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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Fiscal Quarter Ended July 28, 2002, or

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

For the Transition period from ______________ to ______________.

Commission file number: **0-27446**

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

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

3603 Haven Avenue
Menlo Park, California 94025
(Address of principal executive offices)

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

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

As of September 5, 2002, there were 19,329,546 shares of Common Stock and 318,268 shares of Convertible Preferred Stock, convertible into ten shares of Common Stock for each share of Preferred Stock, outstanding.

LANDEC CORPORATION

FORM 10-Q For the Quarter Ended July 28, 2002

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	July 28, 2002	October 28, 2001
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,219	$ 8,695
Restricted cash	932	932
Accounts receivable, less allowance for doubtful accounts of $1,003 and $880 at July 28, 2002 and October 28, 2001	21,540	14,161
Inventory	9,869	14,639
Investment in farming activities	573	1,285
Notes and advances receivable	3,057	3,918
Notes receivable, related party	751	475
Prepaid expenses and other current assets	2,074	1,847
Assets held for sale	11,230	13,988
Total Current Assets	51,245	59,940
Property and equipment, net	20,325	19,999
Goodwill, net	22,002	22,002
Trademarks and other intangible assets, net	15,500	15,103
Notes receivable	1,093	1,606
Other assets	2,193	1,472
	$ 112,358	$ 120,122
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 15,363	$ 17,241
Grower payables	5,954	2,845
Related party payables	835	508
Accrued compensation	1,666	1,646
Other accrued liabilities	7,480	9,125
Deferred revenue	1,719	2,622
Lines of credit	3,134	15,612
Current maturities of long term debt	4,729	4,969

Total Current Liabilities	40,880	54,568
Long term debt, less current maturities	9,348	12,835
Other liabilities	1,814	1,845
Minority interest	1,445	1,035
Total Liabilities	53,487	70,283
Shareholders' Equity:		
Convertible preferred stock	14,355	14,049
Common stock	100,801	93,191
Accumulated deficit	(56,285)	(57,401)
Total Shareholders' Equity	58,871	49,839
	$ 112,358	$ 120,122

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	July 28, 2002	July 29, 2001 (restated)	July 28, 2002	July 29, 2001 (restated)
Revenues:				
Product sales	$ 37,105	$ 31,744	$ 119,714	$ 108,757
Services revenue	5,245	13,250	17,333	39,321
Services revenue, related party	1,155	1,816	2,544	2,858
License fees	677	93	1,725	280
Research, development, and royalty revenues	287	147	618	376
Total revenues	44,469	47,050	141,934	151,592
Cost of revenue:				
Cost of product sales	32,289	27,180	99,058	91,642
Cost of product sales, related party	943	194	2,031	301
Cost of services revenue	4,723	13,652	15,844	37,557
Total cost of revenue	37,955	41,026	116,933	129,500
Gross profit	6,514	6,024	25,001	22,092
Operating costs and expenses:				
Research and development	847	838	2,570	2,340
Selling, general and administrative	6,282	6,023	20,217	20,408
Total operating costs and expenses	7,129	6,861	22,787	22,748
Operating (loss) profit	(615)	(837)	2,214	(656)
Interest income	117	174	256	478
Interest expense	(429)	(687)	(1,381)	(1,919)
Other income (expense)	445	(203)	333	146
Net (loss) income from continuing operations	(482)	(1,553)	1,422	(1,951)
Income (loss) from discontinued operations	—	208	—	(151)
Net (loss) income before dividends	(482)	(1,345)	1,422	(2,102)
Dividends on Series B preferred stock	(104)	—	(306)	—
Net (loss) income applicable to common shareholders	$ (586)	$ (1,345)	$ 1,116	$ (2,102)
Basic net (loss) income per share:				
Continuing operations	$ (0.03)	$ (0.09)	$ 0.06	$ (0.12)

Discontinued operations	—	0.01	—	(0.01)
Basic net (loss) income per share	$ (0.03)	$ (0.08)	$ 0.06	$ (0.13)
Diluted net (loss) income per share:				
Continuing operations	$ (0.03)	$ (0.09)	$ 0.06	$ (0.12)
Discontinued operations	—	0.01	—	(0.01)
Diluted net (loss) income per share	$ (0.03)	$ (0.08)	$ 0.06	$ (0.13)
Shares used in per share computation:				
Basic	19,303	16,467	17,786	16,308
Diluted	19,303	16,467	21,119	16,308

See accompanying notes.

LANDEC CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended	
	July 28, 2002	July 29, 2001 (restated)
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 1,422	$ (1,951)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,528	3,968
Loss from discontinued operations	—	(151)
Disposal of property and equipment	2,041	530
Increase in minority interest liability	410	59
Changes in current assets and liabilities:		
Accounts receivable	(7,379)	3,375
Inventory	4,770	(1,121)
Investment in farming activities	712	2,421
Prepaid expenses and other current assets	(227)	(215)
Assets held for sale	(28)	96
Accounts payable	(1,878)	(3,004)
Grower payables	3,109	(7,387)
Related party payables	327	75
Accrued compensation	20	(611)
Other accrued liabilities	(1,645)	(1,968)
Deferred revenue	(903)	(1,810)
Total adjustments	1,857	(5,743)
Net cash provided by (used in) operating activities	3,279	(7,694)
Cash flows from investing activities:		
Increase in other assets and liabilities	(868)	(166)
Purchases of property and equipment	(1,954)	(4,970)
Decrease in notes receivable and advances	1,098	2,297
Acquisition costs related to earn-out provisions	(436)	(995)
Net cash used in investing activities	(2,160)	(3,834)
Cash flows from financing activities:		
Proceeds from sale of common stock	7,610	631
Borrowings on lines of credit	15,989	19,651
Payments on lines of credit	(28,468)	(12,144)
Borrowing of long term debt	60	3,631
Repayment of long term debt	(3,786)	(3,303)
Distributions to minority interest	—	(249)

Net cash (used in) provided by financing activities	(8,595)	8,217
Net decrease in cash and cash equivalents	(7,476)	(3,311)
Cash and cash equivalents at beginning of period	8,695	8,636
Cash and cash equivalents at end of period	$ 1,219	$ 5,325

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

1. Basis of Presentation

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, and licensed partner applications. In addition, the Company markets and distributes hybrid corn seed to farmers through its Landec Ag, Inc. ("Landec Ag") subsidiary and specialty packaged fresh-cut vegetables and whole produce to retailers and foodservice companies primarily in the United States and Canada through its Apio, Inc. ("Apio") subsidiary.

The accompanying unaudited consolidated financial statements of Landec Corporation ("Landec" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, and cash flows at July 28, 2002, and for all periods presented, have been made. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted per the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec's Annual Report on Form 10-K for the fiscal year ended October 28, 2001.

The results of operations for the three month and nine month periods ended July 28, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ended October 27, 2002. For instance, due to the cyclical nature of the corn seed industry, a significant portion of Landec Ag revenues and profits will be concentrated over a few months during the spring planting season (generally during Landec's second fiscal quarter).

To remain focused on its core businesses, Landec's Board of Directors approved in October 2001 the sale of Dock Resins Corporation ("Dock Resins"), the Company's specialty chemical subsidiary. The Company made the decision to sell Dock Resins in order to strengthen its balance sheet by reducing debt and other liabilities. The Company expects a sale of Dock Resins to close in fiscal year 2002. As a result of the decision to sell Dock Resins, the financial results of the Company for the three and nine month periods ended July 29, 2001 have been restated and the results of Dock Resins have been reclassed to discontinued operations for all periods presented, and the estimated loss on the sale was recorded in fiscal year 2001. Unless otherwise specified, the information and descriptions provided in this report relate only to the continuing operations of the Company.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ materially from those estimates.

For instance, the carrying value of advances and notes receivable, as well as investments in farming activities, are impacted by current market prices for the related crops, weather conditions and the fair

value of the underlying security obtained by the Company, such as, liens on property and crops. The Company recognizes losses when it estimates that the fair value of the related crops or security is insufficient to cover the advance, note receivable or investment.

Reclassifications

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

2. Recent Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. Application of the nonamortization provisions of the Statement resulted in an increase in net income of approximately $656,000 and $1.9 million for the three months and nine months ended July 28, 2002, respectively.

Goodwill and other acquisition-related intangibles are reviewed for recoverability periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is compared to the undiscounted cash flows of the businesses acquired. Should the comparison indicate that these intangibles are not recoverable, their carrying amount would be reduced to the estimated amount of those cash flows.

In May 2002, the Company completed its initial impairment review by grouping the net book value of all long-lived assets for acquired businesses, including goodwill and other intangible assets, and compared to the estimated the future discounted cash flows related to these long-lived assets. The discount rate used was based on the risks associated with the acquired businesses ("reporting entities"). This initial impairment review was performed by an independent appraiser. The review concluded that the fair market value of the reporting entities exceeded the carrying value of their net assets and thus no impairment charge was warranted upon the adoption of the new standard.

3. Net Income Per Diluted Share

The following table sets forth the computation of diluted net income for the periods with net income (in thousands, except per share amounts):

		Nine Months Ended July 28, 2002
Numerator:		
Net income before preferred stock dividend	$	1,422
Less: Minority interest in income of subsidiary		(136)
Net income for diluted net income per share	$	1,286
Denominator:		
Weighted average shares for basic net income per share		17,786
Effect of dilutive securities:		
Stock Options		217
Convertible preferred stock		3,116
Total dilutive common shares		3,333
Weighted average shares for diluted net income per share		21,119
Diluted net income per share before preferred stock	$	0.07
Dilutive per share impact of preferred stock		(0.01)
Dilutive net income per share	$	0.06

The computation of diluted net loss per share for the three months ended July 28, 2002 excludes the impact of options to purchase 222,612 shares of common stock and the conversion of the Convertible Preferred Stock which is convertible into 3.2 million shares of common stock at July 28, 2002, as such impact would be antidilutive for this period.

The computation of diluted net income per share for the three months ended July 29, 2001 excludes the impact of options to purchase 302,464 shares of common stock and the conversion of the Convertible Preferred Stock which was convertible into 1.7 million shares of common stock at July 29, 2001, as such impact would be antidilutive for this period.

The computation of diluted net loss per share for the nine months ended July 29, 2001 excludes the impact of options to purchase 387,695 shares of common stock, and the conversion of the Convertible Preferred Stock, which was convertible into 1.7 million shares of common stock, at July 29, 2001, as such impact would be antidilutive for this period.

4. Goodwill and Other Intangibles

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. The Company has applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year

2002. The following table shows what net income would have been had the provision been applied at the beginning of fiscal year 2001 (in thousands, except per share amounts):

		Three Months Ended July 29, 2001		Nine Months Ended July 29, 2001
Net income as reported	$	(1,345)	$	(2,102)
Goodwill and other intangible amortization		656		1,936

Adjusted net income	$ (689)	$ (166)
Earnings per share as reported	$ (0.08)	$ (0.13)
Goodwill and other intangible amortization	0.04	0.12
Adjusted earnings per share	$ (0.04)	$ (0.01)

5. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consisted of the following (in thousands):

	July 28, 2002	October 28, 2001
Finished goods	$ 4,019	$ 9,030
Raw material	4,934	4,885
Work in process	1,301	1,355
Gross inventory	10,254	15,270
Less reserves	(385)	(631)
Net inventory	$ 9,869	$ 14,639

6. Assets Held For Sale

On June 5, 2002, the Company sold its Reedley, California fruit processing land and facility for net proceeds of $2.2 million, resulting in a gain of $436,000. The equipment in the facility has been leased through October 2002 to the purchaser of the fruit processing facility with an option to buy at the end of the lease term. The remaining balance at July 28, 2002 relates to Dock Resins (see note 11).

7. Debt

In April 2002, the Apio loan agreement with Bank of America was amended. The amendment increased the computed amount available under the revolving line of credit as determined as a percentage of certain eligible assets (primarily receivables) by $2.5 million for the period February 28, 2002 to March 31, 2002 and the Company agreed to subordinate to the bank $5.9 million of contributions made to Apio.

On May 1, 2002, Apio's loan agreement with Bank of America was amended again to extend the revolving line of credit through July 31, 2002 and to increase the interest rate for the period from May 1, 2002 through July 31, 2002 to prime plus 3% or 7.75% on an annual basis.

As required by Apio's loan agreement, the Company has entered into an interest rate swap agreement with Bank of America to limit interest rates on a portion of its long-term debt to a maximum effective rate of 9.52%. The agreement expires on October 30, 2002. The notional amount covered by the agreement at July 28, 2002 is $5,250,000. In accordance with FAS 133, "Accounting for Derivative Instruments and Certain Hedging Activities," the Company has elected not to designate its

interest rate swap as an accounting hedge due to the projected immateriality of the accounting impact of the hedge. Therefore, the difference to be paid or received is accrued as the interest rate changes and recognized as an adjustment to interest expense. The fair value of the swap was approximately $87,000 at both July 28, 2002 and October 28, 2001. The Company does not trade or engage in hedging for investment purposes.

8. Related Party

In May 2002, Apio advanced to a farm wholly-owned by the Chief Executive Officer ("CEO") of Apio $1.1 million for ground lease payments and crop financing expenses in order to maintain current levels of produce sourcing from his personal farm. The advance accrues interest at Apio's interest rate per its Bank of America loan agreement. $400,000 of the $1.1 million was repaid on June 30, 2002, with the remainder due on December 31, 2002. This advance is secured by crops of the farm and an earnout payment of $4.1 million due October 28, 2002 to the CEO of Apio arising from the acquisition of Apio by Landec.

9. Common Stock

In March 2002, the Company raised $7.3 million, net of expenses, through a private placement of 2,580,663 shares of common stock. The Company has filed a registration statement with the SEC for the resale of the stock.

10. Dividends

Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first two years, ten percent (10%) for the third year and twelve percent (12%) thereafter, following the initial sale on October 25, 2001 of shares of Series B Convertible Preferred Stock. Series B preferred stockholders were issued Series B preferred stock as accrued stock dividends of 2,857 shares on January 31, 2002, 2,914 shares on April 30, 2002, and 2,973 shares on July 31, 2002. Dividends for Series B preferred stock are cumulative and were declared by the Company's Board of Directors and issued at a price of $35 per share as per the agreement.

11. Discontinued Operations

In October 2001, the Board of Directors approved a plan to sell Dock Resins, the Company's specialty chemical subsidiary. The Company anticipates that a sale of Dock Resins will close during fiscal year 2002. As a result of this decision, the financial results of Dock Resins have been included in the consolidated statement of operations as a discontinued operation and its net assets have been reclassified in the consolidated balance sheets to assets held for sale.

The estimated loss recorded in fiscal year 2001 on the pending sale of Dock Resins was $2.5 million, which is comprised of an estimated loss on the disposal of Dock Resins of $1.3 million; transaction costs and certain costs directly related to the sale, including consulting fees and professional fees of $900,000; and a provision of $258,000 for the anticipated operating losses from the measurement date of October 18, 2001 to the estimated disposal date of October 27, 2002. The loss the Company will ultimately realize on the sale of Dock Resins could differ materially from the amounts currently assumed in arriving at the loss recorded in fiscal year 2001 from the disposal of Dock Resins.

The condensed components of the net assets of Dock Resins included in assets held for sale in the accompanying consolidated condensed balance sheets as of July 28, 2002 and October 28, 2001 are as follows (in thousands):

	July 28, 2002	October 28, 2001
Total current assets	$ 4,247	$ 3,954
Total assets	18,291	18,448
Total current liabilities	(2,825)	(3,433)
Other liabilities	(2,650)	(2,473)
Net assets of Dock Resins before loss on disposal	12,816	12,542
Loss on disposal	(1,342)	(1,342)
Net assets of Dock Resins	$ 11,474	$ 11,200

The condensed statements of operations of Dock Resins for the three months and nine months ended July 28, 2002 and July 29, 2001 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2002	July 29, 2001	July 28, 2002	July 29, 2001
Product sales	$ 3,057	$ 3,075	$ 9,008	$ 9,029
Cost of product sales	2,097	1,992	6,069	6,062
Gross profit	960	1,083	2,939	2,967
Operating expenses	699	740	2,190	2,594
Operating profit	261	343	749	373
Other expense	(216)	(135)	(628)	(524)
Net income (loss) from discontinued operations	$ 45	$ 208	$ 121	$ (151)

The net income for Dock Resins for the first nine months of fiscal year 2002 were included in the estimated loss of $2.5 million from the disposal of discontinued operations recorded in fiscal year 2001. Dock Resins' losses and/or profits during the current fiscal year will be recorded as an adjustment to assets held for sale with the corresponding offset to accrued liabilities.

12. Business Segment Reporting

Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs produce and specialty packaged whole and fresh-cut vegetables that incorporate the Intellipac™ breathable membrane for the retail grocery, club store and food services industry. The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is developing seed coatings using Landec's proprietary Intelimer® polymers. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and other amounts include non-core operating activities, corporate operating costs and net interest expense. All of the assets of the Company are located within the United States of America.

Operations by Business Segment (in thousands):

	Food Products Technology	Agricultural Seed Technology	Corporate and Other	TOTAL
Quarter ended July 28, 2002				
Net sales	$ 43,058	$ 510	$ 901	$ 44,469

International sales	$ 9,846	$ —	$ —	$ 9,846
Gross profit	$ 5,367	$ 246	$ 901	$ 6,514
Net income (loss) from continuing operations	$ 474	$ (1,866)	$ 910	$ (482)
Interest expense	$ 414	$ 12	$ 3	$ 429
Interest income	$ 80	$ 23	$ 14	$ 117
Depreciation and amortization	$ 760	$ 123	$ 37	$ 920
Quarter ended July 29, 2001				
Net sales	$ 46,491	$ 444	$ 115	$ 47,050
International sales	$ 9,999	$ —	$ —	$ 9,999
Gross profit	$ 5,789	$ 88	$ 147	$ 6,024
Net income (loss) from continuing operations	$ 55	$ (1,777)	$ 169	$ (1,553)
Interest expense	$ 619	$ 68	$ —	$ 687
Interest income	$ 170	$ —	$ 4	$ 174
Depreciation and amortization	$ 999	$ 280	$ 60	$ 1,339
Nine months ended July 28, 2002				
Net sales	$ 120,168	$ 19,484	$ 2,282	$ 141,934
International sales	$ 27,725	$ —	$ —	$ 27,725
Gross profit	$ 14,810	$ 7,909	$ 2,282	$ 25,001
Net income (loss) from continuing operations	$ (2,299)	$ 1,374	$ 2,347	$ 1,422
Interest expense	$ 1,292	$ 86	$ 3	$ 1,381
Interest income	$ 194	$ 46	$ 16	$ 256
Depreciation and amortization	$ 2,010	$ 383	$ 135	$ 2,528
Nine months ended July 29, 2001				
Net sales	$ 134,790	$ 16,177	$ 625	$ 151,592
International sales	$ 23,499	$ —	$ —	$ 23,499
Gross profit	$ 14,900	$ 6,657	$ 535	$ 22,092
Net income (loss) from continuing operations	$ (2,197)	$ (315)	$ 561	$ (1,951)
Interest expense	$ 1,757	$ 162	$ —	$ 1,919
Interest income	$ 463	$ 4	$ 11	$ 478
Depreciation and amortization	$ 2,967	$ 828	$ 173	$ 3,968

During the first nine months of fiscal year 2002, sales to the Company's top five customers accounted for approximately 30% of revenues, with the Company's top customers from the Food Products Technology segment, Wal-Mart Stores Inc., accounting for approximately 12% and Costco Wholesale Corp., accounting for approximately 11% of revenues. The Company expects that, for the foreseeable future, a limited number of customers may continue to account for a significant portion of its net revenues.

13. Subsequent Events

On August 1, 2002, Apio's loan agreement with Bank of America was amended to extend the revolving line of credit through October 31, 2002 and to decrease the interest rate for the period from August 1, 2002 through October 31, 2002 to prime plus 2% or 6.75% on an annual basis.

Item 2.

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I—Item 1 of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Landec's Annual Report on Form 10-K for the fiscal year ended October 28, 2001.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in Landec's Annual Report on Form 10-K for the fiscal year ended October 28, 2001. Landec undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. The judgements and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

Notes and Advances Receivables

Apio has made advances to fruit growers for the development of orchards, and to produce growers for crop and harvesting costs. Typically, except for development advances, these advances are paid off within the growing season (less than one year) from harvested crops. Development advances and advances not fully paid during the current growing season are converted to interest bearing obligations, evidenced by contracts and notes receivable. These notes receivable and advances are secured by perfected liens on land and/or crops and have terms that range from twelve to sixty months. Notes receivable are periodically reviewed (at least quarterly) for collectibility. A reserve is established for any note or advance deemed to not be fully collectible based upon an estimate of the crop value or the fair value of the security for the note or advance. If crop prices or the fair value of the underlying security declines the Company may be unable to fully recoup its investment and the estimated losses would rise in the current period, potentially to the extent of the total investment.

Investments in Farming Activities

Investments in farming activities consist of cash advances to growers for expenses to be incurred during the growing season, in exchange for a percentage ownership in the proceeds of the crops. Net income or loss is generally recognized on these investments based on the Company's percentage ownership of the net proceeds of the crops as fields are harvested and proceeds are settled. Additionally, certain farming agreements contain provisions wherein the Company bears the risk of loss if the net proceeds from the crops are not sufficient to cover the expense incurred. If crop prices

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decline the Company may be unable to fully recoup its investment and the estimated losses would rise in the current period, potentially to the extent of the total investment.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on review of the overall condition of accounts receivable balances and review of significant past due accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Bad debt losses are partially mitigated due to low risks related to the fact that the Company's customers are predominantly large financially sound national and regional retailers.

Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a standard cost approach. If the cost of the inventories exceeds their expected market value, provisions are recorded currently for the difference between the cost and the market value. These provisions are determined based on significant estimates.

Revenue Recognition

Revenue from product sales is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts. If actual future returns and allowances differ from past experience, additional allowances may be required.

Licensing revenue is recognized in accordance with Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. Initial license fees are deferred and amortized over the period of the agreement to revenue when a contract exists, the fee is fixed and determinable, and collectibility is reasonably assured. Noncancellable, nonrefundable license fees are recognized over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement.

Contract revenue for research and development (R&D) is recorded as earned, based on the performance requirements of the contract. Non-refundable contract fees for which no further performance obligations exist, and there is no continuing involvement by the Company, are recognized on the earlier of when the payments are received or when collection is assured.

Divestitures

The estimation of net sales proceeds to be received from the sale of discontinued operations and assets held for sale are based on indications of value expressed by prospective buyers and the advice of financial advisors. The Company does not expect the actual proceeds to be significantly different from estimates. However, until the completion of divestitures, the possibility exists that actual proceeds could be materially different than estimated.

The Company

Landec Corporation and its subsidiaries ("Landec" or "the Company") design, develop, manufacture and sell temperature-activated and other specialty polymer products for a variety of food

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products, agricultural products, and licensed partner applications. This proprietary polymer technology is the foundation, and a key differentiating advantage, upon which we have built our business.

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

Landec has two core businesses—Food Products Technology and Agricultural Seed Technology, in addition to our Technology Licensing/Research and Development business.

Our Food Products Technology business is operated through a subsidiary, Apio, Inc., and combines our proprietary Intellipac™ food packaging technology with the capabilities of a large national food supplier and value-added produce processor. Value-added processing incorporates Landec's proprietary Intellipac packaging technology with produce that is processed by washing, and in some cases cutting and mixing, resulting in packaged produce which can increase shelf life, reduce shrink (waste) and eliminates the need for ice during the distribution cycle. This combination was consummated in December 1999 when the Company acquired Apio, Inc. and certain related entities (collectively, "Apio").

Our Agricultural Seed Technology business is operated through a subsidiary, Landec Ag, Inc., ("Landec Ag") and combines our proprietary Intellicoat® seed coating technology with our unique eDC™—e-commerce, direct marketing and consultative selling—capabilities which we obtained when we acquired Fielder's Choice Direct ("Fielder's Choice"), a direct marketer of hybrid seed corn, in September 1997.

In addition to our two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses products outside of our core businesses to industry leaders such as Alcon Laboratories, Inc. and UCB Chemicals, a subsidiary of UCB S.A. of Belgium.

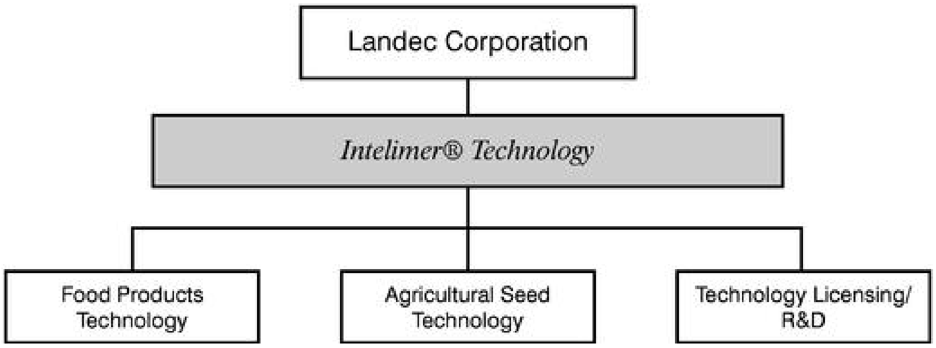
Landec has been unprofitable during each fiscal year since its inception, and may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year. From inception through July 28, 2002, Landec's accumulated deficit was $56.3 million.

To remain focused on our core businesses, in October 2001 our Board of Directors approved the sale of Dock Resins Corporation ("Dock Resins"), our specialty chemical subsidiary. We made the decision to sell Dock Resins in order to strengthen our balance sheet by reducing debt and other liabilities. We expect a sale of Dock Resins to close in fiscal year 2002.

Landec was incorporated in California on October 31, 1986. We completed our initial public offering in 1996 and our common stock is listed on the Nasdaq National Market under the symbol "LNDC." Our principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025 and our telephone number is (650) 306-1650.

Description of Core Business

We participate in two core business segments—Food Products Technology and Agricultural Seed Technology. In addition to these two core segments, we will license technology and conduct ongoing research and development through our Technology Licensing/Research and Development Business.



Food Products Technology Business

We began marketing in early fiscal year 1996 our proprietary Intelimer-based breathable membranes for use in the fresh-cut produce packaging market, one of the fastest growing segments in the food industry. Our proprietary Intellipac packaging technology when combined with produce that is processed by washing and in some cases cut and mixed, results in packaged produce with increased shelf life, reduced shrink (waste) and without the need for ice during the distribution cycle, this we refer to as our "value-added" products. In December 1999, we acquired Apio, our largest customer in the Food Products Technology business and one of the nation's leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Apio provides year-round access to produce, utilizes state-of-the-art fresh-cut produce processing technology and distributes to the top U.S. retail grocery chains and major club stores and has recently begun expanding its product offerings to the foodservice industry. Our proprietary Intelimer-based packaging business has been combined with Apio into a wholly owned subsidiary that retains the Apio, Inc. name. This vertical integration within the Food Products Technology business gives Landec direct access to the large and growing fresh-cut produce market.

Based in Guadalupe, California, Apio, when acquired in December 1999, consisted of two major businesses—first, the "fee-for-service" selling and marketing of whole produce and second, the specialty packaged fresh-cut and whole value-added processed products that are washed and packaged in our Intellipac packaging. The "fee-for-service" business historically included field harvesting and packing, cooling and marketing of vegetables and fruits on a contract basis for growers in California's Santa Maria, San Joaquin and Imperial Valleys as well as in Arizona and Mexico. Apio currently has approximately 12,500 acres under contract, consisting of approximately 17 percent of the farmable land in the Santa Maria Valley. The fresh-cut value-added processing products business, developed within the last 6 years, sources a variety of fresh-cut vegetables to the top retail grocery chains representing over 8,700 retail and club stores. During the fiscal year ended October 28, 2001, Apio shipped more than 21 million cartons of produce to some 700 customers including leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

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

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Full Service Supplier: Apio has structured its business as a full service marketer and seller of vegetables, fruits, and fresh-cut value-added produce. It is focused on developing its Eat Smart®

brand name for all of its fresh-cut value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.

- **Reduced Farming Risks:** Apio is unique in that it takes considerably less farming risk than its competitors. Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce and charges for services that include cooling, shipping and marketing. The year-round sourcing of produce is a key component to both the traditional produce business as well as the fresh-cut value-added processing business.

- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing fresh-cut value-added business. Apio's 35,000 square foot value-added processing plant packed more than 69.5 million pounds of produce in fiscal year 2001. The value-added processing facility has recently been expanded to 49,000 square feet. Ninety percent of Apio's value-added products utilize Landec's proprietary Intellipac membrane technology. Our strategy is to operate one large central processing facility in one of California's largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.

- **Export Capability:** Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia and has recently launched its iceless products to Asia using Intellipac packaging technology**.**

- **Expanded Product Line Using Technology:** Apio, through the use of our Intellipac membrane technology, is in the early stages of changing selective categories of the whole produce business. Its introduction of iceless packaging for broccoli crowns in November 2000 is the beginning of a conversion from the traditional packing and shipping of whole produce, which relied heavily on ice, to iceless products utilizing the Intellipac technology. New iceless packaging is available for various broccoli products and green onions.

Agricultural Seed Technology Business

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

Landec Ag is conducting field trials using Intellicoat seed coatings, an Intelimer-based agricultural material designed to control seed germination timing, increase crop yields and extend crop planting windows. These coatings are initially being applied to corn, soybean, and canola seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 2001 in the United States for corn, soybean, and canola seed exceeded 76.1 million, 75.4 million, and 1.6 million, respectively.

In fiscal year 2000, Landec Ag successfully launched its first commercial product, Pollinator Plus™ coatings for inbred corn seed. As a result of the success realized in fiscal year 2001, we expanded our sales of inbred corn seed coating products in fiscal year 2002 to regional and national seed companies in the United States. This application is targeted to approximately 640,000 acres in ten states and is now being used by over 30 seed companies in the United States. In addition, based on the successful field trial results during 2001 for our Early Plant™ hybrid coated corn, we expanded our sales in 2002. Our Relay™ Intercropping of wheat and soybean will allow farmers to plant and harvest two crops during the year on the same land, providing significant financial benefit for the farmer. Early Plant hybrid corn, perhaps Landec Ag's largest seed coating opportunity, allows the farmer to plant corn seed 3 to 4 weeks earlier than typically possible due to cold soil temperatures. By allowing the farmer to plant earlier than normal, Early Plant hybrid corn will enable large farmers to utilize staff and

equipment more efficiently and provide flexibility during the critical planting period. Recent market research with farmers in seven corn growing states verified that farmers would pay a significant premium for Landec Ag's Early Plant hybrid corn product if they were able to plant a portion of their acreage up to one month early. We estimate that 1 of every 7 corn acres could be converted to Intellicoat coated seed within 3 years of industry-wide commercialization.

In September 1997, Landec Ag acquired Fielder's Choice, a direct marketer of hybrid seed corn to farmers. Based in Monticello, Indiana, Fielder's Choice offers a comprehensive line of corn hybrids to more than 14,000 farmers in over forty states through direct marketing programs. The success of Fielder's Choice comes, in part, from its expertise in selling directly to the farmer, bypassing the traditional and costly farmer-dealer system. We believe that this direct channel of distribution provides up to a 35% cost advantage to its farmers.

In order to support its direct marketing programs, Fielder's Choice has developed a proprietary e-commerce direct marketing, and consultative selling information technology, called "eDC", that enables state-of-the-art methods for communicating with a broad array of farmers. This proprietary direct marketing information technology includes a current database of over 90,000 farmers. In August 1999, we launched the seed industry's first comprehensive e-commerce website. This website furthers our ability to provide a high level of consultation to Fielder's Choice customers, backed by a six day a week call center capability that enables us to use the internet as a natural extension of our direct marketing strategy.

Technology Licensing/Research and Development Businesses

We believe our technology has commercial potential in a wide range of industrial, consumer and medical applications beyond those identified in its core businesses. For example, our core patented technology Intelimer materials, can be used to trigger release of small molecule drugs, catalysts, pesticides or fragrances just by changing the temperature of the Intelimer materials or to activate adhesives through controlled temperature change. In order to exploit these opportunities, we have entered into or will enter into licensing and collaborative corporate agreements for product development and/or distribution in certain fields.

Discontinued Operations

Dock Resins. In April 1997, we acquired Dock Resins, a privately-held manufacturer and marketer of specialty acrylic and other polymers based in Linden, New Jersey. Dock Resins sells products under the Doresco® trademark which are used by more than 300 customers throughout the United States and other countries in the coatings, printing inks, laminating and adhesives markets. Dock Resins is a supplier of proprietary polymers including acrylic, methacrylic, alkyd, polyester, urethane and polyamide polymers to film converters engaged in hot stamping, decorative wood grain, automotive interiors, holograms, and metal foil applications. Dock Resins also supplies products to a number of other markets, such as, graphic arts, automotive refinishing, construction, pressure-sensitive adhesives, paper coatings, caulks, concrete curing compounds and sealers.

In October 2001, the Board of Directors approved a plan to sell Dock Resins in order to strengthen its balance sheet and focus management's attention on our core food and agricultural technology businesses. We anticipate that a sale of Dock Resins will close during the fiscal year 2002 but we are currently not a party to any binding agreement for the sale of Dock Resins.

The estimated loss recorded in fiscal year 2001 on the pending sale of Dock Resins was $2.5 million, which is comprised of an estimated loss on the disposal of Dock Resins of $1.3 million; transaction costs and certain costs directly related to the sale, including consulting fees and professional fees of $900,000; and a provision of $258,000 for the anticipated operating losses from the measurement date of October 18, 2001 to the estimated disposal date of October 27, 2002. The

estimated fair value sales price of $15 million was based upon negotiations with various parties at the time of the measurement date that had expressed interest in acquiring Dock Resins. The loss we will ultimately realize on the sale of Dock Resins could differ materially from the amounts currently assumed in arriving at the loss recorded in fiscal year 2001 from the disposal if the actual sales price paid by a buyer is substantially more or less than the estimated price of $15 million.

As a result of the decision to sell Dock Resins, the financial results of Dock Resins have been reclassed to discontinued operations for all periods presented, and the estimated loss on the sale was recorded in fiscal year 2001. Unless otherwise specified, the information and descriptions provided in this report relate only to the continuing operations of the Company.

Results of Operations

Total revenues were $44.5 million for the third quarter of fiscal year 2002, compared to $47.1 million for the third quarter of fiscal year 2001. Revenues from product sales and services decreased to $43.5 million in the third quarter of fiscal year 2002 from $46.8 million in the third quarter of fiscal year 2001. The decrease in product sales and service revenues was primarily due to Apio's "fee-for-service" whole produce business which decreased to $6.4 million in the third quarter of 2002 from $15.1 million in the third quarter of 2001. Apio's "fee-for-service" whole produce revenues decreased as a result of the Company's decision in the third quarter of fiscal year 2001 to exit the cash intensive field harvesting and packing operations. The decrease in Apio's "fee-for-service" revenues was partially offset by an increase in Apio's value added fresh-cut and whole produce business that increased to $22.9 million in the third quarter of 2002 from $17.9 million in the third quarter of 2001. Revenues from license fees increased to $677,000 for the third quarter of fiscal year 2002 from $93,000 for the third quarter of fiscal year 2001 due primarily to a new $2.0 million licensing agreement with UCB Chemicals Corporation ("UCB") in December 2001 which is being recognized to revenue ratably over a 12-month period. Revenues from research and development funding were $287,000 for the third quarter of fiscal year 2002 compared to $147,000 for the third quarter of fiscal year 2001. For the first nine months of fiscal year 2002 total revenues were $141.9 million compared to $151.6 million during the same period in 2001. Revenues from product sales and services for the first nine months of fiscal year 2002 decreased to $139.6 million from $150.9 million during the same period of fiscal year 2001 due primarily to the decrease in revenues in Apio's "fee-for-service" whole produce business which decreased to $19.9 million in the first nine months of fiscal year 2002 from $42.2 million for the same period last year. This decrease was partially offset by increased revenues in Apio's value added fresh-cut and whole produce business which increased to $64.3 million in the first nine months of fiscal year 2002 from $54.5 million in the same period of fiscal year 2001. This increase would have been significantly higher had Apio not experienced a severe shortage of produce due to adverse weather conditions during the Company's first fiscal quarter and the first few weeks of the Company's second fiscal quarter. In addition to the increase in Apio's value added business, Landec Ag revenues increased to $19.5 million in the first nine months of fiscal year 2002 from $16.2 million in the same period of fiscal year 2001. The increase in Landec Ag revenues was due to an increase in sales volume to existing customers and an increase in the number of new customer in 2002 as compared to 2001. Revenues from license fees increased to $1.7 million for the first nine months of fiscal year 2002 from $280,000 for the same period of fiscal year 2001 due primarily to the UCB licensing agreement entered into in December 2001. Revenues from research and development funding for the first nine months of fiscal year 2002 increased to $618,000 from $376,000 during the same period of fiscal year 2001.

Cost of product sales and services consists of material, labor and overhead. Cost of product sales and services was $38.0 million for the third quarter of fiscal year 2002 compared to $41.0 million for the third quarter of fiscal year 2001. Gross profit from product sales and services as a percentage of revenue from product sales and services increased to 12.8% in the third quarter of fiscal year 2002 as compared to 12.4% in the third quarter of fiscal year 2001. Cost of product sales and services for the

first nine months of fiscal year 2002 was $116.9 million compared to $129.5 million during the same period in fiscal year 2001. Gross profit from product sales and services as a percentage of revenue from product sales and services increased to 16.2% for the first nine months of fiscal year 2002 from 14.2% during the same period of fiscal year 2001. The increases in gross profit percentages related to product sales and services were primarily the result of increased higher margin Landec Ag revenues and Apio's profit from farming activities of $928,000 during the first nine months of fiscal year 2002 as compared to a net loss of $1.9 million in the same period of fiscal year 2001. The profit in farming activities was the result of favorable market prices. Overall gross profit increased to $6.5 million for the three month period ended July 28, 2002 from $6.0 million for the same period of fiscal year 2001. For the first nine months ended July 28, 2002 gross profits increased to $25.0 million from $22.1 million for the same period in fiscal year 2001, an increase of 13% over the first nine months of fiscal year 2001.

Research and development expenses remained virtually the same at $847,000 for the third quarter of fiscal year 2002 compared to $838,000 in the third quarter of fiscal year 2001. Research and development expenses increased to $2.6 million for the first nine months of fiscal year 2002 from $2.3 million in the same period of fiscal year 2001, an increase of 10%. Landec's research and development expenses consist primarily of expenses involved in the development of, process scale-up of, and efforts to protect intellectual property content of Landec's enabling side chain crystallizable polymer technology. The increase in research and development expenses during the nine month period ended July 28, 2002 compared to the same period of fiscal year 2001 was primarily due to efforts expended to develop the Company's banana technology. The Company expects that total research and development spending in fiscal year 2002 will be higher than the prior year in absolute dollars and should increase as a percent of revenue because overall revenues are expected to decrease slightly in fiscal year 2002 as compared to fiscal year 2001 and because substantial efforts are being spent on the development of the Company's banana technology.

Selling, general and administrative expenses were $6.3 million for the third quarter of fiscal year 2002 compared to $6.0 million for the third quarter of fiscal year 2001, an increase of 4%. For the first nine months of fiscal year 2002 selling, general and administrative expenses were $20.2 million compared to $20.4 million during the same period in fiscal year 2001. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses, and staff and administrative expenses. The increase in selling, general and administrative expenses in the third quarter of fiscal year 2002 as compared to the third quarter of fiscal year 2001 is primarily due to (1) an increase in banana sales and marketing expenses at Apio, (2) an increase in general and administrative expenses at Apio resulting from depreciation expense on Apio's new business system and because internal use of labor to develop the new system was capitalized last year but that same labor is being expensed this year because the system has been implemented, and (3) an increase in sales and marketing expenses at Landec Ag due to starting the 2003 selling season one month earlier than last year. These increases were partially offset by $656,000 of lower amortization of intangibles expense due to the Company adopting SFAS No. 142 at the beginning of fiscal year 2002 and decreases in sales and marketing for Apio's "fee-for-service" business. The decrease in selling, general and administrative expenses for the first nine months of fiscal year 2002 as compared to the same period last year is primarily due to intangible amortization expense decreasing by $1.9 million which was partially offset by increased general and administrative expenses at Apio as a result of expenses related to Apio's new business system, banana sales and marketing expenses, and Landec Ag sales and marketing expenses described above. Sales and marketing expenses decreased to $2.3 million for the third quarter of fiscal year 2002 from $2.6 million for the third quarter of fiscal year 2001. For the first nine months of fiscal year 2002 sales and marketing expenses decreased to $7.6 million from $8.2 million during the same period of fiscal year 2001. Landec expects that total selling, general and administrative spending for existing and newly acquired products will increase in absolute dollars in future periods, although it may vary as a percentage of total revenues.

Interest income for the three and nine month periods ended July 28, 2002 were $117,000 and $256,000, respectively, compared to $174,000 and $478,000 for the same periods of fiscal year 2001. Interest expense for the three and nine months periods ended July 28, 2002 were $429,000 and $1.4 million, respectively, compared to $687,000 and $1.9 million for the same periods of fiscal year 2001. The decreases in interest income are due principally to less cash available for investing. The decreases in interest expense are due to using cash generated from operations and from equity financings to pay down debt and thus lower interest expenses.

Liquidity and Capital Resources

As of July 28, 2002, the Company had cash and cash equivalents of $1.2 million, a net decrease of $7.5 million from $8.7 million at October 28, 2001. This decrease was primarily due to: (a) the purchase of $2.0 million of property, plant and equipment; (b) the reduction of net borrowings under the Company's lines of credit of $12.5 million, (c) the net reduction of long term debt of $3.7 million, and (d) an increase in other assets and acquisition costs related to earn-out provisions of $1.3 million; partially offset by (e) net cash provided from operations of $3.3 million, (f) cash provided from the decrease of notes and advances receivable of $1.1 million, and (g) proceeds from the sale of common stock of $7.6 million.

During the first nine month of fiscal year 2002, Landec purchased vegetable processing equipment to support the development of Apio's value added products, and incurred capital expenditures to complete the installation of Apio's new ERP business system. These expenditures represented the majority of the $2.0 million of property and equipment purchased.

In December 1999, in conjunction with the acquisition of Apio, the Company secured $11.25 million of term debt and a $12 million revolving line of credit with Bank of America. The term debt and line of credit agreements ("Loan Agreement") contain restrictive covenants that require Apio to meet certain financial tests, including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. The Loan Agreement, through restricted payment covenants, limits the ability of Apio to make cash payments to Landec, until the outstanding balance is reduced to an amount specified in the Loan Agreement. Landec has pledged substantially all of the assets of Apio to secure the Loan Agreement. In February 2001, April 2001, September 2001, October 2001, April 2002, May 2002, and August 2002 the Apio revolving line of credit agreement was amended. The amendments adjusted the minimum ratios required to meet the fixed charge coverage and leverage ratios, extended the line of credit agreement through October 31, 2002, decreased the interest rate for the period August 1, 2002 through October 31, 2002 to the prime rate plus 2%, and subordinated to the bank $10.9 million ($5.0 million in fiscal year 2001 and $5.9 million in fiscal year 2002) of contributions from Landec to Apio. At July 28, 2002, $3.1 million was outstanding under Apio's line of credit at an annual interest rate of 6.75% and $6.2 million was outstanding under the term loan at an annual interest rate of 9.52%

On January 27, 2002, Apio was in technical violation of the minimum fixed charge ratio. On February 12, 2002, this violation was cured through a subordinated contribution to Apio from Landec, retroactive to January 27, 2002.

In May 2001, Apio entered into a capital lease agreement to fund a portion of the costs of a new ERP business system. As of July 28, 2002, $1.9 million of the estimated $2.9 million in total costs had been financed.

Landec Ag has a revolving line of credit which allows for borrowings of up to $3.0 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is charged at the prime rate plus 0.75%. The line of credit contains certain restrictive covenants, which, among other things, affect the ability of Landec to receive payments on debt owed by Landec Ag to Landec. Landec

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has pledged substantially all of the assets of Landec Ag to secure the line of credit. At July 28, 2002, no balance was outstanding under the revolving line of credit. In addition, under the $1.0 million equipment line, $600,000 of equipment was purchased and in June 2001, that $600,000 was converted into a four-year, 8% per annum, term note.

In March 2002, the Company raised $7.3 million, net of expenses, through a private placement of 2,580,663 shares of common stock.

On June 5, 2002, the Company sold its Reedley, California fruit processing facility for net proceeds of $2.2 million, resulting in a gain of approximately $436,000.

Landec believes that the Company's debt facilities, cash from operations, and select licensing deals involving upfront payments, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements through at least the next twelve months. In addition, the proceeds expected from the planned sale of Dock Resins will be used to pay down debt and other liabilities.

At July 28, 2002, our total debt, including current maturities and capital lease obligations, was approximately $17.2 million and the total debt to equity ratio was approximately 29% at July 28, 2002 as compared to 67% at October 28, 2001. Of this debt, approximately $3.1 million is comprised of revolving lines of credit and approximately $14.1 million is comprised of term debt. The amount of debt outstanding on our revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. The term debt is secured by our working capital and therefore the amount may fluctuate with changes in the working capital balance. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. Maturities of debt, including obligations under capital lease agreements and revolving lines of credit, for each year presented are as follows (in thousands):

	Due in Fiscal Year						
Debt	**Total**	**Remainder of 2002**	**2003**	**2004**	**2005**	**2006**	**Thereafter**
Lines of Credit	$ 3,134	$ 3,134	$ —	$ —	$ —	$ —	$ —
Long-term Debt	12,389	1,373	3,787	3,814	1,371	121	1,923
Capital Leases	1,688	325	886	463	9	5	—
Total	$ 17,211	$ 4,832	$ 4,673	$ 4,277	$ 1,380	$ 126	$ 1,923

This level of indebtedness limits our financial and operating flexibility in the following ways:

- a substantial portion of our net cash flow from operations must be dedicated to debt service and will not be available for other purposes;
- our ability to obtain additional debt financing in the future for working capital is reduced;
- our ability to fund capital expenditures or acquisitions may be limited;
- our ability to react to changes in the industry and economic conditions generally may be limited.

Landec's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of Landec to establish and maintain new collaborative and licensing arrangements; any decision to pursue additional acquisition opportunities; adverse weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and

market forces; the effectiveness of product commercialization activities and arrangements; the ability to sell Dock Resins; and other factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its financing needs, Landec would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to Landec on favorable terms if at all.

Additional Factors That May Affect Future Results

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

We Have a History of Losses Which May Continue

We have incurred net losses in each fiscal year since our inception. Our accumulated deficit as of July 28, 2002 totaled $56.3 million. We may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and we may never generate significant revenues or achieve profitability.

Our Substantial Indebtedness Could Limit Our Financial and Operating Flexibility

At July 28, 2002, our total debt, including current maturities and capital lease obligations, was approximately $17.2 million and the total debt to equity ratio was approximately 29%. Of this debt, approximately $3.1 million is comprised of revolving lines of credit and approximately $14.1 is comprised of term debt. The amount of debt outstanding on our revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. All $3.1 million outstanding under the revolving lines of credit is due in this fiscal year. Of our term debt, approximately $1.7 million, $4.7 million, $4.3 million and $1.4 million become due over the remainder of this fiscal year and each of the next three fiscal years, respectively. This level of indebtedness limits our financial and operating flexibility in the following ways:

-

a substantial portion of our net cash flow from operations must be dedicated to debt service and will not be available for other purposes;

- our ability to obtain additional debt financing in the future for working capital is reduced;
- our ability to fund capital expenditures or acquisitions may be limited;
- our ability to react to changes in the industry and economic conditions generally may be limited.

In connection with the Apio acquisition, we may be obligated to make future payments to the former shareholders of Apio of up to $7.8 million, plus an additional $273,000 of accrued interest, for a performance based earn out and future supply of produce. Of this amount, $4.1 million relates to the earn out from fiscal year 2000 that is due to be paid on October 28, 2002.

Our ability to service this indebtedness will depend on our future performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. If we are unable to service this debt, we would be forced to pursue one or more alternative strategies such as selling assets, restructuring or refinancing our indebtedness or seeking

additional equity capital, which might not be successful and which could substantially dilute the ownership interest of existing shareholders.

We Have Violated Restrictions in Our Loan Agreements and May Have to Pursue New Financings if We are Unable to Comply with These Provisions in the Future

Apio is subject to various financial and operating covenants under its term debt and line of credit facilities (the "Loan Agreement"), including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. On January 27, 2002, Apio was in technical violation of the minimum fixed charge ratio. On February 12, 2002, this violation was cured through a subordinated contribution to Apio from Landec, retroactive to January 27, 2002. The Loan Agreement limits the ability of Apio to make cash payments to us until the outstanding balance is reduced to an amount specified in the Loan Agreement. Landec Ag is subject to certain restrictive covenants in its loan agreements which limit the ability of Landec Ag to make payments on debt owed to us. We have pledged substantially all of Apio's and Landec Ag's assets to secure their bank debt. We currently are not in violation of any of the provisions of the Loan Agreement but if we violate any obligations in the future we could trigger an event of default, which, if not cured or waived, would permit acceleration of our obligation to repay the indebtedness due under the Loan Agreement. If the indebtedness due under the Loan Agreement were accelerated, we would be forced to pursue one or more alternative strategies such as selling assets, seeking new debt financing from another lender or seeking additional equity capital, which might not be achievable or available on attractive terms, if at all, and which could substantially dilute the ownership interest of existing shareholders.

Our Future Operating Results Are Likely to Fluctuate Which May Cause Our Stock Price to Decline

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue in the future. Historically, our direct marketer of hybrid corn seed, Landec Ag, has been the primary source of these fluctuations, as its revenues and profits are concentrated over a few months during the spring planting season (generally during our second quarter). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product during the first quarter of fiscal year 2002 due to a shortage of essential value-added produce items which had to be purchased at inflated prices on the open market in December 2001 and January 2002. Our earnings from our Food Products Technology business are sensitive to price fluctuations in the fresh vegetables and fruits markets. Excess supplies can cause intense price competition. Other factors that affect our food and/or agricultural operations include:

- the seasonality of our supplies;
- our ability to process produce during critical harvest periods;
- the timing and effects of ripening;
- the degree of perishability;
- the effectiveness of worldwide distribution systems;
- total worldwide industry volumes;
- the seasonality of consumer demand;
- foreign currency fluctuations; and
- foreign importation restrictions and foreign political risks.

As a result of these and other factors, we expect to continue to experience fluctuations in quarterly operating results, and we may never reach or sustain profitability for an entire fiscal year.

We May Not be Able to Achieve Acceptance of Our New Products in the Marketplace

Our success in generating significant sales of our products will depend in part on the ability of us and our partners and licensees to achieve market acceptance of our new products and technology. The extent to which, and rate at which, we achieve market acceptance and penetration of our current and future products is a function of many variables including, but not limited to:

- price;
- safety;
- efficacy;
- reliability;
- conversion costs;
- marketing and sales efforts; and
- general economic conditions affecting purchasing patterns.

We may not be able to develop and introduce new products and technologies in a timely manner or that new products and technologies will gain market acceptance. We are in the early stage of product commercialization of certain Intellipac breathable membrane, Intellicoat seed coating and other Intelimer polymer products and many of our potential products are in development. We believe that our future growth will depend in large part on our ability to develop and market new products in our target markets and in new markets. In particular, we expect that our ability to compete effectively with existing food products, agricultural, industrial and medical companies will depend substantially on successfully developing, commercializing, achieving market acceptance of and reducing the cost of producing our products. In addition, commercial applications of our temperature switch polymer technology are relatively new and evolving. Our failure to develop new products or the failure of our new products to achieve market acceptance would have a material adverse effect on our business, results of operations and financial condition.

We Face Strong Competition in the Marketplace

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

We Have Limited Manufacturing Experience and May Have to Depend on Third Parties to Manufacture Our Products

We may need to consider seeking collaborative arrangements with other companies to manufacture some of our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be affected. Failures by third parties may impair our ability to deliver products on a timely basis and impair our competitive position. We may not be able to continue to successfully operate our manufacturing operation at acceptable costs, with acceptable yields, and retain adequately trained

personnel. Any disruptions in our manufacturing operations would reduce our ability to sell our products and would have a material adverse effect or our financial results.

Our Dependence on Single-Source Suppliers May Cause Disruption in Our Operations Should Any Supplier Fail to Deliver Materials

We may experience difficulty acquiring materials for the manufacture of our products or we may not be able to obtain substitute vendors. We may not be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Several of the raw materials we use to manufacture our products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers and substrate materials for our breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Landec Ag are purchased from a single source. Any interruption of supply could delay product shipments and materially harm our business.

We May be Unable to Adequately Protect Our Intellectual Property Rights

We have received, and may in the future receive, from third parties, including some of our competitors, notices claiming that we are infringing their patents or other proprietary rights. If we were determined to be infringing any third-party patent, we could be required to pay damages, alter our products or processes, obtain licenses or cease the infringing activities. If we are required to obtain any licenses, we may not be able to do so on commercially favorable terms, if at all. Litigation, which could result in substantial costs to and diversion of our efforts, may also be necessary to enforce any patents issued or licensed to us or to determine the scope and validity of third-party proprietary rights. Any litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using that technology. Our success depends in large part on our ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. Any pending patent applications we file may not be approved and we may not be able to develop additional proprietary products that are patentable. Any patents issued to us may not provide us with competitive advantages or may be challenged by third parties. Patents held by others may prevent the commercialization of products incorporating our technology. Furthermore, others may independently develop similar products, duplicate our products or design around our patents.

Our Operations Are Subject to Regulations that Directly Impact Our Business

Our food packaging products are subject to regulation under the FDC Act. Under the FDC Act, any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. We believe that food packaging materials are generally not considered food additives by the FDA because these products are not expected to become components of food under their expected conditions of use. We consider our Intellipac breathable membrane product to be a food packaging material not subject to regulation or approval by the FDA. We have not received any communication from the FDA concerning our Intellipac breathable membrane product. If the FDA were to determine that our Intellipac breathable membrane products are food additives, we may be required to submit a food additive petition for approval by the FDA. The food additive petition process is lengthy, expensive and uncertain. A determination by the FDA that a food additive petition is necessary would have a material adverse effect on our business, operating results and financial condition.

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of the

manufacturing processes. In most cases, we believe our liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties. Our failure to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject us to substantial liability or could cause our manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Our agricultural operations are subject to a variety of environmental laws including, the Food Quality Protection Act of 1966, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these laws and related regulations is an ongoing process. Environmental concerns are, however, inherent in most agricultural operations, including those we conduct. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies could result in increased compliance costs.

Adverse Weather Conditions May Cause Substantial Decreases in Our Sales and/or Increases in Our Costs

Our Food Products and Agricultural Seed Technology businesses are subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms and hurricanes, may adversely affect the supply of vegetables and fruits used in our business, which could reduce the sales volumes and/or increase the unit production costs. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

We Depend on Strategic Partners and Licenses for Future Development

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

Both Domestic and Foreign Government Regulations Can Have an Adverse Effect on Our Business Operations

Our products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of our products is subject to periodic inspection by regulatory authorities. We may not be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on our business, financial condition and results of operations. Although we have no reason to believe that we will not be able to comply with all applicable regulations regarding the manufacture and sale of our products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. Future changes in regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances may adversely affect our business.

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

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

We may be required to incur significant costs to comply with the laws and regulations in the future which may have a material adverse effect on our business, operating results and financial condition.

Our International Operations and Sales May Expose Our Business to Additional Risks

For the first nine months of fiscal year 2002, approximately 20% of our total revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

- regulatory approval process,
- government controls,
- export license requirements,
- political instability,
- price controls,
- trade restrictions,
- changes in tariffs, or
- difficulties in staffing and managing international operations.

Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our international business, and our financial condition and results of operations. While our foreign sales are currently priced in dollars, fluctuations in currency exchange rates, may reduce the demand for our products by increasing the price of our products in the currency

of the countries to which the products are sold. Regulatory, geopolitical and other factors may adversely impact our operations in the future or require us to modify our current business practices.

Cancellations or Delays of Orders by Our Customers May Adversely Affect Our Business

During the first nine months of fiscal year 2002, sales to our top five customers accounted for approximately 30% of our revenues, with our top customers, Wal-Mart Stores Inc., accounting for approximately 12% and Costco Wholesale Corp., accounting for approximately 11% of our revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our net revenues. We may experience changes in the composition of our customer base, as Apio and Landec Ag have experienced in the past. We do not have long-term purchase agreements with any of our customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio at its Guadalupe, California facility are often sole sourced to its customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

Our Sale of Some Products May Increase Our Exposure to Product Liability Claims

The testing, manufacturing, marketing, and sale of the products we develop involves an inherent risk of allegations of product liability. While no product liability claims have been made against us to date, if any product liability claims were made and adverse judgments obtained, they could have a material adverse effect on our business, operating results and financial condition. Although we have taken and intend to continue to take what we believe are appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance with limits in the amount of $41.0 million per occurrence and $42.0 million in the annual aggregate. Our coverage may not be adequate or may not continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, operating results and financial condition.

Our Stock Price May Fluctuate in Accordance with Market Conditions

The stock market in general has recently experienced extreme price and volume fluctuations. The following events may cause the market price of our common stock to fluctuate significantly:

- technological innovations applicable to our products,
- our attainment of (or failure to attain) milestones in the commercialization of our technology,
- our development of new products or the development of new products by our competitors,
- new patents or changes in existing patents applicable to our products,
- our acquisition of new businesses or the sale or disposal of a part of our businesses,
-

development of new collaborative arrangements by us, our competitors or other parties,

- changes in government regulations applicable to our business,
- changes in investor perception of our business,
- fluctuations in our operating results and

- changes in the general market conditions in our industry.

These broad fluctuations may adversely affect the market price of our common stock.

The Implementation of Financial and Accounting Changes May Cause an Increase in Costs and Delays

In order to address deficiencies in Apio's management information systems and accounting systems, Apio has recently implemented a new ERP business system designed to improve the delivery of both operational and financial information. Apio management believes that this new system will improve its managing of operations, including delivering complete and accurate financial statements to our corporate offices in a more timely manner. However, we may not be able to effect those changes in the management information systems and accounting systems in a timely manner or sustain the process improvements over time.

Our Controlling Shareholders Exert Significant Influence over Corporate Events that May Conflict with the Interests of Other Shareholders

Our executive officers and directors and their affiliates own or control approximately 30% of our common stock (assuming conversion of outstanding preferred stock and including options exercisable within 60 days). Accordingly, these officers, directors and shareholders may have the ability to exert significant influence over the election of our Board of Directors, the approval of amendments to our articles and bylaws and the approval of mergers or other business combination transactions requiring shareholder approval. This concentration of ownership may have the effect of delaying or preventing a merger or other business combination transaction, even if the transaction or amendments would be beneficial to our other shareholders. In addition our controlling shareholders may approve amendments to our articles or bylaws to implement anti-takeover or management friendly provisions that may not be beneficial to our other shareholders.

We May Issue Preferred Stock with Preferential Rights That Could Affect Your Rights

Our Board of Directors has the authority, without further approval of our shareholders, to fix the rights and preferences, and to issue shares, of preferred stock. In November, 1999 we issued and sold shares of Series A Convertible Preferred Stock and in October 2001 we issued and sold shares of Series B Convertible Preferred Stock. Each share of Series A and B Convertible Preferred Stock is convertible into shares of common stock in accordance with the conversion formula provided in our articles of incorporation (currently a 10:1 ratio) and is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted.

Holders of Series A and B Convertible Preferred Stock have the following preferential rights over holders of common stock:

- **Dividend Preference**: Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first two years, ten percent (10%) for the third year and twelve percent (12%) thereafter, following the initial sale of shares of Series B Convertible Preferred Stock. Holders of Series A Convertible Preferred Stock are entitled to dividends if and when declared by the board of directors, but in preference to any dividends declared or payable to holders of common stock. Our board of directors has never declared a dividend payable to holders of Series A Convertible Preferred Stock or common stock.

- **Liquidation Preference**: Upon liquidation of the company, holders of Series A and B Convertible Preferred Stock are entitled to receive, in preference to the holders of common stock, an amount equal to the original issue price of their shares plus any declared or accrued but unpaid dividends.

The issuance of additional shares of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding stock, and the holders of such preferred stock could have voting, dividend, liquidation and other rights superior to those of holders of our common stock.

We Have Never Paid any Dividends on our Common Stock

We have not paid any cash dividends on our common stock since inception and do not expect to do so in the foreseeable future. Any dividends will be subject to the preferential dividends payable on our outstanding Series A Preferred Stock and Series B Preferred Stock and dividends payable on any other preferred stock we may issue.

The Reporting Of Our Profitability Could Be Materially And Adversely Affected If It Is Determined That The Book Value Of Goodwill Is Higher Than Fair Value.

Our balance sheet includes an amount designated as "goodwill" that represents a portion of our assets and our stockholders' equity. Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Under a newly issued accounting pronouncement, Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", beginning in January 2002, the amortization of goodwill has been replaced with an "impairment test" which requires that we compare the fair value of goodwill to its book value at least annually and more frequently if circumstances indicate a possible impairment. If we determine at any time in the future that the book value of goodwill is higher than fair value then the difference must be written-off, which could materially and adversely affect our profitability.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

There has been no material change in the Company's reported market risks since the end of fiscal year 2001.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Certain Transactions

In connection with the acquisition of Apio, Landec entered into an employment agreement with Mr. Nicholas Tompkins in 1999 for a term of five (5) years at an annual salary of $200,000. Under the terms of his employment agreement, Mr. Tompkins is employed as a Senior Vice President of Landec and Chief Executive Officer of Apio, Inc. Mr. Tompkins employment agreement also provides that in the case of his involuntary termination other than for cause or his resignation for good reason, he will continue to receive his salary through December 2004. Pursuant to the employment agreement, Mr. Tompkins was issued options to purchase up to 850,000 shares of common stock of Landec, and an option to purchase up to 2,000,000 shares of common stock of Apio. In addition, in connection with the Apio Acquisition, Mr. Tompkins was eligible to receive up to $10 million of earn-out payments if Apio exceeded certain earning targets in fiscal years 2000 and 2001. Of such amount, Mr. Tompkins earned $4.1 million in fiscal year 2000, which amount is payable on October 28, 2002, and $579,000 in fiscal year 2001, which amount was payable on March 1, 2002.

Pursuant to the terms of farmer agreements entered into between Apio and the Nick Tompkins Ranch, B & D Farms, Security Farms and Keystone Farms (the "Tompkins Farms"), Apio provides harvesting, packing, cooling and distributing services for produce planted and grown by the Tompkins Farms. The terms of the agreements are substantially the same as the terms offered by Apio to other growers. During fiscal years 2000 and 2001, Apio's revenues derived from its services to the Tompkins Farms were approximately $1,898,000 and $5,065,000, respectively, and Apio paid the Tompkins Farms an aggregate of approximately $4,384,000 and $6,051,000 in fiscal years 2000 and 2001, respectively. Mr. Tompkins wholly-owns the Nick Tompkins Ranch and has a greater than ten percent (10%) ownership interest in each of B&D Farms, Security Farms and Keystone Farms.

Apio makes advances to its produce growers for planting, growing and harvesting costs associated with crops in the ordinary course of its business. In connection with the upfront planting, growing and harvesting costs associated with crops from the Nick Tompkins Ranch during fiscal year 2001, Apio advanced the Nick Tompkins Ranch approximately $475,000, evidenced by a note (the "Note"). On December 31, 2001, the amount owed under the Note including approximately $20,000 in interest was offset by the earn-out payment of $579,000 owed to Nick Tompkins in connection with the Apio Acquisition. Accordingly, the Note was cancelled and Apio paid Mr. Tompkins the balance of approximately $84,000 in March, 2002. In May 2002, Apio advanced to the Nick Tompkins Ranch $1.1 million for ground lease payments and crop financing expenses in order to maintain current levels of produce sourcing from the Nick Tompkins Ranch. The advance accrues interest at Apio's interest

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rate per its Bank of America loan agreement. Approximately $400,000 of the $1.1 million was repaid on June 30, 2002 with the remainder due on December 31 2002. This advance is secured by crops of the Nick Tompkins Ranch and the earn-out payment of $4.1 million due October 28, 2002 to Nick Tompkins. The advances made to the Nick Tompkins Ranch were on substantially the same terms as those offered to other produce growers. In addition, Apio has entered into ground leases which require Apio to make approximately $1.0 million in annual lease payments to Nick Tompkins and $240,000 in annual ground lease payments to Apio Land Company which is 50% owned by Nick Tompkins.

In connection with the Apio Acquisition, Landec entered into an employment agreement with Mr. Timothy Murphy, a former holder of more than five percent of the Landec's common stock. The term of the employment agreement was one year ending December 2000 and provided for an annual salary of $100,000. In addition, in connection with the Apio Acquisition, Mr. Murphy received payments of $560,000 in January 2001, $58,333 in December, 2001 and $560,000 in January 2002, and will receive deferred payments totaling $1,855,000 over the next three years.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

+10.37 Amendment No. 7 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of May 1, 2002

+99.1 CEO Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

+99.2 CFO Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

+Filed herewith

SIGNATURES

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

LANDEC CORPORATION

By: /s/ GREGORY S. SKINNER

Gregory S. Skinner
Vice President, Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: September 11, 2002

CERTIFICATIONS

I, Gary T. Steele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 11, 2002

/s/ GARY T. STEELE

Gary T. Steele
Chief Executive Officer and President (Principal Executive Officer)

I, Gregory S. Skinner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 11, 2002

/s/ GREGORY S. SKINNER

Gregory S. Skinner
Vice President, Finance and Chief Financial Officer (Principal Financial Officer)

LANDEC CORPORATION
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CERTIFICATIONS

Exhibit 10.37

AMENDMENT NO. 7 TO
LOAN AGREEMENT

This Amendment No. 7 to Loan Agreement (this "Amendment"), dated as of May 1, 2002, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) ("Borrower"), each lender from time to time a party thereto (each a "Lender" and collectively, the "Lenders"), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. Merger of Subsidiaries. Each of the parties hereto hereby acknowledges that each of South Coast Paper Company, Inc., a California corporation, Cal Ex Trading Company, Inc., a California corporation, and Pacific West Produce, Inc., a California corporation (collectively, the "Merged Subsidiaries"), were merged with and into Borrower as of February 23, 2000, with Borrower as the surviving entity. Each of the Lenders hereby consents to such merger.

2. New Subsidiary. Borrower hereby represents and warrants that it has formed a new Subsidiary, Cal Ex Trading Company, a Delaware corporation ("Cal Ex").

3. Section 1.1 - Amended Defined Terms. The following defined terms are hereby amended and restated in full to read as follows:

"Guarantor Security Agreement" means a security agreement executed by each Guarantor in favor of the Administrative Agent for the benefit of the Lenders to secure the Subsidiary Guaranty, covering all of the personal property of each such Guarantor, either as originally executed or as the same may from time to time be amended, supplemented or otherwise modified.

"Revolver Termination Date" means August 1, 2002, or such later anniversary of such date as may be established pursuant to Section 2.6.

"Subsidiary Guaranty" means a guaranty of the Obligations executed by each Subsidiary of Borrower, other than Apio Cooling, either as originally executed or as it may from time to time be amended, supplemented or otherwise modified.

4. Revolving Loans - No Eurodollar Rate Loans; Base Rate Margin. Each of the parties hereto hereby agrees that, from the Effective Date of this Amendment through and including the Revolver Maturity Date, (a) with respect to Loans made under the

Revolving Commitment, Borrower shall no longer be permitted to request a Eurodollar Rate Loan and the Lenders shall have no obligation to make any Eurodollar Rate Loans, and (b) notwithstanding the applicable Pricing Level with respect to any Pricing Period, the Base Rate Margin with respect to all Revolving Loans shall be 3%.

5. Effectiveness. This Amendment shall become effective as of May 1, 2002 (the "Effective Date").

6. Condition Subsequent. The Borrower hereby covenants and agrees that (a) each of the conditions set forth below shall be satisfied (or waived) in form and substance satisfactory to the Lenders, in their sole and absolute discretion, as soon as practicable, but in no event later than June 19, 2002, and (b) the failure to satisfy such conditions (or obtain the applicable waiver(s)) on or prior to such date shall constitute an Event of Default.

(a) Documentation. The Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders:

(i) duly executed counterparts of the Subsidiary Guaranty, signed by Cal Ex;

(ii) duly executed counterparts of the Guarantor Security Agreement, signed by Cal Ex;

(iii) duly executed counterparts of Amendment No. 1 to Borrower Pledge Agreement, together with the Stock Power to be executed in connection therewith, duly executed by Borrower;

(iv) duly executed counterparts of the Joinder to Trademark Security Agreement, signed by Cal Ex;

(v) UCC-1 Financing Statement to be filed in the office of the Delaware Secretary of State, naming Cal Ex as debtor and Administrative Agent as Secured Party;

(vi) with respect to Cal Ex, such documentation as the Administrative Agent may reasonably require to establish the due organization, valid existence and good standing of Cal Ex, its authority to execute, deliver and perform under the Loan Documents to which it is a party, and the identity, authority and capacity of each Responsible Official thereof authorized to act on its behalf, including, without limitation, authorizing resolutions, certified copies of articles of incorporation and amendments thereto, bylaws and amendments thereto, certificates of good standing, incumbency certificates, Certificates of Responsible Officials, and the like;

(vii) the written legal opinion of Orrick, Herrington & Sutcliffe, LLP, as to such matters as the Administrative Agent shall reasonably request.

7. Release. As a material inducement to the Lenders to enter into this Amendment, the Borrower (and by executing its Consent and Reaffirmation of Guarantor and Pledgor attached hereto, Landec Corporation, a California corporation), each hereby fully release and discharge forever the Administrative Agent and each of the Lenders, their respective subsidiaries and affiliated companies, and their respective agents, employees, officers, directors, representatives, attorneys, successors and assigns (hereafter referred to collectively as the "Released Parties"), and each and all of them, from any and all liabilities, claims, actions, causes of action, charges, complaints, obligations, costs, losses, damages, injuries, attorneys' fees, and other legal responsibilities, of any form whatsoever, whether known or unknown, unforeseen, unanticipated, unsuspected or latent, which either of them may have or hold, or have at any time heretofore have or held, arising out of or relating to the Loan Agreement, the Loan Documents, the transactions contemplated thereby or the relationship of the parties hereto arising out of the Loan Agreement or the Loan Documents prior to the effective date of this Amendment. The Borrower (and by executing its Consent and Reaffirmation of Guarantor and Pledgor attached hereto, Landec Corporation), hereby each expressly waive all rights under Section 1542 of the California Civil Code, which reads as follows:

"Section 1542. [Certain claims not affected by general release.] A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known to him must have materially affected his settlement with the debtor."

Borrower (and by executing its Consent and Reaffirmation of Guarantor and Pledgor attached hereto, Landec Corporation) each hereby agree to indemnify and hold harmless each of the Released Parties for and against any and all costs, losses or liability, whatsoever, including reasonable attorneys' fees arising out of the prosecution by Borrower or Landec Corporation., or their respective successors or assigns, of any action, claim or cause of actions released pursuant to this Section.

8. Representations and Warranties. Except (i) for representations and warranties which expressly relate to a particular date or which are no longer true and correct as a result of a change permitted by the Loan Agreement or the other Loan Documents or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the Borrower hereby represents and warrants that each representation and warranty made by Borrower in Article 4 of the Loan Agreement (other than Sections 4.6 (first sentence), 4.11, and 4.18) are true and correct as of the date hereof as though such representations and warranties were made on and as of the date hereof. Without in any way limiting the foregoing, Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default

has occurred and remains continuing or will result from the consents, waivers, amendments or transactions set forth herein or contemplated hereby.

9. Fees and Expenses. Borrower hereby agrees to reimburse the Administrative Agent and the Lenders for the Administrative Agents and Lenders' reasonable costs and expenses (including reasonable attorney's fees and expenses) incurred in connection with the negotiation and drafting of this Amendment and the transaction contemplated hereby together with any and all other fees and expenses currently due and owing to the Administrative Agent and/or the Lenders. Borrower further agrees that, commencing on the date hereof, it shall satisfy its obligations under Section 11.3 of the Loan Agreement not later than five (5) days after receipt of an invoice with respect thereto from the Administrative Agent. Each of the parties hereto hereby agrees that the failure to satisfy the requirements of this Section 8 shall constitute an Event of Default under the Loan Agreement.

10. Amendment Fee. On the Effective Date, or as soon thereafter as may be agreed upon by the Lenders, the Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders, an amendment fee of $20,000.

11. Confirmation. In all respects, the terms of the Loan Agreement and the other Loan Documents, in each case as amended hereby or by the documents referenced herein, are hereby confirmed.

IN WITNESS WHEREOF, Borrower, the Administrative Agent and the Lenders have executed this Agreement as of the date first set forth above by their duly authorized representatives.

APIO, INC., a Delaware corporation

By: /s/ GARY T. STEELE
Name: Gary T. Steele
Title: Chairman

BANK OF AMERICA, N.A., as Administrative Agent, Issuing Lender and sole Lender

By: /s/ CAROL CLEMENTS
Carol Clements, Senior Vice President

ANNEX I TO AMENDMENT NO. 7

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

The undersigned guarantor and pledgor hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 7 to Loan Agreement (“Amendment No. 7”). In connection therewith, the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under the terms of each such Loan Document, and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

The undersigned further agrees that each Loan Document to which it is a Party shall remain in full force and effect and is hereby ratified and confirmed.

The undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 7.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of May 1, 2002.

LANDEC CORPORATION, a California corporation

By: /s/ GREGORY S. SKINNER
Name: Gregory S. Skinner
Title: V.P. of Finance, CFO

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landec Corporation (the “Company”) on Form 10-Q for the fiscal quarter ending July 28, 2002, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gary T. Steele, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C.§ 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GARY T. STEELE
Gary T. Steele
Chief Executive Officer and President
September 11, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landec Corporation (the “Company”) on Form 10-Q for the fiscal quarter ending July 28, 2002, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory S. Skinner, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C.§ 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GREGORY S. SKINNER
Gregory S. Skinner
Vice President, Finance and Chief Financial Officer
September 11, 2002