substantially all of its assets, or the otherwise lawful assignment by A&W of any rights or obligations under this Agreement. Subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, legal representatives, successors, and permitted assigns, and shall not benefit any person or entity other than those enumerated above.

13.Severability; Enforcement. It is the intention of the parties that the covenants contained in Section 5 on Proprietary Information and Section 6 on Inventions shall be enforced to the greatest extent in time, area, and degree of participation that is permitted by the law of the jurisdiction whose law is found to be applicable to any acts allegedly in breach of these covenants. Notwithstanding any governing law provision in this Agreement, the parties intend that the foregoing covenants shall be governed by and construed according to the law of the jurisdiction (from among those jurisdictions arguably applicable to this Agreement and those in which a breach of this Agreement is alleged to have occurred or to be threatened) which best gives them effect. If any provision of this Agreement, or the application thereof

to any person, place, or circumstance, shall be held by an arbitrator or a court of competent jurisdiction to be invalid, unenforceable, or void, such provision shall be enforced to the greatest extent permitted by law, and the remainder of this Agreement and such provisions as applied to other persons, places, and circumstances shall remain in full force and effect.

14. Attorneys' Fees and Costs. In any legal action, arbitration, or other proceeding brought to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover reasonable attorney fees and costs.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of California.

16. Employee Acknowledgment. Employee acknowledges that he has had the opportunity to consult legal counsel in regard to this Agreement, that he has read and understands the Agreement, that he is fully aware of its legal effect (including notice of his statutory rights under Section 2870 of the California Labor Code, as set forth in Section 6 on Inventions), and that he has entered into it freely and voluntarily and based on his own judgment and not based on any representations or promises other than those contained in this Agreement.

The parties have duly executed this Agreement as of the date first written above.

Andrew and Williamson Sales, Co.

Fred L. Williamson
By: Gilbert N. Miller
Executive Vice President

CREDIT AGREEMENT

THIS AGREEMENT is entered into as of August 5, 1996, by and between ANDREW AND WILLIAMSON SALES, CO., a California corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITAL

Borrower has requested from Bank the credit accommodations described below (each, a "Credit" and collectively, the "Credits"), and Bank has agreed to provide the Credits to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
THE CREDITS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 5, 1997, not to exceed at any time the aggregate principal amount of Six Million Five Hundred Thousand Dollars (\$6,500,000.00) ("Line of Credit"), the proceeds of which shall be used for the purposes described in the subfeatures thereunder, as set forth below. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Asset-based Line of Credit Subfeature. As a subfeature under the Line of Credit, Bank hereby agrees to make cash advances to Borrower from time to time during the term thereof to assist with working capital for Borrower's fruit and vegetable brokerage business up to an aggregate principal amount of Six Million Five Hundred Thousand Dollars (\$6,500,000.00). Each such advance under the Asset-based Line of Credit Subfeature shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances.

Outstanding borrowings under the Asset-based Line of Credit Subfeature, to a maximum of the principal amount set forth above, shall not at any time

exceed an aggregate of eighty percent (80%) of the total of Borrower's eligible accounts receivable less grower payables plus fifty percent (50%) of the value of Borrower's eligible inventory (exclusive of work in process and inventory which is obsolete, unsalable or damaged) with inventory defined as packing materials, processed fruit and produce, and items used in the final stages of processing, and with value defined as the lower of cost or market value. All of the foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require. Borrower acknowledges that said borrowing base was established by Bank with the understanding that, among other items, the aggregate of all returns, rebates, discounts, credits and allowances for the immediately preceding three (3) months at all times shall be less than five percent (5%) of Borrower's gross sales for said period. If such dilution of Borrower's accounts for the immediately preceding three (3) months at any time exceeds five percent (5%) of Borrower's gross sales for said period, or if there at any time exists any other matters, events, conditions or contingencies which Bank reasonably believes may affect payment of any portion of Borrower's accounts, Bank, in its sole discretion, may reduce the foregoing advance rate against eligible accounts receivable to a percentage appropriate to reflect such additional dilution and/or establish additional reserves against Borrower's eligible accounts receivable.

As used herein, "eligible accounts receivable" shall consist solely of trade accounts created in the ordinary course of Borrower's business, upon which Borrower's right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Bank has a perfected security interest of first priority, and shall not include:

(i) any account which is past due more than twice Borrower's standard selling, except with respect to any account for which Borrower has provided extended payment terms not to exceed one hundred eighty (180) days, any such account which is more than thirty (30) days past due;

(ii) that portion of any account for which there exists any right of setoff, defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;

(iii) any account which represents an obligation of any state or municipal government or of the United States government or any political subdivision thereof (except accounts which represent obligations of the United States government and for which Bank's forms N-138 and N-139 have been duly executed and acknowledged);

(iv) any account which represents an obligation of an account debtor located in a foreign country other than Mexico or an account debtor located in the Canadian provinces of Alberta, British Columbia, Manitoba, Ontario, Saskatchewan or the Yukon Territory so long as, in Bank's determination, such Canadian jurisdictions

recognize Bank's first priority security interest in and right to collect such account as a consequence of any security agreements and UCC filings in favor of Bank, except to the extent any such account, in Bank's determination, is supported by a letter of credit or insured under a policy of foreign credit insurance, in each case in form, substance and issued by a party acceptable to Bank;

(v) any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, affiliate, partner, member, parent or subsidiary of Borrower;

(vi) that portion of any account which represents interim or progress billings or retention rights on the part of the account debtor;

(vii) any account which represents an obligation of any account debtor when twenty percent (20%) or more of Borrower's accounts from such account debtor are not eligible pursuant to (i) above;

(viii) that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five percent (25%) of Borrower's total accounts;

(ix) any account deemed ineligible by Bank when Bank, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

(c) Grower Line of Credit Subfeature. As a subfeature under the Line of Credit, Bank hereby agrees to make cash advances to Borrower from time to time during the term thereof to assist with Borrower's grower financing and advances up to an aggregate principal amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00). Each such advance under the Grower Line of Credit Subfeature shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances.

Outstanding borrowings under the Grower Line of Credit Subfeature, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of fifty percent (50%) of Borrower's eligible growers accounts receivable. The foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require.

As used herein, "eligible growers accounts receivable" shall consist solely of trade accounts created in the ordinary course of Borrower's business, upon which Borrower's right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Bank

has a perfected security interest of first priority, and shall not include:

(i) that portion of any account for which there exists any right of setoff, defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;

(ii) any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, affiliate, partner, member, parent or subsidiary of Borrower;

(iii) the amount of Borrower's reserve against growers' accounts receivable;

(iv) any account deemed ineligible by Bank when Bank, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

(d) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue standby letters of credit for the account of Borrower to finance secure sales commitments for growers (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion; and provided further, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed One Million Dollars (\$1,000,000.00). Each Letter of Credit shall be issued for a term not to exceed one hundred fifty (150) days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement and related documents, if any, required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement" and collectively, "Letter of Credit Agreements"). Each draft paid by Bank under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any draft is paid by Bank, then Borrower shall immediately pay to Bank the full amount of such draft, together with interest thereon from the date such amount is paid by Bank to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the amount of any such draft.

(e) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding

borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2. TERM LOAN.

(a) Term Loan. Bank has made a loan to Borrower in the original principal amount of Two Hundred Fifty Three Thousand Five Hundred Dollars (\$253,500.00) ("Term Loan"), on which the outstanding principal balance as of the date hereof is \$202,800.00. Borrower's obligation to repay the Term Loan is evidenced by a promissory note substantially in the form of Exhibit B attached hereto ("Term Note"), all terms of which are incorporated herein by this reference. Subject to the terms and conditions of this Agreement, Bank hereby confirms that the Term Loan remains in full force and effect. Any reference in the Term Note to any prior loan agreement between Bank and Borrower shall be deemed a reference to this Agreement.

(b) Repayment. The principal amount of the Term Loan shall continue to be repaid in accordance with the provisions of the Term Note.

(c) Prepayment. Borrower may prepay principal on the Term Loan at any time, in any amount and without penalty. All prepayments of principal shall be applied on the most remote principal installment or installments then unpaid.

SECTION 1.3. LOAN LIMIT.

(a) Loan Limit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 5, 1997, not to exceed the aggregate principal amount of One Hundred Fifty Thousand Dollars (\$150,000.00) ("Loan Limit"), the proceeds of which shall be used for the purchasing and financing of equipment. Borrower's obligation to repay each advance under the Loan Limit shall be evidenced by a promissory note executed at the time such advance is made, substantially in the form of Exhibit C attached hereto (each, a "Loan Limit Note" and collectively, "Loan Limit Notes"), all terms of which are incorporated herein by this reference.

(b) Limitation on Borrowings. Each request for an advance under the Loan Limit shall be accompanied by Borrower's written statement as to the use of the proceeds of such advance and the source of repayment therefor. Each such advance shall be subject to Bank's prior approval, which shall be at Bank's sole discretion, of the stated purpose and source of repayment. Each advance under the Loan Limit shall be available to a maximum of (80%) of the cost of new equipment, or (75%) of the cost of used equipment.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Loan Limit borrow and partially or wholly repay its outstanding borrowings, and reborrow, subject to all the limitations, terms and conditions

contained herein; provided however, that Borrower shall repay each advance under the Loan Limit as required herein; and provided further, that the total outstanding borrowings under the Loan Limit shall not at any time exceed the maximum principal amount available thereunder, as set forth above. The principal amount of each advance under the Loan Limit shall be amortized over a term of less than (60) months and shall be repaid in equal successive monthly installments, at the times and in the amounts set forth in the Loan Limit Note executed by Borrower to evidence such advance.

(d) Prepayment. Borrower may prepay principal on any advance under the Loan Limit at any time, in any amount and without penalty. All prepayments shall be applied on the most remote principal installment or installments then unpaid on the advance being prepaid.

SECTION 1.4. INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit, the Term Loan and the Loan Limit shall bear interest at the rate of interest set forth in the Line of Credit Note, the Term Note and the Loan Limit Note.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in the Line of Credit Note, the Term Note and the Loan Limit Note (collectively, the "Notes").

(c) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to one and three-quarters percent (1.75%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation by Bank of each draft under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 1.5. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each Credit by charging Borrower's demand deposit account number 4160-085460 with Bank, or any other demand deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such demand deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.6. COLLATERAL. As security for all indebtedness of Borrower to Bank under the Line of Credit, Borrower grants to Bank security interests of first priority in all Borrower's accounts receivable and other rights to payment, general intangibles and inventory.

As security for all indebtedness of Borrower to Bank under the Term Loan, Borrower grants to Bank a lien of not less than first priority on that certain

real property located at Traver, California, as more fully described on Exhibit D attached hereto, all terms of which are incorporated herein by this reference.

As security for all indebtedness of Borrower to Bank under the Loan Limit, Borrower grants to Bank security interests of first priority in all Borrower's equipment.

All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

SECTION 1.7. GUARANTIES. All indebtedness of Borrower to Bank shall be guaranteed by Fred L. Williamson, Fred W. Andrew, Fred M. Williamson and Keith Andrew (each, a "Guarantor") in the principal amount of Seven Million Eight Hundred Twenty-Seven Thousand Dollars (\$7,827,000.00) each, as evidenced by and subject to the terms of guaranties in form and substance satisfactory to Bank.

SECTION 1.8. SUBORDINATION OF DEBT. All obligations of Borrower to Fred L. Williamson, Fred W. Andrew, Fred M. Williamson and Keith Andrew in the minimum aggregate principal amount of \$900,000.00 shall be subordinated in right of repayment to all obligations of Borrower to Bank, as evidenced by and subject to the terms of subordination agreements in form and substance satisfactory to Bank.

ARTICLE II REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of California, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement, the Notes, and each other document, contract and instrument required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and

delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated May 31, 1996, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA");

Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable Federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, the Federal Toxic Substances Control Act and the California Health and Safety Code, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any Federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.12. REAL PROPERTY COLLATERAL. Except as disclosed by Borrower to Bank in writing prior to the date hereof, with respect to any real property collateral required hereby:

(a) All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, and rents (if any) which previously became due and owing in respect thereof have been paid as of the date hereof.

(b) There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under law could give rise to any such lien) which affect all or any interest in any such real property and which are or may be prior to or equal to the lien thereon in favor of Bank.

(c) None of the improvements which were included for purpose of determining the appraised value of any such real property lies outside of the boundaries and/or building restriction lines thereof, and no improvements on adjoining properties materially encroach upon any such real property.

(d) There is no pending, or to the best of Borrower's knowledge threatened, proceeding for the total or partial condemnation of all or any portion of any such real property, and all such real property is in good repair and free and clear of any damage that would materially and adversely affect the value thereof as security and/or the intended use thereof.

ARTICLE III
CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to grant any of the Credits is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the granting of each of the Credits shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and the Notes.
- (ii) Articles of Incorporation.
- (iii) Corporate Borrowing Resolution.
- (iv) Articles of Incumbency.
- (v) Continuing Guaranties as listed in Section 1.7.
- (vi) Subordination Agreements as listed in Section 1.8.
- (vii) Security Agreement: Equipment and Fixtures.
- (viii) Security Agreement: Crops.
- (ix) Continuing Security Agreement: Rights to Payment and Inventory.
- (x) UCC-1 Financing Statements.
- (xi) Deed of Trust executed by Borrower.
- (xii) Loan Disbursement Order.
- (xiii) Such other documents as Bank may require

under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any guarantor hereunder, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower or any such guarantor.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, with replacement cost and mortgagee loss payable endorsements, and such policies of insurance against specific hazards affecting any such real property as may be required by governmental regulation or Bank.

(e) Appraisals. Bank shall have obtained, at Borrower's cost, an appraisal of all real property collateral required hereby, and all improvements thereon, issued by an appraiser acceptable to Bank and in form, substance and reflecting values satisfactory to Bank, in its discretion.

(f) Title Insurance. Bank shall have received an ALTA Policy of Title Insurance, with such endorsements as Bank may require, including without limitation, CLTA endorsements, issued by a company and in form and substance satisfactory to Bank, in such amount as Bank shall require, insuring Bank's lien on the real property collateral required hereby to be of first priority, subject only to such exceptions as Bank shall approve in its discretion, with all costs thereof to be paid by Borrower.

(g) Tax Service Contract. Borrower shall have procured and delivered to Bank, at Borrower's cost, such tax service contract as Bank shall require for any real property collateral required hereby, to remain in effect as long as such real property secures any obligations of Borrower to Bank as required hereby.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with

the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank, the amount by which the outstanding principal balance of any of the Credits at any time exceeds any limitation on borrowings applicable thereto.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include a balance sheet, income statement, statement of cash flow and all footnotes;

(b) not later than 30 days after and as of the end of each fiscal quarter, a financial statement of Borrower, prepared by Borrower, to include balance sheet and income statement;

(c) not later than 15 days after and as of the end of each month, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts, and not later than 30 days after and as of the end of each February, a list of the names

and addresses of all Borrower's account debtors;

(d) not later than 15 days after and as of the end of each month, a grower accounts receivable borrowing base certificate in the form of Exhibit 1 attached hereto, and a listing of grower accounts receivable and accounts payable satisfactory to Bank;

(e) not later than May 15th of each year, a financial statement of each guarantor hereunder, prepared by each such guarantor, to include a balance sheet, and copies of each such guarantor's filed Federal income tax returns for such year;

(f) from time to time such other information as Bank may reasonably request.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5. INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation Federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$250,000.00.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles

consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Working Capital not at any time less than \$1,700,000.00, with "Working Capital" defined as total current assets minus total current liabilities.

(b) Tangible Net Worth not at any time less than \$2,250,000.00 with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.

ARTICLE V NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any of the Credits except for the purposes stated in Article I hereof.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$150,000.00.

SECTION 5.3. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.4. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all

or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.5. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

ARTICLE VI EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower or any guarantor hereunder has incurred any debt or other liability to any person or entity, including Bank.

(e) The filing of a notice of judgment lien against Borrower or any guarantor hereunder; or the recording of any abstract of judgment against Borrower or any guarantor hereunder in any county in which Borrower or such guarantor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any guarantor hereunder; or the entry of a judgment against Borrower or any guarantor hereunder.

(f) Borrower or any guarantor hereunder shall become

insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any guarantor hereunder shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or Federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or Federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any guarantor hereunder, or Borrower or any such guarantor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or such guarantor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any Guarantor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or Federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) There shall exist or occur any event or condition which Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of its obligations under any of the Loan Documents.

(h) The death or incapacity of Borrower or any guarantor hereunder. The dissolution or liquidation of Borrower; or Borrower, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower.

(i) Any change in ownership during the term of this Agreement of an aggregate of twenty-five percent (25%) or more of the common stock of Borrower.

(j) The sale, transfer, hypothecation, assignment or encumbrance, whether voluntary, involuntary or by operation of law, without Bank's prior written consent, of all or any part of or interest in any real property collateral required hereby.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and

(c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any of the Credits and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: ANDREW AND WILLIAMSON SALES, CO.
 9940 Marconi Drive
 San Diego, California 92173

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
 Bakersfield Regional Commercial Banking Office
 5401 California Avenue, 2nd Floor
 Bakersfield, California 93309

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any

amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, and including any of the foregoing incurred in connection with any bankruptcy proceeding relating to Borrower.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any of the Credits, Borrower or its business, any guarantor hereunder or the business of such guarantor, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to the Credits and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only by a written instrument executed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.10. ARBITRATION.

(a) Arbitration. Upon the demand of any party, any Dispute shall be resolved by binding arbitration (except as set forth in (e) below) in accordance with the terms of this Agreement. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter

arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) Governing Rules. Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in California selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91 or any similar applicable state law.

(c) No Waiver; Provisional Remedies, Self-Help and Foreclosure. No provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration or reference hereunder.

(d) Arbitrator Qualifications and Powers; Awards. Arbitrators must be active members of the California State Bar or retired judges of the state or federal judiciary of California, with expertise in the substantive laws applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of California, (ii) may grant any remedy or relief that a court of the state of California could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules

of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary, in any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (A) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (B) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of California, and (C) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (1) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (2) whether the conclusions of law are erroneous under the substantive law of the state of California. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of California.

(f) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such Dispute is not submitted to arbitration, the Dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(g) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose

the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the Dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

ANDREW AND WILLIAMSON SALES, CO.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: Fred W. Andrew

By: Steven M. Del Papa

Title: Secretary

Title: Vice President

EXHIBIT A

REVOLVING LINE OF CREDIT NOTE

\$6,500,000.00

Bakersfield, California
August 5, 1996

FOR VALUE RECEIVED, the undersigned ANDREW AND WILLIAMSON SALES, CO. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Bakersfield RCBO, 5401 California Avenue, 2nd Floor, Bakersfield, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Six Million Five Hundred Thousand Dollars (\$6,500,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum one-half percent (.50%) above the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be two and three-quarters percent (2.75%) above Bank's LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the

information noted.

A. DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each:

1. "Business Day" means any day except a Saturday, Sunday or any other day designated as a holiday under Federal or California statute or regulation.

2. "Fixed Rate Term" means a period commencing on a Business Day and continuing for one (1) month, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to Bank's LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than Two Hundred Fifty Thousand Dollars (\$250,000.00); and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

3. "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve percentage}}$$

(a) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) "LIBOR Reserve percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

4. "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office in San Francisco as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated

for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

B. INTEREST:

1. Payment of Interest. Interest accrued on this Note shall be payable on the fifth day of each month, commencing September 5, 1996.

2. Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to Bank's LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or in relation to Bank's LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to Bank's LIBOR for a Fixed Rate Term designated by Borrower. At the time each advance is requested hereunder or Borrower wishes to select the LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying (a) the interest rate option selected by Borrower, (b) the principal amount subject thereto, and (c) if the LIBOR option is selected, the length of the applicable Fixed Rate Term. Any such notice may be given, by telephone so long as, with respect to each LIBOR selection, (i) Bank receives written confirmation from Borrower not later than three (3) Business Days after such telephone notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m., California time, on the first day of the Fixed Rate Term. For each LIBOR option requested hereunder, Bank will quote the applicable fixed rate to Borrower at approximately 10:00 a.m., California time, on the first day of the Fixed Rate Term. If Borrower does not immediately accept the rate quoted by Bank, any subsequent acceptance by Borrower shall be subject to a redetermination by Bank of the applicable fixed rate; provided however, that if Borrower fails to accept any such rate by 11:00 a.m., California time, on the Business Day such quotation is given, then the quoted rate shall expire and Bank shall have no obligation to permit a LIBOR option to be selected on such day. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

3. Additional LIBOR Provisions.

(a) If Bank at any time shall determine that for any reason adequate and reasonable means do not exist for ascertaining Bank's LIBOR, then Bank shall promptly give notice thereof to Borrower. If such notice is given and until such notice has been withdrawn by Bank, then (i) no new LIBOR option may be selected by Borrower, and (ii) any portion of the outstanding principal balance hereof which bears interest determined in relation to Bank's LIBOR, subsequent to the end of the Fixed Rate Term applicable thereto, shall bear interest determined in relation to the Prime Rate.

(b) If any law, treaty, rule, regulation or determination of a court or governmental authority or any change therein or in the interpretation or application thereof (each, a "Change in Law") shall make it unlawful for Bank (i) to make LIBOR options available hereunder, or (ii) to maintain interest rates based on Bank's LIBOR, then in the former event, any obligation of Bank to make available such unlawful LIBOR options shall immediately be canceled, and in the latter event, any such unlawful LIBOR-based interest rates then outstanding shall be converted, at Bank's option, so that interest on the portion of the outstanding principal balance subject thereto is determined in relation to the Prime Rate; provided however, that if any such Change in Law shall permit any LIBOR-based interest rates to remain in effect until the expiration of the Fixed Rate Term applicable thereto, then such permitted LIBOR-based interest rates shall continue in effect until the expiration of such Fixed Rate Term. Upon the occurrence of any of the foregoing events, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any fines, fees, charges, penalties or other costs incurred or payable by Bank as a result thereof and which are attributable to any LIBOR options made available to Borrower hereunder, and any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) If any Change in Law or compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority shall:

- (i) subject Bank to any tax, duty or other charge with respect to any LIBOR options, or change the basis of taxation of payments to Bank of principal, interest, fees or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank); or
- (ii) impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, or any other acquisition of funds by any office of Bank; or
- (iii) impose on Bank any other condition;

and the result of any of the foregoing is to increase the cost to Bank of making, renewing or maintaining any LIBOR options hereunder and/or to reduce any amount receivable by Bank in connection therewith, then in any such case, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any additional costs incurred by Bank and/or reductions in amounts received by Bank which are attributable to such LIBOR options. In determining which costs incurred by Bank and/or reductions in amounts received by Bank are attributable to any LIBOR options made available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

4. Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

C. BORROWING AND REPAYMENT:

1. Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on July 5, 1997.

2. Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (a) Fred W. Andrew or Fred L. Williamson or Alma Chavez or Ira Gershow, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any account of any Borrower with the holder, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

3. Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to Bank's LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. Prepayment.

(a) Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to Bank's LIBOR at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at Bank's LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by Bank's LIBOR used in (ii) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum four percent (4*) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

D. EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 5, 1996, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an

"Event of Default,, under this Note.

E. MISCELLANEOUS:

1. Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys, fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, and including any of the foregoing incurred in connection with any bankruptcy proceeding relating to any Borrower.

2. Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

3. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Bank has greater rights or remedies under Federal law, whether as a national bank or otherwise, in which case such choice of California law shall not be deemed to deprive Bank of any such rights and remedies as may be available under Federal law.

ANDREW AND WILLIAMSON SALES, CO.

By: -----

Title: -----

EXHIBIT B

Bakersfield Regional
Commercial Banking Office
5401 California Avenue
Bakersfield, CA 93309

April 19, 1996

Andrew & Williamson Sales, Co.
9940 Marconi Dr.
San Diego, CA 92173

Re: Your \$253,500.00 credit accommodation evidenced by promissory note dated as of March 18, 1993 (the "Note")

Dear Sirs:

This letter is to advise you that, effective as of April 19, 1996, the variable rate of interest applicable to the above-described credit accommodation from Wells Fargo Bank, National Association ("Bank") is hereby reduced to one-half percent (0.50%) above the Prime Rate in effect from time to time. The Note is hereby deemed modified by this letter to reflect said interest rate reduction. Except as expressly set forth herein, all terms and conditions of the Note remain in full force and effect, without waiver or modification.

Sincerely,

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: -----
Mary R. Grider
Vice President

Acknowledged and agreed as of 5/6/96:

ANDREW AND WILLIAMSON SALES, CO.

By: Fred W. Andrew

Title: Secretary

EXHIBIT B

WELLS FARGO BANK
\$253,500.00

PROMISSORY NOTE
Bakersfield, California
March 18, 1993

FOR VALUE RECEIVED, the undersigned ANDREW AND WILLIAMSON SALES, CO. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), at its office at 5401 California Avenue, Bakersfield, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available

funds, the principal sum of Two Hundred Fifty-Three Thousand Five Hundred and No/100 Dollars (\$253,500.00), with interest thereon at a rate per annum (computed on the basis of a 360-day year, actual days elapsed) 1.25% above the Prime Rate in effect from time to time. The "Prime Rate" is a base rate that the Bank from time to time establishes and which serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto. Each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within the Bank.

Interest accrued on this Note shall be payable on the fifth day of each month, commencing April 5, 1993.

Principal shall be payable in installments as follows:

Principal shall be payable annually on the fifth day of each March in four (4) equal successive installments of Sixteen Thousand Nine Hundred and No/100 Dollars (\$16,900.00) each, commencing March 5, 1994, and continuing up to and including March 5, 1997,

with a final installment consisting of all remaining unpaid principal due and payable in full on March 5, 1998. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

The occurrence of any of the following shall constitute an "Event of Default" under this Note:

1. The failure to pay any principal, interest, fees or other charges when due under this Note or any contract, instrument or document executed in connection with this Note.

2. The filing of a petition by or against any Borrower, any guarantor of this Note or any general partner or joint venturer in any Borrower which is a partnership or a joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or under any similar or other law relating to bankruptcy, insolvency, reorganization or other relief for debtors; the appointment of a receiver, trustee, custodian or liquidator of or for any part of the assets or property of any Borrower or Third Party Obligor; any Borrower or Third Party Obligor becomes insolvent, makes a general assignment for the benefit of creditors or is generally not paying its debts as they become due; or any attachment or like levy on any property of any Borrower or Third Party Obligor.

3. The death or incapacity of any individual Borrower or Third Party Obligor, or the dissolution or liquidation of any Borrower or Third Party Obligor which is a corporation, partnership, joint venture or any other type of entity.

4. Any default in the payment or performance of any obligation, or any defined event of default, under any provisions of any contract, instrument or document pursuant to which any Borrower or Third Party Obligor has incurred any obligation for borrowed money, any purchase obligation or any other liability of any kind to any person or entity including the holder.

5. Any financial statement provided by any Borrower or Third Party Obligor to Bank proves false.

6. Any sale or transfer of all or a substantial or material part of the assets of any Borrower or Third Party Obligor other than in the ordinary course of business.

7. Any violation or breach of any provision of, or any defined event of default under, any addendum to this Note or any loan agreement, guaranty, security agreement, deed of trust or other document executed in connection with or securing this Note.

Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are expressly waived by each Borrower. Each Borrower shall pay to the holder immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief.

Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Bank has greater rights or remedies under Federal law, whether as a national bank or otherwise, in which case such choice of California law shall not be deemed to deprive Bank of any such rights and remedies as may be available under Federal law.

See Addendum to Promissory Note attached hereto, all terms of which are incorporated herein by this reference.

ANDREW AND WILLIAMSON SALES CO.

This Note is secured by a Deed of Trust of even date herewith.

By: -----
Fred W. Andrew, Secretary

ADDENDUM TO PROMISSORY NOTE

THIS ADDENDUM is attached to and made a part of that certain promissory note executed by ANDREW AND WILLIAMSON SALES, CO. ("Borrower") and payable to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), or order, dated as of March 18, 1993, in the principal amount of Two Hundred Fifty-Three Thousand Five Hundred Dollars (\$253,500.00) (the "Note").

The following provisions are hereby incorporated into the Note:

1. So long as Bank remains committed to extend credit to Borrower under this Note and until payment in full of all obligations of Borrower hereunder, Borrower shall unless Bank otherwise consents in writing:

(a) Provide to Bank all of the following, in form and detail satisfactory to Bank:

(i) not later than 90 days after and as of the end of each fiscal year, a reviewed financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include a balance sheet, income statement, statement of retained earnings, cash flow and accompanying footnotes;

(ii) not later than 20 days after and as of the end of each quarter, a compiled financial statement of Borrower, prepared by Borrower, to include a balance sheet and income statement;

(iii) not later than each May 15, a financial statement of each Guarantor, dated not more than 12 months after the date of the most recent financial statement received by Bank from each Guarantor, prepared by each Guarantor, to include a balance sheet, and within 30 days after filing, but in no event later than each May 15, a copy of each Guarantor's filed federal income tax return for such year;

(iv) from time to time such other information as Bank may reasonably request.

(b) Maintain its financial condition as follows using generally accepted accounting principles consistently applied and

used consistently with prior practices, except to the extent modified by the following definitions:

(i) Working Capital (defined as total current assets, excluding prepaids, less total current liabilities) not at any time less than \$450,000.00.

(ii) Tangible Net Worth (defined as the aggregate of total stockholders' equity plus subordinated debt less the aggregate of any treasury stock, any intangible assets and any obligations due from stockholders, employees and/or affiliates) not at any time less than \$1,100,000.00 on an annual basis, determined as of each fiscal year end.

(iii) Cash Flow Coverage Ratio (defined as the aggregate of net income after taxes plus depreciation and other non-cash expenses, less gain on sale of assets, dividends, withdrawals and treasury stock purchases divided by the aggregate of the current portion of long-term debt) not less than 1.5 to 1.0 on an annual basis, determined as of each fiscal year end.

(iv) not make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$150,000.00.

(v) not declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding; nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding; provided however, that so long as Borrower maintains its valid election as an S corporation, Borrower may pay cash dividends or distributions to its shareholders in any fiscal year to cover its shareholders' federal income tax liability for the immediately preceding fiscal year arising as a direct result of Borrower's reported income for such fiscal year, but not to exceed the minimum amount so required, and Borrower shall provide to Bank, upon request, any documentation required by Bank to substantiate the appropriateness of amounts paid or to be paid.

(vi) give notice in writing to Bank of any litigation pending or threatened against Borrower in excess of \$50,000.00.

2. All obligations of Borrower to Fred L. Williamson and Fred W. Andrew shall be subordinated in right of repayment to all obligations of Borrower to Bank, up to an aggregate of \$460,000.00, as evidenced by and subject to the terms of subordination agreements in form and substance satisfactory to Bank.

3. Borrower shall pay to Bank a non-refundable commitment fee for the Note in the amount of \$3,802.50, which commitment fee shall be due and payable in full upon execution of loan documents.

IN WITNESS WHEREOF, this Addendum has been executed as of the same date as the Note.

ANDREW AND WILLIAMSON SALES, CO.

By: -----
Fred W. Andrew, Secretary

EXHIBIT C
(Form of Promissory Note)

WELLS FARGO BANK
\$ _____

PROMISSORY NOTE
_____, California

March 18, 19__

FOR VALUE RECEIVED, the undersigned _____ ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), at its office at _____, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of _____ Dollars (\$ _____), with interest thereon at a rate per annum (computed on the basis of a ___-day year, actual days elapsed) 1.25% above the Prime Rate in effect from time to time. The "Prime Rate" is a base rate that Bank from time to time establishes and which serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto. Each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank.

Interest accrued on this Note shall be payable on the _____ day of each _____ commencing _____.

Principal shall be payable in installments as follows:

with a final installment consisting of all remaining unpaid principal due and payable in full on _____. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a ____-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

This note is made pursuant to and is subject to the terms of that certain Credit Agreement between Borrower and Bank dated as of August 5, 1996, as amended from time to time (the "Credit Agreement"). Upon the occurrence of any Event of Default as defined in the Credit Agreement, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are expressly waived by each Borrower. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, and including any of the foregoing incurred in connection with any bankruptcy proceeding relating to any Borrower.

Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Bank has greater rights or remedies under Federal law, whether as a national bank or otherwise, in which case such choice of California law shall not be deemed to deprive Bank of any such rights and remedies as may be available under Federal law.

EXHIBIT D

Exhibit A to Deed of Trust executed by ANDREW AND WILLIAMSON SALES, CO., as Trustor, to AMERICAN SECURITIES COMPANY, as Trustee, for the benefit of WELLS FARGO BANK, NATIONAL ASSOCIATION, as Beneficiary, dated as of March 18, 1993.

DESCRIPTION OF PROPERTY

The land referred to in this report is situated in the State of California, County of Tulare and is described as follows:

The South half of the West half of the Norwest quarter and the East half of the Norwest quarter of the Norwest quarter, Section 22, Township 17 South, Range 23 East, Mount Diablo Base and Meridian, according to the official plat thereof.

EXCEPTING from the North half of the Southwest quarter of the Norwest quarter all oil and mineral rights in and to said property as reserved from Dolly E. Edmiston to J.B. Bare, dated December 1, 1933, recorded December 8, 1933, in Book 533, Page 371, Official Records.

EXHIBIT 1

Andrew & Williamson Sales Co.
 Grower Accounts Receivable Borrowing Base Certificate for
 Period End -----

	Thousands
Total Grower Accounts Receivable	-----
Less: Grower Reserve	-----
Less: Other Ineligibles	-----
Net Eligible Grower Receivables	-----
Maximum Advance on Grower Receivables 50%	-----
(not to exceed \$2,500M)	
Maximum Borrowing Base	-----
Total Outstanding-Grower Line of Credit Subfeature	-----
Available (Overadvance)	-----

The above accounts and inventory are assigned to WELLS FARGO BANK, N.A. and a security interest granted in accordance with the terms and conditions of the existing Continuing Security Agreement between undersigned and WELLS FARGO BANK, N.A. to which reference is made. We hereby certify that the foregoing is true and correct in all particulars and the accounts described above as collateral for loans represent accounts which conform to all representations and warranties set forth in said Agreement.

Authorized Signature/Title

Date:-----

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-3 (Numbers 33-68510, 33-67618, 33-57246, 33-52920, 33-42841, 33-39166, and 33-32673), Form S-8 (Numbers 33-63220, 33-63218, 33-41712, 33-13416, 33-21545, 33-82788, 33-63106, and 33-60789), and Form S-4 (Number 333-15705) of Epitope, Inc. of our report dated October 28, 1996, except for Note 13 as to which the date is November 14, 1996, November 25, 1996, December 12, 1996, and December 26, 1996, relating to the financial statements of Epitope Medical Products group, Agritope group, and Epitope, Inc., which appears under Item 14 of this Form 10-K.

Price Waterhouse LLP

Portland, Oregon
December 30, 1996

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the reference in this Annual Report on Form 10-K of Epitope, Inc., to our report dated November 6, 1996, relating to the financial statements of Andrew and Williamson Sales, Co., which are referenced in such Form 10-K.

We also consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-3 (Numbers 33-68510, 33-67618, 33-57246, 33-52920, 33-42841, 33-39166, and 33-32673), Form S-8 (Numbers 33-63106, 33-63220, 33-63218, 33-41712, 33-13416, 33-21545, 33-82788, and 33-60789), and Form S-4 (Number 333-15705) of Epitope, Inc. of our report dated November 6, 1996.

Boros & Farrington, APC
December 27, 1996

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitepe, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name

Title

Roger L. Pringle

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitepe, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name

Title

W. Charles Armstrong

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitepe, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name

Title

Richard K. Donohue

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitepe, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name	Title
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----- Margaret H. Jordan	Director
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitope, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name	Title
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----- R. Douglas Norby	Director
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents,

with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitope, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name	Title
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----- Michael J. Paxton	Director
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POWER OF ATTORNEY

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IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

Name	Title
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----- G. Patrick Sheaffer	Director
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitope, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of December 23, 1996.

Name	Title
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----- Mark V. Allred	Controller (Principal accounting officer)
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the person whose signature appears below constitutes and appoints ADOLPH J. FERRO, Ph.D., GILBERT N. MILLER, and each of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Epitope, Inc., for its fiscal year ended September 30, 1996, and any and all amendments to the report 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 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, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or each of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this power of attorney has been signed by the following person in the capacity indicated effective as of November 5, 1996.

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This schedule contains summary financial information extracted from the condensed consolidated financial statements included herein and is qualified in its entirety by reference to such financial statements.

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OCT-01-1995

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EXHIBIT 99

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Andrew and Williamson Sales, Co.

We have audited the accompanying balance sheets of Andrew and Williamson Sales, Co. as of September 30, 1996, and 1995, and the related statements of operations, changes in stockholders' equity, and cash flows for the three years in the period ended September 30, 1996. 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 generally accepted auditing standards. Those standards require that we plan and perform the audits 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 presently fairly, in all material respects, the financial position of Andrew and Williamson Sales, Co. at September 30, 1996, and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally acceptable accounting principles.

Boros & Farrington, APC

San Diego, California
November 6, 1996