

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 29, 2000, OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Transition period from ____ to _____.

Commission file number: 0-27446

LANDEC CORPORATION
(Exact name of registrant as specified in its charter)

CALIFORNIA 94-3025618
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

3603 HAVEN AVENUE
MENLO PARK, CALIFORNIA 94025
(Address of principal executive offices)

Registrant's telephone number, including area code:
(650) 306-1650

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

Title of each class	Name of each exchange on which registered
----- None	----- None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$0.001 per share
(Title of Class)

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 X 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.

The aggregate market value of voting stock held by non-affiliates of the
Registrant was approximately \$46,050,000 as of January 5, 2001, based upon the
closing sales price on the NASDAQ National Market reported for such date. Shares
of Common Stock and Convertible Preferred Stock held by each officer and
director and by each person who owns 10% or more of the outstanding Common Stock
and Convertible Preferred Stock have been excluded from such calculation in that
such persons may be deemed to be affiliates. This determination of affiliate
status is not necessarily a conclusive determination for other purposes.

As of January 5, 2001, there were 16,149,086 shares of Common Stock and
166,667 shares of Convertible Preferred Stock, convertible into ten shares of
Common Stock for each share of Preferred Stock, par value \$0.001 per share,
outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its
2001 Annual Meeting of Shareholders, which statement will be filed not later
than 120 days after the end of the fiscal year covered by this report, are
incorporated by reference in Part III hereof.

LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this Report and, in particular, the factors described in Item 7 under "Additional Factors That May Affect Future Results."

GENERAL

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, specialty industrial and medical applications. This proprietary polymer technology is the foundation, and a key differentiating advantage, upon which the Company has built its business.

Landec's Food Products Technology business, operated through its wholly owned subsidiary Apio, combines Landec's proprietary food packaging technology with the capabilities of a large national food supplier and value-added produce processor. This combination was consummated in December 1999 when the Company acquired Apio, Inc. and certain related entities (collectively "Apio").

The Company's Agricultural Seed Technology business, operated through its wholly owned subsidiary Landec Ag, Inc. ("Landec Ag", formerly Intellicoat Corporation), combines Landec's proprietary Intellicoat-Registered Trademark-seed coating technology with its unique eDC-TM- -- e-commerce, Direct marketing and Consultative selling -- capabilities which it obtained with its acquisition of Fielder's Choice Direct, a direct marketer of hybrid seed corn, in September 1997.

In addition to its two core businesses, the Company also operates a Technology Licensing/Research and Development business which licenses products outside of Landec's core businesses to industry leaders such as Alcon Laboratories, Inc. ("Alcon") and Hitachi Chemical. It also engages in research and development activities with companies such as ConvaTec, a division of Bristol-Myers Squibb and UCB Chemicals, a subsidiary of UCB S.A. of Belgium. For segment disclosure purposes, the Technology Licensing/Research and Development business is included in Corporate and Other (see Note 13 to the Consolidated Financial Statements).

To support the polymer manufacturing needs of the core businesses, Landec has developed and acquired lab scale and pilot plant capabilities in Menlo Park, California and scale-up and commercial manufacturing capabilities at its Dock Resins Corporation subsidiary ("Dock Resins") in Linden, New Jersey. In April 1997, Landec acquired Dock Resins, a manufacturer and marketer of specialty acrylic and other polymers. In addition, Dock Resins sells industrial specialty products under the Doresco-Registered Trademark- trademark that are used by more than 300 customers throughout the United States in the coatings, printing inks, laminating and adhesives markets. For segment disclosure purposes, Dock Resins is included in Corporate and Other (see Note 13 to the Consolidated Financial Statements).

The Company's core polymer products are based on its patented proprietary Intelimer-Registered Trademark- polymers, which differ from other polymers in that they can be customized to abruptly change their physical characteristics when heated or cooled through a pre-set temperature switch. For instance, Intelimer polymers can change within the range of one or two degrees Celsius from a slick, non-adhesive state to a highly tacky, adhesive state; from an impermeable state to a highly permeable state; or from a solid state to a viscous state. These abrupt changes are repeatedly reversible and can be tailored by Landec to occur at specific temperatures, thereby offering substantial competitive advantages in the Company's target markets.

The principal products and services offered by the Company in its two core businesses -- Food Products Technology and Agricultural Seed Technology -- and in the Technology Licensing/Research and Development business are described below. Financial information concerning the industry segments for which the Company reported its operations during fiscal years 1998 through 2000 is summarized in Note 13 to the Consolidated Financial Statements.

The Company was incorporated in California on October 31, 1986. The Company completed its initial public offering in 1996 and is listed on the Nasdaq National Market under the symbol "LNDC."

TECHNOLOGY OVERVIEW

Polymers are important and versatile materials found in many of the products of modern life. Certain polymers, such as cellulose and natural rubber, occur in nature. Man-made polymers include nylon fibers used in carpeting and clothing, coatings used in paints and finishes, plastics such as polyethylene, and elastomers used in automobile tires and latex gloves. Historically, synthetic polymers have been designed and developed primarily for improved mechanical and thermal properties, such as strength and the ability to withstand high temperatures. Improvements in these and other properties and the ease of manufacturing of synthetic polymers have allowed these materials to replace wood, metal and natural fibers in many applications over the last 40 years. More recently, scientists have focused their efforts on identifying and developing sophisticated polymers with novel properties for a variety of commercial applications.

Landec's Intelimer polymers are a proprietary class of synthetic polymeric materials that respond to temperature changes in a controllable, predictable way. Typically, polymers gradually change in adhesion, permeability and viscosity over broad temperature ranges. Landec's Intelimer materials, in contrast, can be designed to exhibit abrupt changes in permeability, adhesion and/or viscosity over temperature ranges as narrow as 1 DEG. C to 2 DEG. C. These changes can be designed to occur at relatively low temperatures (0 DEG. C to 100 DEG. C) that are relatively easy to maintain in industrial and commercial environments. FIGURE 1 illustrates the effect of temperature on Intelimer materials as compared to typical polymers.

[TEMPERATURE GRAPHIC]

Landec's proprietary polymer technology is based on the structure and phase behavior of Intelimer materials. The abrupt thermal transitions of specific Intelimer materials are achieved through the use of chemically precise hydrocarbon side chains that are attached to a polymer backbone. Below a pre-determined switch temperature, the polymer's side chains align through weak hydrophobic interactions resulting in a crystalline structure. When this side chain crystallizable polymer is heated to, or above, this switch temperature, these interactions are disrupted and the polymer is transformed into an amorphous, viscous state. Because this transformation involves a physical and not a chemical change, this process is repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0 DEG. C to 100 DEG. C by varying the length of the side chains. The reversible transitions between crystalline and amorphous states are illustrated in FIGURE 2 below.

[CRYSTALLINE AMORPHOUS GRAPHIC]

Side chain crystallizable polymers were first discovered by academic researchers in the mid-1950's. These polymers were initially considered to be merely of scientific curiosity from a polymer physics perspective, and, to the Company's knowledge, no significant commercial applications were pursued. In the mid-1980's, Dr. Ray Stewart, the Company's founder, became interested in the idea of using the temperature-activated permeability properties of these polymers to deliver various materials such as drugs and pesticides. After forming Landec in 1986, Dr. Stewart subsequently discovered broader utility for these polymers. After several years of basic research, commercial development efforts began in the early 1990's, resulting in initial products in mid-1994.

Landec's Intelimer materials are generally synthesized from long side-chain acrylic monomers that are derived primarily from natural materials such as soybean and corn oils, that are highly purifiable and designed to be manufactured economically through known synthesis processes. These side-chain raw materials are then polymerized by Landec leading to many different side-chain crystallizable polymers whose properties vary depending upon the initial materials and the synthesis process. Intelimer materials can be made into many different forms, including films, coatings, microcapsules and discrete forms.

DESCRIPTION OF CORE BUSINESS

The Company participates in two core segments -- Food Products Technology and Agricultural Seed Technology. In addition to these two core segments, Landec will license technology and conduct on going research and development through its Technology Licensing/Research & Development Business.

[LANDEC FLOWCHART]

FOOD PRODUCTS TECHNOLOGY BUSINESS

Landec began marketing in late 1995 its proprietary Intelimer-based breathable membranes for use in the fresh-cut produce packaging market, the fastest growing segment in the food market. Landec's unique technology enabled Landec's customers to enter into and develop new businesses in this fresh-cut produce market (also known as the "value-added" market). In December 1999, Landec acquired Apio, Landec's largest customer in the Food Products Technology business and who the Company believes is the nation's leading marketer and packer of produce and specialty packaged fresh-cut vegetables. Apio provides year-round access to produce, utilizes state-of-the-art fresh-cut produce processing technology and distributes to all 10 of the top U.S. retail grocery chains and major club stores and has recently begun expanding its product offerings to the foodservice industry. Landec's proprietary Intelimer-based packaging business has been combined with Apio into a wholly owned subsidiary that retains the Apio, Inc. name. This vertical integration within the Food Products Technology business places Landec in the unique position of providing the fresh-cut and whole produce market with both technology and access to larger and broader markets.

INTELLIPAC-Registered Trademark- BREATHABLE MEMBRANES

Certain types of fresh-cut produce can spoil or discolor rapidly when packaged in conventional packaging materials and are therefore limited in their ability to be distributed broadly to markets. The Company's Intellipac breathable membranes extend the shelf life and quality of fresh-cut produce.

Fresh-cut produce is pre-washed, cut and packaged in a form that is ready to use by the consumer and is thus typically sold at premium price levels. According to the International Fresh Cut Produce Association ("IFPA"), in 1999, the total U.S. fresh produce market exceeded \$100 billion. Of this, U.S. retail sales of fresh-cut produce grew to an estimated \$10 billion. The Company believes that the growth of this market has been driven by consumer demand and the willingness to pay for convenience, labor savings and uniform quality relative to produce prepared at the point of sale. The IFPA estimates that by 2005, U.S. retail sales of fresh-cut produce could more than double.

Although fresh-cut produce companies have had success in the salad market, the industry has been slow to diversify into other fresh-cut vegetables or fruits due primarily to limitations in film materials used to package the fresh-cut produce. After harvesting, vegetables and fruits continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay and promote the growth of contaminants and microorganisms that jeopardize inherent food safety. Conventional packaging films used today, such as polyethylene and polypropylene, can be made with modest permeability to oxygen and carbon dioxide, but often do not provide the optimal atmosphere for the produce packaged. Shortcomings of conventional packaging materials have not significantly hindered the growth in the fresh-cut salad market because lettuce, unlike many vegetables and fruits, has low respiration requirements.

The respiration rate of fresh-cut produce varies from vegetable-to-vegetable and from fruit-to-fruit. The challenge facing the industry is to develop packaging for the high respiring, high value and shelf life sensitive fresh-cut vegetable and fruit markets. The Company believes that today's conventional packaging films face numerous challenges in adapting to meet the diversification of pre-cut vegetables and fruits evolving in the industry without compromising shelf life and produce quality. To mirror the growth experienced in the fresh-cut salad market, the markets for high respiring vegetables and fruits such as broccoli, cauliflower, bananas, berries and stone fruit (e.g. peaches, apricots, nectarines) will require a more versatile and sophisticated packaging solution for which the Company's Intellipac breathable membranes were developed.

The respiration rate of fresh-cut produce also varies with temperature. As temperature increases, fresh-cut produce generally respire at a higher rate, which speeds up the aging process, resulting in shortened shelf life and increased potential for decay, spoilage, loss of texture and dehydration. As fresh-cut produce is transported from the processing plant through the refrigerated distribution chain to foodservice locations, retail grocery stores and club stores, and finally to the ultimate consumer, temperatures can fluctuate significantly. Therefore, temperature control is a constant challenge in preserving the quality of fresh-cut produce -- a challenge few current packaging films can fulfill. The Company believes that its temperature-responsive Intellipac technology is well suited to the challenges of the fresh-cut distribution process.

Using its Intelimer technology, Landec has developed Intellipac breathable membranes that it believes address many of the shortcomings of conventional materials. A membrane is applied over a small cutout section or an aperture of a flexible film bag. This highly permeable "window" acts as the mechanism to provide the majority of the gas transmission requirements for the entire package. These membranes are designed to provide three principal benefits:

- HIGH PERMEABILITY. Landec's Intellipac breathable membranes are designed to permit transmission of oxygen and carbon dioxide at 300 times the rate of conventional packaging films. The Company believes that these higher permeability levels will facilitate the packaging diversity required to market many types of fresh-cut produce.
- ABILITY TO ADJUST OXYGEN AND CARBON DIOXIDE PERMEABILITY. Conventional packaging films diffuse gas transfer in and out of packages at an equal rate or fixed ratio of 1.0. Intellipac packages can be tailored with carbon dioxide to oxygen transfer ratios ranging from 1.0 to 12.0 and selectively transmit oxygen and carbon dioxide at optimum rates to sustain the quality and shelf life of produce.
- TEMPERATURE RESPONSIVENESS. Landec has developed breathable membranes that can be designed to increase or decrease in permeability in response to environmental temperature changes. The Company has developed packaging that responds to higher oxygen requirements at elevated temperatures but is also reversible, and returns to its original state as temperatures decline. The temperature responsiveness of these membranes allows ice to be removed from the distribution system which results in numerous benefits. These benefits include (1) a substantial decrease in freight cost, (2) reduced risk of contaminated produce because ice is a carrier of micro organisms, (3) the elimination of expensive waxed cartons that cannot be recycled, and (4) the potential decrease in work related accidents due to melted ice.

Landec believes that growth of the overall produce market will be driven by the increasing demand for the convenience of fresh-cut produce. This demand will in turn require packaging that facilitates the quality and shelf life of produce transported to fresh-cut distributors in bulk and pallet quantities. The Company believes that in the future its Intellipac breathable membranes will be useful for packaging a diverse variety of fresh-cut produce products. Potential opportunities for using Landec's technology outside of the fresh-cut produce market exist in cut flowers and in other food products.

Landec is working with leaders in the fresh-cut foodservice, club store and retail grocery markets. The Company believes it will have growth opportunities for the next several years through new customers and products in the United States, expansion of its existing customer relationships, and through export and shipments of specialty packaged produce.

Landec manufactures its Intellipac breathable membrane packaging both internally and through selected qualified contract manufacturers and markets and sells Intellipac breathable membranes packaging directly to food distributors.

APIO, INC.

In December 1999, Landec completed the acquisition of Apio and certain related entities. Landec paid \$21.0 million in cash and Landec Common Stock, before expenses, at close and \$1.1 million in January 2001 with another \$4.1 million due to be paid in March 2001. An additional \$11.4 million in future payments over the next four years may be paid, \$5.9 million of which is based on Apio achieving certain performance milestones in fiscal year 2001. Apio had revenues of approximately \$179 million in the eleven-month period ended October 29, 2000.

Based in Guadalupe, California, Apio consists of two major businesses - - traditional whole produce harvesting, packing and marketing and specialty packaged fresh-cut value-added processed products that are pre-cut, washed and packaged in Landec's Intellipac packaging. The traditional produce service business includes harvesting, packing, cooling and marketing of vegetables and fruits on a contract basis for growers in California's Santa Maria, San Joaquin and Imperial Valleys and in Arizona and Mexico. Apio currently has approximately 16,000 acres under contract, including access to approximately 20 percent of the farmable land in the Santa Maria Valley. The fresh-cut value-added processing products business, developed within the last 5 years, sources a variety of fresh-cut vegetables to the top retail grocery chains representing over 6,900 retail stores and to over 600 club stores. During the eleven month period ended October 29, 2000, Apio shipped more than 23 million cartons of produce to some 700 customers including leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

In September 2000, due to disappointing financial results, management of Landec decided to discontinue processing fruit at its Reedley facility. The Company has put the facility and the packing and cold storage assets up for sale. The Company will continue to provide field support and sales and marketing services to current contracted growers through Apio's existing staff and will outsource all remaining services to third parties. As a result of the shutdown of the Reedley facility, the Company recorded a \$525,000 charge during the fourth quarter of fiscal year 2000, primarily for severance and payroll related costs. The sale is expected to result in a gain. The current net book value of the assets is \$3.0 million. The Company anticipates closing a sale during the second fiscal quarter of 2001.

There are five major distinguishing characteristics of Apio that provide it a competitive advantage in the Food Products Technology market:

- Apio has structured its business as a full service provider of vegetables, fruits, and fresh-cut value-added produce. It is focused on developing its Eat Smart-TM- brand name for all of its fresh-cut value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.
- Apio is unique in that it takes on less farming risk than its competitors. Apio reduces its farming risk by not taking ownership of farmland, and instead, will contract with growers for produce and charge for services that include packing, cooling, shipping and marketing. Generally, Apio does not take title to the produce but receives a margin for services rendered. The year-round sourcing of produce is a key component to both the traditional produce business as well as the fresh-cut value-added processing business.
- Apio strategically invested in the rapidly growing fresh-cut value-added business. Apio's new 35,000 square foot value-added plant packed more than 59 million pounds in the past twelve months. Apio has one of the very few temperature controlled value-added processing plants in the U.S. Ninety percent of Apio's value-added products utilize Landec's proprietary Intellipac membrane technology.
- Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia.
- Apio, through the use of Landec's Intellipac membrane technology, is in the early stages of changing selective categories of the whole produce business. Its introduction of iceless broccoli crowns in October 2000 is the beginning of a conversion from the traditional packing and shipping of whole produce, which relied heavily on ice, to iceless products utilizing the Intellipac technology.

AGRICULTURAL SEED TECHNOLOGY BUSINESS

Landec formed its Landec Ag (formerly Intellicoat Corporation) subsidiary in 1995. Landec Ag's strategy is to build a vertically integrated seed technology company based on the proprietary Intellicoat-Registered Trademark- seed coating technology and its eDC -- e-commerce, direct marketing and consultative selling -- capabilities.

INTELLICOAT SEED COATINGS

Landec has developed and, through Landec Ag, is conducting field trials of its Intellicoat seed coatings, an Intelimer-based agricultural material designed to control seed germination timing, increase crop yields and extend the crop planting windows. These coatings are initially being applied to corn, soybean, and canola seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 1999 in North America for corn, soybean, and canola seed exceeded 77.6 million, 77.2 million, and 1.1 million, respectively.

Currently, farmers must predict the proper time to plant seeds. If the seeds are planted too early, they may rot or suffer chilling injury due to the absorption of water at cold soil temperatures. If they are planted too late, the growing season may end prior to the crop reaching full maturity. In either case, the resulting crop yields are sub-optimal. Moreover, the planting window can be fairly brief, requiring the farmer to focus almost exclusively on planting during this time. Seeds also germinate at different times due to variations in absorption of water, thus providing for variations in the growth rate of the crops.

The Company's Intellicoat seed coating prevents planted seeds from absorbing water when the ground temperature is below the coating's pre-set temperature switch. Intellicoat seed coatings are designed to enable coated seeds to be planted early without risk of chilling damage caused by the absorption of water at cold soil

temperatures. As spring advances and soil temperatures rise to the pre-determined switch temperature, the polymer's permeability increases and the coated seeds absorb water and begin to germinate. The Company believes that Intellicoat seed coatings provide the following advantages: more flexible timing for planting, avoidance of chilling injury, more uniform germination and crop growth, and protection against harmful fungi. As a result, the Company believes that Intellicoat seed coatings offer the potential for significant improvements in crop yields.

In fiscal year 2000, the Company successfully launched its first commercial product, Pollinator Plus-TM- coatings for inbred corn seed products. As a result of the success realized in fiscal year 2000, the Company will be expanding its sales of inbred corn seed coating products in fiscal year 2001 to regional and national seed companies in the United States. This application is targeted to approximately 640,000 acres of farmland in ten states. In addition, based on the successful field trial results during 2000 for its Relay Crop-TM- System for wheat and coated soybeans and its Early Plant-TM- hybrid coated corn, the Company will be expanding its sales of each product. The Company's Relay Crop System will allow farmers to plant and harvest two crops during the year on the same acre of land, providing significant financial benefit for the farmer. Early Plant hybrid corn will allow the farmer to plant 2 to 4 weeks earlier than typically possible due to cold soil temperatures. By allowing the farmer to plant earlier than normal Early Plant hybrid corn will enable large farmers to utilize staff and equipment more efficiently and provide flexibility during the critical planting period. Future crops under consideration include cotton, canola, sugar beets and other vegetables.

FIELDER'S CHOICE DIRECT (THE EDC COMPANY)

In September 1997, Landec Ag completed the acquisition of Fielder's Choice, a direct marketer of hybrid seed corn to farmers. Landec paid approximately \$3.6 million in cash and direct acquisition costs and \$5.2 million in Landec Common Stock for Fielder's Choice. Terms of the agreement include a cash earn-out of \$2.4 million based on future sales of Fielder's Choice Direct-Registered Trademark- hybrid seed corn. As of October 29, 2000, \$1.2 million of the earn-out had been earned and paid. Fielder's Choice had sales of approximately \$13.3 million and \$15.2 million in the twelve months ended October 31, 1998 and 1999, respectively, and \$17.2 million for the twelve months ended October 29, 2000.

Based in Monticello, Indiana, Fielder's Choice offers a comprehensive line of corn hybrids to more than 16,000 producer seed customers in over forty states through direct marketing programs. The success of Fielder's Choice comes, in part, from its expertise in selling directly to the farmer producer, bypassing the traditional and costly farmer-dealer system. The Company believes that this direct channel of distribution provides a 35% cost advantage to its farmer producers.

In order to support its direct marketing programs, Fielder's Choice has developed proprietary e-commerce direct marketing, and consultative selling information technology, called "eDC", that enables state-of-the-art methods for communicating with a broad array of farmers. This proprietary direct marketing information technology includes a current database of over 80,000 farmers. In August 1999, the Company launched the seed industry's first comprehensive e-commerce website. This new website furthers the Company's ability to provide a high level of consultation to Fielder's Choice customers, backed by a six day a week call center capability that enables the Company to use the internet as a natural extension of its direct marketing strategy.

The acquisition of Fielder's Choice was strategic in providing a cost-effective vehicle for marketing Intellicoat seed coating products. The Company believes that the combination of a direct channel of distribution, telephonic and electronic commerce capabilities will enable Intellicoat to more quickly achieve meaningful market penetration.

TECHNOLOGY LICENSING/RESEARCH & DEVELOPMENT BUSINESSES

The Company believes its technology has commercial potential in a wide range of industrial, consumer and medical applications beyond those identified in its core businesses. In order to exploit these opportunities, the Company has entered into licensing and collaborative corporate agreements for product development and/or distribution in certain fields.

INDUSTRIAL MATERIALS AND ADHESIVES

Landec's industrial products development strategy is to focus on catalysts, resins, and adhesives in the polymer materials market. During the product development stage, the Company identifies corporate partners to support the ongoing development and testing of these products, with the ultimate goal of licensing the applications at the appropriate time.

INTELIMER POLYMER SYSTEMS. The Company is developing catalysts, curative, and curing agent systems based on its Intelimer technology for use in one-package thermoset products. These systems can incorporate catalysts, curatives and curing agents in a unique polymer envelope that prevents interaction by these agents with the resin when the polymer envelope is in its impermeable state. This characteristic allows all components of the thermoset product to be pre-mixed and stored at room temperature, and provides longer shelf life. Landec's unique polymer envelope system can be designed with a pre-set opening temperature switch to correspond with elevated temperatures used during standard manufacturing processes. When the thermoset system is exposed to the pre-set switch temperature, the Intelimer polymer abruptly changes to its permeable state, exposing the catalyst to the resin and initiating the curing process. In addition, the Intelimer polymer can be designed to change state over a predetermined temperature range in order to achieve a desired reaction time.

Thermoset catalyst systems can eliminate the need for costly on-site mixing equipment and because thermosets can be pre-mixed by the manufacturer, will minimize sub-optimal product performance due to incorrect component mixing ratios. Furthermore, since the thermosets will not cure until exposed to elevated temperatures, pot life should be extended, resulting in significantly reduced waste and labor expense. The Company believes that the ability to control reaction time also provides advantages over existing thermoset systems and can enhance the throughput of targeted manufacturing customers. Landec received the R&D 100 Award from R&D Magazine for its Intelimer Polymer Systems product line in 1997 in recognition of the unique capabilities of this technology. Certain Intelimer Polymer Systems products are currently being sold in the U.S. and Europe while others are in developmental stages.

DOCK RESINS. In April 1997, Landec completed the acquisition of Dock Resins, a privately-held manufacturer and marketer of specialty acrylic and other polymers based in Linden, New Jersey. Landec paid approximately \$13.7 million in cash, a promissory note and direct acquisition costs and \$2.1 million in Landec Common Stock to acquire Dock Resins. The acquisition of Dock Resins provided the Company with immediate access to large-scale polymer manufacturing as well as a built-in customer base and national distribution network.

Dock Resins also sells products under the Doresco trademark which are used by more than 300 customers throughout the United States and other countries in the coatings, printing inks, laminating and adhesives markets. Dock Resins is a supplier of proprietary polymers including acrylic, methacrylic, alkyd, polyester, urethane and polyamide polymers to film converters engaged in hot stamping, decorative wood grain, automotive interiors, holograms, and metal foil applications. Dock Resins also supplies products to a number of other markets such as graphic arts, automotive refinishing, construction, pressure-sensitive adhesives, paper coatings, caulks, concrete curing compounds and sealers. Dock Resins had sales of approximately \$15.4 million and \$14.0 million in the twelve months ended October 31, 1998 and 1999, respectively and \$12.4 for the twelve months ended October 29, 2000.

HITACHI CHEMICAL. The Company entered into two separate collaborations with Hitachi Chemical ("Hitachi") in the areas of industrial adhesives and Intelimer Polymer Systems. On October 1, 1994, the Company entered into a non-exclusive license agreement with Hitachi in the industrial adhesives area. The agreement provides Hitachi with a non-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Hitachi of the licensed products. This agreement on industrial adhesives has terminated. Any fees paid to the Company are non-refundable.

On August 10, 1995, the Company entered into the second collaboration with Hitachi in the Intelimer Polymer Systems area. The agreement provided Hitachi with an exclusive license to use and sell Landec's Intelimer Polymer Systems in industrial latent curing products in certain Asian countries. Landec is entitled to be the exclusive supplier of Intelimer Polymer Systems to Hitachi for at least seven years after commercialization which began in February 2000. Landec received an up-front license payment upon signing this agreement and research and development funding over three years and is entitled to receive future royalties based on net sales by Hitachi of the licensed products. Any fees paid to the Company are non-refundable. This agreement has been converted to a non-exclusive agreement except for one application field.

NITTA CORPORATION. On March 14, 1995, the Company entered into a license agreement with Nitta Corporation ("Nitta") in the industrial adhesives area. The agreement provides Nitta with a co-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Nitta of the licensed products. Any fees paid to the Company are non-refundable. This agreement is terminable at Nitta's option. Nitta and the Company entered into an additional exclusive license arrangement in February 1996 covering Landec's medical adhesives technology for use in Asia. The Company received up-front license fees upon execution of the agreement and research and development payments and is entitled to receive future royalties under this agreement. Any fees paid to the Company

are non-refundable. Nitta and the Company also entered into another worldwide exclusive agreement on January 1, 1998 in the area of industrial adhesives specific to one field of electronic polishing adhesives. The Company received research and development payments as a part of this agreement. As of January 1999, the Company had no future obligations under any of the aforementioned agreements with Nitta.

UCB CHEMICALS CORPORATION. On April 10, 2000, the Company entered into a one-year research and development agreement with UCB Chemicals Corporation ("UCB"), an operating entity of UCB S.A., a major pharmaceutical and chemical company located in Belgium. UCB's chemical business is a major supplier of radiation curing and powder coating resins. Under this agreement, the Company will explore polymer systems for evaluation in several industrial product applications. The program is exploratory in nature and, if successful, could lead to a supply agreement for additive materials for UCB products.

MEDICAL APPLICATIONS

PORT-TM- OPHTHALMIC DEVICES. Landec developed the PORT (Punctal Occluder for the Retention of Tears) ophthalmic device initially to address a common, yet poorly diagnosed condition known as dry eye that is estimated to affect 30 million Americans annually. The device consists of a physician-applied applicator containing solid Intelimer material that transforms into a flowable, viscous state when heated slightly above body temperature. After inserting the Intelimer material into the lacrimal drainage duct, it quickly solidifies into a form-fitting, solid plug. Occlusion of the lacrimal drainage duct allows the patient to retain tear fluid and thereby provides relief and therapy to the dry eye patient.

The PORT product is currently in final stages of human clinical trials. Landec and its partner, Alcon, a wholly-owned subsidiary of Nestle S.A., believe that PORT plugs will have additional ophthalmic applications beyond the dry eye market. This would include applications for people who cannot wear contact lenses due to limited tear fluid retention and patients receiving therapeutic drugs via eye drops that require longer retention in the eye.

In December 1997, Landec licensed the rights to worldwide manufacturing, marketing and distribution of its PORT ophthalmic device to Alcon. Under the terms of the transaction, Landec received an up-front cash payment of \$500,000, a \$750,000 milestone payment in November 1998, research and development funding and will receive ongoing royalties of 11.5% on product sales of each PORT device over an approximately 15-year period. Any fees paid to the Company are non-refundable. In September 1999, Alcon submitted a 510K application to the FDA seeking approval to commercially sell the PORT device. Landec will continue to provide development support on a contract basis through the FDA approval process and product launch. Landec also provides the Intelimer polymer to Alcon which is used in the PORT device.

CONVATEC. On October 11, 1999, the Company entered into a joint development agreement with ConvaTec, a division of Bristol-Myers Squibb, under which Landec will develop adhesive film products for selected ConvaTec medical products. Landec is receiving support funding for this program. Upon completion of this agreement, the companies have the option to consider a license and supply agreement where Landec would supply materials to ConvaTec for use in specific medical devices.

AGRICULTURAL APPLICATIONS

CELPRIL. On September 12, 2000, the Company entered into a joint development agreement with CelPril, a subsidiary of Aventis CropScience, under which Landec will develop seed coatings for fall and spring planted canola and assist CelPril in conducting field trials. Landec is receiving support funding for this program. Upon completion of this agreement, the companies have the option to consider additional support funding and a license and supply agreement where Landec would supply materials to CelPril for use in specific canola seed coating applications.

SALES AND MARKETING

Each of the Company's core businesses are supported by dedicated sales and marketing resources. The Company intends to develop its internal sales capacity as more products progress toward commercialization and as business volume expands geographically.

FOOD PRODUCTS TECHNOLOGY BUSINESS

Apio has over 22 sales people, located in central California and throughout the U.S., supporting both the traditional produce marketing business and the specialty packaged value-added produce business.

AGRICULTURAL SEED TECHNOLOGY BUSINESS

In preparation for the launch of Early Plant-TM- hybrid corn seed and Relay Crop-TM- wheat/soybean products, Landec Ag has identified a small internal sales force to target a very focused group of seed customers. For future coated seed products that are sold directly to farmers, the Company will utilize over 50 direct seed sales consultants and associates located in Monticello, Indiana. These consultants and associates also support Fielder's Choice in its direct marketing of corn seed. Customer contacts are made based on direct responses and inquiries from customers.

OTHER

Dock Resins sales are carried out through a small direct sales group and network of existing manufacturers' representatives and distributed through public warehouses. Sales are supported by internal sales and technical service resources at Dock Resins. Intelimer Polymer Systems sales are made through Dock Resins in the U.S. and in Europe through Akzo Nobel, an international distributor.

MANUFACTURING AND PROCESSING

Landec intends to control the manufacturing of its own products whenever possible, as it believes that there is considerable manufacturing margin opportunity in its products. In addition, the Company believes that know-how and trade secrets can be better maintained by Landec retaining manufacturing capability in-house.

POLYMER MANUFACTURING - DOCK RESINS CORPORATION

Dock Resins has manufacturing facilities that are flexible and adaptable to a wide range of processes. Its capabilities include various polymerization processes, grafting, dispersing, blending, pilot plant scale-ups and general synthesis. The Company has increased the capacity of these facilities in 1998 and 1999 in order to offer new products to new and existing customers and to supply polymer products to Landec's other businesses. Dock Resins' policy is to be a leader in safety, health and environmental protection. In 1998 and 1999, in order to offer new products to new and existing customers and to supply polymer products to Landec's other businesses, Dock Resins passed a voluntary comprehensive health and safety evaluation by the United States Occupational Safety and Health Administration (OSHA). As a result, OSHA awarded recognition to Dock Resins as a Merit Site in 1998 and a Star Site in 1999 in OSHA's Voluntary Protection Program.

FOOD PRODUCTS TECHNOLOGY BUSINESS

The manufacturing process for the Company's Intellipac breathable membrane products is comprised of polymer manufacturing, membrane manufacturing and label conversion. Dock Resins manufactures virtually all of the polymers for the Intellipac breathable membranes. Select outside contractors currently manufacture the breathable membranes and Landec has recently transitioned most of the label conversion manufacturing to its Menlo Park facility to meet the increasing product demand and provide additional developmental capabilities.

Apio processes all of its fresh-cut value-added products in a 35,000 square foot, state-of-the-art processing facility located in Guadalupe, California. The Company is currently running two shifts per day, seven days a week, and utilizes contract laborers from a third party contact labor supplier. Cooling of produce is done through third parties and Apio Cooling, a separate company of which Apio has a 60% ownership interest and is the general partner.

AGRICULTURAL SEED TECHNOLOGY BUSINESS

During fiscal year 2000, the Company completed construction of a pilot manufacturing facility in Indiana to support the commercialization of its Relay Crop System for wheat/coated soybean products and for Early Plant hybrid corn. The new facility will utilize a new continuous coating process that has increased seed coating capabilities by tenfold compared to the previous system using batch coaters. Fielder's Choice purchases its hybrid seed corn from an established producer under an exclusive purchase agreement.

GENERAL

Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Fielder's Choice are purchased from a single source. Upon manufacturing scale-up and as hybrid corn sales

increase, the Company may enter into alternative supply arrangements. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products nor has Fielder's Choice experienced difficulty in acquiring hybrid corn varieties, no assurance can be given that interruptions in supplies will not occur in the future, that the Company will be able to obtain substitute vendors, or that the Company will be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company's ability to manufacture and distribute its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

Landec has historically relied on the guidance of Good Manufacturing Practices ("GMP") in developing standardized research and manufacturing processes and procedures. Having entered into licensing agreements for the PORT device, the Company is no longer required to adhere to GMPs. The Company desires to maintain an externally audited quality system and has achieved ISO 9001 registration for the Menlo Park research and development site in fiscal year 1999 and for both the Menlo Park research and development and manufacturing sites in fiscal year 2000. Such registration is required in order for the Company to sell product to certain potential customers, primarily in Europe.

RESEARCH AND DEVELOPMENT

Landec is focusing its research and development resources on both existing and new applications of its Intelimer technology. Expenditures for research and development in fiscal year 2000 were \$4.7 million, compared with \$5.8 million in fiscal year 1999 and \$5.7 million in fiscal year 1998. In fiscal year 2000, research and development expenditures funded by corporate partners were \$539,000 compared with \$770,000 in fiscal year 1999 and \$1.4 million in fiscal year 1998. The Company may continue to seek funds for applied materials research programs from U.S. government agencies as well as from commercial entities. The Company anticipates that it will continue to have significant research and development expenditures in order to maintain its competitive position with a continuing flow of innovative, high-quality products and services. As of October 29, 2000, Landec had 27 employees, including 7 with Ph.D.'s, engaged in research and development with experience in polymer and analytical chemistry, product application, product formulation, mechanical and chemical engineering.

COMPETITION

The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food packaging and agricultural companies is expected to be intense. In addition, the nature of the Company's collaborative arrangements and its technology licensing business may result in its corporate partners and licensees becoming competitors of the Company. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than the Company, and many have substantially greater experience in conducting field trials, obtaining regulatory approvals and manufacturing and marketing commercial products. There can be no assurance that these competitors will not succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive.

PATENTS AND PROPRIETARY RIGHTS

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has been granted sixteen U.S. patents with expiration dates ranging from 2006 to 2018 and has filed applications for additional U.S. patents, as well as certain corresponding patent applications outside the United States, relating to the Company's technology. The Company's issued patents include claims relating to compositions, devices and use of a class of temperature sensitive polymers that exhibit distinctive properties of permeability, adhesion and viscosity. There can be no assurance that any of the pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or design around the Company's patents. Any of the foregoing results could have a material adverse effect on the Company's business, operating results and financial condition.

The commercial success of the Company will also depend, in part, on its ability to avoid infringing patents issued to others. The Company has received, and may in the future receive, from third parties, including some of its

competitors, notices claiming that it is infringing third party patents or other proprietary rights. If the Company were determined to be infringing any third-party patent, the Company could be required to pay damages, alter its products or processes, obtain licenses or cease certain activities. In addition, if patents are issued to others which contain claims that compete or conflict with those of the Company and such competing or conflicting claims are ultimately determined to be valid, the Company may be required to pay damages, to obtain licenses to these patents, to develop or obtain alternative technology or to cease using such technology. If the Company is required to obtain any licenses, there can be no assurance that the Company will be able to do so on commercially favorable terms, if at all. The Company's failure to obtain a license to any technology that it may require to commercialize its products could have a material adverse impact on the Company's business, operating results and financial condition.

Litigation, which could result in substantial costs to the Company, may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. If competitors of the Company prepare and file patent applications in the United States that claim technology also claimed by the Company, the Company may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial cost to and diversion of effort by the Company, even if the eventual outcome is favorable to the Company. Any such litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using such technology and consequently, could have a material adverse effect on the Company's business, operating results and financial condition.

In addition to patent protection, the Company also relies on trade secrets, proprietary know-how and technological advances which the Company seeks to protect, in part, by confidentiality agreements with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

GOVERNMENT REGULATIONS

The Company's products and operations are subject to regulation in the United States and foreign countries.

FOOD PRODUCTS TECHNOLOGY BUSINESS

The Company's food packaging products are subject to regulation under the Food, Drug and Cosmetic Act ("FDCA"). Under the FDCA any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. Food additives may be substances added directly to food, such as preservatives, or substances that could indirectly become a component of food, such as waxes, adhesives and packaging materials.

A food additive, whether direct or indirect, must be covered by a specific food additive regulation issued by the FDA. The Company believes its Intellipac breathable membrane products are not subject to regulation as food additives because these products are not expected to become a component of food under their expected conditions of use. If the FDA were to determine that the Company's Intellipac breathable membrane products are food additives, the Company may be required to submit a food additive petition. The food additive petition process is lengthy, expensive and uncertain. A determination by the FDA that a food additive petition is necessary would have a material adverse effect on the Company's business, operating results and financial condition.

The Company's agricultural operations are subject to a variety of environmental laws including the Food Quality Protection Act of 1996, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these laws and related regulations is an ongoing process. Environmental concerns are, however, inherent in most agricultural operations, including those conducted by the Company, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies thereunder, and further restrictions on the use of manufacturing chemicals could result in increased compliance costs.

As a result of the Apio acquisition, the Company is subject to USDA rules and regulations concerning the safety of the food products handled and sold by Apio, and the facilities in which they are packed and processed. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, injunctions,

civil penalties, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

AGRICULTURAL SEED TECHNOLOGY BUSINESS

The Company's agricultural products are subject to regulations of the United States Department of Agriculture ("USDA") and the EPA. The Company believes its current Intellicoat seed coatings are not pesticides as defined in the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") and are not subject to pesticide regulation requirements. The process of meeting pesticide registration requirements is lengthy, expensive and uncertain, and may require additional studies by the Company. There can be no assurance that future products will not be regulated as pesticides. In addition, the Company believes that its Intellicoat seed coatings will not become a component of the agricultural products which are produced from the seeds to which the coatings are applied and therefore are not subject to regulation by the FDA as a food additive. While the Company believes that it will be able to obtain approval from such agencies to distribute its products, there can be no assurance that the Company will obtain necessary approvals without substantial expense or delay, if at all.

POLYMER MANUFACTURE

The Company's manufacture of polymers is subject to regulation by the EPA under the Toxic Substances Control Act ("TSCA"). Pursuant to TSCA, manufacturers of new chemical substances are required to provide a Pre-Manufacturing Notice ("PMN") prior to manufacturing the new chemical substance. After review of the PMN, the EPA may require more extensive testing to establish the safety of the chemical, or limit or prohibit the manufacture or use of the chemical. To date, PMNs submitted by the Company have been approved by the EPA without any additional testing requirements or limitation on manufacturing or use. In addition, the ongoing manufacture of Dock Resins' existing product line is subject to state and federal environmental and safety regulations. No assurance can be given that the EPA will grant similar approval for future PMNs submitted by the Company.

OTHER

The Company and its products under development may also be subject to other federal, state and local laws, regulations and recommendations. Although Landec believes that it will be able to comply with all applicable regulations regarding the manufacture and sale of its products and polymer materials, such regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. There can be no assurance that future changes in regulations or interpretations made by the FDA, EPA or other regulatory bodies, with possible retroactive effect, relating to such matters as safe working conditions, laboratory and manufacturing practices, environmental controls, fire hazard control, and disposal of hazardous or potentially hazardous substances will not adversely affect the Company's business. There can also be no assurance that the Company will not be required to incur significant costs to comply with such laws and regulations in the future, or that such laws or regulations will not have a material adverse effect upon the Company's ability to do business. Furthermore, the introduction of the Company's products in foreign markets may require obtaining foreign regulatory clearances. There can be no assurance that the Company will be able to obtain regulatory clearances for its products in such foreign markets.

EMPLOYEES

As of October 29, 2000, Landec had 460 full-time employees, of whom 233 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 227 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in connection with the development, manufacturing and marketing of its products. None of Landec's employees is represented by a union, and Landec believes relationships with its employees are good.

ITEM 2. PROPERTIES

The Company has offices in Menlo Park, Guadalupe and Reedley, California, Linden, New Jersey and Monticello, Indiana. During fiscal year 2000, Landec constructed a 4,000 square foot facility in West Lebanon, Indiana to support the seed coating efforts of the Intellicoat seed coating business. The Reedley facility is currently for sale with an offer pending.

These properties are described below:

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Menlo Park, CA	All	Leased	21,000 square feet of office and laboratory space	--	12/31/01(1)
Menlo Park, CA	All	Subleased	11,000 square feet of warehouse and manufacturing space	--	7/31/02(1)
Linden, NJ	Industrial High Performance Materials	Owned	22,000 square feet of office, laboratory, production, warehouse, and ancillary space	2.1	--
Monticello, IN	Agricultural Seed Technology	Owned	19,400 square feet of office space	0.5	--
West Lebanon, IN	Agricultural Seed Technology	Owned	4,000 square feet of warehouse and manufacturing space	--	--
Guadalupe, CA	Food Products Technology	Owned	94,000 square feet of office space, manufacturing and cold storage	11.6	--
Reedley, CA(2)	Food Products Technology	Owned	152,600 square feet of office space, manufacturing and cold storage	19.3	--

(1) Lease contains one two-year renewal option.

(2) Currently for sale.

ITEM 3. LEGAL PROCEEDINGS

The Company is currently not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ending October 29, 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock is traded on the Nasdaq National Market under the symbol "LNDC". The following table sets forth for each period indicated the high and low sales prices for the Common Stock as reported on the Nasdaq National Market.

FISCAL YEAR 2000

	HIGH	LOW
	----	---
4th Quarter ending October 29, 2000.....	\$6.63	\$4.13
3rd Quarter ending July 30, 2000.....	\$6.75	\$4.00
2nd Quarter ending April 30, 2000.....	\$7.50	\$5.06
1st Quarter ending January 30, 2000.....	\$8.81	\$4.56

FISCAL YEAR 1999

	HIGH	LOW
	----	---
4th Quarter ending October 31, 1999.....	\$8.41	\$2.63
3rd Quarter ending July 31, 1999.....	\$4.06	\$3.00
2nd Quarter ending April 30, 1999.....	\$5.13	\$3.38
1st Quarter ending January 31, 1999.....	\$6.00	\$4.00

There were approximately 164 holders of record of 16,149,086 shares of outstanding Common Stock as of January 5, 2001. Since holders are listed under their brokerage firm's names, the actual number of shareholders is higher. The Company has not paid any dividends on the Common Stock since its inception. The Company presently intends to retain all future earnings, if any, for its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

In connection with the sale of Series D Preferred Stock in July 1993, the Company issued warrants to purchase 186,349 shares of Common Stock at an exercise price of \$4.31 per share for \$5,357 in cash. In a cashless exercise during fiscal year 1998, 46,587 shares were issued in exchange for the warrants.

In October 1998, certain directors and officers of the Company purchased 200,425 shares of Common Stock for between \$3.75 and \$3.94 per share for \$776,000.

Pursuant to a Series A Preferred Stock Purchase Agreement (the "Purchase Agreement") dated November 19, 1999, by and among the Company and Frederick Frank, the Company completed a financing that raised approximately \$10.0 million through a private placement of its Series A-1 Preferred Stock and Series A-2 Preferred Stock (the "Preferred Stock"). Pursuant to the Purchase Agreement, the Company issued 166,667 shares of Preferred Stock of the Company at \$60.00 per share (representing 1,666,670 shares of Common Stock on a converted basis). Frederick Frank was elected as a director of the Company in December 1999.

In connection with the Company's acquisition of Apio, Inc. on December 2, 1999, the prior owners of Apio received 2.5 million shares of Common Stock. As compensation for services rendered by Lehman Brothers Inc. in connection with the closing of the Apio acquisition, the Company issued 62,500 shares of Common Stock to Lehman Brothers, Inc. at \$6.00 per share.

The issuance of securities in this Item 5 was deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Act"), in reliance on Section 4(2) of the Act as a transaction by an issuer not involving any public offering. The recipients of the securities in such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transaction. The recipients were given adequate access to information about the Company.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the information contained in Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in Item 8 of this report.

STATEMENT OF OPERATIONS DATA:	YEAR ENDED	YEAR ENDED			
	OCTOBER 29,	OCTOBER 31,			
	2000	1999	1998	1997	1996
	(in thousands, except per share data)				
Revenues:					
Product sales.....	\$ 135,412	\$ 33,927	\$ 31,664	\$ 8,653	\$ 371
Services revenue	71,280	--	--	--	--
Services revenue, related party	1,898	--	--	--	--
Research, development and royalty revenues	586	770	1,352	863	1,096
License fees	374	750	500	--	600
Total revenues	209,550	35,447	33,516	9,516	2,067
Cost of revenue:					
Cost of product sales	113,113	21,476	20,308	6,215	422
Cost of services revenue	63,075	--	--	--	--
Total cost of revenue	176,188	21,476	20,308	6,215	422
Gross profit	33,362	13,971	13,208	3,301	1,645
Operating costs and expenses:					
Research and development	4,696	5,758	5,713	4,608	3,588
Selling, general and administrative	28,879	11,192	10,835	4,664	2,367
Exit of fruit processing business	525	--	--	--	--
Purchased in-process research and development	--	--	--	3,022	--
Total operating costs and expenses	34,100	16,950	16,548	12,294	5,955
Operating loss	(738)	(2,979)	(3,340)	(8,993)	(4,310)
Interest income	877	363	737	1,726	1,546
Interest expense	(2,335)	(99)	(137)	(319)	(59)
Other income	70	--	--	--	--
Loss from continuing operations before income taxes	(2,126)	(2,715)	(2,740)	(7,586)	(2,823)
Provision for income taxes	42	(54)	(150)	--	--
Loss from continuing operations	(2,084)	(2,769)	(2,890)	(7,586)	(2,823)
Discontinued Operations:					
Loss from discontinued QuickCast operations	--	--	--	(1,059)	(1,377)
Gain on disposal of QuickCast operations	--	--	--	70	--
Loss from discontinued operations	--	--	--	(989)	(1,377)
Net loss before cumulative effect of accounting change ...	(2,084)	(2,769)	(2,890)	(8,575)	(4,200)
Cumulative effect of change in accounting for upfront license fee revenue	(1,914)	--	--	--	--
Net Loss	\$ (3,998)	\$ (2,769)	\$ (2,890)	\$ (8,575)	\$ (4,200)
Basic and diluted net loss per share:					
Continuing operations	\$ (.13)	\$ (.21)	\$ (.23)	\$ (.68)	\$ (.37)
Discontinued operations	--	--	--	(.09)	(.18)
Cumulative effect of change in accounting	(.12)	--	--	--	--
Basic and diluted net loss per share	\$ (.25)	\$ (.21)	\$ (.23)	\$ (.77)	\$ (.55)
Pro forma amounts assuming the accounting change is applied retroactively:					
Net loss	\$ (2,084)	\$ (3,145)	\$ (3,070)	\$ (8,289)	\$ (3,914)
Net loss per share	\$ (.13)	\$ (.24)	\$ (.24)	\$ (.74)	\$ (.51)
Shares used in computing basic and diluted net loss per share	15,796	13,273	12,773	11,144	7,699

	OCTOBER 29,		OCTOBER 31,		
	2000	1999	1998	1997	1996
(IN THOUSANDS)					
BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 9,589	\$ 3,203	\$ 10,177	\$ 14,669	\$ 36,510
Total assets	133,252	40,708	42,356	50,160	38,358
Debt	29,824	2,762	2,811	32	--
Convertible preferred stock	9,149	--	--	--	--
Accumulated deficit	(49,526)	(45,528)	(42,756)	(39,858)	(31,278)
Total shareholders' equity.....	\$ 52,178	\$ 31,761	\$ 33,688	\$ 35,615	\$ 36,640

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements contained in Item 8 of this report. Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular, the factors described below under "Additional Factors That May Affect Future Results".

OVERVIEW

Since its inception in October 1986, the Company has been primarily engaged in the research and development of its Intelimer technology and related products. The Company has launched four product lines from this core development - - QuickCast-TM- splints and casts, in April 1994, which was subsequently sold to Bissell Healthcare Corporation in August 1997; Intellipac breathable membranes for the fresh-cut produce packaging market, in September 1995; Intelimer Polymer Systems for the industrial specialties market in June 1997; and Intellicoat coated inbred corn seeds in the Fall of 1999.

Revenues related to research contracts are recognized ratably over the related funding periods for each contract, which is generally as research is performed. Product sales are recognized upon shipment except for shipments sent FOB destination in which revenue is recognized upon receipt by the customer. Services revenue is recognized when the service is rendered.

The Company previously recognized noncancellable, nonrefundable license fees as revenue when received and when all significant contractual obligations of the company relating to the fees had been met. Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The Company believes the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101 - REVENUE RECOGNITION IN FINANCIAL STATEMENTS. The \$1.9 million cumulative effect of the change in accounting principle, calculated as of November 1, 1999, was reported as a charge in the year ended October 29, 2000.

On December 2, 1999, the Company acquired Apio, Inc and certain related entities ("Apio"). Apio is a leading marketer and packer of produce and specialty packaged fresh-cut vegetables. See "Business - Description of Core Business: Food Products Technology Business - Apio, Inc."

During fiscal years 1998 through 1999, the Company managed its operations in three business segments - Food Products Technology, Agricultural Seed Technology and Industrial High Performance Materials.

With the acquisition of Apio, the Company will be focusing on two core businesses - Food Products Technology and Agricultural Seed Technology. The Food Products Technology segment combines the Company's Intellipac breathable membrane technology with Apio's fresh-cut produce business. The Agricultural Seed Technology segment integrates the Intellicoat seed coating technology with Fielder's Choice's direct marketing, telephone sales and e-commerce distribution capabilities. The Company also operates a Technology Licensing/Research and Development business which develops products to be licensed outside of the Company's core businesses.

Dock Resins, the Company's polymer manufacturer supports the polymer needs of these core businesses and manufactures products for the specialty polymer industry and Intelimer Polymer Systems customers. Dock Resins is included in the Corporate and Other segment.

The Company has been unprofitable during each fiscal year since its inception. From inception through October 29, 2000, the Company's accumulated deficit was \$49.5 million. The Company may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that the Company will be able to reach or sustain profitability for an entire fiscal year.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED OCTOBER 29, 2000 COMPARED TO FISCAL YEAR ENDED OCTOBER 31, 1999

Total revenues were \$209.6 million for fiscal year 2000, compared to \$35.4 million for fiscal year 1999. Revenues from product sales and services increased to \$208.6 million in fiscal year 2000 from \$33.9 million in fiscal year 1999. The increase in product sales and service revenues was primarily due to \$177.0 million in revenues from Apio, which was acquired effective November 29, 1999 and from increased product sales from Landec Ag. Landec Ag product sales increased to \$17.2 million in fiscal year 2000 from \$15.2 million during fiscal year 1999 due to an increase in the volume of hybrid corn seed sold and revenue from the introduction of Intellicoat seed coated products. These increases were partially offset by a decrease in Dock Resins product sales from \$14.0 million in fiscal year 1999 to \$12.4 million in fiscal year 2000. This decrease was a result of the continued weakness in the chemical industry during fiscal year 2000. Revenues from research and development funding and from royalties decreased to \$586,000 in fiscal year 2000 from \$770,000 during fiscal year 1999. The decrease in research, development and royalty revenues was primarily due to the expiration of the research and development agreement with Alcon Laboratories, Inc. ("Alcon") related to the PORT-TM- ophthalmic devices, partially offset by new research and development contracts with ConvaTec, a division of Bristol Myers Squibb, in the area of medical adhesives, and UCB Chemicals Corporation in the area of industrial applications. Revenues from licensing fees for fiscal year 2000 were attributable to the Company's adoption of SEC Staff Accounting Bulletin No. 101 - Revenue Recognition in Financial Statements (SAB 101). Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The adoption of SAB 101 resulted in a cumulative effect adjustment that increased the reported net loss for fiscal year 2000 by \$1.9 million related to upfront license fees received from the 1995 Hitachi agreement and the 1997 Alcon agreement (see Note 1 to the Consolidated Financial Statements). The cumulative effect adjustment was initially recorded as deferred revenue, and \$374,000 of this deferred amount was "recycled" into revenue in fiscal year 2000. The \$750,000 license fee revenues for fiscal year 1999 represent a milestone payment from Alcon related to the PORT ophthalmic devices during the first quarter, which was recorded in accordance with the Company's historical accounting practice.

Cost of revenue consists of material, labor and overhead. Cost of revenue was \$176.2 million for fiscal year 2000 compared to \$21.5 million for fiscal year 1999. Gross profit from product sales and services as a percentage of revenue from product sales and services decreased from 37% in fiscal year 1999 to 16% in fiscal year 2000. The decrease in gross profit percentage was primarily the result of Apio's mix of products having a lower gross margin than Landec's other businesses coupled with disappointing results in Apio's stone fruit business during fiscal year 2000, and Apio's higher costs associated with sourcing crops during the winter months. In addition, during fiscal year 2000, Landec incurred startup costs associated with Apio's new value-added food processing plant and establishing a new manufacturing facility in Menlo Park for Intellipac breathable membrane products. Overall gross profit increased from \$14.0 million in fiscal year 1999 to \$33.4 million during fiscal year 2000, an increase of 139%. This increase is primarily due to gross profit from Apio of \$19.8 million partially offset by lower license fee gross profits in fiscal year 2000 compared to fiscal year 1999.

Research and development expenses were \$4.7 million for fiscal year 2000 compared to \$5.8 million for fiscal year 1999, a decrease of 18%. Landec's research and development expenses consist primarily of expenses involved in the development of, process scale-up of, and efforts to protect intellectual property content of Landec's enabling side chain crystallizable polymer technology and research and development expenses related to Dock Resins' products. The decrease in research and development expenses during fiscal year 2000 compared to fiscal year 1999 were primarily due to substantially reduced PORT research and development activities and the shift in Intellicoat seed coating to less research and development and greater production efforts.

Selling, general and administrative expenses were \$28.9 million for fiscal year 2000 compared to \$11.2 million for fiscal year 1999, an increase of 158%. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses, and staff and administrative expenses. Selling, general and administrative expenses increased during fiscal year 2000 as compared to fiscal year 1999 primarily as a result of expenses from Apio of \$15.6 million, and increased sales and marketing expenses associated with marketing efforts at Landec Ag. Specifically, sales and marketing expenses increased to \$13.6 million during fiscal year 2000 from \$6.2 million for fiscal year 1999. Landec expects that total selling, general and administrative spending for existing and newly acquired products will continue to increase in absolute dollars in future periods, although it may vary as a percentage of total revenues.

In September 2000, due to disappointing financial results, management of Landec decided to discontinue processing fruit at its Reedley facility. The Company has put the facility and the packing and cold storage assets up for sale. The Company will continue to provide field support and sales and marketing services to current contracted growers through Apio's existing staff and will outsource all remaining services to third parties. As a result of the shutdown of the Reedley facility, the Company recorded a \$525,000 charge during the fourth quarter of fiscal year 2000, primarily for severance and payroll related costs. The sale is expected to result in a gain. The current net book value of the assets is \$3.0 million. The Company anticipates closing a sale during the second fiscal quarter of 2001.

Interest income for fiscal year 2000 was \$877,000 compared to \$363,000 for fiscal year 1999. This increase in interest income was due principally to interest earned on Apio's notes receivable. Interest expense for fiscal year 2000 was \$2.3 million, compared to \$99,000 for fiscal year 1999. This increase was primarily due to the increase in debt from the acquisition of Apio.

FISCAL YEAR ENDED OCTOBER 31, 1999 COMPARED TO FISCAL YEAR ENDED OCTOBER 31, 1998

Total revenues were \$35.4 million for fiscal year 1999 compared to \$33.5 million for fiscal year 1998. Revenues from product sales increased to \$33.9 million in fiscal year 1999 from \$31.7 million in fiscal year 1998 primarily due to increased product sales from Landec Ag and Intellipac breathable membrane products which increased from \$13.3 million and \$2.9 million, respectively, in fiscal year 1998 to \$15.2 million and \$4.5 million, respectively, during fiscal year 1999. The increase in Landec Ag revenues was primarily due to increased per unit sales prices, and the increase in Intellipac breathable membrane revenues was primarily due to the introduction of various new products and increased volumes for existing products. These increases were partially offset by a decrease in Dock Resins product sales from \$15.4 million during fiscal year 1998 to \$14.0 million during fiscal year 1999. This decrease was a result of the overall weakness in the chemical industry during fiscal year 1999. Revenues from research and development funding were \$770,000 for fiscal year 1999 compared to \$1.4 million for fiscal year 1998. The decrease in research and development revenues was primarily due to the completion of research and development arrangements with Hitachi Chemical and Nitta Corporation in fiscal year 1998. Revenues from license fees during fiscal year 1999 were \$750,000 compared to \$500,000 during fiscal year 1998. The increase in revenues from license fees was due to a payment received from Alcon in fiscal year 1999 upon meeting a certain milestone related to the licensing agreement for the PORT ophthalmic devices.

Cost of product sales was \$21.5 million for fiscal year 1999 compared to \$20.3 million for fiscal year 1998. Gross profit from product sales as a percentage of product sales increased to 37% in fiscal year 1999 from 36% in fiscal year 1998. The increase in gross profit from product sales as a percentage of product sales in fiscal year 1999 as compared to fiscal year 1998 was primarily the result of higher average selling prices of Landec Ag products, partially offset by start-up costs associated with establishing a new manufacturing facility in Menlo Park for Intellipac breathable membrane products late in fiscal year 1999.

Research and development expenses were \$5.8 million for fiscal year 1999 compared to \$5.7 million for fiscal year 1998. The increase in research and development expenses in fiscal year 1999 compared to fiscal year 1998 was primarily due to increased development costs for the Company's Intellicoat seed coating products.

Selling, general and administrative expenses were \$11.2 million for fiscal year 1999 compared to \$10.8 million for fiscal year 1998, an increase of 3%. Specifically, sales and marketing expenses increased to \$6.2 million for fiscal year 1999, from \$5.9 million for fiscal year 1998.

Net interest income was \$264,000 for fiscal year 1999 compared to \$600,000 for fiscal year 1998. The decrease during fiscal year 1999 as compared to fiscal year 1998 was due principally to less cash being available for investing.

LIQUIDITY AND CAPITAL RESOURCES

As of October 29, 2000, Landec had cash and cash equivalents of \$9.6 million, a net increase of \$6.4 million from \$3.2 million as of October 31, 1999. This increase was primarily due to: (a) net borrowings under Landec's lines of credit of \$9.6 million; (b) cash acquired in the acquisition of Apio of \$3.3 million; (c) cash from operations of \$5.0 million; (d) cash from the sale of common stock of \$0.7 million; partially offset by (e) the purchase of \$5.3 million of property, plant and equipment; (f) advances to growers of \$3.8 million; (g) payments on long term debt of \$2.3 million; and (h) acquisition related costs of \$1.0 million.

During fiscal year 2000, Landec purchased equipment to support the development of Intellipac and Intellicoat products, incurred building improvement and equipment upgrade expenditures at Dock Resins and Apio to expand capacity, and constructed a new pilot facility for Intellicoat seed coating products in Indiana. These expenditures represented the majority of the \$5.3 million of property and equipment purchased during fiscal year 2000.

In November 1999 the Company raised \$10 million upon the sale of Preferred Stock (\$9.1 million net of issuance costs). In December, 1999, in conjunction with the acquisition of Apio, the Company secured \$11.25 million of term debt and a \$12 million line of credit with Bank of America. The term debt and line of credit agreements ("Loan Agreement") contain restrictive covenants that require Apio to meet certain financial tests, including minimum levels of EBITDA (as defined in the Loan Agreement), minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. The Loan Agreement, through restricted payment covenants, limits the ability of Apio to make cash payments to Landec, until the outstanding balance is reduced to an amount specified in the loan agreement. In June 2000, Landec Ag established a \$3.0 million bank line of credit for working capital needs and a \$1.0 million equipment line of credit to be used to fund the expansion of the manufacturing capabilities of Intellicoat seed coating products. Landec believes that these new facilities, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements through at least the next twelve months. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. The Company may, however, raise additional funds during the next twelve months through another debt financing or an equity financing. If an equity financing occurs it will have a dilutive effect on current shareholders. Landec's future capital requirements, however, will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of Landec to establish and maintain new collaborative and licensing arrangements; the continued assimilation and integration of Apio into Landec; any decision to pursue additional acquisition opportunities; adverse weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; the amount of future earn-out payments; and other factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its financing needs, Landec would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to Landec on favorable terms if at all.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

Landec desires to take advantage of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995 and of Section 21E and Rule 3b-6 under the Securities Exchange Act of 1934. Specifically, Landec wishes to alert readers that the following important factors, as well as other factors including, without limitation, those described elsewhere in this report, could in the future affect, and in the past have affected, Landec's actual results and could cause Landec's results for future periods to differ materially from those expressed in any forward-looking statements made by or on behalf of Landec. Landec assumes no obligation to update such forward-looking statements.

WE HAVE A HISTORY OF LOSSES WHICH MAY CONTINUE

Landec has incurred net losses in each fiscal year since its inception. Landec's accumulated deficit as of October 29, 2000 totaled \$49.5 million. Landec may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year.

OUR SUBSTANTIAL INDEBTEDNESS COULD LIMIT OUR FINANCIAL AND OPERATING FLEXIBILITY

At October 29, 2000, Landec's total debt, including current maturities and capital lease obligations, was approximately \$29.8 million and the total debt to equity ratio was approximately 57%. This level of indebtedness could have significant consequences because a substantial portion of Landec's net cash flow from operations must be dedicated to debt service and will not be available for other purposes, Landec's ability to obtain additional debt financing in the future for working capital, capital expenditures or acquisitions may be limited, and Landec's level of indebtedness may limit its flexibility in reacting to changes in the industry and economic conditions generally.

In connection with the Apio acquisition, Landec may be obligated to make future payments to the former stockholders of Apio of up to \$16.55 million. Of this amount, \$1.1 million was paid in January 2001 and \$4.1 is due to be paid in March 2001.

Landec's ability to service its indebtedness will depend on its future performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond Landec's control. If Landec were unable to service its debt, it would be forced to pursue one or more alternative strategies such as selling assets, restructuring or refinancing its indebtedness or seeking additional equity capital, which might not be successful and which could substantially dilute the ownership interest of existing shareholders.

Apio is subject to various financial and operating covenants under its term debt and line of credit facilities, including minimum levels of EBITDA (as defined in the Loan Agreement), minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. The Loan Agreement limits the ability of Apio to make cash payments to Landec until the outstanding balance is reduced to an amount specified in the Loan Agreement. Landec Ag and Dock Resins are subject to certain restrictive covenants such as the ability of Landec to receive payments on debt owed to Landec. Landec has pledged substantially all of Apio's, Landec Ag's and Dock Resins' assets to secure their bank debt. Landec's failure to comply with the obligations under the loan agreement, including maintenance of financial ratios, could result in an event of default, which, if not cured or waived, would permit acceleration of the indebtedness due under the loan agreement.

OUR FUTURE OPERATING RESULTS ARE LIKELY TO FLUCTUATE WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE

In the past, Landec's results of operations have fluctuated significantly from quarter to quarter and are expected to continue in the future. Historically, Landec's direct marketer of hybrid corn seed, Intellicoat, has been the primary source of these fluctuations, as its revenues and profits are concentrated over a few months during the spring planting season (generally during Landec's second quarter). In addition, Apio can be heavily affected by seasonal and weather factors which could impact quarterly results, such as the lower than expected volumes and poor yields experienced in the stone fruit business during the third quarter of fiscal year 2000. Landec's earnings in its Food Products Technology business will be sensitive to price fluctuations in the fresh vegetables and fruits markets. Excess supplies can cause intense price competition. Other factors affecting Landec's food and/or agricultural operations include the seasonality of its supplies, the ability to process produce during critical harvest periods, the timing and effects of ripening, the degree of perishability, the effectiveness of worldwide distribution systems, the terms of various federal and state marketing orders, total worldwide industry volumes, the seasonality of consumer demand, foreign currency fluctuations, foreign importation restrictions and foreign political risks. As a result of these and other factors, Landec expects to continue to experience fluctuations in quarterly operating results, and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year.

WE MAY EXPERIENCE DIFFICULTIES IN INTEGRATING APIO AND OTHER NEW BUSINESS ACQUISITIONS

Landec's acquisition of Apio involves the integration of Apio's operations into Landec. The integration will require the dedication of management resources in order to achieve the anticipated operating efficiencies of the acquisition. No assurance can be given that difficulties encountered in integrating the operations of Apio into Landec will be overcome or that the benefits expected from integration will be realized. The difficulties in combining Apio and Landec's operations are exacerbated by the necessity of coordinating geographically separate organizations, integrating

personnel with disparate business backgrounds and combining different corporate cultures. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined companies' business.

The successful integration of other new business acquisitions may require substantial effort from Landec's management. The diversion of the attention of management and any difficulties encountered in the transition process could have a material adverse effect on Landec's ability to realize the anticipated benefits of the acquisitions. The successful combination of new businesses also requires coordination of research and development activities, manufacturing, and sales and marketing efforts. In addition, the process of combining organizations could cause the interruption of, or a loss of momentum in, Landec's activities. There can be no assurance that Landec will be able to retain key management, technical, sales and customer support personnel, or that Landec will realize the anticipated benefits of the acquisitions.

WE MAY NOT BE ABLE TO ACHIEVE ACCEPTANCE OF OUR NEW PRODUCTS IN THE MARKETPLACE

The success of Landec in generating significant sales of its products will depend in part on the ability of Landec and its partners and licensees to achieve market acceptance of Landec's new products and technology. The extent to which, and rate at which, market acceptance and penetration are achieved by Landec's current and future products are a function of many variables including, but not limited to, price, safety, efficacy, reliability, conversion costs and marketing and sales efforts, as well as general economic conditions affecting purchasing patterns. There can be no assurance that markets for Landec's new products will develop or that Landec's new products and technology will be accepted and adopted. The failure of Landec's new products to achieve market acceptance would have a material adverse effect on Landec's business, results of operations and financial condition.

There can be no assurance that Landec will be able to successfully develop, commercialize, achieve market acceptance of or reduce the costs of producing Landec's new products, or that Landec's competitors will not develop competing technologies that are less expensive or otherwise superior to those of Landec. There can be no assurance that Landec will be able to develop and introduce new products and technologies in a timely manner or that new products and technologies will gain market acceptance. Landec is in the early stage of product commercialization of Intellipac breathable membrane, Intellicoat seed coating and Intelimer polymer systems products and many of its potential products are in development. Landec believes that its future growth will depend in large part on its ability to develop and market new products in its target markets and in new markets. In particular, Landec expects that its ability to compete effectively with existing food products, agricultural, industrial and medical companies will depend substantially on successfully developing, commercializing, achieving market acceptance of and reducing the cost of producing Landec's products. In addition, commercial applications of Landec's temperature switch polymer technology are relatively new and evolving.

WE FACE STRONG COMPETITION IN THE MARKETPLACE

Competitors may succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by Landec or that would render Landec's technology and products obsolete and non-competitive. Landec operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food products, agricultural, industrial and medical companies is expected to be intense. In addition, the nature of Landec's collaborative arrangements may result in its corporate partners and licensees becoming competitors of Landec. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than Landec, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

WE HAVE LIMITED MANUFACTURING EXPERIENCE AND MAY HAVE TO DEPEND ON THIRD PARTIES TO MANUFACTURE OUR PRODUCTS

Landec may need to consider seeking collaborative arrangements with other companies to manufacture some of its products. If Landec becomes dependent upon third parties for the manufacture of its products, then Landec's profit margins and its ability to develop and deliver those products on a timely basis may be affected. Failures by third parties may impair Landec's ability to deliver products on a timely basis, impair Landec's competitive position, or may delay the submission of products for regulatory approval. In late fiscal 1999, in an effort to reduce reliance on third party manufacturers, Landec began the set up of a manufacturing operation at its facility in Menlo Park, California, for the production of Intellipac breathable membrane packaging products. There can be no assurance that Landec can successfully operate a manufacturing operation at acceptable costs, with acceptable yields, and retain adequately trained personnel.

Although Landec believes Dock Resins will provide Landec with practical knowledge in the scale-up of Intelimer polymer products, production in commercial-scale quantities may involve technical challenges for Landec. Landec anticipates that a portion of its products will be manufactured in the Linden, New Jersey facility acquired in the purchase of Dock Resins. Landec's reliance on this facility involves a number of potential risks, including the unavailability of, or interruption in access to, some process technologies and reduced control over delivery schedules, and low manufacturing yields and high manufacturing costs. In February 2000, Dock Resins had a fire in its research and development laboratory in Linden, New Jersey which interrupted its ability to develop new products and samples for potential and existing customers.

OUR DEPENDENCE ON SINGLE SUPPLIERS MAY CAUSE DISRUPTION IN OUR OPERATIONS SHOULD ANY SUPPLIER FAIL TO DELIVER MATERIALS

No assurance can be given that Landec will not experience difficulty in acquiring materials for the manufacture of its products or that Landec will be able to obtain substitute vendors, or that Landec will be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Many of the raw materials used in manufacturing Landec's products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers and substrate materials for Landec's breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Fielder's Choice are purchased from a single source. Any interruption of supply could delay product shipments and materially harm our business.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS

Landec has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. If Landec were determined to be infringing any third-party patent, Landec could be required to pay damages, alter its products or processes, obtain licenses or cease the infringing activities. If Landec is required to obtain any licenses, there can be no assurance that Landec will be able to do so on commercially favorable terms, if at all. Litigation, which could result in substantial costs to and diversion of effort by Landec, may also be necessary to enforce any patents issued or licensed to Landec or to determine the scope and validity of third-party proprietary rights. Any litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject Landec to significant liabilities to third parties, require disputed rights to be licensed from third parties or require Landec to cease using that technology. Landec's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. There can be no assurance that any pending patent applications will be approved, that Landec will develop additional proprietary products that are patentable, that any patents issued to Landec will provide Landec with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating Landec's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of Landec's products or design around Landec's patents.

OUR OPERATIONS ARE SUBJECT TO ENVIRONMENTAL REGULATIONS THAT DIRECTLY IMPACT OUR BUSINESS

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of the manufacturing processes, including those utilized by Dock Resins. As a result of historic off-site disposal practices, Dock Resins was involved in two actions seeking to compel the generators of hazardous waste to remediate hazardous waste sites. Dock Resins has been informed by its counsel that it was a DE MINIMIS generator to these sites, and these actions have been settled without the payment of any material amount by Landec. In addition, the New Jersey Industrial Site Recovery Act ("ISRA") requires an investigation and remediation of any industrial establishment, like Dock Resins, which changes ownership. This statute was activated by Landec's acquisition of Dock Resins. Dock Resins has completed its investigation of the site, delineated the limited areas of concern on the site, and completed the bulk of the active remediation required under the statute. The costs associated with this effort are being borne by the former owner of Dock Resins, and counsel has advised Dock Resins and Landec that funds of the former owner required by ISRA to be set aside for this effort are sufficient to pay for the successful completion of remedial activities at the site. In most cases, Landec believes its liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties. Any failure by Landec to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject it to substantial liability or could cause its manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Landec's agricultural operations are subject to a variety of environmental laws including the Food Quality Protection Act of 1996, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the

Federal Insecticide, Fungicide and Rodenticide Act and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these laws and related regulations is an ongoing process. Environmental concerns are, however, inherent in most agricultural operations, including those conducted by Landec, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies and further restrictions on the use of manufacturing chemicals could result in increased compliance costs.

ADVERSE WEATHER CONDITIONS CAN CAUSE SUBSTANTIAL DECREASES IN OUR SALES AND/OR INCREASES IN OUR COSTS

Landec's Food Products and Agricultural Seed Technology businesses are subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms and hurricanes may adversely affect the supply of vegetables and fruits used in Landec's business, which could reduce the sales volumes and/or increase the unit production costs. In early fiscal year 2000, optimal weather conditions resulted in an over supply of certain crops in which the Company had an invested interest. The over supply resulted in reduced prices for these crops which caused the Company to report a loss on its investment. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken Landec's financial condition.

WE HAVE LIMITED SALES AND MARKETING EXPERIENCE WITH OUR INTELIMER POLYMER PRODUCTS

Landec has only limited experience marketing and selling its Intelimer polymer products. While Dock Resins will provide consultation and in some cases direct marketing support for Landec's Intelimer polymer products, establishing sufficient marketing and sales capability will require significant resources. Landec intends to distribute some of its products through its corporate partners and other distributors and to sell other products through a direct sales force. There can be no assurance that Landec will be able to recruit and retain skilled sales management, direct salespersons or distributors, or that Landec's sales and marketing efforts will be successful. To the extent that Landec has entered into or will enter into distribution or other collaborative arrangements for the sale of its products, Landec will be dependent on the efforts of third parties.

WE DEPEND ON STRATEGIC PARTNERS AND LICENSES FOR FUTURE DEVELOPMENT

For some of its current and future products, Landec's strategy for development, clinical and field testing, manufacture, commercialization and marketing includes entering into various collaborations with corporate partners, licensees and others. Landec is dependent on its corporate partners to develop, test, manufacture and/or market some of its products. Although Landec believes that its partners in these collaborations have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities are not within the control of Landec. There can be no assurance that those partners will perform their obligations as expected or that Landec will derive any additional revenue from the arrangements. There can be no assurance that Landec's partners will pay any additional option or license fees to Landec or that they will develop, market or pay any royalty fees related to products under the agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. In addition, there can be no assurance as to the amount of royalties, if any, on future sales of QuickCast and PORT products as Landec no longer has control over the sales of those products since the sale of QuickCast and the license of the PORT product lines. There can be no assurance that Landec's partners will not pursue existing or alternative technologies in preference to Landec's technology. Furthermore, there can be no assurance that Landec will be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, or that the collaborative arrangements will be successful.

BOTH DOMESTIC AND FOREIGN GOVERNMENT REGULATIONS CAN HAVE AN ADVERSE EFFECT ON OUR BUSINESS OPERATIONS

Landec's products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of Landec's products is subject to periodic inspection by regulatory authorities. There can be no assurance that Landec will be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on Landec's business, financial condition and results of operations. Although Landec has no reason to believe that it will not be able to comply with all applicable regulations regarding the manufacture and sale of its products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. There can be no assurance that future changes in regulations or

interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances will not adversely affect Landec's business. There can be no assurance that Landec will not be required to incur significant costs to comply with the laws and regulations in the future, or that the laws or regulations will not have a material adverse effect on Landec's business, operating results and financial condition. As a result of the Apio acquisition, Landec is subject to USDA rules and regulations concerning the safety of the food products handled and sold by Apio, and the facilities in which they are packed and processed. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, injunctions, civil penalties, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

OUR INTERNATIONAL OPERATIONS AND SALES MAY EXPOSE OUR BUSINESS TO ADDITIONAL RISKS

During fiscal year 2000, approximately 17% of Landec's total revenues were derived from product sales to and collaborative agreements with international customers. Landec expects that with the acquisition of Apio and its export business, international revenues will become an important component of its total revenues. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by the regulatory approval process, government controls, export license requirements, political instability, price controls, trade restrictions, changes in tariffs or difficulties in staffing and managing international operations. Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on Landec's international business and its financial condition and results of operations. While Landec's foreign sales are currently priced in dollars, fluctuations in currency exchange rates, such as those recently experienced in many Asian countries, may reduce the demand for Landec's products by increasing the price of Landec's products in the currency of the countries to which the products are sold. There can be no assurance that regulatory, geopolitical and other factors will not adversely impact Landec's operations in the future or require Landec to modify its current business practices.

CANCELLATIONS OR DELAYS OF ORDERS BY OUR CUSTOMERS MAY ADVERSELY AFFECT OUR BUSINESS

During fiscal year 2000, sales to Landec's top five customers accounted for approximately 28% of Landec's revenues, with the top customer accounting for 7% of Landec's revenues. Landec expects that for the foreseeable future a limited number of customers may continue to account for a substantial portion of its net revenues. Landec may experience changes in the composition of its customer base, as Apio, Dock Resins and Intellicoat have experienced in the past. Landec does not have long-term purchase agreements with any of its customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of the major customers could materially and adversely affect Landec's business, operating results and financial condition. In addition, since some of the products manufactured in the Linden, New Jersey facility or processed by Apio at its Guadalupe, California facility are often sole sourced to its customers, Landec's operating results could be adversely affected if one or more of its major customers were to develop other sources of supply. There can be no assurance that Landec's current customers will continue to place orders, that orders by existing customers will not be canceled or will continue at the levels of previous periods or that Landec will be able to obtain orders from new customers.

OUR SALE OF SOME PRODUCTS MAY INCREASE OUR EXPOSURE TO PRODUCT LIABILITY CLAIMS

The testing, manufacturing, marketing, and sale of the products being developed by Landec involve an inherent risk of allegations of product liability. While no product liability claims have been made against Landec to date, if any product liability claims were made and adverse judgments obtained, they could have a material adverse effect on Landec's business, operating results and financial condition. Although Landec has taken and intends to continue to take what it believes are appropriate precautions to minimize exposure to product liability claims, there can be no assurance that it will avoid significant liability. Landec currently maintains medical and non-medical product liability insurance with limits in the amount of \$4.0 million per occurrence and \$5.0 million in the annual aggregate. In addition, Apio has product liability insurance with limits in the amount of \$41.0 million per occurrence and \$42.0 million in the annual aggregate. There can be no assurance that the coverage is adequate or will continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on Landec's business, operating results and financial condition.

OUR STOCK PRICE MAY FLUCTUATE IN ACCORDANCE WITH MARKET CONDITIONS

Factors such as announcements of technological innovations, the attainment of (or failure to attain) milestones in the commercialization of Landec's technology, new products, new patents or changes in existing patents, the acquisition of new businesses or the sale or disposal of a part of Landec's businesses, or development of new

collaborative arrangements by Landec, its competitors or other parties, as well as government regulations, investor perception of Landec, fluctuations in Landec's operating results and general market conditions in the industry may cause the market price of Landec's common stock to fluctuate significantly. In addition, the stock market in general has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices of technology companies and which have been unrelated to the operating performance of technology companies. These broad fluctuations may adversely affect the market price of Landec's common stock.

THE IMPLEMENTATION OF FINANCIAL AND ACCOUNTING CHANGES MAY CAUSE AN INCREASE IN COSTS AND DELAYS

In order to address deficiencies in Apio's management information systems and accounting systems, Apio has restructured its financial and accounting department, including hiring a chief financial officer and a new controller, and retained consultants who have worked with Apio to improve accounting processes and procedures. Apio management believes that those changes will improve its managing of operations, including delivering complete and accurate financial statements to Landec's corporate offices in a more timely manner. However, Landec can give no assurances that it will be able to effect those changes in the management information systems and accounting systems in a timely manner or sustain the process improvements over time.

THE EURO CURRENCY MAY CAUSE SOME DISRUPTIONS IN BUSINESS

On January 1, 1999, some member states of the European Economic Community fixed their respective currencies to a new currency, commonly known as the "Euro". During the three years beginning on January 1, 1999, business in these countries will be conducted both in the existing national currency, as well as the Euro. Companies operating in or conducting business in these countries will need to ensure that their financial and other software systems are capable of processing transactions and properly handling the existing currencies and the Euro. Based on the current level of direct European business conducted by Landec, and also because Landec expects that any transactions in Europe in the near future will be priced in U.S. dollars, Landec does not expect that introduction and use of the Euro will materially affect Landec's business. Landec will continue to evaluate the impact over time of the introduction of the Euro. However, if Landec encounters unexpected opportunities or difficulties in Europe, Landec's business could be adversely affected, including the inability to bill customers and to pay suppliers for transactions denominated in the Euro and the inability to properly record transactions denominated in the Euro in Landec's financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table presents information about the Company's debt obligations and derivative financial instrument that are sensitive to changes in interest rates. The table presents principal amounts and related weighted average interest rates by year of expected maturity for the Company's debt obligations. For obligations with variable interest rates, the table sets forth interest rates that are based on current rates and principal amounts due and does not attempt to project future interest rates. For the interest rate swap, the table presents notional amounts and interest rates by contractual maturity date. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract. This table should be read in connection with Note 10 to the Consolidated Financial Statements. Comparative information has not been provided as the majority of the financial instruments giving rise to interest rate risk were entered into or assumed by the Company in fiscal year 2000.

In ('000's)	2001	2002	2003	2004	2005	There- after	Total	Fair Value
LIABILITIES								
Lines of Credit	9,609						9,609	9,609
	9.90%						9.90%	
Long term debt, including current portion								
Fixed Rate	834	1,073	1,045	1,118	1,833	4,062	9,965	9,965
Avg.Int. Rate	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	
Variable Rate	2,188	2,437	2,500	2,500	625		10,250	10,250
Avg. Int. Rate	9.21%	9.21%	9.21%	9.21%	9.21%		9.21%	
INTEREST RATE DERIVATIVE FINANCIAL INSTRUMENTS RELATED TO DEBT								
Interest Rate Swap								
Pay Fixed/ Rec.Var		5,250					5,250	25
Avg. Pay Rate	7.02%	7.02%					7.02%	
Avg. Rec. Rate	6.71%	6.71%					6.71%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 14 of Part IV of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 26, 2001 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 26, 2001 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 26, 2001 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 26, 2001 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Consolidated Financial Statements of Landec Corporation

	PAGE

Report of Ernst & Young LLP, Independent Auditors.....	33
Consolidated Balance Sheets at October 29, 2000 and October 31, 1999.....	34
Consolidated Statement of Operations for the Years Ended October 29, 2000 and October 31, 1999 and 1998.....	35
Consolidated Statement of Changes in Shareholders' Equity for the Years Ended October 29, 2000 and October 31, 1999 and 1998.....	36
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Notes to Consolidated Financial Statements.....	38

2. Schedule II:

Valuation and Qualifying Accounts for the Years Ended October 29, 2000 and October 31, 1999 and 1998.....	56
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All other schedules provided for in the applicable accounting regulation of the Securities and Exchange Commission pertain to items which do not appear in the financial statements of Landec Corporation and its subsidiaries or to items which are not significant or to items as to which the required disclosures have been made elsewhere in the financial statements and supplementary notes and such schedules have therefore been omitted.

(b) Reports on Form 8-K.....	57
(c) Index of Exhibits.....	57

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this report.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Shareholders
Landec Corporation

We have audited the accompanying consolidated balance sheets of Landec Corporation as of October 29, 2000 and October 31, 1999 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended October 29, 2000. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Landec Corporation at October 29, 2000 and October 31, 1999 and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 29, 2000 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in fiscal year 2000 the Company changed its method of accounting for revenue recognition in accordance with guidance provided in Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

ERNST & YOUNG LLP

San Francisco, California
December 22, 2000

LANDEC CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	OCTOBER 29, 2000	OCTOBER 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,589	\$ 3,203
Accounts receivable, less allowance for doubtful accounts of \$627 and \$45 at October 29, 2000 and October 31, 1999	22,725	2,952
Inventory	14,501	7,641
Investment in farming activities	2,672	--
Notes and advances receivable	8,519	--
Notes receivable, related party	151	138
Prepaid expenses and other current assets	1,958	2,233
Assets held for sale	2,963	--
	-----	-----
Total current assets	63,078	16,167
Property and equipment, net	24,437	11,002
Goodwill, net	21,672	2,284
Trademarks, net.....	12,873	4,439
Other intangibles, net.....	8,841	6,783
Notes receivable	720	--
Other assets	1,631	33
	-----	-----
	\$ 133,252	\$ 40,708
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,374	\$ 1,687
Grower payables	13,651	--
Related party payables	262	--
Accrued compensation	2,470	1,036
Other accrued liabilities	9,522	1,327
Deferred revenue	2,265	2,135
Lines of credit	9,609	--
Current maturities of long term debt	3,584	125
	-----	-----
Total current liabilities	60,737	6,310
Long term debt, less current maturities	16,631	2,637
Other liabilities	2,442	--
Minority interest	1,264	--
	-----	-----
Total liabilities	81,074	8,947
Shareholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; 166,667 and zero shares issued and outstanding at October 29, 2000 and October 31, 1999, respectively	9,149	--
Common stock, \$0.001 par value; 50,000,000 shares authorized; 16,117,891, 667 and 13,353,352 shares issued and outstanding at October 29, 2000 and October 31, 1999, respectively	92,555	77,289
Accumulated deficit	(49,526)	(45,528)
	-----	-----
Total shareholders' equity	52,178	31,761
	-----	-----
	\$ 133,252	\$ 40,708
	=====	=====

SEE ACCOMPANYING NOTES

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2000	1999	1998
	-----	-----	-----
Revenues:			
Product sales	\$ 135,412	\$ 33,927	\$ 31,664
Services revenue	71,280	--	--
Services revenue, related party	1,898	--	--
Research, development and royalty revenues	586	770	1,352
License fees	374	750	500
	-----	-----	-----
Total revenues	209,550	35,447	33,516
Cost of revenue:			
Cost of product sales	113,113	21,476	20,308
Cost of services revenue	63,075	--	--
	-----	-----	-----
Total cost of revenue	176,188	21,476	20,308
Gross profit	33,362	13,971	13,208
Operating costs and expenses:			
Research and development	4,696	5,758	5,713
Selling, general and administrative	28,879	11,192	10,835
Exit of fruit processing business	525	--	--
	-----	-----	-----
Total operating costs and expenses	34,100	16,950	16,548
	-----	-----	-----
Operating loss	(738)	(2,979)	(3,340)
Interest income	877	363	737
Interest expense	(2,335)	(99)	(137)
Other income	70	--	--
	-----	-----	-----
Loss before income taxes and cumulative effect of accounting change	(2,126)	(2,715)	(2,740)
Provision for income taxes	42	(54)	(150)
	-----	-----	-----
Net loss before cumulative effect of accounting change	(2,084)	(2,769)	(2,890)
Cumulative effect of change in accounting for upfront license fee revenue	(1,914)	--	--
	-----	-----	-----
Net loss	\$ (3,998)	\$ (2,769)	\$ (2,890)
	=====	=====	=====
Basic and diluted net loss per share:			
Before cumulative effect of change in accounting .	\$ (.13)	\$ (.21)	\$ (.23)
Cumulative effect of change in accounting	(.12)	--	--
	-----	-----	-----
Basic and diluted net loss per share	\$ (.25)	\$ (.21)	\$ (.23)
	=====	=====	=====
Proforma amounts assuming the accounting change is applied retroactively:			
Net loss	\$ (2,084)	\$ (3,145)	\$ (3,070)
	=====	=====	=====
Net loss per share	\$ (.13)	\$ (.24)	\$ (.24)
	=====	=====	=====
Shares used in computing basic and diluted net loss per share	15,796	13,273	12,773
	=====	=====	=====

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SHAREHOLDERS' EQUITY			
	PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at October 31, 1997	--	\$ --	12,687,416	\$75,679
Issuance of common stock at \$0.58 to \$7.00 per share	--	--	425,885	1,142
Exercise of warrants	--	--	46,587	--
Net increase in notes receivable from shareholders	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Change in unrealized gain on available-for-sale securities	--	--	--	--
Net loss	--	--	--	--
Balance at October 31, 1998	--	\$ --	13,159,888	\$76,821
Issuance of common stock at \$0.58 to \$5.56 per share	--	--	193,464	468
Net decrease in notes receivable from shareholders	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Change in unrealized gain on available-for-sale securities	--	--	--	--
Net loss	--	--	--	--
Balance at October 31, 1999	--	\$ --	13,353,352	\$77,289
Issuance of preferred stock	166,667	9,149	--	--
Issuance of common stock for acquired businesses	--	--	2,562,500	14,559
Issuance of common stock at \$0.58 to \$7.00 per share	--	--	202,039	707
Net loss	--	--	--	--
Balance at October 29, 2000	166,667	\$9,149	16,117,891	\$92,555

	SHAREHOLDERS' EQUITY			
	NOTES RECEIVABLE FROM SHAREHOLDERS	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
Balance at October 31, 1997	\$ (8)	\$(198)	\$(39,858)	\$ 35,615
Issuance of common stock at \$0.58 to \$7.00 per share	--	--	--	1,142
Exercise of warrants	--	--	--	--
Net increase in notes receivable from shareholders	(283)	--	--	(283)
Amortization of deferred compensation	--	112	--	112
Change in unrealized gain on available-for-sale securities	--	--	(8)	(8)
Net loss	--	--	(2,890)	(2,890)
Balance at October 31, 1998	\$(291)	\$ (86)	\$(42,756)	\$ 33,688
Issuance of common stock at \$0.58 to \$5.56 per share	--	--	--	468
Net decrease in notes receivable from shareholders	291	--	--	291
Amortization of deferred compensation	--	86	--	86
Change in unrealized gain on available-for-sale securities	--	--	(3)	(3)
Net loss	--	--	(2,769)	(2,769)
Balance at October 31, 1999	\$ --	\$ --	\$(45,528)	\$ 31,761
Issuance of preferred stock	--	--	--	9,149
Issuance of common stock for acquired businesses	--	--	--	14,559
Issuance of common stock at \$0.58 to \$7.00 per share	--	--	--	707
Net loss	--	--	(3,998)	(3,998)
Balance at October 29, 2000	\$ --	\$ --	\$(49,526)	\$ 52,178

SEE ACCOMPANYING NOTE

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED		
	OCTOBER 29,	OCTOBER 31,	
	2000	1999	1998
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash flows from operating activities:			
Net loss from continuing operations	\$ (3,998)	\$(2,769)	\$(2,890)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,066	2,214	2,075
Cumulative effect of accounting change	1,914	--	--
Disposal of property and equipment	577	--	--
Exit of fruit processing business	525	--	--
Changes in assets and liabilities, net of effects from acquisitions and discontinued operations:			
Accounts receivable, net	(4,486)	(144)	(646)
Inventory	(2,387)	(2,965)	(2,024)
Investment in farming activities	(642)	--	--
Notes receivable, related parties	(13)	362	(500)
Prepaid expenses and other current assets	1,334	(611)	98
Accounts payable	3,535	288	757
Grower payables	6,930	--	--
Related party payables	262	--	--
Accrued compensation	298	19	181
Other accrued liabilities	(4,290)	385	(578)
Deferred revenue	(617)	(364)	173
Net cash provided by (used in) operating activities	5,008	(3,585)	(3,354)
Cash flows from investing activities:			
Purchases of property and equipment	(5,338)	(3,708)	(4,100)
Decrease in other assets and liabilities	278	5	74
Increase in notes receivable and advances	(3,770)	--	--
Acquisition of businesses, net of cash acquired	(6,793)	(393)	(390)
Purchases of available-for-sale securities	--	--	(5,033)
Sale of available-for-sale securities	--	--	4,805
Maturities of available-for-sale securities	--	989	8,734
Net cash (used in) provided by investing activities	(15,623)	(3,107)	4,090
Cash flows from financing activities:			
Proceeds from sale of preferred stock, net of issuance costs	9,149	--	--
Proceeds from sale of common stock, net of repurchases	708	468	1,142
Decrease (increase) in repayment of notes receivable from shareholders ..	--	291	(283)
Borrowings on lines of credit	21,984	--	--
Payments on lines of credit	(12,375)	--	--
Payments on long term debt	(2,327)	(90)	(10)
Proceeds from issuance of long term debt	--	41	2,789
Proceeds from sale of restricted investment	--	--	8,837
Payment of payable related to the acquisition of Dock Resins Corporation ..	--	--	(9,189)
Increase in minority interest liability	105	--	--
Payments to minority interest	(243)	--	--
Net cash provided by financing activities	17,001	710	3,286
Net increase (decrease) in cash and cash equivalents	6,386	(5,982)	4,022
Cash and cash equivalents at beginning of year	3,203	9,185	5,163
Cash and cash equivalents at end of year	\$ 9,589	\$ 3,203	\$ 9,185
Supplemental disclosure of cash flows information:			
Cash paid during the period for interest	\$ 1,676	\$ 76	\$ 383
Cash paid during the period for income taxes	\$ 104	\$ 33	\$ 38
Supplemental schedule of noncash investing and financing activities:			
Common stock issued in the acquisition of businesses	\$ 14,559	\$ --	\$ --

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell temperature-activated and other specialty polymer products for a variety of food product, agricultural products, specialty industrial and medical applications. In addition, the Company markets and distributes hybrid corn seed to farmers and produce and specialty packaged fresh-cut vegetables to retailers and foodservice companies.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the accounts of Landec Corporation and its wholly owned subsidiaries, Apio, Inc. ("Apio"), Landec Ag (formerly Intellicoat Corporation) and Dock Resins Corporation ("Dock Resins"). All material intercompany transactions and balances have been eliminated. Effective fiscal year 2000, the Company changed its fiscal year end from October 31 to a fiscal year that includes 52 or 53 weeks ending on the last Sunday in October.

CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents, trade accounts receivable, grower advances and notes receivable are financial instruments that potentially subject the Company to concentrations of risk. Corporate policy limits, among other things, the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government. The Company routinely assesses the financial strength of customers and growers and, as a consequence, believes that trade receivables, grower advances and notes receivable credit risk exposure is limited. Credit losses for bad debt are provided for in the Consolidated Financial Statements through a charge to operations. A valuation allowance is provided for known and anticipated credit losses.

CASH AND CASH EQUIVALENTS

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. As of October 29, 2000 and October 31, 1999 inventories consisted of (in thousands):

	OCTOBER 29 2000	OCTOBER 31, 1999
	-----	-----
Raw materials	\$ 7,661	\$1,015
Finished goods	5,889	6,169
Work in process	951	457
	-----	-----
	\$14,501	\$7,641
	=====	=====

DEFERRED ADVERTISING

The Company defers certain costs related to direct-response advertising of Landec Ag's hybrid corn seeds. Such costs are amortized over periods (less than one year) that correspond to the estimated revenue stream of the advertising activity. Advertising expenditures that are not direct-response advertisements are expensed as incurred. The advertising expense for Landec Ag for fiscal years 2000, 1999 and 1998 was \$1.1 million, \$1.3 million and \$1.2 million, respectively. The amount of deferred advertising included in prepaid expenses and other current assets at October 29, 2000 and October 31, 1999 was \$400,000 and \$522,000, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED PARTY TRANSACTIONS

Apio provides harvesting, packing, cooling and distributing services for a member of management and purchases produce from that individual. Revenues, cost of product sales and the resulting payable are shown separately in the accompanying financial statements as of October 29, 2000 and for the period then ended.

In October 1998, the Company loaned an officer of Landec Ag \$500,000 in cash in exchange for a promissory note. Interest accrues at 7.50% per annum, compounded annually. On July 31, 1999 the balance of principal and accrued interest were offset by the amount earned during 1999 under the earn-out provision related to the acquisition of Fielder's Choice by the Company. The remaining principal and accrued interest balance of \$151,000 is due and payable on July 31, 2001 and is shown separately in the accompanying financial statements.

INVESTMENT IN FARMING ACTIVITIES

Landec, through its Apio subsidiary, invests in certain farming activities. The investments consist of cash advances to growers for expenses to be incurred during the growing season, in exchange for a percentage ownership in the crops. Net income or loss is generally recognized on these investments based on Landec's percentage ownership of the net proceeds of the crops as fields are harvested and settled. Additionally, certain farming agreements contain provisions wherein Landec bears the risk of loss if the net proceeds from the crops are not sufficient to cover the expense incurred. For fiscal year 2000 net losses of approximately \$900,000 were recognized and included in the cost of product sales in the consolidated statement of operations.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is expensed on a straight-line basis over the estimated useful lives of the respective assets, generally twenty to thirty-one years for buildings and improvements and three to ten years for furniture, computers, machinery and equipment. Leasehold improvements are amortized over the lesser of the economic life of the improvement or the life of the lease on a straight-line basis.

INTANGIBLE ASSETS

Intangible assets represent the excess of acquisition costs over the estimated fair value of net assets acquired and consist of covenants not to compete, customer bases, work forces in place, trademarks, developed technology and goodwill. These assets are amortized on a straight-line basis over periods ranging from five to twenty years based on their estimated useful lives.

GROWER PAYABLE

Landec, through its Apio subsidiary, contracts with growers to harvest, pack, cool and distribute their products. The grower payable is the net of the market value of the products received from the growers and the corresponding charges by Landec for services rendered on behalf of the growers.

DEFERRED REVENUE

Cash received in advance of services performed (principally revenues related to upfront license fees) or shipment of products (primarily hybrid corn seed) are recognized as a liability and recorded as deferred revenue. At October 29, 2000 approximately \$1.9 million has been recognized as a liability for advances on future hybrid corn seed shipments, and \$1.6 million as a liability for deferred license fee revenues. Of this amount, approximately \$1.2 million will be recognized subsequent to fiscal 2001 and has been included in other liabilities.

MINORITY INTEREST

In connection with the acquisition of Apio, Landec acquired Apio's 60% general partner interest in Apio Cooling, a California limited partnership. Apio Cooling is included in the consolidated financial statements of Landec at October 29, 2000. The minority interest balance of \$1.3 million at October 29, 2000 represents the limited partners' interest in Apio Cooling.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PER SHARE INFORMATION

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" (SFAS No. 128). SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Due to the Company's net loss in all periods presented, net loss per share includes only weighted average shares outstanding. All earnings per share amounts for all periods have been presented in accordance with SFAS No. 128 requirements.

REVENUE RECOGNITION

Revenues related to research contracts are recognized ratably over the related funding periods for each contract, which is generally as research is performed. Product sales are recognized upon shipment except for shipments sent FOB destination in which revenue is recognized upon receipt by the customer. Services revenue is recognized when the service is rendered.

The Company previously recognized noncancellable, nonrefundable license fees as revenue when received and when all significant contractual obligations of the Company relating to the fees had been met. Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The Company believes the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101 - REVENUE RECOGNITION IN FINANCIAL STATEMENTS. The \$1.9 million cumulative effect of the change in accounting principle, calculated as of November 1, 1999, was reported as a charge in the year ended October 29, 2000. The cumulative effect was initially recorded as deferred revenue and is being recognized as revenue over the research and development period or supply period commitment of the agreement. During the year ended October 29, 2000 the impact of the change in accounting was to increase net loss by approximately \$1.5 million, or \$0.10 per share, comprised of the \$1.9 million cumulative effect of the change as described above (\$0.12 per share), net of \$374,000 of the related deferred revenue which was recognized as "recycled" revenue during 2000 (\$0.02 per share). The remainder of the related deferred revenue will be recognized as revenue per fiscal year as follows: \$374,000 in 2001, \$302,000 in 2002, \$88,000 in 2003 - 2011, and \$73,000 in 2012. The pro forma amounts presented in the consolidated statement of operations were calculated assuming the accounting change was made retroactive to prior periods.

Amounts received in advance are recorded as deferred revenue until the related revenue is recognized.

RESEARCH AND DEVELOPMENT EXPENSES

Costs related to both research contracts and Company-funded research is included in research and development expenses. Costs to fulfill research contracts generally approximate the corresponding revenue.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for its stock option plans and its employee stock purchase plans in accordance with the provisions of the Accounting Principles Board Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees."

USE OF ESTIMATES

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

IMPAIRMENT OF LONG LIVED ASSETS

The Company has adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Company records impairment losses on long-lived assets used in operations or

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expected to be disposed when events and circumstances indicate that the assets are less than the carrying amounts of those assets. No such event and circumstances have occurred.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial instruments, subject to the fair value disclosure requirements of Financial Accounting Standards Board Statement No. 107, "Disclosures about Fair Value of Financial Statements," consist of cash, cash equivalents, notes and advances receivable, debt, capital lease obligations, and an interest rate swap agreement (see Note 10). The recorded value of the financial instruments approximates their fair value.

ADOPTION OF SFAS NO. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES"

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, adoption of the new Statement will not have a significant effect on earnings or the financial position of the Company.

RECLASSIFICATIONS

Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

2. BUSINESS ACQUISITIONS

On December 2, 1999, Landec acquired Apio, Inc. and certain related entities ("Apio"), located in Guadalupe, California, one of the nation's leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Upon closing, Landec paid \$21.0 million in cash and stock, before expenses, for Apio, which will operate as a wholly owned subsidiary of Landec. In addition, the agreement provides for future payments to the former owners of Apio of up to \$16.55 million at October 29, 2000. These payments consist of a) up to \$10 million in earn-out payments to a former owner and current CEO of Apio which are based on pre-established earnings targets, \$4.1 million of which was earned in fiscal year 2000 based on Apio's results and is payable in March 2001 and was added to the purchase price in the fourth quarter. An additional \$5.9 million may be paid under this earn-out if Apio exceeds the specified earnings targets for fiscal year 2001, b) \$5.3 million non-interest bearing notes to the sellers which will be paid in equal annual installments over the next five years (recorded at \$4.1 million on a discounted basis). The first payment of \$1.1 million was made in January 2001 and, c) up to \$1.25 million to the sellers if Landec's Common Stock is trading at an average price below \$6.00 per share during the last twenty trading days of June 2001. The twenty-day period had originally been designated for August 2000, however, in September 2000, the purchase price agreement was amended to reflect the revised terms. The transaction was accounted for as a purchase. The purchase price has been allocated to the acquired assets and liabilities based on their relative fair market values, subject to final adjustments. These allocations are based on independent valuations and other studies. Certain adjustments have been made to the purchase price allocation originally reported by the Company, including the addition of \$4.1 million in the fourth quarter of fiscal year 2000 due to the earn-out previously discussed, as well as the recording of an additional \$500,000 of transaction related costs. In addition, the purchase price was increased in the second quarter of fiscal year 2000 by \$2.1 million to reflect a change in the estimated value of Landec Common Stock issued at close.

The following is a summary of the purchase price allocation (in thousands):

Net assets and liabilities	\$ 2,014
Customer base	1,821
Work force in place	1,395
Trademark	9,100
Goodwill	19,518

	\$33,848
	=====

2. BUSINESS ACQUISITIONS (CONTINUED)

The acquisition by Landec of all the outstanding capital stock of Apio was exchanged for the following:

Landec common stock	\$14,217
Contractual deferred obligations	4,092
Cash paid or set aside as a liability	13,192

Purchase price before acquisition costs	31,501
Acquisition costs	2,347

Total purchase price	\$33,848
	=====

To fund the transaction, Landec issued 2.5 million shares of common stock to the prior owners of Apio. Apio replaced a portion of its existing bank debt with a \$11.25 million term note and entered into a new \$12 million line of credit agreement with a bank. Existing debt of \$3.7 million was assumed in the transaction. In a separate transaction, Landec sold \$10 million (\$9.1 million net of issuance costs) of convertible preferred stock (convertible into 1,666,670 shares of Common Stock) to a private, long-term, investor at a \$6.00 per share equivalent price.

The results of operations and cash flows for fiscal year 2000 include the results of Apio from November 29, 1999 through October 29, 2000.

The following pro forma summary of consolidated revenues, net loss and net loss per share for fiscal years 2000 and 1999 assumes the acquisition occurred on November 1, 1998. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of Landec's financial results if the acquisition had taken place at the beginning of fiscal year 1999 or of future results, and do not include the cumulative effect of the change in accounting principle (Note 1) (in thousands, except per share amounts).

	Fiscal Year	
	2000	1999
	-----	-----
Revenue	\$ 224,671	\$ 197,031
Net loss	\$ (2,179)	\$ (4,015)
Net loss per share	\$ (0.14)	\$ (0.25)

3. EXIT OF FRUIT PROCESSING BUSINESS

In September 2000, due to disappointing financial results, management of Landec decided to discontinue processing fruit at its Reedley facility, part of the Food Products Technology segment. At that time, Landec's management determined that all fruit processing personnel and the majority of the administrative staff at the facility would be terminated. The plan, including termination benefits, was approved by management and communicated to the affected employees during fiscal year 2000, and the facility was shut down in January 2001. The Company's current plans are to sell the facility and the packing and cold-storage assets in Reedley and relocate a few sales, field and administrative staff to a leased facility in the Reedley area. The Company will continue to provide field support and sales and marketing services to current contracted growers through Apio's existing staff, and will outsource all remaining services to third parties. The Company intends to enter into contractual arrangements with one or more commercial packing and cold storage operators to provide the necessary packing and cold storage services previously provided to the growers through the Reedley facility.

The Company has recorded a charge of \$525,000, primarily for severance and payroll related costs, in the accompanying consolidated statement of operations. This amount is expected to be fully paid in fiscal 2001. An offer to purchase the facility is currently pending with the closing projected in the Company's second fiscal quarter. The sale is expected to result in a gain. The current net book value of the assets is \$3.0 million, which is recorded as assets held for sale in the accompanying consolidated balance sheets as of October 29, 2000.

4. NOTES RECEIVABLE AND ADVANCES

Notes receivable and advances at October 29, 2000 consisted of the following (in thousands):

Various notes receivable from growers, with principal and interest ranging from the prime rate to the prime rate plus 3% to a maximum of 10%, payments to be withheld from proceeds derived from crop sales, due through October 2001, secured by crops	\$ 7,189
Note receivable due from grower in annual installments of \$60,714 plus interest at prime rate plus 1.0% with final payment due November 1, 2004, secured by crops	304
Note receivable due from grower in annual installments of \$20,000 plus interest at prime rate plus 1.0% with final payment due January 31, 2005, secured by crops	577
Note receivable due from grower plus interest based on Apio's cost to borrow funds. Note to be paid in full by May 1, 2003	129
Unsecured note receivable due from a related party with interest at 7.5%, due July 31, 2001	151
Short term non-interest bearing note due from grower, secured by real property	850
Short term advances and other	1,221

	10,421
Less allowance for doubtful notes	(1,031)

	9,390
Less current portion of notes receivable, including related party note	(8,670)

Non-current portion of notes receivable	\$ 720
	=====

Landec is obligated to make additional loans to growers under certain of these note receivable agreements. At October 29, 2000, Landec had outstanding commitments to fund up to an additional \$1.3 million to growers under these existing note receivable agreements.

5. PROPERTY AND EQUIPMENT

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

	OCTOBER 29, ----- 2000	OCTOBER 31, ----- 1999
	-----	-----
Land and buildings.....	\$ 11,549	\$ 3,945
Leasehold improvements.....	1,785	1,372
Computer, machinery, equipment and autos.....	15,529	8,155
Furniture and fixtures.....	1,915	592
Construction in process.....	1,218	1,173
	-----	-----
	31,996	15,237
Less accumulated depreciation and amortization.....	(7,559)	(4,235)
	-----	-----
	\$ 24,437	\$ 11,002
	=====	=====

Depreciation expense for fiscal years 2000, 1999 and 1998 was \$3,283,000, \$986,000 and \$843,000, respectively. Equipment under capital leases, which totals approximately \$80,000 at October 29, 2000, is security for the related lease obligations. The related accumulated amortization is \$ 21,000.

6. INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	OCTOBER 29, 2000	OCTOBER 31, 1999
	-----	-----
Developed technology.....	\$ 5,036	\$ 5,036
Trademark.....	14,075	4,975
Customer base.....	4,217	2,396
Workforce in place.....	2,305	910
Covenants not to compete.....	277	277
Goodwill.....	22,835	2,509
	-----	-----
	48,745	16,103
Less accumulated amortization.....	(5,359)	(2,597)
	-----	-----
	\$ 43,386	\$ 13,506
	=====	=====

Amortization expense for fiscal years 2000, 1999 and 1998 was \$2,762,000, \$1,142,000 and \$1,120,000, respectively.

7. WARRANTS

In connection with the sale of Series D preferred stock in July 1993, the Company issued warrants to purchase 186,349 shares of common stock at an exercise price of \$4.31 per share for \$5,357 in cash. In a cashless exercise during fiscal year 1998, 46,587 shares were issued in exchange for the warrants.

8. SHAREHOLDERS' EQUITY

CONVERTIBLE PREFERRED STOCK

The Company has authorized two million shares of preferred stock, and has issued 50,000 shares in Series A-1 and 116,667 shares in Series A-2.

Each share of the Series A convertible preferred stock is, at the option of the holder, convertible into shares of common stock, subject to certain antidilution adjustments, in accordance with the conversion formula provided in the Company's Articles of Incorporation (currently a 10:1 ratio). Outstanding preferred shares automatically convert into common stock either on November 29, 2003 or on an earlier date specified by written consent or agreement of the holders of at least a majority of the then outstanding shares of Series A convertible preferred stock.

Each share of convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted and have the voting rights and powers of the common stock, voting together as a single class.

Upon liquidation, Series A preferred stockholders shall receive a return equal to the original issue price of the shares plus any declared but unpaid dividends.

COMMON STOCK, STOCK PURCHASE PLANS AND STOCK OPTION PLANS

In October 1998, certain directors and officers of the Company purchased 200,425 shares of common stock for between \$3.75 and \$3.94 per share for \$776,000. At October 31, 1998, certain directors and officers of the Company were obligated to the Company for \$291,000 relating to this issuance. This amount was recorded to shareholders' equity at October 31, 1998. The outstanding balances were paid in full by December 1998.

The Company has 5,501,466 common shares reserved for future issuance under Landec Corporation stock option plans and employee stock purchase plans.

The Company terminated its 1988 Stock Option Plan during fiscal year 1998 and canceled all stock options available for grant.

8. SHAREHOLDERS' EQUITY (CONTINUED)

The 1995 Directors' Stock Option Plan (the "Directors' Plan") provides that each person who becomes a nonemployee director of the Company, who has not received a previous grant, shall be granted a nonstatutory stock option to purchase 20,000 shares of common stock on the date on which the optionee first becomes a nonemployee director of the Company. Thereafter, on the date of each annual meeting of the shareholders each non-employee director shall be granted an additional option to purchase 10,000 shares of common stock if, on such date, he or she shall have served on the Company's Board of Directors for at least six months prior to the date of such annual meeting. The exercise price of the options is the fair market value of the Company's common stock on the date the options are granted. The Directors' Plan, as amended in 1998, authorizes the issuance of 400,000 shares under the plan. Options granted under this plan are exercisable and vest upon grant. All directors' stock option grants outstanding on December 4, 1997 with an exercise price greater than \$6.75, were repriced to \$6.75 per share, the fair market value of the Company's common stock on April 15, 1998, the date of the annual shareholders' meeting.

The 1996 Non-Executive Stock Option Plan authorizes the Board of Directors to grant non-qualified stock options to employees and outside consultants who are not officers or directors of the Company. The exercise price of the options will be equal to the fair market value of the Company's common stock on the date the options are granted. As amended in 1999, 1,500,000 shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

In November 1996, the Company's Board of Directors approved the 1996 Stock Option Plan. Under this plan, the Board of Directors of Landec may grant stock purchase rights, incentive stock options or non-statutory stock options to Landec executives. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 100% of the fair market value of Landec's common stock on the date the options are granted. The plan, as amended, authorizes the issuance of 1,500,000 shares of Landec common stock under the plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

In October 2000, the Company's Board of Directors approved the New Executive Stock Option Plan. Under this plan, the Board of Directors may grant non-statutory stock options to officers of Landec or officers of Apio or Landec Ag whose employment with each of those companies began after October 24, 2000. The exercise price of the non-statutory stock options may be no less than 100% and 85%, for named executives and non-named executives, respectively, of the fair market value of Landec's common stock on the date the options are granted. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested, 210,000 shares are authorized to be issued under this plan.

In November 1999, the Company's Board of Directors granted to the CEO of Apio a non-statutory stock option to purchase 790,000 shares of Landec's common stock. The exercise price of the grant was the fair market value of Landec's common stock on the date of grant. The option vests over two years.

In December 1999, the Company granted 200,000 performance options to a member of management under the 1996 Stock Option Plan. The options have an exercise price of \$6.25 per share, and vest in three equal amounts if the stock price reaches an average of \$10, \$20, and \$30, respectively, for a twenty consecutive day trading period prior to December 2003. At October 29, 2000, none of the options had vested.

In January 1997, the company effected an option repricing program to allow non-officer employees and outside consultants who were issued options under the 1988 Stock Option Plan at an exercise price above \$14.50 per share to exchange their out-of-money stock options for the same number of options at a more favorable exercise price. Under this repricing program, one new option could be obtained for every option cancelled. The exercise price of the new option was based on the fair market value of the Company's common stock on the date the old options were exchanged. The new options vest ratably over four years (commencing one year from January 7, 1997, the repricing date) and are subject to repurchase if exercised before being vested. As a result of this repricing program, options to purchase 58,250 shares were repriced.

In January 1998, the Company effected another option repricing program to allow employees, directors and officers who were issued options under the 1988 Stock Option Plan, the Directors' Plan and 1996 Non-Executive Stock Option Plan and 1996 Stock Option Plan at an exercise price above \$5.00 per share to exchange their out-of-money stock options for the same number of options at a more favorable exercise price. The officers and directors repricing was approved at the April 15, 1998 shareholders' meeting. Under this repricing program, one new option could be obtained for every option cancelled. The exercise price of the new option was based on the higher of fair market value of the Company's common stock on the date the old options were exchanged, or \$5.00 per share. The new options vest ratably over four years (commencing

8. SHAREHOLDERS' EQUITY (CONTINUED)

December 4, 1997, the repricing date) and are subject to repurchase if exercised before being vested. As a result of this repricing program and the repricing of the options issued under the 1995 Directors' Plan, options to purchase 753,100 shares were repriced.

The various repricings effected by the Company do not result in variable accounting under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," since they were effected prior to December 15, 1998.

Activity under all Landec Stock Option Plans is as follows:

	Options Available for Grant	Outstanding Options	
		Number of Shares	Weighted Average Exercise Price
Balance at October 31, 1997	1,073,851	1,936,422	\$5.11
Additional shares reserved	950,000	--	--
Options granted	(1,584,828)	1,584,828	\$5.12
Options exercised	--	(163,394)	\$0.69
Options forfeited	123,851	(123,851)	\$6.46
Options canceled	753,100	(753,100)	\$9.84
Expired in 1988 Plan	(60,633)	--	--
Balance at October 31, 1998	1,255,341	2,480,905	\$3.90
Additional shares reserved	750,000	--	--
Options granted	(663,300)	663,300	\$4.79
Options exercised	--	(100,265)	\$1.52
Options forfeited	108,220	(108,220)	\$5.20
Expired in 1988 Plan	(2,977)	--	--
Balance at October 31, 1999	1,447,284	2,935,720	\$4.14
Additional shares reserved	1,000,000	--	--
Options granted	(1,614,150)	1,614,150	\$6.27
Options exercised	--	(94,002)	\$3.42
Options forfeited	141,029	(141,029)	\$5.19
Expired in 1988 Plan	(4,078)	--	--
Balance at October 29, 2000	970,085	4,314,839	\$4.92

At October 29, 2000 and October 31, 1999 and 1998, options to purchase 1,974,146, 1,494,662 and 1,101,387 of Landec's common stock were vested, respectively. No options have been exercised prior to being vested.

Total deferred compensation expense recognized in the Company's financial statements for stock-option awards under APB 25 for fiscal years 2000, 1999 and 1998 was \$0, \$86,000 and \$112,000 respectively.

8. SHAREHOLDERS' EQUITY (CONTINUED)

The following tables summarize information about Landec options outstanding and exercisable at October 29, 2000.

OPTIONS OUTSTANDING			
Range of Exercise Prices	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$0.5800 - \$0.8600	489,800	2.40	\$0.66
\$1.4400 - \$4.8750	270,879	6.81	\$2.70
\$4.9380 - \$4.9380	441,551	8.29	\$4.94
\$5.0000 - \$5.0000	1,221,542	7.16	\$5.00
\$5.0630 - \$6.1250	496,317	6.11	\$5.79
\$6.2500 - \$6.2500	877,000	5.15	\$6.25
\$6.3130 - \$9.3400	517,750	8.52	\$6.78
\$0.5800 - \$9.3400	4,314,839	6.35	\$4.92

OPTIONS EXERCISEABLE		
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price
\$0.5800 - \$0.8600	489,078	\$0.66
\$1.4400 - \$4.8750	199,431	\$2.06
\$4.9380 - \$4.9380	194,547	\$4.94
\$5.0000 - \$5.0000	656,645	\$5.00
\$5.0630 - \$6.1250	180,622	\$5.48
\$6.2500 - \$6.2500	20,000	\$6.25
\$6.3130 - \$9.3400	233,823	\$6.87
\$0.5800 - \$9.3400	1,974,146	\$3.90

EMPLOYEE STOCK PURCHASE PLAN. The Company has an employee stock purchase plan which permits eligible employees to purchase common stock, which may not exceed 10% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the Company's common stock at the beginning of the offering period or on the purchase date. As of October 29, 2000, 283,457 shares have been issued under the Purchase Plan.

LANDEC AG STOCK PLAN. Under the 1996 Landec Ag Stock Plan, the Board of Directors of Landec Ag may grant stock purchase rights, incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 85%, 100% and 85%, respectively, of the fair market value of Landec Ag's common stock as determined by Landec Ag's Board of Directors. 2,000,000 shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

8. SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes activity under the Landec Ag Stock Option Plan.

	Outstanding Options		
	Options Available	Number of Shares	Weighted Average Exercise Price
Balance at October 31, 1997	764,000	1,236,000	\$0.12
Options granted	(59,900)	59,900	\$0.20
Options forfeited	11,800	(11,800)	\$0.20
Balance at October 31, 1998	715,900	1,284,100	\$0.12
Options granted	(248,800)	248,800	\$0.83
Options exercised	--	(534)	\$0.20
Options forfeited	9,591	(9,591)	\$0.20
Balance at October 31, 1999	476,691	1,522,775	\$0.24
Options granted	(211,900)	211,900	\$1.00
Options exercised	--	(18,215)	\$0.21
Options forfeited	10,360	(10,360)	\$0.37
Balance at October 29, 2000	275,151	1,706,100	\$0.33

At October 29, 2000, options to purchase 1,302,393 shares with an average exercise price of \$0.19 per share of Landec Ag's common stock were vested. For the options outstanding at October 29, 2000, 1,032,500 shares were granted with an exercise price of \$0.10, 263,200 shares were granted with an exercise price of \$0.20 and 410,400 were granted with an exercise price of \$1.00. As of October 29, 2000, the Company has 1,981,251 common shares reserved for future issuance under the Landec Ag stock option plan.

APIO STOCK PLAN. In connection with the acquisition of Apio, the Board of Directors of Landec authorized the establishment of the 1999 Apio Stock Option Plan ("1999 Plan"). Under the 1999 Plan, the Board of Directors of Apio may grant incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the incentive stock options and non-statutory stock options may be no less than 100% and 85%, respectively, of the fair market value of Apio's common stock as determined by Apio's Board of Directors. Five million shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested. As of October 29, 2000, options for two million shares have been granted at an exercise price of \$2.10 per share.

In May 2000, the 1999 Plan was terminated. All existing grants remain outstanding, and no future grants will be made from the plan. Concurrently, the 2000 Apio Stock Option Plan ("2000 Plan") was authorized by Apio's Board of Directors, which authorized the issuance of two million shares under the same terms and conditions as the 1999 Plan. As of October 29, 2000, options for 814,000 shares have been granted under the 2000 Plan at an exercise price of \$2.10 per share.

The following table summarizes activity under the Apio Stock Option Plan.

	Outstanding Options		
	Options Available	Number of Shares	Weighted Average Exercise Price
Balance at December 2, 1999	4,000,000	--	--
Options granted	(2,814,000)	2,814,000	\$2.10
Options exercised	--	--	
Options forfeited	57,000	(57,000)	\$2.10
Balance at October 29, 2000	1,243,000	2,757,000	\$2.10

8. SHAREHOLDERS' EQUITY (CONTINUED)

At October 29, 2000 no options to purchase Apio common stock were vested. As of October 29, 2000, the Company has 4,000,000 common shares reserved for future issuance under the Apio stock option plan.

PRO FORMA INFORMATION. The Company has elected to follow APB 25 in accounting for its employee stock option because, as discussed below, the alternative fair value accounting provided for under SFAS 123 required the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense is recognized in the Company's financial statements unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant.

Pro forma information regarding net loss and net loss per share has been determined as if the Company had accounted for the Landec stock option plans under the fair value method and the Landec Ag stock plan and Apio stock plans under the minimum value method prescribed by SFAS No. 123. The fair value of options granted in fiscal years 2000, 1999 and 1998 reported below has been estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

YEARS ENDED	LANDEC EMPLOYEE STOCK OPTIONS		
	OCTOBER 29, 2000 ----	OCTOBER 31, 1999 ----	OCTOBER 31, 1998 ----
Expected life (in years)	4.47	3.30	3.91
Risk-free interest rate	6.26	5.08%	5.62%
Volatility	.85	.43	.44
Dividend yield	0%	0%	0%

The assumptions used for the Landec stock options for the expected life, the risk-free interest rate and the dividend yield are the same assumptions used to determine the fair value of the Landec Ag and Apio options granted in fiscal year 2000, 1999, and 1998. The fair value for Landec Ag and Apio options was estimated using the minimum value method since the stock of these subsidiaries is not publicly traded.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The change in the volatility in fiscal year 2000 is a result of basing the volatility on Landec's stock price rather than that of comparable companies as was done in prior years. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The weighted average estimated fair value of Landec employee stock options granted at grant date market prices during fiscal years 2000, 1999 and 1998 was \$4.19, \$1.71, and \$1.67 per share, respectively. No stock options were granted above grant date market prices during fiscal years 2000 and 1999. The weighted average estimated fair value of Landec employee stock options granted above grant date market prices during fiscal year 1998 was \$7.84 per share. The weighted average exercise price of employee stock options granted above grant date market prices during fiscal year 1998 was \$5.00 per share. The weighted average estimated fair value of shares granted under the Landec Stock Purchase Plan during fiscal years 2000, 1999 and 1998 was \$1.87, \$1.42 and \$1.57 per share, respectively. The weighted average estimated fair value of shares granted under the Intellicoat Stock Purchase Plan during fiscal years 2000, 1999 and 1998 was \$0.23, \$0.30 and \$0.03 per share, respectively. The weighted average estimated fair value of shares granted under Apio Stock Purchase Plan during fiscal year 2000 was \$0.73.

8. SHAREHOLDERS' EQUITY (CONTINUED)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except per share amounts):

YEARS ENDED	OCTOBER 29, 2000	OCTOBER 31, 1999	OCTOBER 31, 1998
Pro forma net loss	\$(8,429)	\$(4,126)	\$(4,355)
Pro forma net loss per share	\$(0.53)	\$(0.31)	\$(0.34)

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years.

9. DEBT

REVOLVING DEBT

Apio has a revolving line of credit with a bank which allows for borrowings up to a maximum of \$12.0 million. Outstanding amounts bear interest at the greater of the prime rate set by the bank or the Federal fund rate (9.5% at October 29, 2000) plus a margin based on Apio's leverage ratio as defined in the revolving note agreement, currently plus .50%. The revolving note agreement expires on May 1, 2002. At October 29, 2000, \$6.0 million was outstanding under the revolving line of credit.

Dock Resins has a revolving line of credit which allows for borrowings of up to \$1.25 million. The interest rate on the revolving line of credit is principally charged at the one-month LIBOR rate plus 1.75%. The revolving line of credit expires on February 28, 2002, and contains certain restrictive covenants, which, among other things, require Dock Resins to maintain minimum levels of net working capital and tangible net worth. At October 29, 2000, \$868,000 was outstanding under the revolving line of credit.

Landec Ag has a revolving line of credit which allows for borrowings of up to \$3 million, based on Landec Ag's inventory levels, and a capital expenditure line of credit which allows for borrowings up to \$1 million. The interest rate on the revolving line of credit is charged at the prime rate plus 0.75%, and on the capital expenditure line of credit at the five-year Treasury bill rate plus 4.75%. These lines of credit contain certain restrictive covenants, which, among other things, affect the ability of Landec to receive payments on debt owed by Landec Ag to Landec. Landec has pledged substantially all of the assets of Landec Ag to secure the lines of credit. At October 29, 2000, \$2.3 million was outstanding under the revolving line of credit and \$419,000 was outstanding under the capital expenditure line of credit.

The Company has entered into an interest rate swap agreement with a bank to limit interest rates on a portion of its long-term debt to a maximum effective rate of 9.52% from February 2, 2000 until October 30, 2002 when the agreement expires. The notional amount covered by the agreement at October 29, 2000 is \$5,250,000. The differential to be paid or received is accrued as interest rate charges and recognized as an adjustment to interest expense related to the debt. Any related amounts payable to the bank would be recorded in other accrued liabilities. The fair value of the interest rate swap agreement is approximately \$25,000 at October 29, 2000.

9. DEBT (CONTINUED)

LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	OCTOBER 29, 2000	OCTOBER 31, 1999
	-----	-----
Bankterm loan for Apio; due in quarterly payments of \$500,000 through October 31, 2000 increasing to \$562,500 January 31, 2001 and to \$625,000 on January 31, 2002 through October 31, 2004 with interest payable monthly at the LIBOR rate plus a margin based on Apio's leverage ratio as defined in the loan agreement, currently plus 2.5% (8.90% at October 29, 2000)	\$ 10,250	\$ --
Contractual obligation to former owners of Apio; due in annual installments of \$1,060,000 beginning January 2, 2001 through January 2, 2005 (see Note 2)	4,092	--
Bank term loan for Dock Resins; due in monthly installments of \$26,583 including interest at 8.19% beginning February 1, 1999 through January, 2006 with the balance due January 31, 2006	2,578	2,678
Note payable of Apio to a commercial finance company; due in monthly installments of \$13,366 including interest at 7.0% with final payment due December 2019	1,694	--
Note payable of Apio to a bank; due in monthly installments of \$8,008 including interest at 9.5% with final payment due December 2015	856	--
Various notes payable with interest rates ranging from 7.54% to 10.82%	417	84
Capitalized lease obligations with interest rates ranging from 9.15% to 12.99%	328	--
	-----	-----
	20,215	2,762
Less current portion	(3,584)	(125)
	-----	-----
	\$ 16,631	\$ 2,637
	=====	=====

Maturities of long-term debt, including obligations under capital lease agreements, for each year presented are as follows (in thousands):

FY 2001.....	\$ 3,584
FY 2002.....	3,573
FY 2003.....	3,545
FY 2004.....	3,618
FY 2005.....	1,833
Thereafter.....	4,062

	\$ 20,215
	=====

The contractual obligation of \$5.3 million to former shareholders of Apio is non-interest bearing and accordingly has been discounted at Apio's incremental borrowing rate of 9.5% over five years resulting in a discounted value of \$4,092,000 at October 29, 2000.

Dock Resins' bank term loan limits dividend payments and contains various financial covenants including minimum working capital levels, net worth and debt service ratio.

9. DEBT (CONTINUED)

Apio's bank term loan limits payments to Landec for dividends, corporate service fees and tax sharing expenses until the principal is reduced to an amount specified in the loan agreement. In addition, the term loan and the DEBT revolving note contain various financial covenants including minimum levels of EBITDA, minimum fixed coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time.

Landec has pledged substantially all of Apio's, Landec Ag's and Dock Resins' assets to secure their term debt.

10. INCOME TAXES

The Company's provision (benefit) for income taxes of \$(42,000), 54,000 and 150,000 for the years ended October 29, 2000, October 31, 1999 and October 31, 1998, respectively, is attributable to state taxes.

As of October 29, 2000, the Company had federal and state net operating loss carryforwards of approximately \$29.6 million and \$7.9 million, respectively. The Company also had federal and state research and development tax credit carryforwards of approximately \$1.2 million and \$700,000, respectively. The net operating loss and credit carryforwards will expire at various dates beginning in 2003 through 2015, if not utilized.

Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Significant components of the Company's deferred tax assets are as follows (in thousands):

DEFERRED TAX ASSETS:	YEARS ENDED	
	OCTOBER 29, 2000 ----	OCTOBER 31, 1999 ----
Net operating loss carryforwards.....	\$ 10,500	\$ 9,800
Research credit carryforwards.....	1,900	1,600
Capitalized research and development.....	1,600	1,400
In-process research and development.....	1,000	1,000
Other - net.....	1,300	1,100
	-----	-----
Net deferred tax assets.....	16,300	14,900
Valuation allowance.....	(16,300)	(14,900)
	-----	-----
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

Due to the Company's absence of earnings history, the net deferred tax asset has been fully offset by a valuation allowance, which has increased by \$1.4 million in the current year.

Approximately \$100,000 of the valuation allowance for deferred tax assets relates to benefits of stock option deductions which, when recognized, will be allocated directly to contributed capital.

11. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

Landec leases facilities and equipment under operating lease agreements with various terms and conditions, which expire at various dates through December 2002. The approximate future minimum lease payments under these operating leases, excluding farmland leases, at October 29, 2000 are as follows (in thousands):

	AMOUNT
FY2001.....	\$ 996
FY2002.....	508
FY2003.....	110
	\$ 1,614
	=====

Rent expense for operating leases, including month to month arrangements was \$1.1 million for fiscal year 2000, \$522,000 for fiscal year 1999, and \$481,000 for fiscal year 1998.

LAND LEASES

Landec, through its Apio subsidiary, also leases farmland under various non-cancelable leases expiring through October 2004. Landec subleases substantially all of the farmland to growers who, in turn, agree to market their crops through Landec. The subleases are generally non-cancelable and expire through October 2004. The approximate future minimum leases and sublease amounts receivable under farmland leases at October 29, 2000 are as follows (in thousands):

	Minimum Lease Payments	Sublease Rents Receivable	Net
2001.....	\$ 1,342	\$ 634	\$ 708
2002.....	1,196	529	667
2003.....	791	321	470
2004.....	401	150	251
	\$ 3,730	\$ 1,634	\$ 2,096

OTHER

Under the terms of the acquisition of Dock Resins, the former shareholder of Dock Resins has indemnified the Company with regard to expenditures subsequent to the acquisition for certain environmental matters relating to circumstances existing at the time of the acquisition. To cover any such cost, an escrow for \$1.5 million in cash and all of the equity consideration was set aside. During fiscal years 2000, 1999 and 1998, \$370,000, \$460,000 and zero were drawn down from the escrow account to pay for environmental expenses incurred by Dock Resins, that had been indemnified by the former shareholder of Dock Resins in the purchase agreement.

EMPLOYMENT AGREEMENTS

Landec has entered into employment agreements with certain key employees. These agreements provide for these employees to receive incentive bonuses based on the financial performance of certain divisions in addition to their annual base salaries. Certain key employees also receive minimum bonuses for their second year assuming continued employment. The accrued incentive bonuses amounted to \$725,000 at October 29, 2000.

12. EMPLOYEE SAVINGS AND INVESTMENT PLANS

The Company sponsors a 401(k) plan available to substantially all of Apio's salaried employees. The plan's participants can contribute from 1% to 5% of their salary, up to the Internal Revenue Service limitation into designated investment funds. The Company, in turn, contributes an amount, as required by the plan, which is equal to the participant's contributions. Participants are at all times fully vested in their contributions. The Company's contribution vests over a seven-year period beginning in year three at a rate of 20% per year. The Company retains the right, by action of the Board of Directors, to amend, modify or terminate the plan. In fiscal year 2000, the Company contributed \$282,000 to the foregoing plan.

13. BUSINESS SEGMENT REPORTING

The acquisition of Apio in December 1999 resulted in a redefinition of operating segments by management. Prior period segment information has been restated to conform to the current segment definitions. Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs produce and specialty packaged fresh-cut vegetables that incorporate the Intellipac(TM) breathable membrane for the fresh-cut produce industry through its Apio subsidiary. The amounts presented for fiscal year 2000 include the results of Apio from the effective close date of November 29, 1999 through October 29, 2000. The Food Products Technology segment for the fiscal years ended October 31, 1999 and 1998 only includes the operations of the Intellipac business. The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is developing seed coatings using Landec's proprietary Intelimer(R) polymers through Intellicoat. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and Other amounts include non-core operating activities, corporate operating costs and net interest expense. Assets classified as Corporate and Other consist primarily of assets of Dock Resins.

Operations by Business Segment (in thousands):

2000	Food Products Technology	Agricultural Seed Technology	Corporate and Other	Total
Net sales.....	\$ 178,809	\$ 17,212	\$ 13,529	\$ 209,550
Net income (loss) before cumulative effect of accounting change.....	\$ 249	\$ (2,914)	\$ 581	\$ (2,084)
Identifiable assets.....	\$ 95,267	\$ 15,775	\$ 22,210	\$ 133,252
Depreciation and amortization.....	\$ 3,790	\$ 1,055	\$ 1,221	\$ 6,066
Capital expenditures.....	\$ 2,839	\$ 763	\$ 1,736	\$ 5,338
Interest income.....	\$ 723	\$ 82	\$ 72	\$ 877
Interest expense.....	\$ 2,120	\$ 23	\$ 192	\$ 2,335
Income tax expense (benefit)	\$ 588	\$ --	\$ (630)	\$ (42)
1999				
Net sales.....	\$ 4,459	\$ 15,197	\$ 15,791	\$ 35,447
Net income (loss).....	\$ 105	\$ (1,219)	\$ (1,655)	\$ (2,769)
Identifiable assets.....	\$ 2,352	\$ 17,318	\$ 21,038	\$ 40,708
Depreciation and amortization.....	\$ 139	\$ 983	\$ 1,006	\$ 2,128
Capital expenditures.....	\$ 347	\$ 295	\$ 3,066	\$ 3,708
Interest income.....	\$ --	\$ 113	\$ 250	\$ 363
Interest expense.....	\$ --	\$ --	\$ 99	\$ 99
Income tax expense.....	\$ --	\$ --	\$ 54	\$ 54
1998				
Net sales.....	\$ 2,859	\$ 13,275	\$ 17,382	\$ 33,516
Net loss.....	\$ (353)	\$ (1,427)	\$ (1,110)	\$ (2,890)
Identifiable assets.....	\$ 1,513	\$ 14,356	\$ 26,487	\$ 42,356
Depreciation and amortization.....	\$ 125	\$ 917	\$ 921	\$ 1,963
Capital expenditures.....	\$ 142	\$ 1,389	\$ 2,569	\$ 4,100
Interest income.....	\$ --	\$ 95	\$ 642	\$ 737
Interest expense.....	\$ --	\$ 9	\$ 128	\$ 137
Income tax expense.....	\$ --	\$ --	\$ 150	\$ 150

13. BUSINESS SEGMENT REPORTING (CONTINUED)

During fiscal years 1999 and 1998, a customer in the Corporate and Other segment accounted for 10% and 13%, respectively, of the Company's total revenue. This was the only customer with revenues individually representing 10% or more of total revenues.

Export product sales were \$35.6 million, \$828,000 and \$863,000 in the years ended October 29, 2000 and October 31, 1999 and 1998, respectively.

14. QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2000 and 1999. The Company has included the following information below to demonstrate the effect on the first, second and third quarters of fiscal year 2000 as if the provisions of SAB No. 101 (See Note 1), had been applied as of the beginning of the fiscal year (in thousands, except for per share amounts):

FY 2000	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	
Revenues	33,797	33,890	60,771	60,864	61,401	61,494	53,302
Gross Profit	4,263	4,356	12,386	12,479	8,504	8,597	7,930
Income (Loss) Before Cumulative Effect of Accounting Change	(2,734)	(2,641)	2,815	2,908	(662)	(569)	(1,782)
Cumulative Effect of Accounting Change (Note 1)		(1,914)					
Net Income (Loss)	(2,734)	(4,555)	2,815	2,908	(662)	(569)	(1,782)
Basic Amounts per Common Share:							
Income Before Cumulative Effect of Accounting Change	(0.18)	(0.17)	0.18	0.18	(0.04)	(0.04)	(0.11)
Cumulative Effect of Change in Accounting		(0.13)					
Net Income/(Loss)	(0.18)	(0.30)	0.18	0.18	(0.04)	(0.04)	(0.11)
Dilutive Amounts Per Common Share:							
Income Before Cumulative Effect of Change in Accounting	(0.18)	(0.17)	0.12	0.13	(0.04)	(0.04)	(0.11)
Cumulative Effect of Change in Accounting (Note 1)		(0.13)					
Net Income/(Loss)	(0.18)	(0.30)	0.12	0.13	(0.04)	(0.04)	(0.11)
FY 1999							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter
Revenues	5,289		19,126		5,530		5,502
Gross Profit	2,276		8,054		1,942		1,699
Net Income (Loss)	(1,641)		3,451		(2,027)		(2,552)
Basic Earnings per Share	(0.12)		0.26		(0.15)		(0.19)
Dilutive Earnings per Share	(0.12)		0.22		(0.15)		(0.19)

LANDEC CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

SCHEDULE II

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
	-----	-----	-----	-----
Year ended October 31, 1998				
Allowance for doubtful accounts.....	\$ 27	\$ 31	\$ (8)	\$ 50
Year ended October 31, 1999				
Allowance for doubtful accounts.....	\$ 50	\$ --	\$ (5)	\$ 45
Year ended October 29, 2000				
Allowance for doubtful accounts.....	\$ 45	\$1,180	\$ (598)	\$ 627

(b) No reports on Form 8-K were filed by the Company during the period July 31, 2000 to October 29, 2000.

(c) Index of Exhibits

- 2.1(6) Stock Purchase Agreement by and among the Registrant, Dock Resins Corporation and A. Wayne Tamarelli dated as of April 18, 1997.
- 2.2(7) Agreement and Plan of Reorganization by and among the Registrant, Intellicoat Corporation, Williams & Sun, Inc. (d/b/a Fielder's Choice Hybrids) and Michael L. Williams dated as of August 20, 1997.
- 2.3(11) Form of Agreement and Plan Merger and Purchase Agreement by and among the Registrant, Apio, Inc. and related companies and each of the respective shareholders dated as of November 29, 1999.
- 3.1(1) Amended and Restated Bylaws of Registrant.
- 3.2(2) Ninth Amended and Restated Articles of Incorporation of Registrant.
- 3.3(13) Certificate of Determination of Series A Preferred Stock
- 4.1(12) Series A Preferred Stock Purchase Agreement between the Registrant and Frederick Frank, dated as of November 19, 1999.
- 10.1(3) Form of Indemnification Agreement.
- 10.3(4)* 1995 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
- 10.4(4)* 1995 Directors' Stock Option Plan, as amended, and form of Option Agreement.
- 10.6(3) Industrial Real Estate Lease dated March 1, 1993 between the Registrant and Wayne R. Brown & Bibbits Brown, Trustees of the Wayne R. Brown & Bibbits Brown Living Trust dated December 30, 1987.
- 10.14(4)* Consulting Agreement dated May 1, 1996 between the Registrant and Richard Dulude.
- 10.15(4)* 1996 Intellicoat Stock Option Plan and form of Option Agreements.
- 10.16(4)* 1996 Non-Executive Stock Option Plan and form of Option Agreements.
- 10.17(5)* 1996 Stock Option Plan and Form of Option Agreement.
- 10.19(8) Technology License Agreement between Bissell Healthcare Corporation and the Registrant, dated as of August 28, 1997.
- 10.21(9)* Employment Agreement between the Registrant and A. Wayne Tamarelli dated as of April 18, 1997.
- 10.22(10)* Form of Common Stock Purchase Agreement for certain officers and directors for restricted stock purchase.
- 10.23(10) Loan agreement between Registrant and Michael Williams dated October 1, 1998.
- 10.24(13)* Employment agreement between the Registrant and Nicholas Tompkins dated as of November 29, 1999.
- 10.25(13)* Stock Option Agreement between the Registrant and Nicholas Tompkins dated as of November 29, 1999.
- 10.26(13)* 1999 Apio, Inc. Stock Option Plan and form of Option Agreement.
- 10.27(13) Loan agreement between Apio, Inc. and the Bank of America dated as of November 29, 1999.
- 10.28+* 2000 Apio, Inc. Stock Option Plan and form of Option Agreement
- 10.29+ Loan Agreement between Landec Ag, Inc. and Old National Bank dated as of June 5, 2000, as amended.
- 10.30+* New Executive Stock Option Plan.
- 21.1 Subsidiaries of the Registrant.
- | | SUBSIDIARY | STATE OF INCORPORATION |
|--|--|------------------------|
| | Landec Ag (formerly Intellicoat Corporation) | Delaware |
| | Dock Resins Corporation | New Jersey |
| | Apio, Inc. | Delaware |
- 23.1+ Consent of Independent Auditors.
- 24.1+ Power of Attorney. See page 59.

- (1) Incorporated by reference to Exhibit 3.4 filed with Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
- (2) Incorporated by reference to Exhibit 3.5 filed with Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
- (3) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
- (4) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 10-K filed for the years ended October 31, 1996.
- (5) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 10-Q filed for the quarter ended April 30, 1997.
- (6) Incorporated by reference to Exhibit 2.1 filed with the Registrant's Form 8-K dated April 18, 1997.
- (7) Incorporated by reference to Exhibit 2.1 filed with the Registrant's Form 10-Q for the quarter ended July 31, 1997.
- (8) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 8-K dated August 28, 1997.
- (9) Incorporated by reference to Exhibit C to Exhibit 2.1 filed with the Registrant's Form 8-K dated April 18, 1997.
- (10) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the year ended October 10, 1998.
- (11) Incorporated by reference to the Exhibit 2.1 filed with the Registrant's Form 8-K dated December 2, 1999.
- (12) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 8-K dated December 2, 1999.
- (13) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the year ended October 31, 1999.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to item 14(c) of Form 10-K.

+ Filed herewith.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on January 26, 2001.

LANDEC CORPORATION

By: /s/ Gregory S. Skinner

 Gregory S. Skinner
 Vice President of Finance and Administration
 and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, THAT EACH PERSON WHOSE SIGNATURE APPEARS BELOW HEREBY CONSTITUTES AND APPOINTS GARY T. STEELE AND GREGORY S. SKINNER, AND EACH OF THEM, AS HIS ATTORNEY-IN-FACT, WITH FULL POWER OF SUBSTITUTION, FOR HIM IN ANY AND ALL CAPACITIES, TO SIGN ANY AND ALL AMENDMENTS TO THIS REPORT ON FORM 10-K, AND TO FILE THE SAME, WITH EXHIBITS THERETO AND OTHER DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, HEREBY RATIFYING AND CONFIRMING OUR SIGNATURES AS THEY MAY BE SIGNED BY OUR SAID ATTORNEY TO ANY AND ALL AMENDMENTS TO SAID REPORT ON FORM 10-K.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT ON FORM 10-K HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

SIGNATURE -----	TITLE -----	DATE ----
/s/ Gary T. Steele ----- Gary T. Steele	President and Chief Executive Officer and Director (Principal Executive Officer)	January 26, 2001
/s/ Gregory S. Skinner ----- Gregory S. Skinner	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	January 26, 2001
/s/ Kirby L. Cramer ----- Kirby L. Cramer	Director	January 26, 2001
/s/ Richard Dulude ----- Richard Dulude	Director	January 26, 2001
/s/ Frederick Frank ----- Frederick Frank	Director	January 26, 2001
/s/ Stephen E. Halprin ----- Stephen E. Halprin	Director	January 26, 2001
----- Richard S. Schneider	Director	January 26, 2001

EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT TITLE
10.28	2000 Apio, Inc. Stock Option Plan and form of Option Agreement
10.29	Loan Agreement between Landec Ag, Inc. and Old National Bank dated as of June 5, 2000, as amended
10.30	New Executive Stock Option Plan
23.1	Consent of Independent Auditors

APIO, INC.

2000 STOCK PLAN

1. PURPOSES OF THE PLAN. The purposes of this 2000 Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options (as defined under Section 422 of the Code) or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code, as amended, and the regulations promulgated thereunder. Stock Purchase Rights may also be granted under the Plan.

2. DEFINITIONS. As used herein, the following definitions shall apply:

(a) "ADMINISTRATOR" means the Board or its Committee appointed pursuant to Section 4 of the Plan.

(b) "AFFILIATE" means an entity other than a Subsidiary in which the Company owns an equity interest or which, together with the Company, is under common control of a third person or entity.

(c) "APPLICABLE LAWS" means the legal requirements relating to the administration of stock option plans under applicable U.S. state corporate laws, U.S. federal and applicable state securities laws, the Code, any Stock Exchange rules or regulations and the applicable laws of any other country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan, as such laws, rules, regulations and requirements shall be in place from time to time.

(d) "BOARD" means the Board of Directors of the Company.

(e) "CHANGE OF CONTROL" means a sale of all or substantially all of the Company's assets, or any merger or consolidation of the Company with or into another corporation, other than a merger or consolidation in which the holders of more than 50% of the shares of capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by the voting securities remaining outstanding or by their being converted into voting securities of the surviving entity) more than 50% of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such transaction.

(f) "CODE" means the Internal Revenue Code of 1986, as amended.

(g) "COMMITTEE" means one or more committees or subcommittees of the Board appointed by the Board to administer the Plan in accordance with Section 4 below.

(h) "COMMON STOCK" means the Common Stock of the Company.

(i) "COMPANY" means Apio, Inc., a Delaware corporation.

(j) "CONSULTANT" means any person, including an advisor, who renders services to the Company, or any Parent, Subsidiary or Affiliate, and is compensated for such services, and any director of the Company whether compensated for such services or not.

(k) "CONTINUOUS SERVICE STATUS" means the absence of any interruption or termination of service as an Employee or Consultant to the Company or a Parent, Subsidiary or Affiliate. Continuous Service Status shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Parents, Subsidiaries or Affiliates or their respective successors. Unless otherwise determined by the Administrator, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute an interruption of Continuous Service Status.

(l) "CORPORATE TRANSACTION" means a sale of all or substantially all of the Company's assets, or a merger, consolidation or other capital reorganization of the Company with or into another corporation.

(m) "DIRECTOR" means a member of the Board.

(n) "EMPLOYEE" means any person, including officers and Directors, employed by the Company or any Parent, Subsidiary or Affiliate of the Company. The payment by the Company of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.

(o) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(p) "FAIR MARKET VALUE" means, as of any date, the fair market value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange on the date of determination, or if no trading occurred on the date of determination, on the last market trading day prior to the time of determination, as reported in THE WALL STREET JOURNAL or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of

determination, as reported in THE WALL STREET JOURNAL or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(q) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable Option Agreement.

(r) "LISTED SECURITY" means any security of the Company that is listed or approved for listing on a national securities exchange or designated or approved for designation as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.

(s) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable Option Agreement.

(t) "OPTION" means a stock option granted pursuant to the Plan.

(u) "OPTION AGREEMENT" means a written document, the form(s) of which shall be approved from time to time by the Administrator, reflecting the terms of an Option granted under the Plan and includes any documents attached to or incorporated into such Option Agreement, including, but not limited to, a notice of stock option grant and a form of exercise notice.

(v) "OPTION EXCHANGE PROGRAM" means a program approved by the Administrator whereby outstanding Options are exchanged for Options with a lower exercise price.

(w) "OPTIONED STOCK" means the Common Stock subject to an Option or a Stock Purchase Right.

(x) "OPTIONEE" means an Employee or Consultant who receives an Option.

(y) "PARENT" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code, or any successor provision.

(z) "PARTICIPANT" means any holder of one or more Options or Stock Purchase Rights, or of the Shares issuable or issued upon exercise of such awards, under the Plan.

(aa) "PLAN" means this 2000 Stock Plan.

(bb) "REPORTING PERSON" means an officer, Director, or greater than 10% shareholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

(cc) "RESTRICTED STOCK" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 10 below.

(dd) "RESTRICTED STOCK PURCHASE AGREEMENT" means a written document, the form(s) of which shall be approved from time to time by the Administrator, reflecting the terms of a Stock Purchase Right granted under the Plan and includes any documents attached to such agreement.

(ee) "RULE 16B-3" means Rule 16b-3 promulgated under the Exchange Act, as the same may be amended from time to time, or any successor provision.

(ff) "SHARE" means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(gg) "STOCK EXCHANGE" means any stock exchange or consolidated stock price reporting system on which prices for the Common Stock are quoted at any given time.

(hh) "STOCK PURCHASE RIGHT" means the right to purchase Common Stock pursuant to Section 10 below.

(ii) "SUBSIDIARY" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, or any successor provision.

(jj) "TEN PERCENT HOLDER" means a person who owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary.

3. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares that may be sold under the Plan is 2,000,000 Shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock. If an Option expires or becomes unexercisable for any reason without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. In addition, any Shares of Common Stock that are retained by the Company upon exercise of an Option or Stock Purchase Right in order to satisfy the exercise or purchase price for such Option or Stock Purchase Right or any withholding taxes due with respect to such exercise shall be treated as not issued and shall continue to be available under the Plan. Shares issued under the Plan and later repurchased by the Company pursuant to any repurchase right that the Company may have shall not be available for future grant under the Plan.

4. ADMINISTRATION OF THE PLAN.

(a) GENERAL. The Plan shall be administered by the Board or a Committee, or a combination thereof, as determined by the Board. The Plan may be administered by different administrative bodies with respect to different classes of Optionees and, if permitted by the Applicable Laws, the Board may authorize one or more officers to grant Options or Stock Purchase Rights under the Plan.

(b) ADMINISTRATION WITH RESPECT TO REPORTING PERSONS. With respect to Options granted to Reporting Persons and Named Executives, the Plan may (but need not) be administered so as to permit such Options to qualify for the exemption set forth in Rule 16b-3 and to qualify as performance-based compensation under Section 162(m) of the Code.

(c) COMMITTEE COMPOSITION. If a Committee has been appointed pursuant to this Section 4, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of any Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies (however caused) and remove all members of a Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws and, in the case of a Committee administering the Plan pursuant to Section 4(b) above, to the extent permitted or required by Rule 16b-3 and Section 162(m) of the Code.

(d) POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any Stock Exchange, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(p) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights or any combination thereof may from time to time be granted;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted;

(iv) to determine the number of Shares of Common Stock to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder, which terms and conditions include but are not limited to the exercise or purchase price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option, Optioned Stock, Stock Purchase Right or Restricted Stock, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to determine whether and under what circumstances an Option may be settled in cash under Section 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted and to make any other amendments or

adjustments to any Option that the Administrator determines, in its discretion and under the authority granted to it under the Plan, to be necessary or advisable, provided however that no amendment or adjustment to an Option that would materially and adversely affect the rights of any Optionee shall be made without the prior written consent of the Optionee;

(ix) to determine the terms and restrictions applicable to Stock Purchase Rights and the Restricted Stock purchased by exercising such Stock Purchase Rights;

(x) to initiate an Option Exchange Program;

(xi) to construe and interpret the terms of the Plan and awards granted under the Plan; and

(xii) in order to fulfill the purposes of the Plan and without amending the Plan, to modify grants of Options or Stock Purchase Rights to Participants who are foreign nationals or employed outside of the United States in order to recognize differences in local law, tax policies or customs.

(e) EFFECT OF ADMINISTRATOR'S DECISION. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants.

5. ELIGIBILITY.

(a) RECIPIENTS OF GRANTS. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees; provided however that Employees of Affiliates shall not be eligible to receive Incentive Stock Options. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if he or she is otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) TYPE OF OPTION. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares subject to an Incentive Stock Option shall be determined as of the date of grant of such Option.

(c) AT-WILL RELATIONSHIP. The Plan shall not confer upon any Participant any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with such holder's right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. TERM OF PLAN. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten years unless sooner terminated under Section 15 of the Plan.

7. TERM OF OPTION. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten years from the date of grant thereof or such shorter term as may be provided in the Option Agreement. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, is a Ten Percent Holder, the term of such Option shall be five years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. OPTION EXERCISE PRICE AND CONSIDERATION.

(a) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator and set forth in the Option Agreement, but shall be subject to the following:

(i) In the case of an Incentive Stock Option
that is:

(A) granted to an Employee who at the time of grant is a Ten Percent Holder, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option
that is:

(A) granted prior to the date, if any, on which the Common Stock becomes a Listed Security to a person who at the time of grant is a Ten Percent Holder, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant if required by the Applicable Laws and, if not so required, shall be such price as is determined by the Administrator.

(B) granted prior to the date, if any, on which the Common Stock becomes a Listed Security to any other eligible person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant if required by the Applicable Laws and, if not so required, shall be such price as is determined by the Administrator.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist

entirely of (1) cash; (2) check; (3) delivery of Optionee's promissory note with such recourse, interest, security and redemption provisions as the Administrator determines to be appropriate; (4) cancellation of indebtedness; (5) other Shares that (x) in the case of Shares acquired upon exercise of an Option, either have been owned by the Optionee for more than six months on the date of surrender or such other period as may be required to avoid a charge to the Company's earnings or were not acquired, directly or indirectly, from the Company, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised; (6) authorization for the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised; (7) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect exercise of the Option and prompt delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable withholding taxes; (8) any combination of the foregoing methods of payment; or (9) such other consideration and method of payment for the issuance of Shares to the extent permitted under the Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company, and the Administrator may refuse to accept a particular form of consideration at the time of any Option exercise if, in its sole discretion, acceptance of such form of consideration is not in the best interests of the Company at such time.

9. EXERCISE OF OPTION.

(a) PROCEDURE FOR EXERCISE; RIGHTS AS A SHAREHOLDER. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, consistent with the term of the Plan and reflected in the Option Agreement, including vesting requirements and/or performance criteria with respect to the Company and/or the Optionee; provided however, that, if required by the Applicable Laws, any Option granted prior to the date, if any, upon which the Common Stock becomes a Listed Security shall become exercisable at the rate of at least 20% per year over five years from the date the Option is granted. In the event that any of the Shares issued upon exercise of an Option (which exercise occurs prior to the date, if any, upon which the Common Stock becomes a Listed Security) should be subject to a right of repurchase in the Company's favor, such repurchase right shall, if required by the Applicable Laws, lapse at the rate of at least 20% per year over five years from the date the Option is granted. Notwithstanding the above, in the case of an Option granted to an officer, Director or Consultant of the Company or any Parent, Subsidiary or Affiliate of the Company, the Option may become fully exercisable, or a repurchase right, if any, in favor of the Company shall lapse, at any time or during any period established by the Administrator. The Administrator shall have the discretion to determine whether and to what extent the vesting of Options shall be tolled during any leave of absence.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the

Option and the Company has received full payment for the Shares with respect to which the Option is exercised. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares that thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) TERMINATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP. In the event of termination of an Optionee's Continuous Service Status with the Company, such Optionee may, but only within three months (or such other period of time, not less than 30 days, as is determined by the Administrator, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise the Option to the extent so entitled within the time specified above, the Option shall terminate and the Optioned Stock underlying the unexercised portion of the Option shall revert to the Plan. Unless otherwise determined by the Administrator, no termination shall be deemed to occur and this Section 9(b) shall not apply if (i) the Optionee is a Consultant who becomes an Employee, or (ii) the Optionee is an Employee who becomes a Consultant.

(c) DISABILITY OF OPTIONEE.

(i) Notwithstanding Section 9(b) above, in the event of termination of an Optionee's Continuous Service Status as a result of his or her total and permanent disability (within the meaning of Section 22(e)(3) of the Code), such Optionee may, but only within twelve months (or such other period of time as is determined by the Administrator, with such determination in the case of an Incentive Stock Option made at the time of grant of the Option) from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified above, the Option shall terminate and the Optioned Stock underlying the unexercised portion of the Option shall revert to the Plan.

(ii) In the event of termination of an Optionee's Continuous Service Status as a result of a disability which does not fall within the meaning of total and permanent

disability (as set forth in Section 22(e)(3) of the Code), such Optionee may, but only within twelve months (or such other period of time as is determined by the Administrator, with such determination in the case of an Incentive Stock Option made at the time of grant of the Option) from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. However, to the extent that such Optionee fails to exercise an Option that is an Incentive Stock Option (within the meaning of Section 422 of the Code) within three months of the date of such termination, the Option will not qualify for Incentive Stock Option treatment under the Code. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time period specified above, the Option shall terminate and the Optioned Stock underlying the unexercised portion of the Option shall revert to the Plan.

(d) DEATH OF OPTIONEE. In the event of the death of an Optionee during the period of Continuous Service Status since the date of grant of the Option, or within 30 days following termination of the Optionee's Continuous Service Status, the Option may be exercised, at any time within twelve months following the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by such Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of death or, if earlier, the date of termination of the Optionee's Continuous Service Status. To the extent that the Optionee was not entitled to exercise the Option at the date of death or termination, as the case may be, or if the Optionee does not exercise such Option to the extent so entitled within the time specified above, the Option shall terminate and the Optioned Stock underlying the unexercised portion of the Option shall revert to the Plan.

(e) EXTENSION OF EXERCISE PERIOD. The Administrator shall have full power and authority to extend the period of time for which an Option is to remain exercisable following termination of an Optionee's Continuous Status as an Employee or Consultant from the periods set forth in Sections 9(b), 9(c) and 9(d) above or in the Option Agreement to such greater time as the Board shall deem appropriate, provided, that in no event shall such Option be exercisable later than the date of expiration of the term of such Option as set forth in the Option Agreement.

(f) BUY-OUT PROVISIONS. The Administrator may at any time offer to buy out for a payment in cash or Shares an Option previously granted under the Plan based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time such offer is made. Landec Corporation ("LANDEC"), the Company's parent corporation, may offer to repurchase for a payment of cash or shares of Landec common stock any of the Shares issuable under the Plan pursuant to an Option or Stock Purchase Right based on such terms and conditions as the Administrator shall establish and communicate to the Participant at the time such offer is made.

10. STOCK PURCHASE RIGHTS.

(a) RIGHTS TO PURCHASE. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer, which shall in no event exceed 30 days from the date upon which the Administrator made the determination to grant the Stock Purchase Right. If required by the Applicable Laws, the purchase price of Shares subject to Stock Purchase Rights shall not be less than 85% of the Fair Market Value of the Shares as of the date of the offer, or, in the case of a person owning stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the price shall not be less than 100% of the Fair Market Value of the Shares as of the date of the offer. If the Applicable Laws do not impose restrictions on the purchase price, the purchase price of Shares subject to Stock Purchase Rights shall be as determined by the Administrator. The offer to purchase Shares subject to Stock Purchase Rights shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) REPURCHASE OPTION. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original purchase price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine; provided, however, that with respect to a purchaser who is not an officer, Director or Consultant of the Company or of any Parent or Subsidiary of the Company, it shall lapse at a minimum rate of 20% per year if required by the Applicable Laws.

(c) OTHER PROVISIONS. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock Purchase Agreements need not be the same with respect to each purchaser.

(d) RIGHTS AS A SHAREHOLDER. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

11. TAXES.

(a) As a condition of the exercise of an Option or Stock Purchase Right granted under the Plan, the Participant (or in the case of the Participant's death, the person exercising the Option) shall make such arrangements as the Administrator may require for the satisfaction of any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the exercise of an Option or Stock Purchase Right and the issuance of Shares. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied.

(b) In the case of an Employee and in the absence of any other arrangement, the Employee shall be deemed to have directed the Company to withhold or collect from his or her compensation an amount sufficient to satisfy such tax obligations from the next payroll payment otherwise payable after the date of an exercise of the Option.

(c) This Section 11(c) shall apply only after the date, if any, upon which the Common Stock becomes a Listed Security. In the case of a Participant other than an Employee (or in the case of an Employee where the next payroll payment is not sufficient to satisfy such tax obligations, with respect to any remaining tax obligations), in the absence of any other arrangement and to the extent permitted under the Applicable Laws, the Participant shall be deemed to have elected to have the Company withhold from the Shares to be issued upon exercise of the Option or Stock Purchase Right that number of Shares having a Fair Market Value determined as of the applicable Tax Date (as defined below) equal to the amount required to be withheld. For purposes of this Section 11, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined under the Applicable Laws (the "TAX DATE").

(d) If permitted by the Administrator, in its discretion, a Participant may satisfy his or her tax withholding obligations upon exercise of an Option or Stock Purchase Right by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Participant for more than six months on the date of surrender, and (ii) have a Fair Market Value determined as of the applicable Tax Date equal to the amount required to be withheld.

(e) Any election or deemed election by a Participant to have Shares withheld to satisfy tax withholding obligations under Section 11(c) or (d) above shall be irrevocable as to the particular Shares as to which the election is made and shall be subject to the consent or disapproval of the Administrator. Any election by a Participant under Section 11(d) above must be made on or prior to the applicable Tax Date.

(f) In the event an election to have Shares withheld is made by a Participant and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Participant shall receive the full number of Shares with respect to which the Option or Stock Purchase Right is exercised but such Participant shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

12. NON-TRANSFERABILITY OF OPTIONS AND STOCK PURCHASE RIGHTS. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution; provided however that, after the date, if any, upon which the Common Stock becomes a Listed Security, the Administrator may in its discretion grant transferable Nonstatutory Stock Options pursuant to Option Agreements specifying (i) the manner in which such Nonstatutory Stock Options are transferable and (ii) that any such transfer shall be subject to the Applicable Laws. The designation of a beneficiary by an Optionee will not constitute a transfer. An Option or Stock Purchase Right may be exercised, during the lifetime of the holder of the Option or Stock Purchase Right, only by such holder or a transferee permitted by this Section 12.

13. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, CORPORATE TRANSACTIONS AND CERTAIN OTHER TRANSACTIONS.

(a) CHANGES IN CAPITALIZATION. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or that have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per Share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued Shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock (including any change in the number of Shares of Common Stock effected in connection with a change of domicile of the Company), or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares of Common Stock subject to an Option or Stock Purchase Right.

(b) DISSOLUTION OR LIQUIDATION. In the event of the dissolution or liquidation of the Company, each outstanding Option or Stock Purchase Right shall terminate immediately prior to the consummation of such action, unless otherwise provided by the Administrator.

(c) CORPORATE TRANSACTIONS. In the event of a Corporate Transaction, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or Subsidiary of such successor corporation, unless such successor corporation does not agree to assume the outstanding Options or Stock Purchase Rights or to substitute equivalent options or rights, in which case such Options or Stock Purchase Rights shall terminate upon the consummation of the transaction.

For purposes of this Section 13(c), an Option or a Stock Purchase Right shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of an Option or Stock Purchase Right would be entitled to receive upon exercise of the Option or Stock Purchase Right the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares of Common Stock covered by the Option or the Stock Purchase Right at such time (after giving effect to any adjustments in the number of Shares covered by the Option or Stock Purchase Right as provided for in this Section 13); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option or Stock Purchase Right to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(d) CERTAIN DISTRIBUTIONS. In the event of any distribution to the Company's shareholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Administrator may, in its discretion, appropriately adjust the price per Share of Common Stock covered by each outstanding Option or Stock Purchase Right to reflect the effect of such distribution.

14. TIME OF GRANTING OPTIONS AND STOCK PURCHASE RIGHTS. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator; provided, however, that in the case of any Incentive Stock Option, the grant date shall be the later of the date on which the Administrator makes the determination granting such Incentive Stock Option or the date of commencement of the Optionee's employment relationship with the Company. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

15. AMENDMENT AND TERMINATION OF THE PLAN.

(a) AUTHORITY TO AMEND OR TERMINATE. The Board may at any time amend, alter, suspend, discontinue or terminate the Plan, but no amendment, alteration, suspension, discontinuation or termination (other than an adjustment made pursuant to Section 13 above) shall be made that would materially and adversely affect the rights of any Optionee or holder of Stock Purchase Rights under any outstanding grant, without his or her consent. In addition, to the extent necessary and desirable to comply with the Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) EFFECT OF AMENDMENT OR TERMINATION. No amendment or termination of the Plan shall materially and adversely affect Options already granted, unless mutually agreed

otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

16. CONDITIONS UPON ISSUANCE OF SHARES. Notwithstanding any other provision of the Plan or any agreement entered into by the Company pursuant to the Plan, the Company shall not be obligated, and shall have no liability for, failure to issue or deliver any Shares under the Plan unless such issuance or delivery would comply with the Applicable Laws, with such compliance determined by the Company in consultation with its legal counsel.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by law.

17. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. AGREEMENTS. Options and Stock Purchase Rights shall be evidenced by Option Agreements and Restricted Stock Purchase Agreements, respectively, in such form(s) as the Administrator shall from time to time approve.

19. SHAREHOLDER APPROVAL. If required by the Applicable Laws, continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under the Applicable Laws.

20. INFORMATION AND DOCUMENTS TO OPTIONEES AND PURCHASERS. Prior to the date, if any, upon which the Common Stock becomes a Listed Security and if required by the Applicable Laws, the Company shall provide financial statements at least annually to each Optionee and to each individual who acquired Shares pursuant to the Plan, during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and in the case of an individual who acquired Shares pursuant to the Plan, during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of Options or Stock Purchase Rights under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information. In addition, at the time of issuance of any securities under the Plan, the Company shall provide to the Optionee or the purchaser a copy of the Plan and any agreement(s) pursuant to which securities granted under the Plan are issued.

CREDIT AGREEMENT
BETWEEN
INTELLICOAT CORPORATION
AND
AMERICAN NATIONAL BANK D/B/A
OLD NATIONAL BANK,

DATED AS OF
JUNE 5, 2000

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Exhibit "A" Promissory Note (Revolving Loan)(\$3,000,000.00)
Exhibit "B" Promissory Note (Capital Expenditure Line of Credit)
(\$1,000,000.00)
Exhibit "C" Promissory Note (Capital Expenditure Term Loan)
(\$1,000,000.00)
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Exhibit "E" Security Agreement (Equipment, Inventory, Accounts
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Exhibit "H" Guaranty Agreement (Landec Corporation)
Exhibit "I" Collateral Assignment of Licensing Agreement
Exhibit "J" Intercreditor Agreement

CREDIT AGREEMENT

INTELLICOAT CORPORATION, a Delaware corporation (the "Company"), and AMERICAN NATIONAL BANK D/B/A OLD NATIONAL BANK, a national banking association with its principal office in Indianapolis, Indiana (the "Bank"), agree as follows:

SECTION 1. ACCOUNTING TERMS -- DEFINITIONS. All accounting and financial terms used in this Agreement are used with the meanings such terms would be given in accordance with generally accepted accounting principles except as may be otherwise specifically provided in this Agreement. The following terms have the meanings indicated when used in this Agreement with the initial letter capitalized:

- "ADVANCE" means a disbursement of proceeds of the Revolving Loan or the Capital Expenditure Line of Credit, as the context requires.
- "AGREEMENT" means this Credit Agreement between the Company and the Bank, as it may from time to time be amended.
- "ASSIGNMENT OF LICENSING AGREEMENTS" is used as defined in Section 4(e).
- "AUTHORIZED OFFICER" means the Chief Financial Officer or the Controller of the Company or such other officer whose authority to perform acts to be performed only by an Authorized Officer under the terms of this Agreement is evidenced to the Bank by a certified copy of an appropriate resolution of the Board of Directors of the Company.
- "BANK" is used as defined in the preamble.
- "BANKING DAY" means a day on which the principal office of the Bank in the City of Indianapolis, Indiana, is open for the purpose of conducting substantially all of the Bank's business activities.
- "BORROWING BASE" means an amount equal to the sum of seventy percent (70%) of the book value of the Company's Eligible Inventory.

- "BORROWING BASE CERTIFICATE" means a certificate of the Company signed by an appropriate officer indicating the amount of the Borrowing Base as of a stated date and in such form and showing such detail as the Bank may reasonably require.
- "CAPITAL EXPENDITURE LINE OF CREDIT" is used as defined in Section 2(b)(i).
- "CAPITAL EXPENDITURE LINE OF CREDIT COMMITMENT" means the agreement of the Bank to extend the Capital Expenditure Line of Credit to the Company until the Capital Expenditure Line of Credit Maturity Date, and if the context so requires, the term may also refer to the maximum principal amount which is permitted to be outstanding under the Capital Expenditure Line of Credit at any time.
- "CAPITAL EXPENDITURE LINE OF CREDIT MATURITY DATE" means initially June 30, 2001, and thereafter any subsequent date to which the Capital Expenditure Line of Credit Commitment may be extended by the Bank pursuant to the terms of Section 2(b)(iv).
- "CAPITAL EXPENDITURE LINE OF CREDIT NOTE" is used as defined in Section 2(b)(ii).
- "CAPITAL EXPENDITURE TERM LOAN" is used as defined in Section 2(c).
- "CAPITAL EXPENDITURE TERM NOTE" is used as defined in Section 2(c)(ii).
- "CODE" means the Internal Revenue Code of 1986, as amended.
- "COMMITMENT" means the agreement of the Bank to extend the Revolving Loan to the Company until the Revolving Loan Maturity Date, and if the context so requires, the term may also refer to the maximum principal amount which is permitted to be outstanding under the Revolving Loan at any time, assuming the Borrowing Base is equal to or in excess of such amount.
- "COMPANY" is used as defined in the Preamble.

- "EBITDA" means earnings before interest, taxes, depreciation, and amortization, all determined in accordance with GAAP.
- "ELIGIBLE INVENTORY" means seed corn inventory : (i) for which the Company has made payment, (ii) that is held in a warehouse in Illinois or Indiana approved in advance by the Bank, or at Hubner's plant located in West Lebanon, Indiana (each of the foregoing called a "warehouse"), (iii) which is segregated at each such Warehouse from other non-Fielder's Choice Direct seed corn inventory that is clearly marked in bags or other containers with the words "Fielder's Choice Direct" or another name clearly identifying the Company's seed corn supported by the books and records of the Company as being owned by the Company, (iv) as to which all creditors of the owner or lessee of the Warehouse where such inventory is located have entered into an Ownership Acknowledgment Agreement or similar agreement, appropriate lien waivers have been executed, and appropriate UCC financing statements disclaiming any interest in such seed corn inventory have been filed, complete copies of which have been provided to the Bank, and (v) as to which the Bank has filed the appropriate UCC financing statements giving notice of the Bank's security interest in the Company's seed corn inventory located at such Warehouse and perfecting the Bank's lien thereon.
- "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- "EVENT OF DEFAULT" means any of the events described in Section 8.
- "GAAP" means generally accepted account principles as then in effect, which shall include the official interpretations thereof by the Financial Accounting Standards Board, consistently applied.
- "GUARANTY AGREEMENT" is used as defined in Section 4(d).
- "HAZARDOUS SUBSTANCE" means any hazardous or toxic substance regulated by any federal, state or local statute or regulation including but not limited

to the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and the Toxic Substance Control Act, or by any federal, state or local governmental agencies having jurisdiction over the control of any such substance including but not limited to the United States Environmental Protection Agency.

- "HUBNER" means Hubner Industries, LLC, together with its successors and assigns.
- "INFORMAL REQUEST" has the meaning set forth in Section 2(a)(ii) herein.
- "INTERCREDITOR AGREEMENT" is used as defined in Section 4(f) herein.
- "INTEREST PERIOD" means each consecutive one year period for which the Company shall have selected the T-Bill Rate, effective as of the first day of each Interest Period and ending on the last day of each Interest Period.
- "LANDEC" means Landec Corporation, a California corporation, together with its successors and assigns.
- "LOAN" means any of the Revolving Loan, the Capital Expenditure Line of Credit, or the Capital Expenditure Term Loan, as the context requires, and when used in the plural form refers to all of the Loans.
- "LOAN DOCUMENT" means any of this Agreement, the Revolving Note, the Capital Expenditure Line of Credit Note, the Capital Expenditure Term Note, the Mortgage, the Security Agreement, the Subordination Agreement, the Guaranty Agreement, the Assignment of Licensing Agreements, the Intercreditor Agreement, and any other instrument or document which evidences or secures the Loans or any of them or which expresses an agreement as to terms applicable to the Loans or any of them, and in the plural means any two or more of the Loan Documents, as the context requires.
- "MORTGAGE" is used as defined in Section 4(b).

- "NOTE" means any of the Revolving Note, the Capital Expenditure Line of Credit Note, or the Equipment Term Note, as the context requires, and when used in the plural form refers to all of the Notes.
- "OBLIGATIONS" means all obligations of the Company in favor of the Bank of every type and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to this Agreement and the other Loan Documents, including but not limited to: (i) all of such obligations on account of the Loans, including any Advances made pursuant to any extension of the Commitment beyond the initial Revolving Loan Maturity Date, any extension of the Capital Expenditure Line of Credit Commitment beyond the initial Capital Expenditure Line of Credit Maturity Date, or pursuant to any other amendment of this Agreement, and (ii) all other obligations arising under any Loan Document as amended from time to time.
- "OWNERSHIP ACKNOWLEDGMENT AGREEMENT" means that certain Ownership Acknowledgment Agreement entered into by and among the Company, Hubner, and Civitas Bank, now known as Fifth Third Bank, Indiana, dated as of November 1, 1998, as it may be amended.
- "PLAN" means an employee pension benefit plan as defined in ERISA.
- "PLEDGE AGREEMENT" is used as defined in Section 4(e).
- "PRIME RATE" means the interest rate announced from time to time in the Money Section of the WALL STREET JOURNAL (Midwest Edition) as the "Prime Rate." Any change in such Prime Rate shall take effect on the date specified in the published change in such rate.
- "PRIME-BASED RATE" means any variable rate at which interest may accrue on all or a portion of any of the Loans under the terms of this Agreement determined by reference to the Prime Rate.
- "REVOLVING LOAN" is used as defined in Section 2(a)(i).

- "REVOLVING LOAN MATURITY DATE" means initially June 30, 2003, and thereafter any subsequent date to which the Commitment may be extended by the Bank pursuant to the terms of Section 2(a)(iv).
- "REVOLVING NOTE" is used as defined in Section 2(a)(ii).
- "SECURITY AGREEMENT" is used as defined in Section 4(a).
- "SEED AGREEMENT" means that certain Hybrid Seed Corn Production and Sales Agreement entered into by and between Hubner and the Company dated as of November 1, 1998, pursuant to which, among other things, Hubner has agreed to supply seed corn to the Company (as amended, and as further amended, restated or otherwise modified from time to time).
- "SUBORDINATED DEBT" means indebtedness of the Company which is subordinated to the indebtedness of the Company to the Bank under the terms of the Subordination Agreement and any other indebtedness of the Company which is subordinated to the Company's indebtedness to the Bank on substantially similar terms.
- "SUBORDINATION AGREEMENT" is used as defined in Section 4(c).
- "SUBSIDIARY" means any corporation, partnership, joint venture or other business entity over which the Company owns, directly or indirectly fifty-one percent (51%) or more of the equity of such entity having ordinary voting power to elect a majority of the board of directors.
- "T-BILL RATE" means the sum of the 5-Year T-Bill Rate plus two and three-quarters percent (2-3/4%) per annum.
- "5-YEAR T-BILL RATE" means the 5-Year T-Bill Rate as published in the "Money Section" of the WALL STREET JOURNAL (MidWest Edition) two (2) Banking Days prior to the first day of Capital Expenditure Term Loan.
- "TANGIBLE CAPITAL BASE" means the shareholders' equity of the Company less any recorded goodwill, patents, trademarks, trade secrets, and any other assets which would be classified as intangible assets under generally

accepted accounting principles, plus the principal amount of the Company's Subordinated Debt.

- "UNMATURED EVENT OF DEFAULT" means any event specified in Section 8, which is not initially an Event of Default, but which would, if uncured, become an Event of Default with the giving of notice or the passage of time or both.
- "WAREHOUSE" is used as defined in the definition of Eligible Inventory.

SECTION 2. THE LOANS. Subject to all of the terms and conditions of this Agreement, the Bank will make the Loans described in this Section to the Company.

- a. THE REVOLVING LOAN. The Bank will make a revolving loan to the Company on the following terms and subject to the following conditions:
 - (i) THE COMMITMENT -- USE OF PROCEEDS. From the date of this Agreement and until the Revolving Loan Maturity Date, the Bank agrees to make Advances (collectively, the "Revolving1 Loan") under a revolving line of credit from time to time to the Company of amounts not exceeding in the aggregate at any time outstanding the lesser of Three Million and 00/100 Dollars (\$3,000,000.00) (the "Commitment") or the Borrowing Base, provided that all of the conditions of lending stated in Section 7 of this Agreement as being applicable to the Revolving Loan have been fulfilled at the time of each Advance. Proceeds of the Revolving Loan may be used by the Company only for working capital purposes.
 - (ii) METHOD OF BORROWING. The obligation of the Company to repay the Revolving Loan shall be evidenced by a promissory note (the "Revolving Note") of the Company in the form of EXHIBIT "A" attached hereto. So long as no Event of Default or Unmatured Event of Default shall have occurred and be continuing and until the Revolving Loan Maturity Date, the Company may borrow,

repay and reborrow (subject to the "annual cleanup requirements set forth in Section 5(j)) under the Revolving Note on any Banking Day; provided, that no borrowing may cause the principal balance of the Loan to exceed the lesser of the Commitment or the Borrowing Base or may result in an Event of Default or an Unmatured Event of Default, and provided further, that the Company may receive the proceeds of only one Advance per Banking Day. Each Advance under the Revolving Loan shall be conditioned upon receipt by the Bank from the Company of a Borrowing Base Certificate completed as of the date of the request. The Bank shall make a disbursement upon the oral request of the Company made by an Authorized Officer, or upon a request transmitted to the Bank by telephone facsimile ("fax") machine, or by any other form of written electronic communication (all such requests for Advances being hereafter referred to as "Informal Requests"). In so doing, the Bank may rely on any Informal Request which shall have been received by it in good faith from a person reasonably believed to be an Authorized Officer. Upon making each Informal Request, the Company shall promptly deliver to the Bank a Borrowing Base Certificate completed as of the date of such Informal Request, and shall in and of itself constitute the representation of the Company that no Event of Default or Unmatured Event of Default has occurred and is continuing or would result from the making of the requested Advance, and that the making of the requested Advance shall not cause the principal balance of the Revolving Loan to exceed the lesser of the Commitment or the Borrowing Base. All borrowings and reborrowings and all repayments shall be in amounts of not less than One Thousand Dollars (\$1,000.00), except for repayment

of the entire principal balance of the Revolving Loan and except for special prepayments of principal required under the terms of Section 2(a)(v). Upon receipt of a request for an Advance, a Borrowing Base Certificate, and upon compliance with any other conditions of lending stated in Section 7 of this Agreement applicable to the Revolving Loan, the Bank shall disburse the amount of the requested Advance to the Company. All Advances by the Bank and payments by the Company shall be recorded by the Bank on its books and records, and the principal amount outstanding from time to time, plus interest payable thereon, shall be determined by reference to the books and records of the Bank. The Bank's books and records shall be presumed PRIMA FACIE to be correct as to such matters.

- (iii) INTEREST ON THE REVOLVING LOAN. The principal amount of the Revolving Loan outstanding from time to time shall bear interest until maturity of the Revolving Note at a rate per annum equal to the Prime Rate plus three-quarters percent (3/4%). After maturity, whether on the Revolving Loan Maturity Date or on account of acceleration upon the occurrence of an Event of Default, and until paid in full, the Revolving Loan shall bear interest at a per annum rate equal to the Prime Rate plus four and three-quarters percent (4-3/4%). Accrued interest shall be due and payable monthly on the last Banking Day of each month prior to maturity. After maturity, interest shall be payable as accrued and without demand.
- (iv) EXTENSIONS OF REVOLVING LOAN MATURITY DATE. The Bank may, upon the request of the Company, but at the Bank's sole discretion, extend the Revolving Loan Maturity Date from time to time to such date or dates as the Bank may elect by notice in writing to

the Company, and upon any such extension and upon execution and delivery by the Company of a Revolving Note reflecting the extended maturity date, the date to which the Commitment is then extended will become the "Revolving Loan Maturity Date" for purposes of this Agreement.

- (v) SPECIAL REPAYMENTS OF PRINCIPAL. At any time the principal balance of the Revolving Loan exceeds the Borrowing Base, as determined on the basis of the most recent Borrowing Base Certificate furnished by the Company or as determined by the Bank upon an inspection of the books and records of the Company, the Company shall immediately repay that portion of the principal balance of the Revolving Loan which is in excess of the Borrowing Base. Such repayment shall be due without demand.

b. THE CAPITAL EXPENDITURE LINE OF CREDIT. The Bank will make a Capital Expenditure Line of Credit to the Company on the following terms and subject to the following conditions:

- (i) THE CAPITAL EXPENDITURE LINE OF CREDIT COMMITMENT -- USE OF PROCEEDS. From the date of this Agreement and until the Capital Expenditure Line of Credit Maturity Date, the Bank agrees to make Advances (collectively, the "Capital Expenditure Line of Credit") from time to time to the Company of amounts not exceeding in the aggregate during the term of the Capital Expenditure Line of Credit the amount of One Million and 00/100 Dollars (\$1,000,000.00) (the "Capital Expenditure Line of Credit Commitment"); provided, that all of the conditions of lending stated in Section 7 of this Agreement as being applicable to the Capital Expenditure Line of Credit have been fulfilled at the time of each Advance; and provided further, that no Advance of the Capital Expenditure Line of Credit shall exceed one hundred

percent (100%) of the amount of the invoice evidencing the cost to the Company of each piece of equipment (including without limitation, freight and installation costs and expenses, and taxes, all as evidenced on the invoice) purchased with proceeds of the Loan. Proceeds of the Capital Expenditure Line of Credit may be used by the Company only for capital expenditures.

- (ii) METHOD OF BORROWING. The obligation of the Company to repay the Capital Expenditure Line of Credit shall be evidenced by a promissory note (the "Capital Expenditure Line of Credit Note") of the Company in the form of EXHIBIT "B" attached hereto. So long as no Event of Default or Unmatured Event of Default shall have occurred and be continuing and until the Capital Expenditure Line of Credit Maturity Date, the Company may borrow under the Capital Expenditure Line of Credit Note on any Banking Day; provided, that no borrowing may cause the principal amount of the Loan disbursed to the Company during the term of the Loan to exceed in the aggregate the Capital Expenditure Line of Credit Commitment or may result in an Event of Default or an Unmatured Event of Default. Each Advance under the Capital Expenditure Line of Credit shall be conditioned upon receipt by the Bank from the Company of a copy of the invoice for the equipment to be purchased with the proceeds of the Advance. The Bank shall make a disbursement upon receipt of an Informal Request. In so doing, the Bank may rely on any Informal Request which shall have been received by it in good faith from a person reasonably believed to be an Authorized Officer. Upon making each Informal Request, the Company shall promptly deliver to the Bank an invoice for the equipment to be purchased with proceeds of the Advance, and shall in and of itself constitute the representation

of the Company that no Event of Default or Unmatured Event of Default has occurred and is continuing or would result from the making of the requested Advance and that the making of the requested Advance shall not cause the aggregate principal amount disbursed under of the Capital Expenditure Line of Credit to exceed the Capital Expenditure Line of Credit Commitment. All borrowings and all repayments shall be in amounts of not less than One Thousand Dollars (\$1,000.00), except for repayment of the entire principal balance of the Capital Expenditure Line of Credit. Upon receipt of receipt of a request for an Advance and the associated invoice or invoices, and upon compliance with any other conditions of lending stated in Section 7 of this Agreement applicable to the Capital Expenditure Line of Credit, the Bank shall disburse the amount of the requested Advance to the Company. All Advances by the Bank and payments by the Company shall be recorded by the Bank on its books and records, and the principal amount outstanding from time to time, plus interest payable thereon, shall be determined by reference to the books and records of the Bank. The Bank's books and records shall be presumed PRIMA FACIE to be correct as to such matters.

- (iii) INTEREST ON THE CAPITAL EXPENDITURE LINE OF CREDIT. The principal amount of the Capital Expenditure Line of Credit outstanding from time to time shall bear interest until maturity of the Capital Expenditure Line of Credit Note at a rate per annum equal to the Prime Rate plus three-quarters percent (3/4%). After maturity, whether on the Capital Expenditure Line of Credit Maturity Date or on account of acceleration upon the occurrence of an Event of Default, and until paid in full, the Capital Expenditure Line of Credit shall bear interest at a per annum rate equal to the Prime

Rate plus four and three-quarters percent (4-3/4%). Accrued interest shall be due and payable monthly on the last Banking Day of each month prior to maturity. After maturity, interest shall be payable as accrued and without demand.

(iv) EXTENSIONS OF CAPITAL EXPENDITURE LINE OF CREDIT MATURITY DATE. The Bank may, upon the request of the Company, but at the Bank's sole discretion, extend the Capital Expenditure Line of Credit Maturity Date from time to time to such date or dates as the Bank may elect by notice in writing to the Company, and upon any such extension and upon execution and delivery by the Company of a Capital Expenditure Line of Credit Note reflecting the extended maturity date, the date to which the Capital Expenditure Line of Credit Commitment is then extended will become the "Capital Expenditure Line of Credit Maturity Date" for purposes of this Agreement.

c. THE CAPITAL EXPENDITURE TERM LOAN. The Bank will make a Capital Expenditure Term Loan (the "Capital Expenditure Term Loan") to the Company on the Capital Expenditure Line of Credit Maturity Date on the following terms and subject to the following conditions:

(i) AMOUNT. The principal amount of the Capital Expenditure Term Loan shall be equal to the lesser of One Million and 00/100 Dollars (\$1,000,000.00), or the amount of the aggregate principal amount of the Capital Expenditure Line of Credit outstanding on the Capital Expenditure Line of Credit Maturity Date.

(ii) THE CAPITAL EXPENDITURE TERM NOTE. The obligation of the Company to repay the Capital Expenditure Term Loan shall be evidenced by a promissory note (the "Capital Expenditure Term Note") in the form of EXHIBIT "C" attached hereto. Principal and interest of the Capital Expenditure Term Loan shall be repayable

in equal monthly installments, each of which shall be equal to one-fourty-eighth (1/48th) of the sum of the initial principal amount of the Capital Expenditure Line of Credit outstanding on the Capital Expenditure Line of Credit Maturity Date plus interest calculated at the rate provided in Section 2(c)(iii) herein for the entire scheduled term of the Capital Expenditure Term Loan , which monthly payments shall be due commencing on the last Banking Day of the month in which the Capital Expenditure Term Loan is made, and continuing thereafter on the last Banking Day of each month thereafter until the fourth anniversary of the making of the Capital Expenditure Term Loan, on which date the entire principal balance of the Capital Expenditure Term Loan shall be due and payable together with all accrued and unpaid interest. The principal of the Capital Expenditure Term Loan may be prepaid at any time in whole or in part without premium or penalty, provided that: (A) any partial prepayment shall be in an amount which is an integral multiple of \$1,000.00, and (B) all partial prepayments shall be applied to the latest maturing scheduled installments of principal in inverse order of maturity.

- (iii) INTEREST ON THE CAPITAL EXPENDITURE TERM LOAN. The unpaid principal balance from time to time of the Capital Expenditure Term Loan shall bear interest from the date the Loan is made prior to the maturity of the Capital Expenditure Term Note at a rate per annum equal to the T-Bill Rate. After maturity, whether scheduled maturity or maturity by virtue of acceleration on account of the occurrence of an Event of Default, interest will accrue on the Capital Expenditure Term Loan at a rate per annum equal to the T-Bill Rate plus four percent (4%). Prior to maturity, interest shall be due and payable on the last Banking Day of each

month together with payment of principal due on such dates as provided in Section 2(c)(ii) above. After maturity, interest shall be payable as accrued and without demand.

- (iv) USE OF PROCEEDS OF THE CAPITAL EXPENDITURE TERM LOAN. The proceeds of the Capital Expenditure Term Loan shall be used in their entirety to refinance the Capital Expenditure Line of Credit on the Capital Expenditure Line of Credit Maturity Date.

d. PROVISIONS APPLICABLE TO ALL OF THE LOANS. The following provisions are applicable to both of the Loans:

- (i) CALCULATION OF INTEREST. Interest on the Loans shall be calculated by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding.
- (ii) MANNER OF PAYMENT - APPLICATION. All payments of principal and interest on the Loans shall be payable at the principal office of the Bank in Indianapolis, Indiana, in funds available for the Bank's immediate use in that city and no payment will be considered to have been made until received in such funds. All payments received on account of each Loan will be applied first to the satisfaction of any interest which is then due and payable on account of such Loan, and to principal only after all interest which is due and payable has been satisfied.
- (iii) COMMITMENT FEE. The Bank acknowledges receipt from the Company of the sum of \$5,000.00, either previous to or contemporaneously with the execution of this Agreement, as a fee for the Bank's commitment to make the Loans.
- (iv) AUTOMATIC DEBIT. Upon prior notice to the Company, the Bank may debit when due all payments of principal and interest due under

the terms of this Agreement to any deposit account of the Company carried with the Bank without further authority.

- (v) PREPAYMENT. The Loans may be prepaid at any time in whole or in part without penalty or premium.

SECTION 3. REPRESENTATIONS AND WARRANTIES. To induce the Bank to make the Loans, the Company represents and warrants to the Bank that:

- a. ORGANIZATION OF THE COMPANY. The Company is a corporation organized, existing and in good standing under the laws of the State of Delaware. The Company is qualified to do business in every jurisdiction in which: (i) the nature of the business conducted or the character or location of properties owned or leased, or the residences or activities of employees make such qualification necessary, and (ii) failure so to qualify might impair the title of the Company to material properties or the Company's right to enforce material contracts or result in exposure of the Company to liability for material penalties in such jurisdiction. No jurisdiction in which the Company is not qualified to do business has asserted in writing that the Company is required to be qualified therein. The principal office of the Company is located at 306 North Main Street, Monticello, Indiana 47960. The Company does not conduct any material operations or keep any material amounts of property at any other location, except the Warehouses. The Company has not done business under any name other than its present corporate name at any time during the six years preceding the date of this Agreement except for the names "Fielder's Choice Direct," "Fielder's Choice," and "Williams & Sun, Inc."
- b. AUTHORIZATION; NO CONFLICT. The execution and delivery of this Agreement, the borrowings hereunder, the execution and delivery of all of the other Loan Documents and the performance by the Company of its obligations under this Agreement and all of the other Loan Documents are within the Company's corporate powers, have been duly authorized by all necessary

corporate action, have received any required governmental or regulatory agency approvals and do not and will not contravene or conflict with any provision of law or of the Articles of Incorporation or ByLaws of the Company or of any agreement binding upon the Company or its properties.

- c. **VALIDITY AND BINDING NATURE.** This Agreement and all of the other Loan Documents are the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws enacted for the relief of debtors generally and other similar laws affecting the enforcement of creditors' rights generally or by equitable principles which may affect the availability of specific performance and other equitable remedies.
- d. **FINANCIAL STATEMENTS.** The Company has delivered to the Bank the audited financial statements of Landec (which includes the Company as a separate segment) as of October 31, 1999, and for the fiscal year of Landec then ended and its unaudited interim financial statements as of March 31, 2000, and for the month and partial fiscal year then ended. Such statements have been prepared in accordance with generally accepted accounting principles consistently applied except, as to the interim statements, for the absence of a statement of cash flows, footnotes and adjustments normally made at year end which are not material in amount. Such statements present fairly the financial position of the Company as of the dates thereof and the results of its operations for the periods covered and since the date of the latest of such statements there has been no material adverse change in the financial position of the Company or in the results of its operations.
- e. **LITIGATION AND CONTINGENT LIABILITIES.** No litigation, arbitration proceedings or governmental proceedings are pending or to the Company's knowledge threatened against the Company which would, if adversely

determined, materially and adversely affect its financial position or continued operations. The Company has no material contingent liabilities not provided for or disclosed in the financial statements referred to in Section 3(d) or in the "Schedule of Exceptions" attached as EXHIBIT "D."

- f. LIENS. None of the assets of the Company are subject to any mortgage, pledge, title retention lien, or other lien, encumbrance or security interest except for liens and security interests described in the exceptions enumerated in Section 6(b).
- g. EMPLOYEE BENEFIT PLANS. Each Plan maintained by the Company is in material compliance with ERISA, the Code, and all applicable rules and regulations adopted by regulatory authorities pursuant thereto, and the Company has filed all reports and returns required to be filed by ERISA, the Code and such rules and regulations. No Plan maintained by the Company and no trust created under any such Plan has incurred any "accumulated funding deficiency" within the meaning of Section 412(c)(1) of the Code, and the present value of all benefits vested under each Plan did not exceed, as of the last annual valuation date, the value of the assets of the respective Plans allocable to such vested benefits. The Company has no knowledge that any "reportable event" as defined in ERISA has occurred with respect to any Plan.
- h. PAYMENT OF TAXES. The Company has filed all federal, state and local tax returns and tax related reports which the Company is required to file by any statute or regulation and all taxes and any tax related interest payments and penalties that are due and payable have been paid, except for such as are being contested in good faith and by appropriate proceedings and as to which appropriate reserves have been established. Adequate provision has been made for the payment when due of all tax liabilities which have been incurred, but are not as yet due and payable.

- i. INVESTMENT COMPANY ACT. The Company is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
- j. REGULATION U AND OTHER FEDERAL REGULATIONS. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System. Not more than twenty-five percent (25%) of the assets of the Company consists of margin stock, within the contemplation of Regulation U, as amended. No portion of any Loan made hereunder shall be used directly or indirectly to purchase ineligible securities, as defined by applicable regulations of the Federal Reserve Board, underwritten by any affiliate of the Bank during the underwriting period and for thirty (30) days thereafter.
- k. HAZARDOUS SUBSTANCES. Except as disclosed on the "Schedule of Exceptions" attached as EXHIBIT "D", to the knowledge of the Company after reasonable inquiry and investigation; (i) there are no underground storage tanks of any kind on any premises owned or occupied by or under lease to the Company; (ii) there are no tanks, drums or other containers of any kind on premises owned or occupied by or under lease to the Company, the contents of which are unknown to the Company; (iii) no premises owned or occupied by or under lease to the Company have ever been used, and as of the date of this Agreement, no such premises are being used for any activities involving the use, treatment, transportation, generation, storage or disposal of any Hazardous Substances in reportable quantities, and (iv) no Hazardous Substances in reportable quantities have been released on any such premises nor is there any threat of release of any Hazardous Substances in reportable quantities on any such premises.

- l. SUBSIDIARIES. The Company has no Subsidiaries as of the date of this Agreement.
- m. ORGANIZATION OF LANDEC. Landec is a corporation organized, existing and in good standing under the laws of the State of California. Landec is qualified to do business in every jurisdiction in which: (i) the nature of the business conducted or the character or location of properties owned or leased, or the residences or activities of employees make such qualification necessary, and (ii) failure so to qualify might impair the title of Landec's material properties or Landec's right to enforce material contracts or result in exposure of Landec to liability for material penalties in such jurisdiction. No jurisdiction in which Landec is not qualified to do business has asserted in writing that Landec is required to be qualified therein. The principal office of Landec is located at 3603 Haven Avenue, Menlo Park, California 94025-1010. Landec does not conduct any material operations or keep any material amounts of property at any other location, except at the principal office of its subsidiary, Apio, Inc. located at 4575 West Main, Guadalupe, California 93434 and 41646 Road 62, Reedly, California 93654, and its subsidiary Dock Resins Corporation at 1512 West Elizabeth Avenue, Linden, New Jersey 07036. Landec has not done business under any name other than its present corporate name at any time during the six years preceding the date of this Agreement.
- n. LANDEC AUTHORIZATION; NO CONFLICT. The execution and delivery of the Guaranty and the performance thereunder, and the execution and delivery of all of the other Loan Documents to which Landec is a party and the performance by Landec of its obligations under the Guaranty and all of the other Loan Documents to which Landec is a party are within Landec's corporate powers, have been duly authorized by all necessary corporate action, have received any required governmental or regulatory agency approvals and do not and will not contravene or conflict with any provision

of law or of the Articles of Incorporation or ByLaws of Landec or of any agreement binding upon Landec or its properties.

- o. LANDEC VALIDITY AND BINDING NATURE. The Guaranty and all of the other Loan Documents to which Landec is a party are the legal, valid and binding obligations of Landec, enforceable against Landec in accordance with their respective terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws enacted for the relief of debtors generally and other similar laws affecting the enforcement of creditors' rights generally or by equitable principles which may affect the availability of specific performance and other equitable remedies.

SECTION 4. COLLATERAL FOR THE OBLIGATIONS. The Obligations shall be secured and supported as provided in this Section.

- a. SECURITY AGREEMENT. The Obligations shall be secured by a security interest in all equipment, inventory, accounts receivable, chattel paper and general intangibles of the Company now owned and hereafter acquired and in the proceeds thereof, which security interest will be created by a Security Agreement (the "Security Agreement") in the form attached as EXHIBIT "E." The Security Agreement will provide a security interest in the collateral described therein subject only to liens and security interests described in the exceptions enumerated in Section 6(b).
- b. MORTGAGE. The Obligations will further be secured by the mortgage lien and security interests created by a Mortgage, Security Agreement, Assignment of Rents and Fixture Filing (the "Mortgage") on the real estate in White County, Indiana, owned by the Company and commonly known as 306 North Main Street, Monticello, Indiana 47960, (referred to in this Section as the "Real Estate"). The Real Estate is more particularly described in the form of the Mortgage which is attached as EXHIBIT "F." In

support of the Mortgage, the Company shall provide to the Bank at the Bank's expense the following documentation:

- (i) TITLE SEARCH. The Bank shall obtain a title search which shall show no liens or encumbrances on the Real Estate other than (i) the Bank's Mortgage, if recorded at the time such search is conducted, (ii) standard exceptions as to rights of parties in possession and matters which would be disclosed by survey which do not materially and adversely affect the value or marketability of the Real Estate or the usefulness of the Real Estate in the operations of the Company, (iii) easements not shown by the public records and mechanic's liens not shown by the public records, and (iv) those liens described in the exceptions enumerated in Section 6(b).
 - (ii) FLOOD HAZARD DETERMINATION FORM. The Bank shall obtain the completion of a Flood Hazard Determination Form from a registered land surveyor or engineer pursuant to the requirements of the Office of the Comptroller of the Currency and the Federal Emergency Management Agency. If such form shows that the Real Estate is in a flood plain, the Company shall be required to obtain flood hazard insurance as required by the Office of the Comptroller of the Currency in order to close the Loans.
- c. SUBORDINATION AGREEMENT. The indebtedness of the Company to Landec in an amount not less than \$7,000,000 shall be subordinated to the indebtedness of the Company to the Bank under the terms of a Subordination Agreement (the "Subordination Agreement") in the form of EXHIBIT "G" attached hereto. The Subordination Agreement shall not allow payments of principal to be made by Landec unless the Company is in compliance with the following financial covenants:

- (i) RATIO OF LIABILITIES TO TANGIBLE CAPITAL BASE. The Company shall maintain at all times the ratio of its total liabilities less Subordinated Debt to its Tangible Capital Base at a level not greater than 2.00 to 1.00. For purposes of testing compliance with this covenant, the term "liabilities" shall include the present value of all capital lease obligations of the Company, determined as of any date the ratio is to be tested.
 - (ii) CASH FLOW COVERAGE RATIO. Semiannually on a year-to-date basis measured as of the end of each April and October, the Company shall maintain a cash flow coverage ratio of not less than 1.50 to 1.00. For purposes of this covenant, the phrase "cash flow coverage ratio" means the ratio of: (A) the Company's EBITDA over (B) the sum of the principal paid plus interest expense.
- d. GUARANTY AGREEMENT. The Obligations shall be supported by the unconditional guaranty of prompt payment of Landec, which guaranty shall be evidenced by a Guaranty Agreement (the "Guaranty Agreement") in the form of EXHIBIT "H."
- e. ASSIGNMENT OF LICENSING AGREEMENT. The Obligations shall further be secured by an assignment by the Company to the Bank of all of the Company's rights, title, and interest in the Licensing Agreements entered into between the Company and Landec which assignment shall be evidenced by the Collateral Assignment of Licensing Agreement (the "Assignment of Licensing Agreement") in the form attached hereto as EXHIBIT "I."
- f. INTERCREDITOR AGREEMENT. The Bank and Fifth Third Bank, Indiana shall enter into an Intercreditor Agreement substantially in the form of EXHIBIT "J" attached hereto (the "Intercreditor Agreement") setting forth terms

which, among other things, provide for the acknowledgment by Fifth Third Bank, Indiana, as lender to Hubner, of the first priority lien rights of the Bank in the Eligible Inventory.

SECTION 5. AFFIRMATIVE COVENANTS OF THE COMPANY. Until all Obligations of the Company terminate or are paid and satisfied in full, and so long as the Commitment or the Capital Expenditure Line of Credit Commitment is outstanding, the Company shall strictly observe the following covenants.

- a. CORPORATE EXISTENCE. The Company shall preserve its corporate existence, and shall cause Landec to preserve its corporate existence.
- b. REPORTS, CERTIFICATES AND OTHER INFORMATION. The Company shall furnish to the Bank copies of the following financial statements, certificates and other information:
 - (i) ANNUAL STATEMENTS. As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year, the consolidated and consolidating financial statements of Landec, which shall have a segment broken out for the Company, for such fiscal year prepared and presented in accordance with generally accepted accounting principles, consistently applied (except for changes in which the independent accountants of Landec concur) in each case setting forth in comparative form corresponding figures for the preceding fiscal year for Landec and for the Company, together with the audit report, unqualified as to scope, of independent certified public accountants approved by the Bank, which approval shall not be unreasonably withheld, together with the management letter, if any, issued by such independent certified public accountants.
 - (ii) INTERIM STATEMENTS. As soon as available and in any event within thirty (30) days after the end of each month, a copy of the interim financial statements of the Company, consisting at a minimum of:

- A. the balance sheet as of the end of the month, and
- B. a statement of income for the month and for the partial or full fiscal year ended as of the end of the month,

all in reasonable detail and accompanied by the written representation of the chief financial officer of the Company that such financial statements have been prepared in accordance with generally accepted accounting principles (except that they need not include a statement of cash flows and footnotes and need not reflect adjustments normally made at year end, if such adjustments are not material in amount), consistently applied, (except for changes in which the independent accountants of the Company concur) and present fairly the financial position of the Company and the results of its operation as of the dates of such statements and for the fiscal periods then ended.

- (iii) **GUARANTOR'S FINANCIAL STATEMENTS.** The Company shall provide the Bank within one hundred twenty (120) days after the close of each fiscal year with a copy of Landec's Form 10-K. Within forty-five (45) days after the end of each of Landec's fiscal quarters, the Company shall provide to the Bank a copy of Landec's Form 10-Q.
- (iv) **BORROWING BASE CERTIFICATES.** At the time of each request for an Advance of the Revolving Loan, within thirty (30) days after the end of each month, a Borrowing Base Certificate as of the date of the Advance or such month end, as applicable, and promptly as of such other dates as the Bank may reasonably require.
- (v) **ORDERS.** Prompt notice of any orders in any material proceedings to which the Company is a party, issued by any court or regulatory agency, federal or state, and if the Bank should so request, a copy of any such order.

- (vi) NOTICE OF DEFAULT OR LITIGATION. Immediately upon learning of the occurrence of an Event of Default or Unmatured Event of Default, or the institution of or any adverse determination in any litigation, arbitration proceeding or governmental proceeding which is material to the Company, or the occurrence of any event which could have a material adverse effect upon the Company, written notice thereof describing the same and the steps being taken with respect thereto.
 - (vii) REGISTRATION STATEMENTS AND REPORTS. Within five (5) Banking Days of the filing by the Company or Landec with the Securities and Exchange Commission or any state securities regulatory authority, complete copies of all registration statements or periodic and special reports filed under federal or state securities laws and regulations.
 - (viii) OTHER INFORMATION. From time to time such other information concerning the Company or Landec as the Bank may reasonably request.
- c. BOOKS, RECORDS AND INSPECTIONS. The Company shall maintain complete and accurate books and records. The Company shall permit the Bank to inspect such books and records for purposes of copying and audit, and inspect its properties and operations, upon reasonable notice and all at reasonable times during normal business hours; provided, however, that unless there is an Event of Default or Unmatured Event of Default, the Bank shall not perform more than three (3) such inspections per year.
- d. INSURANCE. In addition to any insurance required by the Mortgage and the Security Agreement, the Company shall maintain such insurance as may be required by law and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated. The Company agrees to name the Bank as additional

loss payee on any such insurance policy under a standard lender's loss payable clause and to provide a copy of any such policy to the Bank.

- e. TAXES AND LIABILITIES. The Company shall pay when due all taxes, license fees, assessments and other liabilities except such as are being contested in good faith and by appropriate proceedings and for which appropriate reserves have been established.
- f. COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS. The Company shall maintain material compliance with the applicable provisions of all federal, state and local statutes, ordinances and regulations and any court orders or orders of regulatory authorities issued thereunder.
- g. PRIMARY BANKING RELATIONSHIP. The Company shall maintain its primary concentration and depository accounts with the Bank.
- h. EMPLOYEE BENEFIT PLANS. The Company shall maintain and shall cause any Subsidiary to maintain any Plan in material compliance with ERISA, the Code, and all rules and regulations of regulatory authorities pursuant thereto and shall file and shall cause any Subsidiary to file all reports required to be filed pursuant to ERISA, the Code, and such rules and regulations.
- i. HAZARDOUS SUBSTANCES. If the Company or any Subsidiary should commence the use, treatment, transportation, generation, storage or disposal of any Hazardous Substance in reportable quantities in its operations in addition to those noted in EXHIBIT "D", the Company shall immediately notify the Bank of the commencement of such activity with respect to each such Hazardous Substance. The Company shall cause any Hazardous Substances which are now or may hereafter be used or generated in the operations of the Company or any Subsidiary in reportable quantities to be accounted for and disposed of in compliance with all applicable federal, state and local laws and regulations. The Company shall notify the Bank immediately upon obtaining actual knowledge that:

- (i) any premises which have at any time been owned or occupied by or have been under lease to the Company or any Subsidiary are the subject of an environmental investigation by any federal, state or local governmental agency having jurisdiction over the regulation of any Hazardous Substances, the purpose of which investigation is to quantify the levels of Hazardous Substances located on such premises, or
- (ii) the Company or any Subsidiary has been named or is threatened to be named as a party responsible for the possible contamination of any real property or ground water with Hazardous Substances, including, but not limited to the contamination of past and present waste disposal sites.

If the Company or any Subsidiary is notified of any event described at items (i) or (ii) above, the Company shall immediately engage or cause the Subsidiary to engage a firm or firms of engineers or environmental consultants appropriately qualified to determine as quickly as practical the extent of contamination and the potential financial liability of the Company or the Subsidiary with respect thereto, and the Bank shall be provided with a copy of any report prepared by such firm or by any governmental agency as to such matters as soon as any such report becomes available to the Company, and Company shall immediately take appropriate steps to establish reserves in the amount of the potential financial liability of the Company or the Subsidiary identified by such environmental consultants or engineers. The selection of any engineers or environmental consultants engaged pursuant to the requirements of this Section shall be subject to the approval of the Bank, which approval shall not be unreasonably withheld.

- j. ANNUAL CLEANUP. The outstanding principal balance of the Revolving Loan shall be \$0 for a period of thirty (30) consecutive days in each fiscal year of the Company.

SECTION 6. NEGATIVE COVENANTS OF THE COMPANY. Until all Obligations of the Company terminate or are paid and satisfied in full, and so long as the Commitment or the Capital Expenditure Line of Credit Commitment is outstanding, the Company shall strictly observe the following covenants.

- a. RESTRICTED PAYMENTS. The Company shall not purchase or redeem any shares of the capital stock of the Company or declare or pay any dividends thereon except for dividends payable entirely in capital stock, and the Company shall not make any other distributions to shareholders as shareholders, or set aside any funds for any such purpose, or prepay, purchase or redeem any Subordinated Debt of the Company; provided, however, that notwithstanding the foregoing, such distributions, redemptions, dividends and payments (each hereinafter called a "Shareholder Payment") may be made at any time that no Event of Default or Unmatured Event of Default exists at the time of the making of such Shareholder Payment or would result from the making thereof, and upon compliance with the following financial covenants at the time of the making of such Shareholder Payments:

- (i) RATIO OF LIABILITIES TO TANGIBLE CAPITAL BASE. The Company shall maintain at all times the ratio of its total liabilities less Subordinated Debt to its Tangible Capital Base at a level not greater than 2.00 to 1.00. For purposes of testing compliance with this covenant, the term "liabilities" shall include the present value of all capital lease obligations of the Company, determined as of any date the ratio is to be tested.

- (ii) CASH FLOW COVERAGE RATIO. Semiannually on a year-to-date basis measured at the end of each April and October, the Company shall maintain a cash flow coverage ratio of not less than 1.50 to 1.00. For purposes of this covenant, the phrase "cash flow coverage ratio" means the ratio of: (A) the Company's EBITDA over (B) the sum of the principal paid plus interest expense.
- b. LIENS. The Company shall not create or permit to exist any mortgage, pledge, title retention lien or other lien, encumbrance or security interest (all of which are hereafter referred to in this subsection as a "lien" or "liens") with respect to any property or assets now owned or hereafter acquired except:
 - (i) liens in favor of the Bank created pursuant to the requirements of this Agreement or otherwise;
 - (ii) any lien or deposit with any governmental agency required or permitted to qualify the Company to conduct business or exercise any privilege, franchise or license, or to maintain self-insurance or to obtain the benefits of or secure obligations under any law pertaining to worker's compensation, unemployment insurance, old age pensions, social security or similar matters, or to obtain any stay or discharge in any legal or administrative proceedings, or any similar lien or deposit arising in the ordinary course of business;
 - (iii) any mechanic's, worker's, repairmen's, carrier's, warehousemen's or other like liens arising in the ordinary course of business for amounts not yet due and for the payment of which adequate reserves have been established, or deposits made to obtain the release of such liens;

- (iv) easements, licenses, minor irregularities in title or minor encumbrances on or over any real property which do not, in the judgment of the Bank, materially detract from the value of such property or its marketability or its usefulness in the business of the Company;
 - (v) liens for taxes and governmental charges which are not yet due or which are being contested in good faith and by appropriate proceedings and for which appropriate reserves have been established;
 - (vi) liens created by or resulting from any litigation or legal proceeding which is being contested in good faith and by appropriate proceedings and for which appropriate reserves have been established;
 - (vii) liens securing indebtedness not exceeding \$100,000.00 in the aggregate, provided such liens are subordinated at all times to liens in favor of the Bank securing the Obligations; and
 - (viii) those specific liens now existing described on the "Schedule of Exceptions" attached as EXHIBIT "D."
- c. GUARANTIES. The Company shall not be a guarantor or surety of, or otherwise be responsible in any manner with respect to any undertaking of any other person or entity, whether by guaranty agreement or by agreement to purchase any obligations, stock, assets, goods or services, or to supply or advance any funds, assets, goods or services, or otherwise, except for:
- (i) guaranties in favor of the Bank;
 - (ii) guaranties by endorsement of instruments for deposit made in the ordinary course of business; and
 - (iii) those specific existing guaranties listed in the "Schedule of Exceptions" attached as EXHIBIT "D."

- d. LOANS OR ADVANCES. The Company shall not make or permit to exist any loans or advances to any other person or entity, except for:
- (i) extensions of credit or credit accommodations to customers or vendors made by the Company in the ordinary course of its business as now conducted;
 - (ii) reasonable salary advances to non-executive employees, and other advances to agents and employees for anticipated expenses to be incurred on behalf of the Company in the course of discharging their assigned duties; and
 - (iii) the specific items listed in the "Schedule of Exceptions" attached as EXHIBIT "D."
- e. MERGERS, CONSOLIDATIONS, SALES, ACQUISITION OR FORMATION OF SUBSIDIARIES. The Company shall not be a party to any consolidation or to any merger and shall not purchase the capital stock of or otherwise acquire any equity interest in any other business entity without the prior written consent of the Bank which shall not be unreasonably withheld. The Company shall not acquire any material part of the assets of any other business entity, except in the ordinary course of business. The Company shall not sell, transfer, convey or lease all or any material part of its assets, except in the ordinary course of business, or sell or assign with or without recourse any receivables. The Company shall not cause to be created or otherwise acquire any Subsidiaries.
- f. MARGIN STOCK. The Company shall not use or cause or permit the proceeds of the Loans to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended from time to time.
- g. OTHER AGREEMENTS. The Company shall not enter into any agreement containing any provision which would be violated or breached in material

respect by the performance of its obligations under this Agreement or under any other Loan Document.

- h. JUDGMENTS. The Company shall not permit any uninsured judgment or monetary penalty rendered against it in any judicial or administrative proceeding to remain unsatisfied for a period in excess of forty-five (45) days unless such judgment or penalty is being contested in good faith by appropriate proceedings and execution upon such judgment has been stayed, and unless an appropriate reserve has been established with respect thereto.
- i. PRINCIPAL OFFICE. The Company shall not change the location of its principal office unless it gives not less than ten (10) days prior written notice of such change to the Bank.
- j. HAZARDOUS SUBSTANCES. The Company shall not allow or permit to continue the release or threatened release of any Hazardous Substance on any premises owned or occupied by or under lease to the Company or any Subsidiary.
- k. DEBT. The Company shall not incur nor permit to exist any indebtedness for borrowed money except:
 - (i) to the Bank;
 - (ii) indebtedness permitted to be secured under Section 6(b)(vii) herein; and
 - (iii) except for those existing obligations disclosed on the "Schedule of Exceptions" attached as EXHIBIT "D."

For purposes of this covenant, the phrase "indebtedness for borrowed money," shall be construed to include capital lease obligations.

SECTION 7. CONDITIONS OF LENDING. The obligation of the Bank to make any Advance and to make the Capital Expenditure Term Loan shall be subject to fulfillment of each of the following conditions precedent:

- a. NO DEFAULT. No Event of Default or Unmatured Event of Default shall have occurred and be continuing, and the representations and warranties of the Company contained in Section 3 shall be true and correct as of the date of this Agreement and as of the date of each Advance (except for representations and warranties expressly made as of a specific time and correct as of such date), except that after the date of this Agreement: (i) the representations contained in Section 3(d) will be construed so as to refer to the latest financial statements furnished to the Bank by the Company or Landec pursuant to the requirements of this Agreement, (ii) the representations contained in Section 3(k) (with respect to Hazardous Substances) will be construed so as to apply not only to the Company, but also to any Subsidiaries, (iii) the representation contained in Section 3(l) will be construed so as to except any Subsidiary which may hereafter be formed or acquired by the Company with the consent of the Bank, and (iv) all other representations will be construed to have been amended to conform with any changes of which the Bank shall previously have been given notice in writing by the Company.
- b. DOCUMENTS TO BE FURNISHED AT CLOSING. The Bank shall have received contemporaneously with the execution of this Agreement, the following, each duly executed, currently dated and in form and substance satisfactory to the Bank:
- (i) The Revolving Note, the Capital Expenditure Line of Credit, and the Capital Expenditure Term Note.
 - (ii) The Mortgage and requisite Uniform Commercial Code financing statements.
 - (iii) The Security Agreement and requisite Uniform Commercial Code financing statements.
 - (iv) The Subordination Agreement together with a photocopy of the Subordinated Note with the subordination legend thereon.

- (v) The Guaranty Agreement.
- (vi) The Collateral Assignment of Licensing Agreement together with complete copies of the Licensing Agreement.
- (vii) The Schedule of Exceptions.
- (viii) A certified copy of a Resolution of the Board of Directors of the Company authorizing the execution, delivery and performance, respectively, of this Agreement and the other Loan Documents provided for in this Agreement to which the Company is a party.
- (ix) A certificate of the Secretary of the Board of Directors of the Company certifying the names of the officer or officers authorized to sign this Agreement and the other Loan Documents provided for in this Agreement to which the Company is a party, together with a sample of the true signature of each such officer.
- (x) A copy of the file-marked Articles of Incorporation of the Company certified as complete and correct as of a recent date by the Secretary of State of Delaware, and a copy of the By-Laws of the Company, certified as complete and correct by the Secretary of the Board of Directors of the Company.
- (xi) A currently dated Certificate of Good Standing of the Company issued by the Secretary of State of Delaware.
- (xii) A currently dated Certificate of Existence of the Company issued by the Secretary of State of Indiana.
- (xiii) A certified copy of a Resolution of the Board of Directors of Landec authorizing the execution, delivery and performance, respectively, of the Guaranty, the Subordination Agreement, the Collateral Assignment of Licensing Agreement and the other Loan Documents provided for in this Agreement to which Landec is a party.

- (xiv) A certificate of the Secretary of the Board of Directors of Landec certifying the names of the officer or officers authorized to sign the Guaranty and the other Loan Documents provided for in this Agreement to which Landec is a party, together with a sample of the true signature of each such officer.
- (xv) A copy of the file-marked Articles of Incorporation of Landec certified as complete and correct as of a recent date by the Secretary of State of California, and a copy of the By-Laws of Landec, certified as complete and correct by the Secretary of the Board of Directors of Landec.
- (xvi) A currently dated Certificate of Good Standing of Landec issued by the Secretary of State of California.
- (xvii) A currently dated Certificate of Existence of Landec issued by the Secretary of State of Indiana.
- (xviii) The results of the title search required under the terms of Section 4(b)(i).
- (xix) Certificates evidencing the existence of all insurance required under the terms of this Agreement or any other Loan Documents.
- (xx) The commitment fee required under the terms of Section 2(d)(iii).
- (xxi) The Flood Hazard Determination Form required under the terms of Section 4(b)(ii).
- (xxii) A complete copy of the Ownership Acknowledgment Agreement and all amendments thereto, together with all lien waivers and UCC filings by creditors of Hubner.
- (xxiii) The Intercreditor Agreement.
- (xxiv) A complete copy of the Seed Agreement.
- (xxv) Such other documents as the Bank may reasonably require.
- (xxvi) Fees of legal counsel for the Bank incurred in connection with the drafting, negotiation, and execution of this Agreement.

SECTION 8. EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

- a. NONPAYMENT OF THE LOANS. Default in the payment, within five (5) Banking Days of being due, of any amount payable under the terms of either of the Notes, or otherwise payable to the Bank or any other holder of the Notes under the terms of this Agreement.
- b. NONPAYMENT OF OTHER INDEBTEDNESS FOR BORROWED MONEY. Default by the Company in the payment when due, whether by acceleration or otherwise, of any other material indebtedness for borrowed money, or default in the performance or observance of any obligation or condition with respect to any such other indebtedness if the effect of such default is to accelerate the maturity of such other indebtedness or to permit the holder or holders thereof, or any trustee or agent for such holders, to cause such indebtedness to become due and payable prior to its scheduled maturity, unless the Company is contesting the existence of such default in good faith and by appropriate proceedings.
- c. OTHER MATERIAL OBLIGATIONS. Subject to the expiration of any applicable grace period, default by the Company in the payment when due, or in the performance or observance of any material obligation of, or condition agreed to by the Company with respect to any material purchase or lease of goods, securities or services except only to the extent that the existence of any such default is being contested in good faith and by appropriate proceedings and that appropriate reserves have been established with respect thereto.
- d. BANKRUPTCY, INSOLVENCY, ETC. The Company admitting in writing its inability to pay its debts as they mature or an administrative or judicial order of dissolution or determination of insolvency being entered against the Company; or the Company applying for, consenting to, or acquiescing in the appointment of a trustee or receiver for the Company or any property

thereof, or the Company making a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee or receiver being appointed for the Company or for a substantial part of its property and not being discharged within forty-five (45) days; or any bankruptcy, reorganization, debt arrangement, or other proceeding under any bankruptcy or insolvency law, or any dissolution or liquidation proceeding being instituted by or against the Company, and, if involuntary, being consented to or acquiesced in by the Company or remaining for forty-five (45) days undismitted.

- e. **WARRANTIES AND REPRESENTATIONS.** Any warranty or representation made by the Company in this Agreement proving to have been false or misleading in any material respect when made, or any schedule, certificate, financial statement, report, notice, or other writing furnished by the Company to the Bank proving to have been false or misleading in any material respect when made or delivered.
- f. **VIOLATIONS OF NEGATIVE COVENANTS.** Failure by the Company to comply with or perform any covenant stated in Section 6 of this Agreement
- g. **NONCOMPLIANCE WITH OTHER PROVISIONS OF THIS AGREEMENT.** Failure of the Company to comply with or perform any covenant or other provision of this Agreement or to perform any other Obligation (which failure does not constitute an Event of Default under any of the preceding provisions of this Section 8) and continuance of such failure for forty-five (45) days after notice thereof to the Company from the Bank.

SECTION 9. EFFECT OF EVENT OF DEFAULT. If any Event of Default described in Section 8(d) shall occur, the maturity of the Loans shall immediately be accelerated and the Notes and the Loans evidenced thereby, and all other indebtedness and any other payment Obligations of the Company to the Bank shall become immediately due and payable, and the Commitment and the Capital Expenditure Line of Credit Commitment shall immediately terminate, all without notice of any kind.

When any other Event of Default has occurred and is continuing, the Bank or any other holder of the Notes may accelerate payment of the Loans and declare the Notes and all other payment Obligations due and payable, whereupon maturity of the Loans shall be accelerated and the Notes and the Loans evidenced thereby, and all other payment Obligations shall become immediately due and payable and the Commitment shall immediately terminate, all without notice of any kind. The Bank or such other holder shall promptly advise the Company of any such declaration, but failure to do so shall not impair the effect of such declaration. The remedies of the Bank specified in this Agreement or in any other Loan Document shall not be exclusive, and the Bank may avail itself of any other remedies provided by law as well as any equitable remedies available to the Bank.

SECTION 10. WAIVER -- AMENDMENTS. No delay on the part of the Bank, or any holder of the Notes in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or remedy preclude any other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to any of the provisions of this Agreement or the other Loan Documents or otherwise of the Obligations shall be effective unless such amendment, modification, waiver or consent is in writing and signed by the Bank.

SECTION 11. NOTICES. Any notice given under or with respect to this Agreement to the Company or the Bank shall be in writing and, if delivered by hand or sent by overnight courier service, shall be deemed to have been given when delivered and, if mailed, shall be deemed to have been given five (5) days after the date when sent by registered or certified mail, postage prepaid, and addressed to the Company or the Bank (or other holder of the Notes) at its address shown below, or at such other address as any such party may, by written notice to the other party to this Agreement, have designated as its address for such purpose. The addresses referred to are as follows:

As to the Company: Intellicoat Corporation
306 North Main Street
P.O. Box 898 (for mail)
Monticello, Indiana 47960
Attention: Michael E. Godlove, Chief
Financial Officer

As to the Bank: Old National Bank
101 West Ohio Street
Suite 1400
Indianapolis, Indiana 46204
Attention: John T. Travis, Vice President
and Senior Lender

with copy to: Madalyn S. Kinsey, Esquire
KROGER, GARDIS & REGAS
Bank One Center/Circle
Suite 900
111 Monument Circle
Indianapolis, Indiana 46204-5175

SECTION 12. COSTS, EXPENSES AND TAXES. The Company shall pay or reimburse the Bank on demand for all reasonable out-of-pocket costs and expenses of the Bank including reasonable attorneys' fees and legal expenses incurred by it in connection with the drafting, negotiation, execution, and delivery of this Agreement and the other Loan Documents, and in connection with the enforcement, or restructuring in the nature of a workout, of this Agreement or any other Loan Document. The Company shall also reimburse the Bank for expenses incurred by the Bank in connection with any audit of the books and records or physical assets of the Company conducted pursuant to any right granted to the Bank under the terms of this Agreement or any other Loan Document. Such reimbursement shall include, without limitation, reimbursement of the Bank for its overhead expenses reasonably allocated to such audits. In addition, the Company shall pay or reimburse the Bank for all expenses incurred by the Bank in connection with the perfection of any security interests or mortgage liens granted to the Bank by the Company and for any stamp or similar documentary or transaction taxes which may be payable in connection with the execution or delivery of this Agreement or any other Loan Document or in connection with any other instruments or documents provided for herein or delivered or required

in connection herewith including, without limitation, expenses incident to any lien or title search or title insurance commitment or policy. All obligations provided for in this Section shall survive termination of this Agreement.

SECTION 13. SEVERABILITY. If any provision of this Agreement or any other Loan Document is determined to be illegal or unenforceable, such provision shall be deemed to be severable from the balance of the provisions of this Agreement or such Document and the remaining provisions shall be enforceable in accordance with their terms.

SECTION 14. CAPTIONS. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

SECTION 15. GOVERNING LAW -- JURISDICTION. Except as may otherwise be expressly provided in any other Loan Document, this Agreement and all other Loan Documents are made under and will be governed in all cases by the substantive laws of the State of Indiana, notwithstanding the fact that Indiana conflicts of law rules might otherwise require the substantive rules of law of another jurisdiction to apply. The Company consents to the jurisdiction of any state or federal court located within Marion County, Indiana, and waives personal service of any and all process upon the Company. All service of process may be made by messenger, by certified mail, return receipt requested, or by registered mail directed to the Company at the address stated in Section 11. The Company waives any objection which the Company may have to any proceeding commenced in a federal or state court located within Marion County, Indiana, based upon improper venue or FORUM NON CONVENIENS. Nothing contained in this Section shall affect the right of the Bank to serve legal process in any other manner permitted by law or to bring any action or proceeding against the Company or its property in the courts of any other jurisdiction.

SECTION 16. PRIOR AGREEMENTS, ETC. This Agreement supersedes all previous agreements and commitments made by the Bank and the Company with respect to the Loans and all other subjects of this Agreement, including, without limitation, any oral or written proposals or commitments made or issued by the Bank.

SECTION 17. SUCCESSORS AND ASSIGNS. This Agreement and the other Loan Documents shall be binding upon and shall inure to the benefit of the Company and the Bank and their respective successors and assigns, provided that the Company's rights under this Agreement shall not be assignable without the prior written consent of the Bank.

SECTION 18. WAIVER OF JURY TRIAL. THE BANK (BY ITS ACCEPTANCE HEREOF) AND THE COMPANY HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE OR CLAIM, WHETHER BASED UPON CONTRACT, TORT, OR OTHERWISE, BETWEEN THE BANK AND THE COMPANY ARISING OUT OF, OR IS ANY WAY RELATED TO THE RELATIONSHIP ESTABLISHED BETWEEN THE COMPANY AND THE BANK BY THIS OR ANY OTHER LOAN DOCUMENT, OR ANY RELATIONSHIP BETWEEN THE BANK AND THE COMPANY. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO ENTER INTO THIS AGREEMENT AND TO PROVIDE THE FINANCING DESCRIBED HEREIN.

SECTION 19. ARBITRATION. BANK AND THE COMPANY AGREE THAT UPON THE WRITTEN DEMAND OF EITHER PARTY, WHETHER MADE BEFORE OR AFTER THE INSTITUTION OF ANY LEGAL PROCEEDINGS, BUT PRIOR TO THE RENDERING OF ANY JUDGMENT IN THAT PROCEEDING, ALL DISPUTES, CLAIMS AND CONTROVERSIES BETWEEN THEM, WHETHER INDIVIDUAL, JOINT, OR CLASS IN NATURE, ARISING FROM THIS AGREEMENT, OR ANY LOAN DOCUMENT OR OTHERWISE, INCLUDING WITHOUT LIMITATION CONTRACT AND TORT DISPUTES, SHALL BE RESOLVED BY BINDING ARBITRATION PURSUANT TO THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). ANY ARBITRATION PROCEEDING HELD PURSUANT TO THIS ARBITRATION PROVISION SHALL BE CONDUCTED IN THE CITY NEAREST THE COMPANY'S ADDRESS HAVING AN AAA REGIONAL OFFICE, OR AT ANY OTHER PLACE SELECTED BY MUTUAL AGREEMENT OF

THE PARTIES. NO ACT TO TAKE OR DISPOSE OF ANY COLLATERAL SHALL CONSTITUTE A WAIVER OF THIS ARBITRATION AGREEMENT OR BE PROHIBITED BY THIS ARBITRATION AGREEMENT.

THIS ARBITRATION PROVISION SHALL NOT LIMIT THE RIGHT OF EITHER PARTY DURING ANY DISPUTE TO SEEK, USE, AND EMPLOY ANCILLARY OR PRELIMINARY RIGHTS AND/OR REMEDIES, JUDICIAL OR OTHERWISE, FOR THE PURPOSES OF REALIZING UPON, PRESERVING, PROTECTING, FORECLOSING UPON OR PROCEEDING UNDER FORCIBLE ENTRY AND DETAINER FOR POSSESSION OF ANY REAL OR PERSONAL PROPERTY, AND ANY SUCH ACTION SHALL NOT BE DEEMED AN ELECTION OF REMEDIES. SUCH REMEDIES INCLUDE, WITHOUT LIMITATION, OBTAINING INJUNCTIVE RELIEF OR A TEMPORARY RESTRAINING ORDER, INVOKING A POWER OF SALE UNDER ANY DEED OF TRUST OR MORTGAGE; OBTAINING A WRIT OF ATTACHMENT OR IMPOSITION OF A RECEIVERSHIP; OR EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING EXERCISING THE RIGHT OF SETOFF, OR TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS PURSUANT TO THE UNIFORM COMMERCIAL CODE. ANY DISPUTES, CLAIMS, OR CONTROVERSIES CONCERNING THE LAWFULNESS OR REASONABLENESS OF ANY ACT, OR EXERCISE OF ANY RIGHT OR REMEDY, CONCERNING ANY COLLATERAL, INCLUDING ANY CLAIM TO RESCIND, REFORM, OR OTHERWISE MODIFY ANY AGREEMENT RELATING TO THE COLLATERAL, SHALL ALSO BE ARBITRATED; PROVIDED, HOWEVER THAT NO ARBITRATOR SHALL HAVE THE RIGHT OR THE POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY. JUDGMENT UPON ANY AWARD RENDERED BY ANY ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. THE STATUTE OF LIMITATIONS, ESTOPPEL, WAIVER, LACHES AND SIMILAR DOCTRINES WHICH WOULD OTHERWISE BE APPLICABLE IN AN ACTION BROUGHT BY A PARTY SHALL BE APPLICABLE IN ANY ARBITRATION

PROCEEDING, AND THE COMMENCEMENT OF AN ARBITRATION PROCEEDING SHALL BE DEEMED THE COMMENCEMENT OF ANY ACTION FOR THESE PURPOSE. THE FEDERAL ARBITRATION ACT (TITLE 9 OF THE UNITED STATES CODE) SHALL APPLY TO THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT OF THIS ARBITRATION PROVISION.

Dated as of June 5, 2000.

INTELLICOAT CORPORATION, a Delaware
corporation

By: _____
Michael E. Godlove, Chief Financial Officer

AMERICAN NATIONAL BANK d/b/a OLD NATIONAL
BANK, a national banking association

By: _____
John T. Travis, Vice President and
Senior Lender

SCHEDULE OF EXHIBITS

- Exhibit "A" - Promissory Note (Revolving Loan)(\$3,000,000.00)
- Exhibit "B" - Promissory Note (Capital Expenditure Line of Credit)
(\$1,000,000.00)
- Exhibit "C" - Promissory Note (Capital Expenditure Term Loan)
(\$1,000,000.00)
- Exhibit "D" - Schedule of Exceptions
- Exhibit "E" - Security Agreement (Equipment, Inventory, Accounts
Receivable, Chattel Paper, and General Intangibles)
- Exhibit "F" - Mortgage, Security Agreement, Assignment of Rents and
Fixture Filing
- Exhibit "G" - Subordination Agreement (Landec Corporation)
- Exhibit "H" - Guaranty Agreement (Landec Corporation)
- Exhibit "I" - Collateral Assignment of Licensing Agreement
- Exhibit "J" - Intercreditor Agreement

FIRST AMENDMENT TO CREDIT AGREEMENT

LANDEC AG, INC., formerly know as Intellicoat Corporation, a Delaware corporation (the "Company") and OLD NATIONAL BANK, formerly known as American National Bank, a national banking association (the "Bank"), being parties to that certain Credit Agreement dated as of June 5, 2000 (the "Agreement"), hereby agree to amend the Agreement by this First Amendment to Credit Agreement (this "Amendment"), on the terms and subject to the conditions set forth as follows.

1. DEFINITIONS. Terms used in this Amendment with their initial letters capitalized are used as defined in the Agreement, unless otherwise defined herein.

a. AMENDED DEFINITIONS. The following definitions are hereby amended and restated in their respective entireties as follows:

- "ADVANCE" means a disbursement of proceeds of the Revolving Loan, the Capital Expenditure Line of Credit, or the Overline, as the context requires.
- "LOAN" means any of the Revolving Loan, the Capital Expenditure Line of Credit, the Overline, or the Capital Expenditure Term Loan, as the context requires, and when used in the plural form refers to all of the Loans.
- "LOAN DOCUMENT" means any of this Agreement, the Revolving Note, the Capital Expenditure Line of Credit Note, the Overline Note, the Capital Expenditure Term Note, the Mortgage, the Security Agreement, the Subordination Agreement, the Guaranty Agreement, the Assignment of Licensing Agreements, the Intercreditor Agreement, and any other instrument or document which evidences or secures the Loans or any of them or which expresses an agreement as to terms applicable to the Loans or any of them, and in the plural means any two or more of the Loan Documents, as the context requires.
- "NOTE" means any of the Revolving Note, the Capital Expenditure Line of Credit Note, the Overline Note, or the Capital Expenditure Term Note, as the context requires, and when used in the plural form refers to all of the Notes.

- "OBLIGATIONS" means all obligations of the Company in favor of the Bank of every type and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to this Agreement and the other Loan Documents, including but not limited to: (i) all of such obligations on account of the Loans, including any Advances made pursuant to any extension of the Commitment beyond the initial Revolving Loan Maturity Date, any extension of the Capital Expenditure Line of Credit Commitment beyond the initial Capital Expenditure Line of Credit Maturity Date, any extension of the Overline Commitment beyond the initial Overline Maturity Date, or pursuant to any other amendment of this Agreement, and (ii) all other obligations arising under any Loan Document as amended from time to time.
- b. NEW DEFINITIONS. The following definitions are hereby added to Section 1 of the Agreement as follows:
- "FIRST AMENDMENT" means that agreement entitled "First Amendment to Credit Agreement" between the Company and the Bank dated as of December 15, 2000.
 - "OVERLINE" is used as defined in Section 2(e)(i).
 - "OVERLINE COMMITMENT" means the agreement of the Bank to extend the Overline to the Company until the Overline Maturity Date, and if the context so requires, the term may also refer to the maximum principal amount which is permitted to be outstanding under the Overline at any time.
 - "OVERLINE MATURITY DATE" means January 15, 2001, and thereafter any subsequent date to which the Overline Commitment may be extended by the Bank pursuant to the terms of Section 2(e)(iv).
 - "OVERLINE NOTE" is used as defined in Section 2(e)(ii).
2. OVERLINE. A new Section 2(e) is hereby added to the Agreement as follows:
- e. THE OVERLINE. The Bank will make a revolving loan to the Company on the following terms and subject to the following conditions:

- (i) THE OVERLINE COMMITMENT -- USE OF PROCEEDS. From the date of the First Amendment and until the Overline Maturity Date, the Bank agrees to make Advances (collectively, the "Overline") under a revolving line of credit from time to time to the Company of amounts not exceeding in the aggregate at any time outstanding the lesser of (A) Two Million Four Hundred Thousand and 00/100 Dollars (\$2,400,000.00) (the "Overline Commitment") or (B) the remainder of the Borrowing Base minus the aggregate outstanding principal amount of the Revolving Loan, provided that all of the conditions of lending stated in this Agreement as being applicable to the Overline have been fulfilled at the time of each Advance. Proceeds of the Overline may be used by the Company only for working capital purposes.
- (ii) METHOD OF BORROWING. The obligation of the Company to repay the Overline shall be evidenced by a promissory note (the "Overline Note") of the Company in the form of EXHIBIT "A" attached to the First Amendment. So long as no Event of Default or Unmatured Event of Default shall have occurred and be continuing and until the Overline Maturity Date, the Company may borrow, repay and reborrow under the Overline Note on any Banking Day; provided, that no borrowing may cause the principal balance of the Overline to exceed the lesser of the Overline Commitment or the Borrowing Base or may result in an Event of Default or an Unmatured Event of Default, and provided further, that the Company may receive the proceeds of only one Advance per Banking Day. Each Advance under the Overline shall be conditioned upon receipt by the Bank from the Company of a Borrowing Base Certificate completed as of the date of the request. The Bank shall make a disbursement upon the oral request of the Company made by an Authorized Officer, or upon a request transmitted to the Bank by telephone facsimile ("fax") machine, or by any other form of written electronic communication (all such requests for Advances being hereafter referred to as "Informal Requests"). In so doing, the Bank may rely on any Informal Request which shall have been received by it in good faith from a person reasonably believed to be an Authorized Officer. Upon making each Informal Request, the Company shall promptly deliver to the Bank a Borrowing Base Certificate completed as of the date of such Informal Request, and shall in and of itself constitute the representation of the Company that no Event of Default or Unmatured Event of Default has occurred and is continuing or would result from the making of the requested

Advance, and that the making of the requested Advance shall not cause the principal balance of the Overline to exceed the lesser of the Overline Commitment or the Borrowing Base. All borrowings and reborrowings and all repayments shall be in amounts of not less than One Thousand Dollars (\$1,000.00), except for repayment of the entire principal balance of the Overline and except for special prepayments of principal required under the terms of Section 2(e)(v). Upon receipt of a request for an Advance, a Borrowing Base Certificate, and upon compliance with any other conditions of lending stated in Section 7 of this Agreement applicable to the Overline, the Bank shall disburse the amount of the requested Advance to the Company. All Advances by the Bank and payments by the Company shall be recorded by the Bank on its books and records, and the principal amount outstanding from time to time, plus interest payable thereon, shall be determined by reference to the books and records of the Bank. The Bank's books and records shall be presumed PRIMA FACIE to be correct as to such matters.

- (iii) INTEREST ON THE OVERLINE. The principal amount of the Overline outstanding from time to time shall bear interest until maturity of the Overline Note at a rate per annum equal to the Prime Rate plus three-quarters percent (3/4%). After maturity, whether on the Overline Maturity Date or on account of acceleration upon the occurrence of an Event of Default, and until paid in full, the Overline shall bear interest at a per annum rate equal to the Prime Rate plus four and three-quarters percent (4-3/4%). Accrued interest shall be due and payable monthly on the last Banking Day of each month prior to maturity. After maturity, interest shall be payable as accrued and without demand.
- (iv) EXTENSIONS OF THE OVERLINE MATURITY DATE. The Bank may, upon the request of the Company, but at the Bank's sole discretion, extend the Overline Maturity Date from time to time to such date or dates as the Bank may elect by notice in writing to the Company, and upon any such extension and upon execution and delivery by the Company of a Overline Note reflecting the extended maturity date, the date to which the Commitment is then extended will become the "Overline Maturity Date" for purposes of this Agreement.
- (v) SPECIAL REPAYMENTS OF PRINCIPAL. At any time the outstanding

principal balance of the Overline exceeds the maximum amount permitted pursuant to Section 2(e)(i)(B) herein (such amount hereinafter called the "Maximum Amount"), as determined on the basis of the most recent Borrowing Base Certificate furnished by the Company or as determined by the Bank upon an inspection of the books and records of the Company, the Company shall immediately repay that portion of the principal balance of the Overline which is in excess of such Maximum Amount. Such repayment shall be due without demand.

(vi) COMMITMENT FEE. The Bank acknowledges receipt from the Company of the sum of \$12,500.00, either previous to or contemporaneously with the execution of this First Amendment, as a fee for the Bank's commitment to make the Overline.

3. REPRESENTATIONS AND WARRANTIES. To induce the Bank to enter into this Amendment, the Company affirms that the representations and warranties continued in the Agreement are correct and accurate as of the date of this Amendment, except that (i) they shall be deemed also to refer this Amendment, as well as all documents named herein, and (ii) Section 3(d) shall be deemed also to refer to the most recent audited and unaudited financial statements of the Company furnished to the Bank.

4. EVENTS OF DEFAULT. The Company certifies to the Bank that no Event of Default or Unmatured Event of Default under the Agreement has occurred and is continuing as of the date of this Amendment.

5. CONDITIONS PRECEDENT. This Amendment shall become effective upon receipt of the following by the Bank, duly executed and in form and substance satisfactory to the Bank:

- a. This Amendment.
- b. The Overline Note.
- c. The Amendment to Mortgage, Security Agreement, Assignment of Rents and Fixture Filing in the form attached hereto as EXHIBIT "B."
- d. The Reaffirmation of Guaranty Agreement in the form attached hereto as EXHIBIT "C."

- e. The Acknowledgment and Consent of Subordinated Creditor in the form attached hereto as EXHIBIT "D."
- f. UCC-1 Financing Statement to be filed with the Delaware Secretary of State.
- g. UCC-3 Amendment to UCC-1 Financing Statement to be filed with the Indiana Secretary of State to amend UCC-1 Financing Statement Number 2329223 filed on June 8, 2000.
- h. UCC-4 Amendment to UCC-2 Financing Statement to be filed with the Recorder of White County, Indiana to amend UCC-2 Financing Statement Number 060000873 filed on June 14, 2000.
- i. A certified copy of a Resolution of the Board of Directors of the Company authorizing the execution, delivery and performance of this Amendment and the other Loan Documents named herein to which the Company is a party.
- j. A certificate of the Secretary of the Board of Directors of the Company certifying the names of the officer or officers authorized to sign this Amendment and other Loan Documents named herein to which the Company is a party.
- k. A certified copy of a Resolution of the Board of Directors of Landec authorizing the execution, delivery and performance of the Reaffirmation of Guaranty Agreement, the Acknowledgment and Consent of Subordinated Creditor, and the other Loan Documents named herein to which Landec is a party.
- l. A certificate of the Secretary of the Board of Directors of the Landec certifying the names of the officer or officers authorized to sign the Reaffirmation of Guaranty Agreement, the Acknowledgment and Consent of Subordinated Creditor, and other Loan Documents named herein to which Landec is a party.
- m. A certified copy of the Articles of Amendment to the Articles of Incorporation filed with the Delaware Secretary of State to evidence the change of the name of the Company.
- n. A certified copy of the Application for Amended Certificate of Authority approved by the Indiana Secretary of State to evidence the change of the

name of the Company.

- o. Certificate of Good Standing issued as of a recent date by the Delaware Secretary of State evidencing the change of the name of the Company
- p. Certificate of Existence issued as of a recent date by the Indiana Secretary of State evidencing the change of the name of the Company.
- q. Payment of the commitment fee required under the terms of Section 2(e)(vi).
- r. Payment of the reasonable attorneys' fees of counsel for the Bank incurred in connection with the drafting and negotiation of this Amendment; and
- s. Such other instruments, agreements, and documents as may be required by the Bank pursuant hereto.

6. EFFECT OF FIRST AMENDMENT. Except as amended by this Amendment, all of the terms and conditions of the Agreement shall continue unchanged and in full force and effect together with this Amendment.

IN WITNESS WHEREOF, the Company and the Bank, by their respective duly authorized officers, have executed and delivered in Indiana this First Amendment to Credit Agreement as of December 15, 2000.

LANDEC AG, INC., formerly known as
Intellicoat Corporation, a Delaware corporation

By: _____
Michael E. Godlove, Chief Financial Officer

OLD NATIONAL BANK, formerly known as
American National Bank, a national banking
association

By: _____
John T. Travis, Vice President and
Senior Lender

SCHEDULE OF EXHIBITS

- Exhibit "A" - Promissory Note (Overline) (\$2,400,000.00)
- Exhibit "B" - Amendment to Mortgage, Security Agreement, Assignment of Rents and Fixture Filing
- Exhibit "C" - Reaffirmation of Guaranty Agreement (Landec Corporation)
- Exhibit "D" - Acknowledgment and Consent of Subordinated Creditor (Landec Corporation)

NEW EXECUTIVE STOCK OPTION PLAN

1. PURPOSES OF THE PLAN. The purposes of this Stock Option Plan are to attract the best available personnel for positions of substantial responsibility, to provide additional incentive to the new Officers of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted hereunder shall be Nonstatutory Stock Options.
2. DEFINITIONS. As used herein, the following definitions shall apply:
- (a) "ADMINISTRATOR" shall mean the Board or any of its Committees appointed pursuant to Section 4 of the Plan.
 - (b) "AFFILIATE" shall mean an entity other than a Subsidiary (as defined below) in which the Company owns an equity interest.
 - (c) "APPLICABLE LAWS" shall have the meaning set forth in Section 4(a) below.
 - (d) "BOARD" shall mean the Board of Directors of the Company.
 - (e) "CODE" shall mean the Internal Revenue Code of 1986, as amended.
 - (f) "COMMITTEE" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.
 - (g) "COMMON STOCK" shall mean the Common Stock of the Company.
 - (h) "COMPANY" shall mean Landec Corporation, a California corporation.
 - (i) "CONTINUOUS STATUS AS AN EMPLOYEE" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Administrator; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute. For purposes of this Plan, a change in status from an Employee to a consultant will not constitute a termination of employment.
 - (j) "DIRECTOR" shall mean a member of the Board.
 - (k) "EMPLOYEE" shall mean any person (including any Named Executive, Officer or Director) employed by the Company or any Parent, Subsidiary or Affiliate of the Company. The payment by the Company of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.
 - (l) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(m) "FAIR MARKET VALUE" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock as quoted on such system on the date of determination (if for a given day no sales were reported, the closing bid on that day shall be used), as such price is reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the bid and asked prices for the Common Stock or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(n) "NAMED EXECUTIVE" shall mean any individual who, on the last day of the Company's fiscal year, is the chief executive officer of the Company (or is acting in such capacity) or among the four highest compensated officers of the Company (other than the chief executive officer). Such officer status shall be determined pursuant to the executive compensation disclosure rules under the Exchange Act.

(o) "NONSTATUTORY STOCK OPTION" shall mean an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable written option agreement.

(p) "OFFICER" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "OPTION" shall mean a stock option granted pursuant to the Plan.

(r) "OPTIONED STOCK" shall mean the Common Stock subject to an Option.

(s) "OPTIONEE" shall mean an Employee who receives an Option.

(t) "PARENT" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(u) "PLAN" shall mean this New Executive Stock Option Plan.

(v) "RULE 16b-3" shall mean Rule 16b-3 promulgated under the Exchange Act as the same may be amended from time to time, or any successor provision.

(w) "SHARE" shall mean a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(x) "SUBSIDIARY" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of shares that may be optioned and sold under the Plan is 210,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant under the Plan.

4. ADMINISTRATION OF THE PLAN.

(a) COMPOSITION OF ADMINISTRATOR.

(i) ADMINISTRATION. Grants under the Plan shall be made by (A) the Board, if the Board may make grants under the Plan in compliance with Rule 16b-3, or (B) a Committee designated by the Board to make grants under the Plan, which Committee shall be constituted in such a manner as to permit grants under the Plan to comply with Rule 16b-3 and otherwise so as to satisfy the Applicable Laws.

(ii) GENERAL. If a Committee has been appointed pursuant to subsection (i) of this Section 4(a), such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of any Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies (however caused) and remove all members of a Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws and, in the case of a Committee appointed under subsection (i), to the extent permitted by Rule 16b-3.

(b) POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(m) of the Plan;

(ii) to select the new Officers of the Company or its Subsidiaries to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Option and/or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator shall determine, in its sole discretion);

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted.

(c) EFFECT OF ADMINISTRATOR'S DECISION. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

5. ELIGIBILITY.

(a) RECIPIENTS OF GRANTS. Nonstatutory Stock Options may be granted to Officers of the Company or any of its Subsidiaries whose employment with the Company or its Subsidiaries began after October 24, 2000.

(b) NO EMPLOYMENT RIGHTS. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment relationship at any time, with or without cause.

6. TERM OF PLAN. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of five (5) years unless sooner terminated under Section 15 of the Plan.

7. TERM OF OPTION. The term of each Option shall be the term stated in the Option Agreement.

8. OPTION EXERCISE PRICE AND CONSIDERATION.

(a) EXERCISE PRICE. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) Options granted to a person who, at the time of the grant of such Option, is a Named Executive of the Company, the per share Exercise Price shall be no less than 100% of the Fair Market Value on the date of grant; or

(ii) Options granted to any person other than a Named Executive, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding anything to the contrary in subsections 8(a)(i) or 8(a)(ii) above, in the case of an Option granted on or after the effective date of registration of any class of equity security of the Company pursuant to Section 12 of the Exchange Act and prior to six months after the termination of such registration, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(b) PERMISSIBLE CONSIDERATION. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator and may consist entirely of (1) cash, (2) check, (3) authorization from the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (4) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price, (5) any combination of the foregoing methods of payment, or (6) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. EXERCISE OF OPTION.

(a) PROCEDURE FOR EXERCISE; RIGHTS AS A SHAREHOLDER. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan. An Option may not be exercised for a fraction of a Share. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any

other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 13 of the Plan. Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) TERMINATION OF STATUS AS AN EMPLOYEE. In the event of termination of an Optionee's Continuous Status as an Employee, such Optionee may, but only within thirty (30) days (or such other period of time, not exceeding six (6) months, as is determined by the Administrator) after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) DISABILITY OF OPTIONEE. Notwithstanding Section 9(b) above, in the event of termination of an Optionee's Continuous Status as an Employee as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Code), he or she may, but only within six (6) months (or such other period of time not exceeding twelve (12) months as is determined by the Administrator) from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) DEATH OF OPTIONEE. In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his death an Employee of the Company and who shall have been in Continuous Status as an Employee since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (or such other period of time, not exceeding six (6) months, as is determined by the Administrator) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee three (3) months (or such other period of time as is determined by the Administrator as provided above) after the date of death, subject to the limitation set forth in Section 5(b); or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Administrator) after the termination of Continuous Status as an Employee, the Option may be exercised, at any time within six (6) months

following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

(e) RULE 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

10. WITHHOLDING TAXES. As a condition to the exercise of Options granted hereunder, the Optionee shall make such arrangements as the Administrator may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the exercise, receipt or vesting of such Option. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied.

11. STOCK WITHHOLDING TO SATISFY WITHHOLDING TAX OBLIGATIONS. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, or (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

Any surrender by an Officer or Director of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3.

All elections by an Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares withheld is made by an Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive the full number of Shares with respect to which the Option is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

12. NON-TRANSFERABILITY OF OPTIONS. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution; provided that the Administrator may in its discretion grant transferable Nonstatutory Stock Options pursuant to option agreements specifying (i) the manner in which such Nonstatutory Stock Options are transferable and (ii) that any such transfer shall be subject to the Applicable Laws. The designation of a beneficiary by an Optionee will not constitute a transfer. An Option may be exercised, during the lifetime of the Optionee, only by the Optionee or a transferee permitted by this Section 12.

13. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION; CORPORATE TRANSACTIONS.

(a) ADJUSTMENT. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, the maximum number of shares of Common Stock for which Options may be granted to any employee under Section 8 of the Plan, and the price per share of Common Stock covered by each outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) CORPORATE TRANSACTIONS. In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator. The Administrator may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Administrator and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of a proposed sale of all or substantially all

of the assets of the Company, or the merger of the Company with or into another corporation, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to exercise the Option as to some or all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Administrator makes an Option exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be exercisable for a period of fifteen (15) days from the date of such notice, and the Option will terminate upon the expiration of such period.

14. TIME OF GRANTING OPTIONS. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee to whom an Option is so granted within a reasonable time after the date of such grant.

15. AMENDMENT AND TERMINATION OF THE PLAN.

(a) AMENDMENT AND TERMINATION. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.

(b) EFFECT OF AMENDMENT OR TERMINATION. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

16. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

17. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to

be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. OPTION AGREEMENT. Options shall be evidenced by written option agreements in such form as the Board shall approve.

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 Nos. 333-06163 and 333-29103) pertaining to the 1995 Employee Stock Purchase Plan, 1995 Directors' Stock Option Plan, 1996 Stock Option Plan and 1996 Non-Executive Stock Option Plan, of our report dated December 22, 2000, with respect to the consolidated financial statements and schedules of Landec Corporation included in this Annual Report (Form 10-K) for the year ended October 29, 2000.

/s/ Ernst & Young LLP

San Francisco, California
January 24, 2001