UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 2, 1999

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

CALIFORNIA
(State or other jurisdiction of incorporation or organization)

0-27446	94-3025618
(Commission file number)	(IRS Employer Identification No.)

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

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

N/A
Former name or former address, if changed from last report)

The undersigned Registrant hereby amends the following items from the Current Report on Form 8-K filed on December 17, 1999. The Registrant is amending Item 7 to include certain required historical financial statements and pro forma financial information and exhibits associated therewith.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Businesses Acquired

Filed as exhibit 99.1

(b) Pro Forma Financial Information

The following pages 3 through 9 contain (1) the unaudited pro forma condensed combined balance sheets of Landec Corporation and Apio, Inc. as of October 31, 1999 and the notes thereto and (2) the unaudited pro forma combined statement of operations of Landec Corporation and Apio, Inc. for the year ended October 31, 1999 and the notes thereto.

(c) Exhibits

2.1* 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.

4.1* Series A Preferred Stock Purchase Agreement between the Registrant and Frederick Frank, dated as of November 19, 1999.

10.27 Loan agreement between Apio, Inc. and the Bank of America dated as of November 29, 1999 (incorporated by reference to identically numbered exhibit filed with the Registrant's Form 10-K for the year ended October 31, 1999).

23.1 Consent of McGladrey & Pullen, LLP, Independent Accountants.

99.1 Financial Statements of Apio, Inc. and related entities as of September 30, 1999 and December 31, 1998, 1997 and 1996 and for the nine months ended September 30, 1999 and 1998 and the three years ended December 31, 1998 with the Report of McGladrey & Pullen, LLP, Independent Auditors.

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* Previously filed.
The Registrant hereby agrees to file with the Securities and Exchange Commission any schedules or exhibits to such agreement which are not filed herewith, upon the request of the Securities and Exchange Commission.

LANDEC CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED
FINANCIAL INFORMATION

The unaudited pro forma condensed combined financial statements (collectively, "the Pro Forma Financial Statements") were prepared to give effect to the acquisition by Landec Corporation ("Landec" or the "Company") of all the outstanding capital stock of Apio, Inc. and certain related entities ("Apio"). In addition, the Pro Forma Financial Statements include a refinancing of certain debt instruments of Apio and a separate preferred stock offering effected by Landec to raise proceeds used to purchase Apio. The acquisition has been accounted for using the purchase method. The pro forma condensed combined balance sheet as of October 31, 1999 assumes the acquisition and related transactions occurred on the balance sheet date and the pro forma combined statement of operations for the fiscal year ended October 31,1999 assumes that the acquisition occurred on November 1, 1998. In addition, Landec did not acquire certain non-core operations of Apio. The balances related to these non-core operations, as well as the reversal of certain eliminating entries included in the historical combined results are specifically identified in a separate column in the Pro Forma Financial Statements. The Pro Forma Financial Statements do not purport to represent what Landec's financial position or results of operations would have been if the acquisition in fact had occurred on the date or at the beginning of the periods indicated or to project Landec's financial position or results of operations for any future date or period.

The pro forma adjustments are based upon available information and upon certain assumptions, as described in Note (a) to the Pro Forma Financial Statements, that Landec believes are reasonable under the circumstances. The purchase price has been allocated to the acquired assets and liabilities based on their respective fair market values. The Pro Forma Financial Statements and accompanying notes should be read in conjunction with the historical consolidated financial statements and notes thereto of Landec and the historical financial statements and notes thereto of Apio, which are included as Exhibit 99.1 to this Form 8-K/A.

LANDEC CORPORATION
UNAUDITED PRO FORMA CONDENSED
COMBINED BALANCE SHEET
OCTOBER 31, 1999
(IN THOUSANDS)

	Landec Corporation	Apio, Inc.	Non-Acquired Entities (g)	Pro Forma Adjustments	Pro Forma Combined
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 3,203	$ 862	$ (6)	2,198 (b)	
				9,100 (d)	
				(9,100) (c)	
				300 (f)	$ 6,557
Accounts receivable, net	2,952	18,797	--	(3,510) (b)	
				(526) (e)	17,713
Accounts receivable, related parties	--	105	5	(110) (b)	--
Advances to growers, net	--	1,678	--	711 (b)	2,389
Inventory	7,641	4,651	(67)	(111) (b)	
				(111) (e)	12,003
Investment in farming activities	--	1,319	--	711 (b)	2,030
Current maturities of notes receivable	--	4,393	--	(2,227) (b)	2,166
Current maturities of notes receivable, related parties	138	3,052	2,243	(5,295) (b)	138
Deferred advertising	522	--	--	--	522
Prepaid expenses and other current assets	1,711	478	(7)	(725) (a)	
				589 (b)	
				(24) (e)	2,022
Deferred taxes	--	47	--	886 (a&h)	
				(47) (b)	886
Total Current Assets	16,167	35,382	2,168	(7,291)	46,426
Property and equipment, net	11,002	13,544	--	1,398 (b)	25,944
Notes receivable, less current maturities	--	1,044	540	(670) (b)	914
Investment in affiliates	--	97	--	23 (b)	120
Property held for sale	--	1,635	(1,635)	--	--
Intangible assets, net	13,506	288	--	25,083 (a)	
				(14) (b)	38,863
Other assets	33	300	(7)	81 (b)	
				408 (f)	
				(181) (f)	634
	$ 40,708	$ 52,290	$ 1,066	18,837	$ 112,901

LANDEC CORPORATION
UNAUDITED PRO FORMA CONDENSED
COMBINED BALANCE SHEET
OCTOBER 31, 1999
(IN THOUSANDS)

	Landec Corporation	Apio, Inc.	Non-Acquired Entities (g)	Pro Forma Adjustments	Pro Forma Combined
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Outstanding checks in excess of bank balance	$ --	$ 3,516	$ --	(3,516) (b)	$ --
Accounts payable	1,687	10,762	--	3,390 (b)	
				(414) (e)	15,425
Accounts payable, related parties	--	482	(312)	(170) (b)	--
Accrued compensation	1,036	--	--	--	1,036
Accrued expenses	1,327	4,378	(3)	767 (a)	
				3,680 (b)	
				(367) (e)	
				182 (f)	9,964
Accrued expenses, related parties	--	142	--	(142) (b)	--
Deferred revenue	2,135	--	--	--	2,135
Grower payables	--	8,559	--	(2,170) (b)	6,389
Grower payables, related parties	--	861	--	(529) (b)	332
Line of credit	--	9,158	--	(1,293) (b)	
				(7,865) (f)	--
Current maturities of long term debt	125	1,763	(267)	(648) (b)	
				1,739 (f)	2,712
Notes payable, related parties	--	2,813	--	(2,813) (b)	--
Total Current Liabilities	6,310	42,434	(582)	(10,169)	37,993
Long-term debt, less current maturities	2,637	5,296	(828)	1,437 (b)	
				4,092 (c)	
				6,471 (f)	19,105
Deferred taxes	--	27	--	980 (a&h)	1,007
Total Liabiliaties	8,947	47,757	(1,410)	2,811	58,105
Minority interest	--	851	--	(63) (b)	
				614 (a&i)	1,402
Stockholders' Equity:					
Preferred stock - Landec	--	--	--	9,100 (d)	9,100
Common stock - Landec	77,289	--	--	342 (a)	
				12,071 (c)	89,702
Accumulated deficit - Landec	(45,528)	--	--	120 (e)	(45,408)
Equity - Apio	--	3,682	2,476	(6,158) (a)	--
Total Stockholders' Equity	31,761	3,682	2,476	15,475	53,394
	$ 40,708	52,290	$ 1,066	18,837	$ 112,901

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
NOTES TO UNAUDITED PRO FORMA CONDENSED
COMBINED BALANCE SHEET
OCTOBER 31, 1999

1. BASIS OF PRESENTATION

The unaudited pro forma condensed combined balance sheet has been prepared by combining the historical consolidated balance sheet of Landec at October 31, 1999 with the historical balance sheet of Apio at September 30, 1999, and gives effect to the pro forma adjustments as described in the notes below.

(a) The acquisition of Apio, which was accounted for as a purchase, has been recorded based upon available information and upon certain assumptions that Landec believes are reasonable under the circumstances. Estimated acquisition expenses of $1,834,000 include legal, accounting, consulting, fairness opinion and miscellaneous costs. Included in these costs are $342,000 paid in Landec Common Stock rather than cash and $725,000 paid prior to the close of the acquisition which was recorded as a prepaid asset by Landec. 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. The final values may differ from those set forth below.

	(In thousands)
Estimated purchase price (Note c)	$ 25,263
Estimated acquisition expenses	1,834
Total estimated acquisition cost	$ 27,097
Historical net book value of the assets at September 30, 1999	$ 6,158
Decrease in net book value of assets acquired (Note b)	(3,436)
Change in Minority Interest (Note i)	(614)
Net deferred tax liability	(94)
Customer base	1,821
Work force in place	1,395
Trademark	9,100
Goodwill	12,767
	$ 27,097

The fair market value of property, plant and equipment at the date of purchase approximated net book value and therefore an allocation of the purchase price to adjust these assets was not required.

(b) The decrease in the net book value of the assets from September 30, 1999 to the close date of December 2, 1999 is a result of a decrease in the net book value of assets acquired due to operating activities, shareholder draws of approximately $2.1 million and accrued transaction costs of approximately $330,000 incurred by Apio from September 30, 1999 to December 2, 1999.

(c) The acquisition by Landec for all the outstanding capital stock of Apio and certain related entities was exchanged for the following:

	(In thousands)
Landec common stock	$ 12,071
Contractual deferred obligations	4,092
Cash paid at closing	9,100
Purchase price	$ 25,263

Landec issued 2.5 million shares of Landec Common Stock to the former shareholders of Apio. The stock was valued at the average closing price, as quoted by the Nasdaq National Market, for three days before and after the date of the close. The resulting value was discounted due to registration restrictions on the stock. The discount factors used were based on independent valuations.

Landec has agreed to pay a total of $5.3 million to certain former shareholders of Apio. The obligations are due in five equal annual payments beginning January 2, 2001. These obligations do not bear interest and accordingly have been discounted at 9% over five years.

Furthermore, $750,000 of the cash consideration and 401,667 shares of the equity consideration has been set aside in escrow to cover costs associated with outstanding obligations of Apio as well as any potential breach of representations and warranties made by Apio in connection with the acquisition. In addition, up to $200,000 of the cash consideration may be paid out in the future upon collection of certain receivables.

A former principal shareholder of Apio is also entitled to receive additional cash consideration from Landec depending on the future performance of the business acquired.

(d) On November 19, 1999 the Company completed a financing that raised $9.1 million, net of issuance costs, through a private placement of 166,667 shares of non-dividend paying convertible Preferred Stock (representing 1,666,670 shares of Common Stock on a converted basis).

(e) Historical accounts receivable and accounts payable balances resulting from the sale of packaging materials from Landec to Apio and the gross margin included in Apio's packaging materials inventory have been eliminated.

(f) In connection with the acquisition, Apio refinanced several of it's existing debt instruments. The borrowings prior to the refinancing totaled $10.9 million at interest rates ranging from 8.2% to 9.75%. As a result of the refinancing, Apio entered into a term loan for $11.25 million and a revolving line of credit, subject to borrowing base limitations.

Apio also entered into an interest rate swap agreement which converted the borrowing rate on the term loan to a fixed rate of 7.02% plus a spread, based on certain debt to equity ratios, resulting in an initial borrowing rate of 9.52%. The interest rate on the revolving line of credit is prime plus 0.5%.

The company incurred fees of $408,000 to effect the refinancing which will be recognized as interest expense over the term of the debt.

(g) Landec did not acquire certain non-core operations of Apio. The balances related to these non-core operations, as well as the reversal of certain eliminating entries included in the historical combined results, are reflected in this column.

(h) See note (d) to the pro forma statement of operations.

(i) The addition to minority interest is due to an increase in the minority shareholder position as a result of the acquisition.

LANDEC CORPORATION
UNAUDITED PRO FORMA
COMBINED STATEMENT OF OPERATIONS
FISCAL YEAR ENDED OCTOBER 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Landec Corporation	Apio, Inc.	Non-Acquired Entities (i)	Pro Forma Adjustments	Pro Forma Combined
Revenues:					
Product sales	$ 33,927	83,883	$ (7)	$ (3,079) (e)	$ 114,724
Services	--	62,828	--	8,763 (h)	71,591
Services, related parties	--	10,887	(10)	(8,763) (h)	2,114
Research and development revenues	770	--	--	--	770
License fees	750	--	--	--	750
Total revenues	35,447	157,598	(17)	(3,079)	189,949
Cost of revenue					
Product sales	21,476	72,684	(285)	(3,079) (e) 1,586 (h)	92,382
Product sales, related parties	--	1,735	7	(1,586) (h)	156
Services	--	61,825	(256)	(92) (h)	61,477
Services, related parties	--	467	--	92 (h)	559
Total revenues	21,476	136,711	(534)	(3,079)	154,574
Gross profit	13,971	20,887	517	--	35,375
Farming revenue (loss)	--	(1,982)	--	(179) (h)	(2,161)
Farming revenue (loss,) related party	--	(179)	--	179 (h)	--
Operating costs and expenses					
Research and development	5,758	--	--	--	5,758
Selling, general and administrative	11,192	18,865	(60)	1,554 (a) 131 (f)	31,682
Total operating costs and expenses	16,950	18,865	(60)	1,685	37,440
Operating income (loss)	(2,979)	(139)	577	(1,685)	(4,226)
Interest income	363	743	25	343 (h)	1,474
Interest income, related parties	--	279	205	(343) (h)	141
Interest expense	(99)	(1,458)	413	(368) (c) (214) (g) (338) (h)	(2,064)
Interest expense, related party	--	(133)	(205)	338 (h)	--
Other income	--	--	17	--	17
Equity in net income (loss) of unconsolidated subsidiaries	--	(25)	--	--	(25)
Income (loss) before income taxes and minority interest	(2,715)	(733)	1,032	(2,267)	(4,683)
Provision for income taxes	(54)	(18)	1	17 (d)	(54)
Minority interest in consolidated subsidiaries	--	(196)	--	(115) (j)	(311)
Net income (loss)	$ (2,769)	$ (947)	$ 1,033	$ (2,365)	$ (5,048)
Basic and diluted net income (loss) per share	$ (.21)				$ (.32)
Shares used in calculating basic and diluted per share information	13,273			2,563 (b)	15,836

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
NOTES TO UNAUDITED PRO FORMA
COMBINED STATEMENT OF OPERATIONS
OCTOBER 31, 1999

The unaudited pro forma condensed combined statement of operations has been prepared by combining the historical consolidated statement of operations of Landec for the fiscal year ended October 31, 1999 with the historical statement of operations of Apio for the twelve months ended September 30, 1999, and gives effect to the pro forma adjustments as described in the notes below.

(a) Amortization expense of intangible assets arising from the acquisition of Apio, as shown below, is reflected in the pro forma adjustments and detailed as follows (dollars in thousands):

	AMOUNT	PERIOD OF AMORTIZATION	TWELVE MONTH AMORTIZATION
Intangible assets:			
Work force in place	1,395	5 years	279
Customer base	1,821	10 years	182
Trademark	9,100	20 years	455
Goodwill	12,767	20 years	638
	$ 25,083		$ 1,554

(b) The pro forma adjustment reflects the issuance of 2,562,500 shares of Landec common stock in connection with the acquisition of Apio. These shares were assumed to have been issued on November 1, 1998, for purposes of calculating the pro forma loss per share.

(c) Imputed interest expense on the deferred obligations issued in the purchase of Apio (see note (c) to the pro forma balance sheet).

(d) Income tax expense associated with Apio on an historical basis reflects "S" Corporation status, therefore, any taxable income was credited directly to the shareholders of Apio and Apio did not pay state or federal income tax, other than certain minimum taxes. Subsequent to the acquisition, Apio's taxable earnings and losses will be included in Landec's consolidated tax return. Landec is a "C" Corporation with a history of operating losses. Since the pro forma statement of operations indicates a loss on a combined basis, no combined tax benefit has been recorded. In addition, the balance sheet includes a pro forma adjustment to recognize the difference between the book and tax bases of Apio's assets and liabilities, in accordance with SFAS No. 109.

(e) Historical sales and cost of product sales relating to the sale of packaging materials from Landec to Apio have been eliminated.

(f) Compensation expense related to an increase in officer salaries as a result of the acquisition.

(g) Interest expense is due to the refinancing of debt at an overall increased interest rate and the amortization of refinancing fees (see note (f) to the pro forma balance sheet). The effect of a 1/8% change in the interest rate on the revolving line of credit is approximately $1,500.

(h) Pro forma adjustment to reclassify related party transactions. The caption historically reflected business activity with principle shareholders of Apio. Subsequent to the acquisition these individuals are not principle shareholders.

(i) Landec did not acquire certain non-core operations of Apio. The balances related to these non-core operations, as well as the reversal of certain eliminating entries included in the historical combined results, are reflected in this column.

(j) The addition to minority interest is due to an increase in the minority shareholder position as a result of the acquisition.

SIGNATURES

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

LANDEC CORPORATION
Registrant

Date: February 15, 2000

By: /s/ Gregory S. Skinner

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation of our report, dated June 9, 1999, except for Note 5 as to which the date is June 30, 1999, and Note 15 as to which the date is July 2, 1999, with respect to the historical financial statements of Apio, Inc. included in this Current Report on Form 8-K/A dated December 2, 1999 in the previously filed registration statements of Landec Corporation on Form S-8 (Nos. 333-80313, 333-52339, 333-29103 and 333-06163) and Form S-3 (No. 333-95531).

MCGLADREY & PULLEN, LLP

San Bernardino, California
February 14, 2000

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
Apio, Inc. and its Combined Affiliates
Guadalupe, California

We have audited the accompanying combined balance sheets of Apio, Inc. and its combined affiliates (collectively, the Company) as of December 31, 1998 and 1997, and the related combined statements of operations, equity and cash flows for each of the three years in the period ended December 31, 1998. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Apio, Inc. and its combined affiliates as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

MCGLADREY & PULLEN, LLP

San Bernardino, California
June 9, 1999
except for Note 5 as to which the date
is June 30, 1999, and Note 15 as to which
the date is July 2, 1999

APIO, INC. AND ITS COMBINED AFFILIATES

COMBINED BALANCE SHEETS
SEPTEMBER 30, 1999 AND DECEMBER 31, 1998 AND 1997

ASSETS	September 30, 1999 (unaudited)	December 31, 1998	December 31, 1997
Current Assets			
Cash	$ 862,000	$ 845,000	$ 560,000
Accounts receivable, net of allowance for doubtful accounts of $734,000 1999; $496,000 1998 and $525,000 1997 (Notes 4 and 9)	18,797,000	14,321,000	15,132,000
Accounts receivable, related parties (Notes 4 and 8)	105,000	133,000	-
Advances to growers, net of allowance for doubtful accounts of $0 1999; $100,000 1998 and $0 1997	1,678,000	775,000	569,000
Inventory (Note 4)	4,651,000	4,475,000	3,892,000
Investments in farming activities	1,319,000	2,278,000	1,593,000
Current maturities of notes receivable (Notes 2 and 4)	4,393,000	4,008,000	3,775,000
Current maturities of notes receivable, related parties (Notes 4 and 8)	3,052,000	-	722,000
Prepaid expenses	478,000	855,000	852,000
Deferred taxes (Note 6)	47,000	47,000	12,000
TOTAL CURRENT ASSETS	35,382,000	27,737,000	27,107,000
Property and Equipment, net (Notes 3, 4 and 5)	13,544,000	12,348,000	12,846,000
Notes receivable, less current maturities (Notes 2 and 4)	1,044,000	1,128,000	986,000
Notes receivable, related parties, less current maturities (Notes 4 and 8)	-	2,477,000	1,751,000
Investments in affiliates	97,000	216,000	187,000
Property held for sale (Notes 3, 4 and 5)	1,635,000	1,349,000	660,000
Intangible assets, net of accumulated amortization of $256,000 1999; $194,000 1998 and $49,000 1997	288,000	775,000	195,000
Other assets	300,000	325,000	309,000
TOTAL ASSETS	$ 52,290,000	$46,355,000	$44,041,000

See Notes to Combined Financial Statements.

LIABILITIES AND EQUITY	September 30, 1999 (unaudited)	December 31, 1998	1997
Current Liabilities			
Outstanding checks in excess of bank balance	$ 3,516,000	$ 1,500,000	$ 2,926,000
Line of credit (Note 4)	9,158,000	8,995,000	6,934,000
Current maturities of long-term debt (Note 5)	1,763,000	1,760,000	1,616,000
Notes payable, related parties (Notes 8 and 15)	2,813,000	733,000	1,998,000
Grower payables (Note 10)	8,559,000	5,573,000	8,159,000
Grower payables, related parties (Notes 8 and 10)	861,000	1,690,000	1,298,000
Accounts payable	10,762,000	11,522,000	8,483,000
Accounts payable, related parties (Note 8)	482,000	348,000	476,000
Accrued expenses	4,378,000	3,865,000	3,075,000
Accrued expenses, related parties (Note 8)	142,000	620,000	578,000
TOTAL CURRENT LIABILITIES	42,434,000	36,606,000	35,543,000
Long-term debt, less current maturities (Note 5)	5,296,000	6,087,000	7,467,000
Deferred taxes (Note 6)	27,000	27,000	12,000
TOTAL LIABILITIES	47,757,000	42,720,000	43,022,000
Commitments and Contingencies (Notes 2, 5, 7, 13 and 15)			
Minority Interest	851,000	745,000	727,000
Equity (Notes 11, 12 and 14)	3,682,000	2,890,000	292,000
TOTAL LIABILITIES AND EQUITY	$ 52,290,000	$46,355,000	$44,041,000

APIO, INC. AND ITS COMBINED AFFILIATES

COMBINED STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998 AND YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Nine Months Ended September 30, (unaudited)		Years Ended December 31,		
	1999	1998	1998	1997	1996 (Note 14)
Revenue					
Services (Note 9)	$ 29,764,000	$ 30,121,000	$ 43,119,000	$ 42,314,000	$ 38,491,000
Services, related parties (Note 8)	8,820,000	8,269,000	10,336,000	11,979,000	13,934,000
Commission income (Note 9)	4,050,000	3,274,000	4,156,000	7,082,000	5,046,000
Produce sales (Note 9)	60,866,000	62,196,000	85,213,000	59,532,000	39,728,000
Freight income	11,751,000	13,274,000	16,657,000	15,749,000	14,040,000
	115,251,000	117,134,000	159,481,000	136,656,000	111,239,000
Cost of Revenue					
Services (Notes 7 and 10)	31,712,000	32,546,000	47,194,000	47,208,000	41,925,000
Services, related parties (Note 8)	236,000	289,000	520,000	1,815,000	336,000
Cost of produce sales	54,059,000	56,321,000	74,946,000	56,339,000	39,097,000
Cost of produce sales, related parties (Note 8)	805,000	838,000	1,768,000	982,000	277,000
Freight expense	11,778,000	13,070,000	16,757,000	15,314,000	13,901,000
Freight expense, related parties (Note 8)	-	-	-	940,000	-
	98,590,000	103,064,000	141,185,000	122,598,000	95,536,000
GROSS PROFIT	16,661,000	14,070,000	18,296,000	14,058,000	15,703,000
Other Operating Revenue (Loss)					
Farming revenue (loss)	(1,502,000)	520,000	40,000	(596,000)	(1,206,000)
Farming revenue (loss), related parties (Note 8)	(263,000)	-	84,000	305,000	(187,000)
Selling, General and Administrative Expenses	14,884,000	11,548,000	15,458,000	12,321,000	10,800,000
Provision for Doubtful Accounts and Notes Receivable	69,000	964,000	966,000	813,000	882,000
OPERATING PROFIT (LOSS)	(57,000)	2,078,000	1,996,000	633,000	2,628,000
Financial Income (Expense)					
Interest expense	(1,095,000)	(1,356,000)	(1,719,000)	(1,594,000)	(994,000)
Interest expense, related parties (Note 8)	(45,000)	(56,000)	(144,000)	(131,000)	-
Interest income	594,000	515,000	664,000	705,000	504,000
Interest income, related parties (Note 8)	153,000	193,000	319,000	207,000	-
Other income	-	-	-	66,000	171,000
	(393,000)	(704,000)	(880,000)	(747,000)	(319,000)
Equity in Net Income (Loss) of Affiliates	(18,000)	-	(7,000)	40,000	(5,000)
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES AND MINORITY INTEREST	(468,000)	1,374,000	1,109,000	(74,000)	2,304,000
Provision (Benefit) for Income Taxes (Note 6)	14,000	22,000	26,000	27,000	(406,000)
	(482,000)	1,352,000	1,083,000	(101,000)	2,710,000
Minority Interest in Combined Affiliates and Consolidated Subsidiaries	(106,000)	(70,000)	(160,000)	(282,000)	(173,000)
NET INCOME (LOSS)	$ (588,000)	$ 1,282,000	$ 923,000	$ (383,000)	$ 2,537,000
Pro Forma Net Income (Loss)					
Historical income (loss) before income taxes and minority interest	$ (468,000)	$ 1,374,000	$ 1,109,000	$ (74,000)	$ 2,304,000
Pro forma (provision) benefit for income taxes	187,000	(550,000)	(448,000)	11,000	(947,000)
Minority interest	(106,000)	(70,000)	(160,000)	(282,000)	(173,000)
PRO FORMA NET INCOME (LOSS)	$ (387,000)	$ 754,000	$ 501,000	$ (345,000)	$ 1,184,000

See Notes to Combined Financial Statements.

APIO, INC. AND ITS COMBINED AFFILIATES

COMBINED STATEMENTS OF EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 1999 AND YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Stock							
	Apio, Inc.	Cal-Ex Trading	South Coast Paper Company, Inc.	Pacific West Produce Marketing, Inc.	Additional Paid-in Capital	Retained Earnings (Deficit) and Partners' Equity (Deficit)	Notes Receivable	Combined
Balance, December 31, 1995 (Note 14)	$ 150,000	$ 1,000	$ 2,000	$ -	$ 89,000	$ 2,243,000	$ -	$ 2,485,000
Distribution of 100,00 shares of Pacific West Produce Marketing, Inc. common stock (Note 11)	-	-	-	130,000	-	(130,000)	-	-
Acquisition of 20,300 shares of Richland Sales Company common stock (Note 11)	-	-	-	969,000	453,000	-	-	1,422,000
Repurchase and retirement of 4,920 shares of Richland Sales Company common stock (Note 11)	-	-	-	(235,000)	(165,000)	-	-	(400,000)
Net income	-	-	-	-	-	2,537,000	-	2,537,000
Distributions to partners	-	-	-	-	-	(1,373,000)	-	(1,373,000)
Apio, Inc. dividend ($328) per share	-	-	-	-	-	(984,000)	-	(984,000)
Cal-Ex Trading dividend ($38 per share)	-	-	-	-	-	(135,000)	-	(135,000)
Pacific West Produce Marketing, Inc. dividend ($16 per share)	-	-	-	-	-	(39,000)	-	(39,000)
South Coast Paper Company, Inc. dividend ($133 per share)	-	-	-	-	-	(320,000)	-	(320,000)
Balance, December 31, 1996	150,000	1,000	2,000	864,000	377,000	1,799,000	-	3,193,000
Issuance of 7,690 shares of Richland Sales Company common stock (Note 11)	-	-	-	625,000	-	-	(639,000)	(14,000)
Net (loss)	-	-	-	-	-	(383,000)	-	(383,000)
Distributions to partners	-	-	-	-	-	(1,424,000)	-	(1,424,000)
Conversion of 100,000 shares of Pacific West Produce Marketing, Inc. into 3,568 shares of common stock of Richland Sales Company (Note 11)	-	-	-	-	-	-	-	-
Apio, Inc. dividend ($189 per share)	-	-	-	-	-	(568,000)	-	(568,000)
Cal-Ex Trading dividend ($40 per share)	-	-	-	-	-	(144,000)	-	(144,000)
Pacific West Produce Marketing, Inc. dividend ($45 per share)	-	-	-	-	-	(108,000)	-	(108,000)
South Coast Paper Company, Inc. dividend ($108 per share)	-	-	-	-	-	(260,000)	-	(260,000)
Balance, December 31, 1997	150,000	1,000	2,000	1,489,000	377,000	(1,088,000)	(639,000)	292,000
Contribution of capital to Apio Produce Sales (Note 11)	-	-	-	-	-	1,299,000	(421,000)	878,000
Contribution of capital to Central Coast Fresh-Cut, LP through the forgiveness of debt (Note 11)	-	-	-	-	-	1,300,000	-	1,300,000
Net income	-	-	-	-	-	923,000	-	923,000
Distributions to partners	-	-	-	-	-	(270,000)	-	(270,000)
Cal-Ex Trading dividend ($75 per share)	-	-	-	-	-	(150,000)	-	(150,000)
South Coast Paper Company, Inc. dividend ($63 per share)	-	-	-	-	-	(83,000)	-	(83,000)
Balance, December 31, 1998	150,000	1,000	2,000	1,489,000	$ 377,000	$ 1,931,000	$(1,060,000)	$ 2,890,000
Net (loss) (unaudited)	-	-	-	-	-	(588,000)	-	(588,000)
Payment received on notes receivables	-	-	-	-	-	-	460,000	460,000
Contribution of capital to Central Coast Frest-Cut, LP	-	-	-	-	-	920,000	-	920,000
Balance, September 30, 1999 (unaudited)	$ 150,000	$ 1,000	$ 2,000	$ 1,489,000	$ 377,000	$ 2,263,000	$ (600,000)	$ 3,682,000

See Notes to Combined Financial Statements.

APIO, INC. AND ITS COMBINED AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998 AND YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Nine Months Ended September 30, (unaudited)		Years Ended December 31,		
	1999	1998	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (588,000)	$ 1,282,000	$ 923,000	$ (383,000)	$ 2,537,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	1,469,000	1,676,000	2,201,000	1,728,000	879,000
Deferred taxes	-	(30,000)	(20,000)	4,000	(457,000)
Provision for doubtful accounts and notes receivable	69,000	964,000	967,000	813,000	882,000
(Gain) loss on disposal of property and equipment	38,000	(26,000)	(17,000)	(311,000)	15,000
Interest income added to notes receivable	(625,000)	(599,000)	(957,000)	(722,000)	(306,000)
Minority interest in combined affiliates and consolidated subsidiaries	106,000	70,000	160,000	282,000	173,000
Impairment reserve on long-lived assets	120,000	-	-	450,000	
Undistributed equity in income loss of affiliates	18,000	-	7,000	(40,000)	5,000
Changes in working capital components					
(Increase) decrease in accounts receivable	(4,777,000)	(3,379,000)	(251,000)	(4,615,000)	3,918,000
(Increase) in advances to growers	(903,000)	(1,223,000)	(931,000)	(226,000)	(58,000)
(Increase) decrease in inventory	(176,000)	(425,000)	(583,000)	(1,399,000)	145,000
(Increase) decrease in investment in farming activities	959,000	(579,000)	(685,000)	(659,000)	(222,000)
(Increase) decrease in prepaid expenses and other assets	377,000	(196,000)	(14,000)	190,000	(306,000)
Increase (decrease) in grower payables	2,157,000	(183,000)	(2,194,000)	(157,000)	(4,502,000)
Increase (decrease) in accounts payable	(626,000)	2,277,000	2,911,000	2,138,000	(1,141,000)
Increase in accrued expenses	35,000	1,133,000	832,000	(613,000)	862,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,347,000)	762,000	2,349,000	(3,520,000)	2,424,000
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property and equipment	(3,166,000)	(1,353,000)	(2,180,000)	(2,510,000)	(1,789,000)
Proceeds from sale of property and equipment	119,000	82,000	78,000	446,000	15,000
Proceeds from notes receivable	6,878,000	9,154,000	11,294,000	9,865,000	10,467,000
Advances made on notes receivable	(6,444,000)	(9,345,000)	(11,175,000)	(9,539,000)	(14,701,000)
(Increase) decrease in investments	101,000	(51,000)	(36,000)	(53,000)	(95,000)
Other	25,000	(5,000)	(16,000)	(244,000)	
NET CASH (USED IN) INVESTING ACTIVITIES	(2,487,000)	(1,518,000)	(2,035,000)	(2,035,000)	(6,103,000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in outstanding checks in excess of bank balance	2,016,000	(1,702,000)	(1,426,000)	2,926,000	(1,513,000)
Net proceeds from borrowings on line-of-credit agreement	163,000	2,438,000	2,061,000	1,604,000	4,930,000
Proceeds from borrowings on long-term debt	2,242,000	661,000	681,000	3,008,000	3,415,000
Principal payments on long-term debt	(950,000)	(1,636,000)	(1,999,000)	(957,000)	(835,000)
Proceeds from partnership contributions	920,000	1,299,000	1,299,000		
Purchase and retirement of treasury stock	-	-	-		(400,000)
Dividends and distributions to stockholders and partners	-	-	(503,000)	(2,504,000)	(2,851,000)
Dividends and distributions to minority interests	-	-	(142,000)	(207,000)	(277,000)
Proceeds from notes receivable	460,000	-			
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,851,000	1,060,000	(29,000)	3,870,000	2,469,000
NET INCREASE IN CASH	17,000	304,000	285,000	(1,685,000)	(1,210,000)
CASH					
Beginning	845,000	560,000	560,000	2,245,000	3,455,000
Ending	$ 862,000	$ 864,000	$ 845,000	$ 560,000	$ 2,245,000

See Notes to Combined Financial Statements.

APIO, INC. AND ITS COMBINED AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS, CONTINUED
NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998 AND YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Nine Months Ended September 30, (unaudited)		Years Ended December 31,		
	1999	1998	1998	1997	1996
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash payments for:					
Interest	$ 1,106,000	$ 1,525,000	$ 1,961,000	$ 1,600,000	$ 986,000
Income taxes	$ 18,000	$ 7,000	$ 12,000	$ 18,000	$ 62,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES					
Capital lease obligations incurred for use of equipment	$ -	$ 117,000	$ 117,000	$ 388,000	$ 404,000
Injection of capital from assumption of receivable	$ -	$ -	$ -	$ -	$ 453,000
Acquisition of net assets and liabilities of Richland Sales Company:					
Accounts receivable	$ -	$ -	$ -	$ -	$ 4,916,000
Prepaid expenses	-	-	-	-	29,000
Property and equipment	-	-	-	-	2,813,000
Accounts payable	-	-	-	-	(700,000)
Grower payable	-	-	-	-	(5,622,000)
Deferred taxes	-	-	-	-	(467,000)
Common stock	-	-	-	-	(969,000)
	$ -	$ -	$ -	$ -	$ -
Contribution of capital through forgiveness of debt	$ -	$ 1,300,000	$ 1,300,000	$ -	$ -
Acquisition of land lease rights with an offset to grower advance	$ -	$ 725,000	$ 725,000	$ -	$ -
Capital contribution through issuance of note receivable	$ -	$ 421,000	$ 421,000	$ -	$ -
Common stock issued with issuance of notes receivable	$ -	$ -	$ -	$ 639,000	$ -
Sale of lease rights in exchange for notes receivable	$ 425,000	$ -			

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS: Apio, Inc. and its combined affiliates (collectively, Apio or the Company) are engaged in the harvesting, packing, cooling, processing, transportation, distribution and marketing of fresh fruits and vegetables grown in California, Arizona and Mexico. The Company contracts with independent and related party growers to provide the above services relating to the growers' products. The Company also purchases products for processing and sale. The Company's and growers' products are processed and packed by the Company and are sold to retail and other food product companies throughout the United States, Canada and Pacific Rim Countries.

MANAGEMENT PLANS: In order to improve operations in 1999, management plans to increase sales of processed produce, improve gross profit on produce sales, increase volume relating to stonefruit by obtaining additional farmers or through other means, and liquidate certain property from nonessential operating entities. The Company has projected an increase in its processed produce sales from approximately $35,000,000 in 1998 to approximately $48,000,000 in 1999, a 37% increase (unaudited). Processed produce has grown in excess of this percentage when comparing 1996 to 1997 and 1997 to 1998. The gross profit for processed produce is significantly greater than other produce sales. The Company is currently analyzing various alternatives to increase the volume of stonefruit and other fruits packaged and sold by Pacific West Produce Marketing, Inc. (PWPM). These alternatives include potentially partnering with farmers or combining operations with other packagers/shippers. No agreements are currently in place relating to these matters. The 1999 projections of operations for PWPM reflect essentially a break-even position (unaudited) as compared to a net loss of approximately ($1,617,000) in 1998. This will be achieved by cost reductions and anticipated volume increases due to better weather conditions anticipated in 1999 vs. 1998. As disclosed in Note 3, the Company is holding certain property for sale. The proceeds from the sale will be used to reduce the obligations of the Company with any excess being used for working capital.

Management is also reviewing all operating entities for cost reduction opportunities to improve cash flows and operating results. In addition, if required to maintain liquidity, the stockholders/partners of the combined group will make capital contributions. Management believes the aforementioned plans will enable the Company to continue profitable operations and improve cash flows.

Significant Accounting Policies

BASIS OF COMBINATION: The combined financial statements include the accounts of Apio, Inc. and its 60%-owned subsidiary, Apio Cooling (A Limited Partnership); Apio Produce Sales (A General Partnership) and its 95%-owned subsidiary, Pacific West Cold Storage (A California Limited Partnership); South Coast Paper Company, Inc.; Cal Ex Trading (A California Corporation); Pacific West Produce Marketing, Inc. and its 99%-owned subsidiary, Pacific West Citrus (A General Partnership); and Central Coast Fresh-Cut, LP and its 99%-owned subsidiary, Fresh-King, LLC, all of which are under common ownership. The amounts combined also include amounts owned directly in Apio Cooling and Central Coast Fresh-Cut, LP by common owners. All significant intercompany accounts have been eliminated in combination.

CHANGE IN REPORTING ENTITY: As explained further in Note 14 to the combined financial statements, in 1994 the Company adopted the policy of including Apio Cooling, a subsidiary company, on a consolidated basis, including amounts owned directly by the common owners. This subsidiary had previously been reported on the equity method. Additionally, in 1995 the Company adopted the policy of including Central Coast Fresh-Cut, LP, an affiliate, on a combined basis, including amounts owned directly by its common owners.

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

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS: For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

INVENTORY: Inventory principally consists of packaging material and fresh produce. Inventory is valued at the lower of cost or market and cost is determined on the first-in first-out method.

INVESTMENTS IN AFFILIATES: Investments in affiliates are recorded on the equity method.

REVENUE RECOGNITION: The Company recognizes revenue generated from produce sales, commissions, cooling (service revenue), freight and processing of fruits and vegetables when the produce is shipped and ownership transfers. Packing revenue (service revenue) is recognized when the services are completed.

INVESTMENTS IN FARMING ACTIVITIES: The Company 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 farming revenue or loss is generally recognized on these investments based on the Company's percentage ownership of the net sales proceeds of the crops as fields are closed. Additionally, certain farming agreements contain provisions wherein the Company bears the risk of loss if the net sales proceeds from the crops are not sufficient to cover the expenses incurred from the farming activities.

ADVANCES TO GROWERS: Advances are provided to growers for crop financing. Advances are generally collected by withholding a percentage of the proceeds from the sale of the grower's crop. The Company provides an allowance for doubtful accounts based on the anticipated collectibility of each specific advance.

PROPERTY AND EQUIPMENT: Property and equipment is recorded at cost. Depreciation and amortization are provided using the straight-line method over the following useful lives:

	Years
Land improvements	15 - 31
Building and improvements	25 - 31
Furniture and equipment	5 - 7
Machinery and equipment	5 - 15
Transportation equipment	5
Leasehold improvements	Lesser of the life of the lease or economic life of the asset

The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

PROPERTY HELD FOR SALE: Property held for sale is carried at the lower of depreciated cost or fair value, less estimated cost of disposition. No allowance for loss was required at December 31, 1998.

INTANGIBLE ASSETS: Intangible assets consist of goodwill and land lease rights. The intangible assets are amortized from 5 to 15 years.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS: The Company reviews its long-lived assets and intangibles related to those assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets and intangible assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Company would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows) of the long-lived assets and intangible assets.

CONCENTRATIONS OF CREDIT RISK: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, trade accounts receivable, grower advances and notes receivable. The Company, from time to time, may have bank deposits in excess of insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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 debts are provided for in the combined financial statements through a charge to operations. A valuation allowance is provided for known and anticipated credit losses.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company has adopted Financial Accounting Standards Board (FASB) Statement No. 107, DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, which requires disclosure of fair value information about financial instruments, whether or not recognized in the combined financial statements, for which it is practical to estimate that value. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instruments for which it is practical to estimate the value:

CASH: The carrying amounts reported in the balance sheets for cash approximate the fair value.

ACCOUNTS RECEIVABLE, GROWER ADVANCES, GROWER PAYABLES AND ACCOUNTS PAYABLE: The carrying value reported in the balance sheets approximates the fair value.

NOTES RECEIVABLE: The carrying amounts of fixed rate arrangements approximate the fair value at December 31, 1998 and 1997. The carrying amounts for variable rate notes receivable approximate fair value since the interest rates change as changes are made to market interest rates.

NOTES PAYABLE AND LONG-TERM DEBT: The carrying amounts of the line-of-credit agreement and variable rate notes payable approximate fair value since the interest rates change as changes are made to market interest rates. The carrying amounts of fixed rate arrangements approximate the fair value at December 31, 1998 and 1997.

INCOME TAXES: Apio, Inc., Calo Ex Trading, South Coast Paper Company, Inc. and Pacific West Produce Marketing, Inc. have elected to be taxed under sections of federal and state income tax laws which provide that, in lieu of corporation income taxes, the stockholders separately account for their pro rata share of the companies' items of income, deductions, losses and credits, and the companies will pay state taxes at a reduced rate. Each of the companies file separate federal and state tax returns.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In 1996, Pacific West Produce Marketing, Inc. was a C corporation and subject to federal and state income and franchise taxes. In March 1997, Pacific West Produce Marketing, Inc. was merged into Richland Sales Company and its tax status changed at that time. See Note 11 for discussion of the merger.

Apio Produce Sales and Central Coast Fresh-Cut, LP are partnerships and, as such, the partnerships' operations are taxed at the partner level.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The Company's temporary differences relate primarily to property and equipment and allowance for doubtful accounts. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

PRO FORMA STATEMENT OF OPERATIONS ADJUSTMENTS: The pro forma statement of operations information included in these combined financial statements is to show what the significant effects might have been on the historical statements of operations had the Companies not been treated as S corporations and partnerships for income tax purposes.

ADVERTISING COSTS: Advertising costs are expensed as incurred. Advertising expense totaled approximately $98,000, $127,000 and $315,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

RECLASSIFICATIONS: Certain items in the combined balance sheet and the combined statements of operations, equity and cash flows as of and for the year ended December 31, 1996 have been reclassified to conform to the December 31, 1998 presentation. These reclassifications had no effect on net income or equity.

SEGMENT INFORMATION: Effective January 1, 1998, the Company adopted FASB Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. Statement No. 131 superseded FASB Statement No. 14, FINANCIAL REPORTING FOR SEGMENTS OF A BUSINESS ENTERPRISE. Statement No. 131 establishes standards for the way the public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports. Statement No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of Statement No. 131 did not affect results of operations or financial position.

NEW PRONOUNCEMENTS: In 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, REPORTING ON THE COSTS OF START-UP ACTIVITIES. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. It requires that costs of start-up activities and organization costs be expensed as incurred. SOP 98-5 will first be required for the Company's year ending December 31, 1999. Based on a preliminary analysis, management does not anticipate that the adoption of SOP 98-5 will have a material impact on the combined financial statements as of the date of adoption.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERIM FINANCIAL INFORMATION (UNAUDITED): The financial statements and notes related thereto as of September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited. In the opinion of management, the interim financial statements are prepared on a basis consistent with the Company's annual financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations. The operating results for the interim periods are not indicative of the operating results to be expected for a full year or for other interim periods. Not all disclosures required by generally accepted accounting principles necessary for a complete presentation have been included.

NOTE 2. NOTES RECEIVABLE

Notes receivable at December 31 consist of the following:

	1998	1997
Unsecured note receivable, grower and grower's affiliate, with interest at a certain bank's prime rate (7.75% at December 31, 1998) plus 2%, due in full October 2000	$ 907,000	$ 752,000
Various unsecured notes receivable from growers, due on demand with interest at fixed rates ranging from 10% to 16%	1,244,000	620,000
Various notes receivable from growers, with principal and interest ranging from the prime rate plus .5% to the prime rate plus 3%, payments to be withheld from proceeds derived from crops, due through December 1999, secured by crops	3,311,000	3,777,000
Note receivable, grower, payable in annual installments of $10,000 plus interest at the prime rate (7.75% at December 31, 1998) plus 1%, with final payment due June 2001	-	140,000
Note receivable due from grower in annual installments of $97,500 plus interest at 8%, with final payment due December 1999, secured by crops	97,000	195,000
Various unsecured notes receivable due from individuals and companies, bearing interest from 8.5% through 10%, due December 1999	102,000	103,000
Note receivable due from grower in annual installments of $20,000 plus interest at prime rate plus 1%, with final payment due February 2005, secured by crops	285,000	-
Other	125,000	218,000
	6,071,000	5,805,000
Less allowance for doubtful notes	(935,000)	(1,044,000)
	5,136,000	4,761,000
Less current portion	4,008,000	3,775,000
Long-term portion	$ 1,128,000	$ 986,000

NOTE 2. NOTES RECEIVABLE (CONTINUED)

The Company is obligated to make additional loans to growers under certain of these note receivable agreements. At December 31, 1998, the Company had outstanding commitments to fund up to an additional $1,638,000 to growers under these existing note receivable agreements.

IMPAIRED NOTES RECEIVABLE: Information about impaired notes receivable as of and for the years ended December 31, is as follows:

	1998	1997	1996
Impaired notes receivable for which there is a related allowance	$ 573,000	$ 641,000	$ 113,000
Related allowance	$ 323,000	$ 362,000	$ -
Average balance (based on quarter-end balances)	$ 744,000	$ 553,000	$ 623,000
Interest income recognized	$ 13,000	$ 65,000	$ 3,000

A note receivable is impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the note agreement. Impaired notes receivable are measured based on the present value of expected future cash flows discounted at the note's effective interest rate or, as a practical expedient, at the note's observable market price or the fair value of the collateral if the note is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance account.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consist of:

	1998	1997
Land and improvements	$ 1,233,000	$ 1,221,000
Building and improvements	6,058,000	5,635,000
Office furniture and equipment, including assets acquired under capital leases of $144,000 1998; $144,000 1997	1,391,000	1,168,000
Machinery and equipment, including assets acquired under capital leases of $1,099,000 1998; $1,170,000 1997	8,172,000	7,434,000
Transportation equipment, including assets acquired under capital leases of $102,000 1998; $102,000 1997	1,368,000	1,401,000
Leasehold improvements	154,000	315,000
Construction in progress	31,000	247,000
	18,407,000	17,421,000
Less accumulated depreciation and amortization, including amounts applicable to assets acquired under capital leases of $503,000 1998; $309,000 1997	6,059,000	4,575,000
	$ 12,348,000	$ 12,846,000

NOTE 3. PROPERTY AND EQUIPMENT (CONTINUED)

The Company has entered into a commitment of approximately $1,300,000 for the purchase of equipment and expansion of a certain facility.

Property held for sale consists of property and equipment held by Pacific West Cold Storage (1998 and 1997) and Fresh King, LLC (1998 only). The property and equipment has a depreciated-cost basis of $1,349,000 and $660,000 as of December 31, 1998 and 1997, respectively. The depreciated-cost basis approximates its fair market value. At December 31, 1997, management determined a reserve of $450,000 was required relating to certain long-lived assets of Fresh-King, LLC. No additional reserves were recorded at December 31, 1998.

NOTE 4. LINE OF CREDIT AND SUBSEQUENT EVENTS

Apio, Inc. and Apio Produce Sales had a credit facility with Central Coast Production Credit Association in the amount of $7,347,000, which bore interest at the prime rate (7.75% at December 31, 1998) and expired on December 6, 1998. The line was subsequently renewed, as discussed below. The Company had borrowings in excess of the credit facility limit at December 31, 1998. The covenants attributable to this facility were still effective as of December 31, 1998 and related to working capital levels and debt-to-net worth ratios with which the Company was not in compliance. This facility also contained restrictions on the incurrence of additional debt and the payment of dividends and bonuses to stockholders.

On February 17, 1999, the Company's borrowings on this facility had accumulated to $8,995,000. At that date, the credit facility was restructured whereby a line of credit of $6,517,000 was created along with new term loans created and funded. The revolving line of credit bears interest at prime rate (7.75% at February 17, 1999) plus .5% and requires weekly interest payments with the outstanding principal due July 1, 1999. The term loans are also covered by the terms and conditions of the credit facility. One of the term loans was issued for $4,067,000, bears interest at prime rate plus .5% and requires monthly installments of $37,000 plus interest, with the outstanding balance due February 1, 2009. The other term loan was issued for $1,534,000, bears interest at prime rate plus .5% and requires two annual installments of $585,000 beginning on February 1, 2000, with the outstanding balance due February 1, 2002. The credit facility is secured by the Company's accounts receivable, inventory and farm products and is guaranteed by the stockholders of Apio, Inc. Borrowings under the facility are limited to eligible accounts receivable of Apio, Inc., less certain adjustments, as provided for in the agreement.

The credit facility contains certain financial covenants relating to working capital and debt-to-net worth ratios. The credit facility also contains restrictions on the incurrence of additional debt and payment of dividends and bonuses to stockholders. Although measurement has not been performed, it appears that the Company is not in compliance with covenants for this credit facility at June 9, 1999. The Company is currently renegotiating a new agreement so as to bring the Company into compliance.

NOTE 5. LONG-TERM DEBT

Notes payable at December 31 are summarized as follows:

	1998	1997
Various notes payable to bank, due in monthly installments aggregating $5,000, plus interest at variable rates ranging from the federal funds rate (5.22% at December 31, 1998) plus 3.45% and three-year Treasury bill rate (5.30% at December 31, 1998) plus 3.6%, and monthly installments aggregating $13,000, including interest at fixed rates ranging from 8.9% to 10.3%, with final payments due from June 1999 to April 2002, secured by equipment	$ 411,000	$ 619,000
Various notes payable to a commercial finance company, due in monthly installments aggregating $13,000, including interest ranging from 7.3% to 13.1%, with final payments due from April 2000 to October 2002, secured by equipment	89,000	132,000
Notes payable to bank, due in monthly installments aggregating $11,000, including interest ranging from 7.8% to 9.5%, with final payments due from August to December 2015, secured by deed of trust on real property	1,091,000	1,119,000
Various notes payable to bank, due in quarterly installments aggregating $25,000, including interest at the variable three-year Treasury bill rate plus 2.45% (5.3% at December 31, 1998) and a fixed rate of 8.4%, with final payments due from July 2001 to July 2018, secured by deed of trust on real property	433,000	495,000
Note payable, commercial finance company, due in monthly installments of $8,000, including interest at 10.25%, with final payment due November 2001, secured by equipment	252,000	323,000
Note payable to individual with interest paid quarterly at 8%, payable in annual installments of $18,000, with final payment due September 2001, secured by a deed of trust on real property	212,000	230,000
Note payable to vendor with interest paid monthly at the prime rate (7.75% at December 31, 1998) plus 1%, due April 1998, secured by second deed of trust on real property	-	259,000
Note payable to insurance company, due in monthly installments of $8,000, including interest at the 30-day commercial paper rate (5.35% at December 31, 1998) plus 2.45%, with final payment due November 2004, secured by a deed of trust on real property (1)	437,000	494,000
Note payable, bank, due in monthly installments of $23,000, including interest at the bank's base rate (7.75% at December 31, 1998) plus .5%, with a final payment of $1,791,000 due December 2006, secured by a first deed of trust on real property and guaranteed by Apio and certain stockholders (2)	2,401,000	2,452,000
Subtotals	$ 5,326,000	$ 6,123,000

NOTE 5. LONG-TERM DEBT (CONTINUED)

	1998	1997
Subtotals carried forward	$ 5,326,000	$ 6,123,000
Note payable, bank, with interest paid monthly at the bank's base rate (7.75% at December 31, 1998) plus 1.25%, due March 1999, secured by a first deed of trust on real property and guaranteed by Apio and certain stockholders (2) (3)	425,000	425,000
Note payable to former partners, discounted at 10%, payable in annual installments of $63,000 plus interest if not paid when due in 2001	154,000	197,000
Capitalized leases due in monthly installments aggregating $33,000, including interest ranging from 4% to 12.5%, with final payments due from 1999 through 2002, secured by equipment with a depreciated cost of $842,000 at December 31, 1998 and guaranteed by certain stockholders of the Company	800,000	959,000
Notes payable, insurance company, due in monthly installments aggregating $21,000, including interest ranging from 8.3% to 8.5%, due December 2002, secured by equipment and guaranteed by Apio	842,000	1,013,000
Unsecured note payable to former employee with interest at prime rate (7.75% at December 31, 1998) plus 5%, due December 1999	289,000	348,000
Other	11,000	18,000
	7,847,000	9,083,000
Less current maturities	1,760,000	1,616,000
	$ 6,087,000	$ 7,467,000

(1) This note payable contains a financial covenant relating to minimum tangible net worth, with which the Company was not in compliance at December 31, 1998.

(2) These notes payable, bank, contain certain financial and reporting covenants including debt-to-net worth ratios. The Company was not in compliance with certain of these covenants at December 31, 1998. The Company received a waiver of these violations dated June 30, 1999.

(3) Subsequent to year end, the due date on this note has been extended to September 1999.

Aggregate maturities of long-term debt as of December 31, 1998 are as follows:

Years Ending December 31,	Amount
1999	$ 1,760,000
2000	1,011,000
2001	1,045,000
2002	553,000
2003	221,000
Thereafter	3,257,000
	$ 7,847,000

NOTE 5. LONG-TERM DEBT (CONTINUED)

The following is a schedule by year of the future minimum lease payments required under the capital leases together with the present value of the net minimum lease payments at December 31, 1998:

Years Ending December 31,	Total Minimum Lease Payments	Less Amount Representing Interest	Present Value of Net Minimum Lease Payments
1999	$ 367,000	$ 63,000	$ 304,000
2000	287,000	32,000	255,000
2001	165,000	1,000	164,000
2002	80,000	3,000	77,000
	$ 899,000	$ 99,000	$ 800,000

NOTE 6. INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31 is as follows:

	1998	1997	1996
Current:			
State	$ 46,000	$ 23,000	$ 51,000
Deferred	(20,000)	4,000	10,000
Effect of change in tax status	-	-	(467,000)
	$ 26,000	$ 27,000	$ (406,000)

The income tax provision differs from the amount of income tax determined by applying the federal statutory tax rate to pretax income due to the following:

	1998	1997	1996
Computed "expected" federal statutory tax expense	$ 388,000	$ (26,000)	$ 806,000
State income taxes, net of federal income tax benefit	60,000	15,000	141,000
Nontaxable earnings (losses) of nontaxable entities	(422,000)	38,000	(886,000)
Effect of change in tax status	-	-	(467,000)
	$ 26,000	$ 27,000	$ (406,000)

The components of the deferred tax assets and liabilities at December 31 consist of the following:

	1998	1997
Deferred tax assets, principally allowance for doubtful accounts and notes, intangibles and state net operating loss carryforwards	$ 47,000	$ 12,000
Deferred tax liabilities, principally property and equipment	(27,000)	(12,000)
	$ 20,000	$ -

NOTE 7. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES: The Company 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 December 31, 1998 are as follows:

Years ending December 31,	Amount
1999	$ 471,000
2000	395,000
2001	270,000
2002	199,000
	$ 1,335,000

Total rent expense under these operating leases, including rent under month-to-month arrangements, was approximately $730,000, $822,000 and $648,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company also leases farmland under various noncancelable leases expiring through October 2000. Apio, Inc. and Pacific West Produce Marketing, Inc. sublease substantially all of the farmland to growers who, in turn, agree to market their crops through the Company. The subleases are generally noncancelable and expire through 2003. As discussed in Note 8, some of these leases and subleases are from related parties. The approximate future minimum lease and sublease amounts receivable under farmland leases at December 31, 1998 are as follows:

Years ending December 31,	Minimum Lease Payments	Sublease Rents Receivable	Net
1999	$ 2,633,000	$ (1,954,000)	$ 679,000
2000	1,711,000	(1,184,000)	527,000
2001	300,000	(64,000)	236,000
2002	210,000	-	210,000
2003	181,000	-	181,000
Thereafter	494,000	-	494,000
	$ 5,529,000	$ (3,202,000)	$ 2,327,000

The net lease expense incurred for farmland leases for the years ended December 31, 1998, 1997 and 1996 aggregated approximately $450,000, $374,000 and $291,000, respectively, and is included in the accompanying statements of operations as a cost of service revenue. The net lease expense includes lease payments and sublease amounts from related parties (Note 8).

GUARANTEES: The Company is affiliated with two entities through common ownership which have not been included in the combined financial statements. These entities are in the business of real estate investment and rental activities. The affiliates are indebted to a bank under several notes payable in the amount of approximately $2,850,000 as of December 31, 1998. The indebtedness is secured by a deed of trust on the real property of the affiliates and the guarantee of its stockholders, as well as the effective guarantee of Apio, Inc. and Apio Produce Sales.

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

EMPLOYMENT AGREEMENTS: The Company has entered into employment agreements with certain key employees and owners. These employment agreements provide for these employees and owners to earn incentive bonuses based on the financial performance of certain companies within the combined group, in addition to their annual base salary. Certain key employees also have minimum bonuses for their second year assuming continued employment. The incentive bonuses amounted to $462,000, $0 and $600,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

STOCK BUY-SELL AGREEMENT: The stockholders of Apio and Apio, Inc. and partners of Apio Produce Sales and Apio Produce Sales have entered into a stock buy-sell agreement (the Agreement). The Agreement contains various provisions that restrict transfers. In addition, the Agreement requires the Company to acquire all of the stock it can legally acquire of an individual stockholder or partner's interest from an individual partner in the event of the stockholder's or partner's death or total incapacitation as defined in the Agreement. The computation to determine the purchase price for stock to be acquired is also defined in the Agreement.

CONTINGENCIES: In the ordinary course of business, the Company is exposed to claims asserted or unasserted that may arise from its performance under contractual agreements or from regulatory matters. In the opinion of management, settlement of such claims, if any, will not have a materially adverse effect on the Company's financial position.

NOTE 8. RELATED PARTY TRANSACTIONS AND BALANCES

NOTES PAYABLE, STOCKHOLDERS AND PARTNERS: Notes payable to stockholders at September 30 and December 31 consist of the following:

	September 30,	December 31,	
	1999	1998	1997
Unsecured notes payable, stockholders, with interest payable monthly at the prime rate (7.75 December 31, 1998), plus .5%, due December 1999	$ 2,813,000	$ 733,000	$ 698,000
Unsecured notes payable, stockholders and partners, interest payable annually at 8.75%, due December 1999 (see Note 15)	-	-	1,300,000
	$ 2,813,000	$ 733,000	$ 1,998,000

The interest expense for notes payable to related parties for the nine months ended September 30, 1999 and 1998 and the years ended December 31, 1998 and 1997 aggregated approximately $153,000, $56,000, $144,000 and $131,000, respectively. No interest expense was accrued or paid on notes payable to related parties for the year ended December 31, 1996.

NOTE 8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

NOTES RECEIVABLE, RELATED PARTIES: Notes receivable from related parties at September 30 and December 31 consist of the following:

	September 30, 1999	December 31, 1998	December 31, 1997
Unsecured notes receivable from stockholders with interest paid annually at rates of 8.75%, 9.5% and prime rate (7.75% at December 31, 1998) plus .5% with final payments due December 1999	$ 2,847,000	$ 2,200,000	$ 2,029,000
Unsecured note receivable from an affiliate under common control with interest paid annually at the prime rate plus .5%, due December 31, 1999	205,000	239,000	286,000
Other related party notes	-	38,000	203,000
	3,052,000	2,477,000	2,518,000
Less current portion	3,052,000	-	722,000
	-	2,477,000	1,796,000
Less allowance for doubtful notes	-	-	(45,000)
Long-term portion	$ -	$ 2,477,000	$ 1,751,000

Interest income earned on related party notes receivable for the nine months ended September 30, 1999 and 1998 and the years ended December 31, 1998 and 1997 was approximately $153,000, $193,000, $319,000 and $207,000, respectively. No interest income from related parties was earned for the year ended December 31, 1996.

The Company has various unsecured notes receivable from stockholders amounting to $600,000, $1,060,000 and $639,000 at September 30, 1999, December 31, 1998 and 1997, respectively. These notes bear interest at rates ranging from prime rate plus .5% to 8.75% and are due in December 1999. The notes have been recorded as a reduction of equity as the notes were issued to certain stockholders in exchange for common stock in one of the combined companies and as a capital contribution in one of the combined companies (Note 11).

FARMLAND LEASES AND SUBLEASES WITH RELATED PARTIES: The Company leases farmland under a noncancelable operating lease from a company under common control and a stockholder and/or partner of the combined companies, which expires September 30, 1999. Rental expense for this ground lease for the nine months ended September 30, 1999 and 1998 and for the years ended December 31, 1998, 1997 and 1996 was approximately $266,000, $211,000, $309,000, $251,000 and $224,000, respectively. This amount is included in the cost of service revenue in the accompanying statements of operations for the nine months ended September 30, 1999 and 1998 and for each of the three years ended December 31, 1998, net of sublease revenue discussed in the following paragraph.

The Company subleases farmland to stockholders of the combined group under a month-to-month agreement and sublease agreement, which expire October 31, 1999. Rental income relating to this ground sublease for the nine months ended September 30, 1999 and 1998 and for the years ended December 31, 1998, 1997 and 1996 amounted to approximately $95,000, $78,000, $113,000, $124,000 and $219,000, respectively.

NOTE 8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

RELATED PARTY GROWERS: The Company has both oral and written contracts with related party growers who are stockholders and/or partners of the combined group. The Company also purchases produce from these growers. Balances outstanding with these growers as of September 30, 1999 and December 31, 1998 and 1997 are as follows. Transactions with these growers for the nine months ended September 30, 1999 and 1998 and the years ended December 31, 1998, 1997 and 1996, are as follows:

	Statements of Operations		Balance Sheets
	Nine Months Ended September 30,		
	1999	1998	1999
Service revenue	$ 8,820,000	$ 8,269,000	$ -
Cost of produce sales	775,000	748,000	-
Farming revenue (loss)	(263,000)	-	-
Accounts receivable	-	-	105,000
Grower payables	-	-	861,000
Accounts payable	-	-	162,000
Accrued expenses	-	-	142,000

	Statements of Operations			Balance Sheets	
	Years Ended December 31,				
	1998	1997	1996	1998	1997
Service revenue	$ 10,336,000	$ 11,979,000	$ 13,934,000	$ -	$ -
Cost of produce sales	1,648,000	422,000	187,000	-	-
Farming revenue (loss)	84,000	305,000	(187,000)	-	-
Accounts receivable	-	-	-	133,000	-
Grower payables	-	-	-	1,690,000	1,298,000
Accounts payable	-	-	-	62,000	26,000
Accrued expenses	-	-	-	620,000	578,000

Included in accrued expenses are funds advanced to the Company from these related parties for the prepayment of packing supplies and services amounting to approximately $70,000, $528,000 and $547,000 at September 30, 1999, December 31, 1998 and 1997, respectively.

FACILITY LEASES WITH RELATED PARTIES: The Company leases a facility from a company under common control on a month-to-month basis. Rental expense, which is included in cost of produce sales, amounted to $30,000, $90,000, $120,000, $130,000 and $90,000 for the nine months ended September 30, 1999 and 1998 and for the years ended December 31, 1998, 1997 and 1996, respectively. The rent expense is included in the accompanying statement of operations as a cost of produce sales. Included in accounts payable at September 30, 1999, December 31, 1998 and 1997 relating to the rent expense is $320,000, $280,000 and $170,000, respectively.

NOTE 8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

OTHER TRANSACTIONS WITH AFFILIATES: The Company purchases services from affiliates in which it has an equity interest. The services principally relate to packing, repackaging and delivery expenses. Transactions and balances outstanding with these affiliates for the nine months ended September 30, 1999 and 1998 and the years ended December 31 are as follows:

	September 30,		December 31,		
	1999	1998	1998	1997	1996
Service expense	$ 65,000	$ 156,000	$ 324,000	$ 1,688,000	$ 331,000
Freight expense	-	-	-	940,000	-
Cost of produce sales	-	-	-	430,000	-
Accounts payable	-	-	6,000	280,000	-

NOTE 9. MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

The Company distributes growers' products and its purchased/processed products to customers throughout the United States, Canada and Pacific Rim countries. The following customers of the Company for the years ended December 31, 1998, 1997 and 1996 comprised approximately 51%, 24% and 30% (unaudited) of total units distributed or sold in each of the years, respectively. Revenue relating to produce sales to these customers for the years ended December 31, 1998, 1997 and 1996, and the customers' respective accounts receivable balance at December 31, 1998 and 1997, are as follows:

	Revenue			Accounts Receivable	
	1998	1997	1996	1998	1997
Customer A	$ 13,467,000	$ 10,246,000	$ 8,871,000	$ 1,114,000	$ 1,417,000
Customer B	12,334,000	-	-	1,078,000	-
Customer C	11,157,000	15,547,000	14,728,000	1,341,000	1,491,000

In the last quarter of 1998, the Company lost a division of Customer C; however, management does not believe it did or will have an adverse effect on the Company's operations.

During years ended 1998, 1997 and 1996, the Company had produce sales to customers located outside the United States. Foreign sales by country for the years ended 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Australia	$ -	$ 47,000	$ -
England	113,000	26,000	-
Hong Kong	1,144,000	700,000	966,000
Japan	18,515,000	11,088,000	8,194,000
Taiwan	718,000	718,000	599,000

In addition, the Company contracts with independent growers in Mexico to distribute their product. The Company's service and commission revenue from these growers for the years ended December 31, 1998, 1997 and 1996 was $3,219,000, $2,855,000 and $1,419,000, respectively. The grower payable balances at December 31, 1998 and 1997, were $602,000 and $740,000, respectively.

NOTE 10. SIGNIFICANT GROWER

The Company has contracted with an independent grower to harvest, pack, cool and distribute their product. Approximately 16%, 14% and 17% (unaudited) of product processed, packed and distributed to customers of the Company was supplied by this grower for the years ended December 31, 1998, 1997 and 1996, respectively. In addition, service revenue related to this grower amounted to approximately $10,869,000, $12,237,000 and $13,772,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The grower payable to this grower at December 31, 1998 and 1997 is $196,000 and $856,000, respectively.

The Company relies on its growers to provide fresh fruits and vegetables (produce) to fulfill the requirements of its customers and to generate service revenue. Management believes that the disruption in the supply of product to be distributed to its customers from this grower, if it ceased to provide produce to the Company, could be replaced through other growers. A change in growers, however, could cause a delay in availability of product, reduce service income of the Company and significantly impact the supply to its customers, which would affect operating results adversely.

NOTE 11. EQUITY

The capital structure of each of the companies in the combined financial statements is as follows:

APIO, INC.	1998	1997	1996
Common stock, no par value, 10,000 shares authorized, 3,000 shares issued and outstanding	$ 150,000	$ 150,000	$ 150,000
Retained earnings	4,897,000	3,993,000	3,574,000
	5,047,000	4,143,000	3,724,000
Less notes receivable, stockholders (Note 8)	1,060,000	639,000	-
Less minority interest	723,000	706,000	656,000
	$ 3,264,000	$ 2,798,000	$ 3,068,000

The above equity balance is prior to an elimination entry relating to its investment and accumulated losses from its subsidiary of $669,000, $1,097,000 and $758,000 at December 31, 1998, 1997 and 1996, respectively.

APIO PRODUCE SALES	1998	1997	1996
Partners' capital (deficit)	$ 1,736,000	$ (1,414,000)	$ 197,000

In May 1998, the partners of Apio Produce Sales contributed $1,299,000 in capital to the partnership. Approximately $421,000 of these contributions were from funds advanced to a partner from Apio, Inc.

CAL-EX TRADING	1998	1997	1996
Common stock, $.01 par value, 100,000 shares authorized, 4,000 shares issued and outstanding	$ 1,000	$ 1,000	$ 1,000
Additional paid-in capital	99,000	99,000	99,000
Retained earnings	93,000	79,000	20,000
	193,000	179,000	120,000
Less minority interest	19,000	18,000	12,000
	$ 174,000	$ 161,000	$ 108,000

NOTE 11. EQUITY (CONTINUED)

SOUTH COAST PAPER COMPANY, INC.

Common stock, no par value, 15,000 shares authorized, 2,400 shares issued and outstanding	$ 2,000	$ 2,000	$ 2,000
Retained earnings	232,000	128,000	132,000
	$ 234,000	$ 130,000	$ 134,000

CENTRAL COAST FRESH-CUT, LP

Partners' (deficit)	$ (2,929,000)	$ (3,839,000)	$ (2,254,000)

In 1998 the general partners, common owners, of Central Coast Fresh-Cut, LP contributed $1,300,000 through the forgiveness of debt.

PACIFIC WEST PRODUCE MARKETING, INC.	1998	1997	1996
Common stock, no par value, 275,000 shares authorized, shares issued and outstanding 26,638 in 1998 and 1997; 18,948 in 1996	$ 1,489,000	$ 1,489,000	$ 864,000
Contributed capital	288,000	288,000	288,000
Retained earnings (deficit)	(2,032,000)	(415,000)	32,000
	(255,000)	1,362,000	1,184,000
Less minority interest	3,000	3,000	2,000
	$ (258,000)	$ 1,359,000	$ 1,182,000

In December 1996, Apio Produce Sales, which previously owned 100% of the outstanding stock (100,000 shares) of PWPM, distributed all of the PWPM common stock to its partners. The aggregate (deficit) value of the PWPM common stock distribution to the Apio Produce Sales partners was ($405,000).

On October 11, 1996, the common stockholders of the Company acquired for cash all of the outstanding shares of Richland Sales Company from Cargill, Incorporated. The total acquisition cost was $1,422,000. The acquisition has been accounted for using the push-down method of accounting, and results of operations of Richland Sales Company since the date of acquisition are included in the combined financial statements.

Subsequent to the acquisition, the Company received a purchase price adjustment in the amount of $453,000. This amount has been recorded as contributed capital.

In December 1996, Richland Sales Company repurchased 4,920 shares of common stock. The consideration was $400,000 and was paid in cash.

On January 1, 1997, Richland Sales Company issued 7,690 shares of stock to new stockholders for an aggregate amount of $625,000.

On March 28, 1997, PWPM was merged into Richland Sales Company (Richland). Each outstanding share of PWPM was converted into .0357 shares of Richland common stock. Simultaneously with the merger, Richland changed its name to Pacific West Produce Marketing, Inc. The merger has been accounted for as a combination of entities under common control in a manner similar to a pooling of interest and, accordingly, all prior combined financial statements have been restated to include the results of the combined entity.

NOTE 12. LIMITED PARTNERSHIP INFORMATION

Included in the combined financial statements are various limited partnerships. Information relative to each partnership's equity in total is as disclosed in Note 11. Information relative to the partnership equity accounts, by general and limited partners, is as follows for the three years ended December 31, 1998. All information is presented after consideration of any prior period adjustments or restatements. (See Note 14.)

APIO COOLING (AC)	General Partners	Limited Partners	Total
Balance, December 31, 1995	$ 710,000	$ 923,000	$ 1,633,000
Net income	343,000	696,000	1,039,000
Distributions and withdrawals	(236,000)	(464,000)	(700,000)
Balance, December 31, 1996	817,000	1,155,000	1,972,000
Net income	408,000	457,000	865,000
Distributions and withdrawals	(326,000)	(374,000)	(700,000)
Balance, December 31, 1997	899,000	1,238,000	2,137,000
Net income	240,000	236,000	476,000
Distributions and withdrawals	(230,000)	(195,000)	(425,000)
Balance, December 31, 1998	$ 909,000	$ 1,279,000	$ 2,188,000

The partnership agreement of Apio Cooling has special allocation rules relating to the allocation of net income between the general partner and limited partners. The first calculation allocates 25% of the net income based on ownership percentage of each partner, both general and limited. The remaining 75% of net income is allocated based on the total number of units processed by the partnership of each of its partners, both general and limited, divided by the total of sold units. The result of this calculation is multiplied by the remaining 75% of the net income. Apio Cooling is consolidated with Apio, Inc. in the combined financial statements.

PACIFIC WEST COLD STORAGE (PWCS)	General Partners	Limited Partners	Total
Balance, December 31, 1995	$ 3,000	$ 54,000	$ 57,000
Net (loss)	(5,000)	(88,000)	(93,000)
Balance (deficit), December 31, 1996	(2,000)	(34,000)	(36,000)
Net (loss)	(8,000)	(151,000)	(159,000)
Balance (deficit), December 31, 1997	(10,000)	(185,000)	(195,000)
Net (loss)	(10,000)	(192,000)	(202,000)
Balance (deficit), December 31, 1998	$ (20,000)	$ (377,000)	$ (397,000)

The partnership agreement of Pacific West Cold Storage allocates net income and loss based on the ownership percentages of the general and limited partners. Pacific West Cold Storage is consolidated with Apio Produce Sales in the combined financial statements.

NOTE 12. LIMITED PARTNERSHIP INFORMATION (CONTINUED)

CENTRAL COAST FRESH-CUT, LP (CCFC)	General Partners	Limited Partners	Total
Balance, December 31, 1995	$ (157,000)	$ 248,000	$ 91,000
Net (loss)	(1,506,000)	(838,000)	(2,344,000)
Balance (deficit), December 31, 1996	(1,663,000)	(590,000)	(2,253,000)
Net (loss)	(1,020,000)	(566,000)	(1,586,000)
Balance (deficit), December 31, 1997	(2,683,000)	(1,156,000)	(3,839,000)
Net (loss)	(674,000)	(369,000)	(1,043,000)
Contributions	1,953,000	-	1,953,000
Withdrawal of limited partners	(1,220,000)	1,220,000	-
Balance (deficit), December 31, 1998	(2,624,000)	(305,000)	(2,929,000)

The partnership agreement of Central Coast Fresh-Cut, LP allocates net income and loss based on the ownership percentages of the general and limited partners. The term of the agreement is for 45 years and CCFC owns 99% of Fresh-King, LLC. On January 1, 1996, two of the limited partners who are common owners of Apio, Inc. were elected general partners along with Apio, Inc. who, preceding that date, was the sole general partner. On December 31, 1998, nine of the limited partners entered into a withdrawal agreement and transferred their accumulated deficit to the general partners in consideration for the release from additional capital contributions by the general partners.

NOTE 13. RETIREMENT PLANS

The Company sponsors a 401(k) plan in which all employees of the Company over the age of 21 are eligible to participate. The eligible employees may contribute up to 15% of their annual compensation. The Company matches the employees' contributions in an amount equal to a percentage of each participant's salary reduction as specified annually by resolution of the Board of Directors.

The Company's contributions to the plan totaled $215,000, $178,000 and $140,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 14. PRIOR PERIOD ADJUSTMENTS, RESTATEMENTS AND CHANGE IN REPORTING ENTITY

PRIOR PERIOD ADJUSTMENTS: Retained earnings and partners' equity at December 31, 1995 have been restated for the correction of errors in the combined financial statements under generally accepted accounting principles (GAAP) as follows:

Retained earnings and partners' equity December 31, 1995, as previously stated	$ 3,981,000
PRIOR PERIOD ADJUSTMENTS	
To adjust allowance for doubtful accounts	(530,000)
To record accounts receivable for sales not recorded in proper period	(144,000)
To adjust property and equipment for depreciation expense and write-off of assets	(286,000)
To record accounts payable not recorded in proper period	(213,000)
To record grower payables not recorded in proper period	(779,000)
To adjust prepaid expenses	87,000
To adjust for gains in investments in farming activities	70,000
To record accrued expenses payable not recorded in proper period	(527,000)
Other	(6,000)
	(2,328,000)
CHANGE IN REPORTING ENTITY	
Central Coast Fresh-Cut, LP	(151,000)
Apio Cooling	741,000
Retained earnings and partners' equity December 31, 1995, as restated	$ 2,243,000

The effect of these adjustments on net income for the year ended December 31, 1995 was a reduction in net income of $1,185,000.

RESTATEMENTS AND CHANGE IN REPORTING ENTITY: The combined financial statements as of and for the year ended December 31, 1996 have been restated for the correction of errors and change in reporting entity in the combined financial statements under GAAP as follows:

Net income December 31, 1996, as previously reported	$ 4,950,000
RESTATEMENTS	
Effect of 1995 adjustments on 1996 net income	2,005,000
To adjust allowance for doubtful accounts	(1,061,000)
To record additional accounts payable not recorded in proper period	(929,000)
To record additional accrued expenses not recorded in proper period	(515,000)
To adjust grower payables for amounts not recorded in proper period	(1,174,000)
To adjust accounts receivable for amounts not recorded in prior period	728,000
To adjust losses on investments in farming activities	(125,000)
To adjust for in-transit inventory	(127,000)
To adjust for prepaid expenses	54,000
To adjust income tax expense	32,000
Other, including adjustment for accrued bonus	49,000
	(1,063,000)
CHANGE IN REPORTING ENTITY	
Central Coast Fresh-Cut, LP	(1,645,000)
Apio Cooling	295,000
	(1,350,000)
Net income December 31, 1996, as restated	$ 2,537,000

NOTE 14. PRIOR PERIOD ADJUSTMENTS, RESTATEMENTS AND CHANGE IN REPORTING ENTITY (Continued)

In 1994 the Company adopted the policy of including Apio Cooling, a subsidiary company, on a consolidated basis, including amounts owned directly by the common owners. This subsidiary had previously been reported on the equity method. Additionally, in 1995 the Company adopted the policy of including Central Coast Fresh-Cut, LP, an affiliate, on a combined basis, including amounts owned directly by its common owners.

NOTE 15. SUBSEQUENT EVENTs

In addition to the renewal of a credit facility and the waiver of certain debt covenants discussed in Notes 4 and 5, on July 2, 1999, the Company received $1,900,000 from a stockholder. The advance is evidenced by an unsecured note payable which bears interest at prime plus .5% and is due December 31, 1999.

SALE OF PROPERTY HELD FOR SALE (UNAUDITED): In November 1999, the Company sold property and equipment which was identified as held for sale at December 31, 1998. The property and equipment was sold for $750,000 of which approximately $96,000 was recorded as a gain on the sale of assets.

ACQUISITION (UNAUDITED): On December 2, 1999, Apio, Inc. and certain related entities were acquired by Landec Corporation. The purchase price was $23.9 million in cash and stock, before expenses. Additional terms of the agreement include up to $16.75 million in future payments over five years, with $10.0 million of that amount based on the Company achieving certain performance milestones. The transaction was accounted for as a purchase.

LOAN AGREEMENT (UNAUDITED): On December 2, 1999, Apio replaced a portion of its existing bank debt with an $11,250,000 term note and entered into a new $12,000,000 line-of-credit agreement paying off the existing line of credit of approximately $10,750,000. The term loan requires three quarterly installments of $500,000 the first year beginning April 30, 2000, quarterly installments of $4,563,000 the second year and quarterly installments of $625,000 through October 31, 2004. The credit facility is secured by substantially all of the assets of the acquired entities and certain assets of the acquirer. The new credit facility requires annual loan fees based on the Company's leverage and borrowings accrue interest either on a base-rate margin or Eurodollar margin based on the Company's leverage, as described in the agreement. Line-of-credit borrowings under the new agreement are limited to eligible accounts and notes receivable and inventory of Apio, Inc., less certain adjustments, as provided for in the agreement.

The credit facility contains certain financial covenants relating to working capital and debt-to-net-worth ratios. The credit facility also contains restrictions on the incurrence of additional debt, payment of distributions and capital expenditures.

COMMITMENTS (unaudited): Subsequent to September 30, 1999, the Company expended approximately $2,000,000 for the expansion of a certain facility and equipment.

DIVIDENDS (unaudited): On December 2, 1999 the Company distributed dividends of approximately $2.1 million to its common shareholders/partners.