QuickLinks -- Click here to rapidly navigate through this document

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 April 27, 2003, 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	**94-3025618**
(State or other jurisdiction of incorporation or organization)	(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☒

As of May 23, 2003, there were 21,107,517 shares of Common Stock and 160,881 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 Fiscal Quarter Ended April 27, 2003

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

	April 27, 2003	October 27, 2002
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,562	$ 7,849
Restricted cash	2,382	1,032
Accounts receivable, less allowance for doubtful accounts of $171 and $1,022 at April 27, 2003 and October 27, 2002	16,224	19,040
Inventory	13,186	10,121
Investment in farming activities	411	1,591
Notes and advances receivable	2,217	3,645
Notes receivable, related party	—	751
Prepaid expenses and other current assets	1,179	2,456
Total Current Assets	39,161	46,485
Property and equipment, net	18,689	19,902
Goodwill	26,155	25,733
Other intangible assets, net	11,683	11,747
Notes receivable	1,183	1,132
Restricted cash, non-current	—	1,350
Other assets	302	1,454
	$ 97,173	$ 107,803
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 13,280	$ 11,512
Grower payables	2,852	6,460
Related party payables	849	450
Accrued compensation	1,101	1,518

Other accrued liabilities	3,955	7,771
Deferred revenue	641	3,215
Lines of credit	7,790	10,098
Current maturities of long term debt	2,515	2,193
Total Current Liabilities	32,983	43,217
Long term debt, less current maturities	3,818	5,252
Other liabilities	768	1,791
Minority interest	844	1,580
Total Liabilities	38,413	51,840
Shareholders' Equity:		
Preferred stock	5,531	14,461
Common stock	110,110	100,802
Accumulated deficit	(56,881)	(59,300)
Total Shareholders' Equity	58,760	55,963
	$ 97,173	$ 107,803

See accompanying notes.

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 27, 2003	April 28, 2002	April 27, 2003	April 28, 2002
Revenues:				
Product sales	$ 51,767	$ 49,685	$ 85,969	$ 82,609
Services revenue	4,184	5,994	10,180	12,088
Services revenue, related party	645	609	1,099	1,389
License fees	77	621	349	1,048
Research, development, and royalty revenues	172	211	372	332
Total revenues	56,845	57,120	97,969	97,466
Cost of revenue:				
Cost of product sales	40,321	37,020	70,766	66,770
Cost of product sales, related party	200	573	528	1,088
Cost of services revenue	3,586	5,727	8,215	11,121
Total cost of revenue	44,107	43,320	79,509	78,979
Gross profit	12,738	13,800	18,460	18,487
Operating costs and expenses:				
Research and development	993	891	2,062	1,723
Selling, general and administrative	6,859	7,152	13,382	13,935
Total operating costs and expenses	7,852	8,043	15,444	15,658
Operating profit	4,886	5,757	3,016	2,829
Interest income	66	107	129	140
Interest expense	(216)	(320)	(538)	(951)
Other income (expense)	(63)	(119)	31	(114)
Net income	4,673	5,425	2,638	1,904
Dividends on Series B preferred stock	(110)	(102)	(219)	(202)

Net income applicable to common shareholders	$ 4,563	$ 5,323	$ 2,419	$ 1,702
Basic net income per share	$ 0.22	$ 0.30	$ 0.12	$ 0.10
Diluted net income per share	$ 0.18	$ 0.24	$ 0.10	$ 0.08
Shares used in per share computation:				
Basic	21,106	17,463	20,868	17,028
Diluted	22,856	20,808	22,572	20,358

See accompanying notes.

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	April 27, 2003	April 28, 2002
Cash flows from operating activities:		
Net income	$ 2,638	$ 1,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,779	1,608
(Gain) loss on disposal of property and equipment	(17)	23
Increase in minority interest liability	188	178
Changes in current assets and liabilities:		
Accounts receivable	2,816	(2,589)
Inventory	(3,065)	4,255
Investment in farming activities	1,180	1,277
Decrease in notes and advances receivable	2,831	1,935
Prepaid expenses and other current assets	1,277	(36)
Assets held for sale	—	147
Accounts payable	1,768	(2,707)
Grower payables	(3,608)	(620)
Related party payables	399	(62)
Accrued compensation	(417)	(286)
Other accrued liabilities	(3,816)	441
Deferred revenue	(2,574)	(110)
Total adjustments	(1,259)	3,454
Net cash provided by operating activities	1,379	5,358
Cash flows from investing activities:		
Change in other assets and liabilities	59	(644)
Purchases of property and equipment	(1,118)	(1,585)
Increase in restricted cash	—	(14)
Acquisition costs related to earn-out provision	(422)	(424)
Net cash used in investing activities	(1,481)	(2,667)
Cash flows from financing activities:		
Proceeds from sale of common stock	159	7,459
Borrowings on lines of credit	18,797	13,289
Payments on lines of credit	(21,105)	(20,667)
Proceeds from issuance of long term debt	535	—
Payments on long term debt	(1,647)	(2,868)
Distributions to minority interest	(924)	—
Net cash used in financing activities	(4,185)	(2,787)

Net decrease in cash and cash equivalents	(4,287)	(96)
Cash and cash equivalents at beginning of period	7,849	8,695
Cash and cash equivalents at end of period	$ 3,562	$ 8,599
Supplemental schedule of noncash investing and financing activities:		
Sale of assets in exchange for a note receivable	$ 703	$ —
Issuance of Series B preferred stock as dividends to Series B preferred stockholders	$ 219	$ 202
Conversion of Series A preferred stock into common stock	$ 9,149	$ —

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. 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 Asia 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 April 27, 2003, 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 27, 2002.

The results of operations for the three month and six month periods ended April 27, 2003 are not necessarily indicative of the results that may be expected for an entire fiscal year. 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). Effective May 25, 2003, Landec's fiscal year end will change to the last Sunday in May from the last Sunday in October.

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 notes and advances 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 August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. On October 28, 2002, the Company adopted SFAS No. 143. The adoption of SFAS No. 143 did not have a material impact on the Company's results of operations or financial position.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 amends existing accounting guidance on asset impairment and provides a single accounting model for disposal of long-lived assets. Among other provisions, the new rules change the criteria for classifying an asset as held-for-sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations, and changes the timing of recognizing losses on such operations. On October 28, 2002, the Company adopted SFAS No. 144. The adoption did not have a material effect on its results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides guidance related to accounting for costs associated with disposal activities covered by SFAS No. 144 or with exit or restructuring activities previously covered by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 supercedes EITF Issue No. 94-3 in its entirety. SFAS No. 146 requires that costs related to exiting an activity or to a restructuring not be recognized until the liability is incurred. SFAS No. 146 will be applied prospectively to any exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The recognition provisions of FIN 45 will be applied prospectively to any guarantees issued after December 31, 2002. The Company adopted the disclosure provisions of FIN 45 in its Consolidated Condensed Financial Statements for the first quarter of fiscal 2003. The adoption of FIN 45 did not have a material impact on the results of operations or financial position.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not expect the adoption of EITF Issue No. 00-21 to have a material effect on its results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2003. The Company has adopted the interim disclosure requirements in its Consolidated Condensed Financial Statements in the second quarter of fiscal 2003 as disclosed in Note 3.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial position.

3. Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," (SFAS 148), the Company elected to continue to apply the provisions of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations in accounting for its employee stock option and stock purchase plans. The Company is generally not required under APB 25 and related interpretations to recognize compensation expense in connection with its employee stock option and stock purchase plans.

Pro forma information regarding net income and net income per share is required by SFAS 148 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by the SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates ranging from 2.78% to 2.93% for the three months ended April 27, 2003, 4.3% to 4.74% for the three months ended April 28, 2002, 2.78% to 3.05% for the six months ended April 27, 2003, and 3.97% to 4.74% for the six months ended April 28, 2002; a dividend yield of 0.0% for the three and six months ended April 27, 2003 and April 28, 2002; a volatility factor of the expected market price of the Company's common stock of 0.81 and 0.88 as of April 27, 2003 and April 28, 2002, respectively; and a weighted average expected life of the options of 5.57 years and 6.13 years for the three and six months ended April 27, 2003 and April 28, 2002, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options using the straight-line method. The Company's pro forma information follows:

	Three months ended,		Six months ended,	
	April 27, 2003	April 28, 2002	April 27, 2003	April 28, 2002
Net income—as reported	$ 4,673	$ 5,425	$ 2,638	$ 1,904
Deduct:				
Stock-based employee expense determined under SFAS 123	(296)	(539)	(486)	(1,074)
Pro forma net income	$ 4,377	$ 4,886	$ 2,151	$ 830
Basic net income per share—as reported	$ 0.22	$ 0.30	$ 0.12	$ 0.10
Diluted net income per share—as reported	$ 0.18	$ 0.24	$ 0.10	$ 0.08

Basic pro forma net income per share	$ 0.20	$ 0.27	$ 0.09	$ 0.04
Diluted pro forma net income per share	$ 0.17	$ 0.21	$ 0.08	$ 0.02

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and employee stock purchase plans have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair market value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options, nor do they necessarily represent the effects of employee stock options on reported net income (loss) for future years.

4. Net Income Per Diluted Share

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

	Three Months Ended April 27, 2003	Three Months Ended April 28, 2002	Six Months Ended April 27, 2003	Six Months Ended April 28, 2002
Numerator:				
Net income	$ 4,673	$ 5,425	$ 2,638	$ 1,904
Less: Minority interest in income of subsidiary	(554)	(474)	(346)	(326)
Net income for diluted net income per share	$ 4,119	$ 4,951	$ 2,292	$ 1,578
Denominator:				
Weighted average shares for basic net income per share	21,106	17,463	20,868	17,028
Effect of dilutive securities:				
Stock Options	173	221	142	221
Convertible preferred stock	1,577	3,124	1,562	3,109
Total dilutive common shares	1,750	3,345	1,704	3,330
Weighted average shares for diluted net income per share	22,856	20,808	22,572	20,358
Diluted net income per share	$ 0.18	$ 0.24	$ 0.10	$ 0.08

5. Goodwill and Other Intangibles

The Company is required to review goodwill and indefinite lived intangible assets at least annually. In May 2002, the Company completed its initial impairment review upon adoption of SFAS 142, and in October 2002, the Company completed its annual review. The review is performed by grouping the net book value of all long-lived assets for acquired businesses, including goodwill and other intangible assets, and comparing this value to the related estimated fair value. The determination of fair value is based on estimated future discounted cash flows related to these long-lived assets. The discount rate used was based on the risks associated with the acquired businesses. The determinations of fair value were performed by management using the services of an independent appraiser. The reviews concluded that the fair value of the acquired businesses exceeded the carrying value of their net assets and thus no impairment charge was warranted as of either May 2002 or October 2002. No indicators of impairment have arisen through April 27, 2003.

6. Inventories

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

	April 27, 2003	October 27, 2002
Finished goods	$ 9,662	$ 5,119
Raw material	3,660	3,830
Work in process	285	1,450
Gross inventory	13,607	10,399
Less reserves	(421)	(278)
Net inventory	$ 13,186	$ 10,121

7. Debt

On October 31, 2002, Apio's loan agreement with Bank of America (the "Loan Agreement") was amended to extend the revolving line of credit through January 31, 2003 and to decrease the interest rate to prime plus 1.75%, or 6.00%, on an annual basis. The loan agreement was amended again in January 2003, February 2003 and May 2003 resulting in an extension of the line of credit through August 1, 2003. On April 27, 2003, Apio was in technical violation of the minimum net worth covenant under the Loan Agreement. Subsequently, Bank of America provided a written waiver of this violation as of April 27, 2003. The Company is currently negotiating a new working capital line of credit with its bank.

8. Sale of Assets

On December 17, 2002, the Company sold fruit processing equipment and the rights to the Company's Great Whites® trademark for $703,000, resulting in a net gain of $39,000. The purchase price will be paid in equal annual installments over the next seven years. In addition, the Company entered into a supply agreement with the purchaser to supply fruit to the Company's export business for the next three years with an option for year four.

9. Related Party

In May 2002, Apio advanced to a farm wholly-owned by the Chief Executive Officer of Apio ("Apio CEO") $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. Of the $1.1 million, $400,000 was repaid on June 30, 2002. On January 2, 2003, the remaining amount due plus accrued interest totaling $751,000 was offset against the earnout liability incurred in conjunction with the purchase of Apio in 1999 owed to the Apio CEO.

Apio provides packing, cooling and distributing services for farms that the Chief Executive Officer of Apio (the "Apio CEO") has a financial interest in and purchases produce from those farms. Revenues, cost of product sales and the resulting payable and the note receivable from advances for ground lease payments, crop and harvesting costs, are shown separately in the accompanying financial statements as of April 27, 2003 and October 27, 2002 and for the three and six months ended April 27, 2003 and April 28, 2002.

Apio leases for $1.4 million on an annual basis agricultural land that is either owned, controlled or leased by the Apio CEO. Apio, in turn, subleases that land at cost to growers who are obligated to deliver product from that land to Apio either in the form of commodity products or value added

products. There is generally no net statement of operations impact to Apio as a result of these leasing activities but Apio creates a guaranteed source of supply for both the vegetable commodity "fee-for-service" business and the value added business. Apio has loss exposure on the leasing activity to the extent that it is unable to sublease the land.

All related party transactions are monitored monthly by the Company and reviewed quarterly by the Audit Committee of the Board of Directors.

10. Preferred Stock

On November 19, 2002, the Series A preferred stock was automatically converted into 1,666,670 shares of common stock pursuant to the Series A preferred stock agreement dated November 19, 1999.

11. 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 3,093 shares on January 31, 2003 and 3,155 shares on April 30, 2003. 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.

12. Change in Fiscal Year End

On February 20, 2003, the Board of Directors of the Company approved a change in the Company's fiscal year end from a fiscal year including 52 or 53 weeks that ends on the last Sunday in October to a fiscal year including 52 or 53 weeks that ends on the last Sunday in May. As a result, the Company's fiscal year end for 2003 will be for the seven months ended May 25, 2003

13. 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 Intelimer® based 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 and

corporate operating costs. All of the assets of the Company are located within the United States of America.

Operations by Business Segment (in thousands):

Quarter ended April 27, 2003	Food Products Technology	Agricultural Seed Technology	Corporate and Other	TOTAL

Net sales	$ 36,242	$ 20,354	$ 249	$ 56,845
International sales	$ 8,631	$ —	$ —	$ 8,631
Gross profit	$ 4,144	$ 8,345	$ 249	$ 12,738
Net income (loss)	$ (1,112)	$ 5,805	$ (20)	$ 4,673
Interest expense	$ 208	$ 8	$ —	$ 216
Interest income	$ 61	$ 2	$ 3	$ 66
Depreciation and amortization	$ 700	$ 121	$ 78	$ 899

Quarter ended April 28, 2002

Net sales	$ 37,928	$ 18,360	$ 832	$ 57,120
International sales	$ 8,632	$ —	$ —	$ 8,632
Gross profit	$ 5,528	$ 7,440	$ 832	$ 13,800
Net income (loss)	$ (330)	$ 4,979	$ 776	$ 5,425
Interest expense	$ 310	$ 10	$ —	$ 320
Interest income	$ 84	$ 23	$ —	$ 107
Depreciation and amortization	$ 689	$ 133	$ 45	$ 867

Six months ended April 27, 2003

Net sales	$ 76,830	$ 20,418	$ 721	$ 97,969
International sales	$ 16,681	$ —	$ —	$ 16,681
Gross profit	$ 9,386	$ 8,353	$ 721	$ 18,460
Net income (loss)	$ (1,271)	$ 3,621	$ 288	$ 2,638
Interest expense	$ 467	$ 71	$ —	$ 538
Interest income	$ 114	$ 2	$ 13	$ 129
Depreciation and amortization	$ 1,420	$ 238	$ 121	$ 1,779

Six months ended April 28, 2002

Net sales	$ 77,112	$ 18,974	$ 1,380	$ 97,466
International sales	$ 17,879	$ —	$ —	$ 17,879
Gross profit	$ 9,444	$ 7,663	$ 1,380	$ 18,487
Net income (loss)	$ (2,773)	$ 3,240	$ 1,437	$ 1,904
Interest expense	$ 877	$ 74	$ —	$ 951
Interest income	$ 117	$ 23	$ —	$ 140
Depreciation and amortization	$ 1,248	$ 262	$ 98	$ 1,608

During the first six months of fiscal year 2003, sales to the Company's top five customers accounted for approximately 34% of revenues, with the Company's top customers from the Food Products Technology segment, Wal-Mart Stores Inc., accounting for approximately 14% 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.

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 27, 2002.

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 27, 2002. 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

There have been no material changes to the Company's critical accounting policies which are included/described in the Form 10-K for the year ended October 27, 2002 filed with the Securities and Exchange Commission on January 24, 2003.

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 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 food packaging technology with the capabilities of a large national food supplier and value-added produce processor. Value-added processing incorporates Landec's proprietary 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.

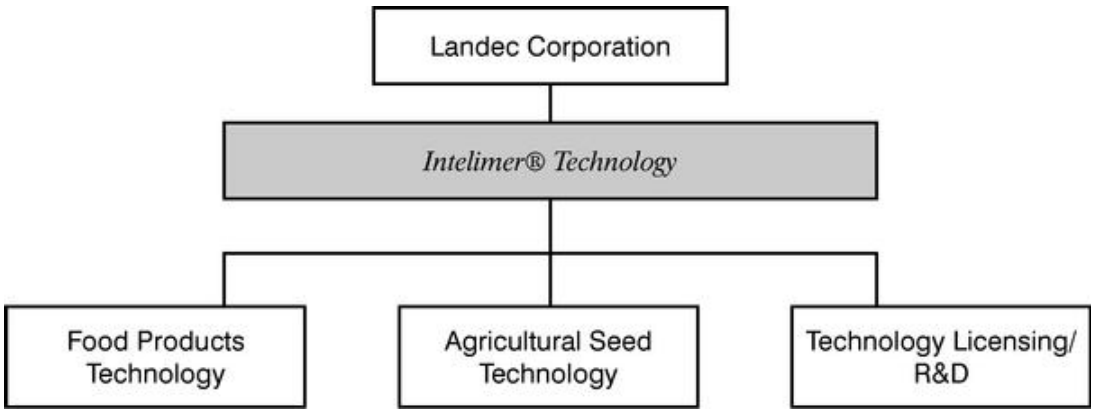
In addition to our two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses products outside of our core businesses to industry leaders such as Alcon Laboratories, Inc. and UCB Chemicals, a subsidiary of UCB S.A. of Belgium.

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 April 27, 2003, Landec's accumulated deficit was $56.9 million.

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

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



Food Products Technology Business

The Company 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 produce industry. Our proprietary 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 proprietary 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 12,600 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 7 years, sells a variety of fresh-cut vegetables to the top retail grocery chains representing over 9,800 retail and club

stores. During the fiscal year ended October 27, 2002, Apio shipped more than 19 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:

- **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 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 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 value-added processing business.

- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing value-added business. Apio's 49,000 square foot value-added processing plant is automated with state-of-the-art vegetable processing equipment. Virtually all of Apio's value-added products utilize Landec's proprietary breathable 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 our packaging technology.

- **Expanded Product Line Using Technology:** Apio, through the use of our proprietary breathable 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 was the beginning of a conversion from the traditional packing and shipping of whole produce, which relied heavily on ice, to iceless products utilizing our packaging 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 and soybean seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 2002 in the United States for corn and soybean seed exceeded 78.9 million and 73.0 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 2002, we expanded our sales of inbred corn seed coating products in fiscal year 2003 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 2002 for our Early Plant™ hybrid coated corn, we expanded our sales in 2003. 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.

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 and will enter into licensing and collaborative corporate agreements for product development and/or distribution in certain fields.

Results of Operations

Total revenues were $56.8 million for the second quarter of fiscal year 2003, compared to $57.1 million for the second quarter of fiscal year 2002. Revenues from product sales and services increased to $56.6 million in the second quarter of fiscal year 2003 from $56.3 million in the second quarter of fiscal year 2002. The increase in product sales and services revenues was due to an increase in Landec Ag revenues to $20.4 million during the second quarter of fiscal year 2003 compared to $18.4 million during the second quarter last year due to a change in product mix to higher priced corn hybrids and sales of Intellicoat coated seeds. The increase in Landec Ag revenues was partially offset by a decrease in Apio's revenues from its "fee-for-service" whole produce business which decreased to $4.8 million in the second quarter of 2003 from $6.6 million in the second quarter of 2002. Revenues from Apio's "fee-for-service" whole produce business decreased as a result of the Company's decision to focus on technology-based products in its specialty packaged value added business. Revenues from Apio's value-added specialty packaged vegetable business increased to $21.6 million during the second quarter of fiscal year 2003 from $18.9 million during the second quarter of 2002 due to an increased line of product offerings and an expanded customer base. Revenues from Apio's export business decreased to $9.0 million during the second quarter of fiscal year 2003 from $11.0 million during the second quarter of fiscal year 2002 due to lower volume sales of fruit and broccoli to Asia. Revenues from license fees decreased to $77,000 for the second quarter of fiscal year 2003 from $621,000 for the second quarter of fiscal year 2002 due primarily to a decrease in revenues from the $2.0 million licensing agreement with UCB Chemicals Corporation ("UCB") entered into in December 2001 which was recognized to revenue ratably over a 12-month period through December 2002. Revenues from research and development funding were $172,000 for the second quarter of fiscal year 2003 compared to $211,000 for the second quarter of fiscal year 2002. For the first six months of fiscal year 2003, total revenues were $98.0 million compared to $97.5 million during the same period in 2002. Revenues from product sales and services for the first six months of fiscal year 2003 increased to $97.2 million from $96.1 million during the same period of fiscal year 2002 due primarily to increased revenues in Apio's value added fresh-cut and whole vegetable produce business which increased to $46.4 million in the first six months of fiscal year 2003 from $39.2 million in the same period of fiscal year 2002. In addition to the increase in Apio's value added business, Landec Ag revenues increased to $20.4 million in the first six months of fiscal year 2003 from $19.0 million in the same period of fiscal year 2002. Revenues from Apio's export business decreased to $17.7 million in the first six months of fiscal year 2003 from $22.4 million in the same period of fiscal year 2002. Revenues from license fees decreased to $349,000 for the first six months of fiscal year 2003 from $1.0 million for the same period of fiscal year 2002 due primarily to a decrease in revenues from the UCB licensing agreement entered into in December 2001. Revenues from research and development funding for the first six months of fiscal year 2003 increased to $372,000 from $332,000 during the same period of fiscal year 2002.

Cost of product sales and services consists of material, labor and overhead. Cost of product sales and services was $44.1 million for the second quarter of fiscal year 2003 compared to $43.3 million for the second quarter of fiscal year 2002. Gross profit from product sales and services as a percentage of revenue from product sales and services decreased to 22% in the second quarter of fiscal year 2003 from 23% in the second quarter of fiscal year 2002. Cost of product sales and services for the first six months of fiscal year 2003 was $79.5 million compared to $79.0 million during the same period in fiscal year 2002. Gross profit from product sales and services as a percentage of revenue from product sales and services was flat at 18% for the first six months of fiscal years 2003 and 2002. The decrease in gross margins during the second quarter of fiscal year 2003 compared to the second quarter of 2002 was due to the results from Apio's "fee-for-service" commodity produce farming activities. During the second quarter of fiscal year 2003, Apio realized a loss from farming activities associated with its commodity business of $458,000 compared to income from farming activities of $1.4 million during the second quarter of fiscal year 2002. Overall gross profit decreased to $12.7 million for the three month

period ended April 27, 2003 from $13.8 million for the same period of fiscal year 2002. For the first six months ended April 27, 2003 and April 28, 2002 gross profits were $18.5 million.

Research and development expenses increased to $1.0 million for the second quarter of fiscal year 2003 compared to $891,000 in the second quarter of fiscal year 2002, an increase of 11%. Research and development expenses increased to $2.1 million for the first six months of fiscal year 2003 from $1.7 million in the same period of fiscal year 2002, an increase of 20%. 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 increases in research and development expenses during the three and six month periods ended April 27, 2003 compared to the same periods of fiscal year 2002 were primarily due to efforts being spent to develop the Company's banana and seed technologies.

Selling, general and administrative expenses were $6.9 million for the second quarter of fiscal year 2003 compared to $7.2 million for the second quarter of fiscal year 2002, a decrease of 4%. For the first six months of fiscal year 2003, selling, general and administrative expenses were $13.4 million compared to $13.9 million during the same period in fiscal year 2002, a decrease of 4%. 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 decrease in selling, general and administrative expenses in the second quarter and first six months of fiscal year 2003 as compared to the same periods of fiscal year 2002 is primarily due to a decrease in selling, general and administrative expenses at Apio resulting from its cost reduction efforts. Sales and marketing expenses decreased to $2.8 million for the second quarter of fiscal year 2003 from $3.0 million for the second quarter of fiscal year 2002. For the first six months of fiscal year 2003 sales and marketing expenses decreased to $4.8 million from $5.3 million during the same period of fiscal year 2002.

Interest income for the three and six month periods ended April 27, 2003 was $66,000 and $129,000, respectively, compared to $107,000 and $140,000 for the same periods of fiscal year 2002. Interest expense for the three and six months periods ended April 27, 2003 was $216,000 and $538,000, respectively, compared to $320,000 and $1.0 million for the same periods of fiscal year 2002. The decreases in interest expense are due to using cash generated from operations, the sale of non-strategic assets and from past equity financings to pay down debt and thus lower interest expenses.

Liquidity and Capital Resources

As of April 27, 2003, the Company had cash and cash equivalents of $3.6 million, a net decrease of $4.2 million from $7.8 million at October 27, 2002. This decrease was primarily due to: (a) the purchase of $1.1 million of property, plant and equipment; (b) the reduction of net borrowings under the Company's lines of credit of $2.3 million; (c) the net reduction of long term debt of $1.1 million; and (d) acquisition costs related to earn-out provisions and payments thereon of $422,000; partially offset by net cash provided from operations of $1.4 million.

During the first six month of fiscal year 2003, Landec purchased vegetable processing equipment to support the development of Apio's value added products, and incurred capital expenditures to enhance Apio's new ERP business system. These expenditures represented the majority of the $1.1 million of property and equipment purchased.

On October 31, 2002, Apio's loan agreement with Bank of America (the "Loan Agreement") was amended to extend the revolving line of credit through January 31, 2003 and to decrease the interest rate to prime plus 1.75%, or 6.00%, on an annual basis. The Loan Agreement was amended again in January 2003, February 2003 and May 2003, resulting in the extension of the line of credit through August 1, 2003. On April 27, 2003, Apio was in technical violation of the minimum net worth covenant

under the Loan Agreement. Subsequently, Bank of America provided a written waiver of this violation as of April 27, 2003. The Company is currently negotiating a new working capital line of credit.

At April 27, 2003, Landec's total debt, including current maturities and capital lease obligations, was $14.1 million and the total debt to equity ratio was 24% as compared to 31% at October 27, 2002. Of this debt, approximately $7.8 million is comprised of revolving lines of credit and approximately $6.3 million is comprised of term debt and capital lease obligations, $2.3 million of which is mortgage debt on Apio's manufacturing facilities. The amount of debt outstanding on Landec's revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. In addition, in connection with Landec's acquisition of Apio, Landec is obligated to pay the former owners of Apio $2.5 million, which will be paid in fiscal years 2004 and 2005 and is recorded as long-term debt, and an additional $1.6 million, which will be paid in monthly payments through February 2004.

The Company's material contractual obligations for the next five years and thereafter as of April 27, 2003, are as follows (in thousands):

		Due in Fiscal Year Ended May(1)					
Obligation	**Total**	**Remainder of 2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**
Lines of Credit	$ 7,790	$ —	$ 7,790	$ —	$ —	$ —	$ —
Long-term Debt	5,285	169	1,494	1,570	132	128	1,792
Capital Leases	1,048	121	874	32	21	—	—
Operating Leases	658	65	523	47	23	—	—
Land Leases	161	52	70	39	—	—	—
Earn-Out Liability	1,601	109	1,492	—	—	—	—
Licensing Obligation	1,675	175	200	200	200	200	700
Total	$ 18,218	$ 691	$ 12,443	$ 1,888	$ 376	$ 328	$ 2,492

(1) Based on Landec's new fiscal year ended May 25, 2003.

Landec believes that its debt facilities, cash from operations, 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.

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; 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; and other factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital 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 April 27, 2003 totaled $56.9 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 April 27, 2003, our total debt, including current maturities and capital lease obligations, was approximately $14.1 million and the total debt to equity ratio was approximately 24%. Of this debt, approximately $7.8 million is comprised of revolving lines of credit and approximately $6.3 million is comprised of term

debt and capital lease obligations. The amount of debt outstanding on our revolving lines of credit fluctuates over time, and the agreements contain financial and other limiting covenants. $7.1 million outstanding under the revolving lines of credit is due on August 1, 2003. Of our non-revolving contractual obligations, approximately $691,000 become due over the remainder of fiscal year 2003 and $4.7 million and $1.9 million become due in fiscal years 2004 and 2005, respectively. This level of indebtedness limits our financial and operating flexibility in the following ways:

- a substantial portion of 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 $4.1 million for a performance based earn out and future supply of produce. Of this amount, $1.6 million relates to the earn out from fiscal year 2000 that is due to be paid in periodic scheduled payments through February 2004 and $2.5 million relates to payments to be made in January 2004 and 2005.

Our ability to service this indebtedness and these future payments 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. The Loan Agreement limits the ability of Apio to make cash payments to Landec. We have pledged substantially all of Apio's and Landec Ag's assets to secure their bank debt. On April 27, 2003, Apio was in technical violation of the minimum net worth covenant under the Loan Agreement. Subsequently, Bank of America provided a written waiver of this violation as of April 27, 2003. 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 to fluctuate 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 may also fluctuate based on our ability to collect accounts receivables from customers and note receivables from growers. 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 new products and technologies may not gain market acceptance. We are in the early stage of product commercialization of certain Intelimer-based 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 Concentration of Capacity in One Location for Apio and May Have to Depend on Third Parties to Manufacture Our Products

Any disruptions in our primary manufacturing operation would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture 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 operations at acceptable costs, with acceptable yields, and retain adequately trained personnel.

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

We may experience difficulty acquiring materials or services 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 services that are provided to Apio are obtained from a single provider. 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 grown under contract by a single seed producer. Any interruption of our relationship with single-source suppliers or service providers 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 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 breathable membrane product. If the FDA were to determine that our 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. 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.

The Company is subject to the Perishable Agricultural Commodities Act ("PACA") law. PACA regulates fair trade standards in the fresh produce industry and governs all the product sold by Apio. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell produce, and in the most egregious cases, criminal prosecution, which could have a material adverse affect on our business.

Adverse Weather Conditions and Other Acts of God 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 six months of fiscal year 2003, approximately 17% 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 six months of fiscal year 2003, sales to our top five customers accounted for approximately 34% of our revenues, with our top customers, Wal-Mart Stores Inc., accounting for approximately 14% 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. If any of our products were determined or alleged to be contaminated or defective or to have caused a harmful accident to an end-customer, we could incur substantial costs in responding to complaints or litigation regarding our products and our product brand image could be materially damaged. Either event may 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.

Since We Order Cartons for Our Products from Suppliers in Advance of Receipt of Customer Orders for Such Products, We Could Face a Material Inventory Risk

As part of our inventory planning, we enter into negotiated orders with vendors of cartons used for packing our products in advance of receiving customer orders for such products. Accordingly, we face the risk of ordering too many cartons since orders are generally based on forecasts of customer orders rather than actual orders. If we cannot change or be released from the orders, we may incur costs as a result of inadequately predicting cartons orders in advance of customer orders. Because of this, we may currently have an oversupply of cartons and face the risk of not being able to sell such

inventory and our anticipated reserves for losses may be inadequate if we have misjudged the demand for our products. Our business and operating results could be adversely affected as a result of these increased costs.

Our Seed Products May Fail to Germinate Properly and We May Be Subject to Claims for Reimbursement or Damages for Losses from Customers Who Use Such Products

Farmers plant seed products sold by Landec Ag with the expectation that they will germinate under normal growing conditions. If our seed products do not germinate at the appropriate time or fail to germinate at all, our customers may incur significant crop losses and seek reimbursement or bring claims against us for such damages. Although insurance is generally available to cover such claims, the costs for premiums of such policies are prohibitively expensive and we currently do not maintain such insurance. Any claims brought for failure of our seed products to properly germinate could materially and adversely effect our operating and financial results.

Recently Enacted and Proposed Changes in Securities Laws and Regulations Are Likely to Increase Our Costs

The Sarbanes-Oxley Act of 2002 (the "Act") that became law in July 2002 requires changes in some of our corporate governance, public disclosure and compliance practices. The Act also requires the SEC to promulgate new rules on a variety of subjects. In addition to final rules already enacted by the SEC, Nasdaq has proposed revisions to its requirements for companies, such as Landec, that are listed on the NASDAQ. We expect these developments to increase our legal and financial compliance costs. We expect these changes to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve on our audit committee. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result of the Act.

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 32% 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.

Terrorist Attacks and Risk of Contamination May Negatively Impact All Aspects of Our Operations, Revenues, Costs and Stock Price

The September 2001 terrorist attacks in the United States, as well as future events occurring in response or connection to them, including, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies, or trade disruptions impacting our domestic suppliers or our customers, may impact our operations and may, among other things, cause decreased sales of our products. More generally, these events have

affected, and are expected to continue to affect, the general economy and customer demand for our products. While we do not believe that our employees, facilities, or products are a target for terrorists, there is a remote risk that

terrorist activities could result in contamination or adulteration of our products. Although we have systems and procedures in place that are designed to prevent contamination and adulteration of our products, a disgruntled employee or third party could introduce an infectious substance into packages of our products, either at our manufacturing plants or during shipment of our products. Were our products to be tampered with, we could experience a material adverse effect in our business, operations and financial condition.

Our Operating Results and Financial Condition Could Be Harmed if the Current Economic Downturn Continues

Any further decline in general economic conditions could result in a reduction in demand for our products. Such decline could harm our financial position, results of operations, cash flows and stock price, and could limit our ability to reach our goals for achieving profitability. Also, in such an environment, pricing pressures could continue, and if we are unable to respond quickly enough this could negatively impact our gross margins.

We May Be Exposed to Employment Related Claims and Costs that Could Materially Adversely Affect Our Business

We have been subject in the past, and may be in the future, to claims by employees based on allegations of discrimination, negligence, harassment and inadvertent employment of illegal aliens or unlicensed personnel, and we may be subject to payment of workers' compensation claims and other similar claims. We could incur substantial costs and our management could spend a significant amount of time responding to such complaints or litigation regarding employee claims, which may have a material adverse effect on our business, operating results and financial condition.

We Are Dependent on Our Key Employees and if One or More of Them Were to Leave, We Could Experience Difficulties in Replacing Them and Our Operating Results Could Suffer

The success of our business depends to a significant extent upon the continued service and performance of a relatively small number of key senior management, technical, sales, and marketing personnel. The loss of any of our key personnel would likely harm our business. In addition, competition for senior level personnel with knowledge and experience in our different line of business is intense. If any of our key personnel were to leave, we would need to devote substantial resources and management attention to replace them. As a result, management attention may be diverted from managing our business, and we may need to pay higher compensation to replace these employees.

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. The Series A Convertible Preferred Stock was converted into 1,666,670 shares of Common Stock on November 19, 2002. Each share of Series 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 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 on October 25, 2001 of shares of Series B Convertible Preferred Stock.

- **Liquidation Preference**: Upon liquidation of the Company, holders of Series 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 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 fiscal year 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 2002.

Item 4. Controls and Procedures

(a) Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q (the "Evaluation Date"), Landec's principal executive officer and principal financial officer concluded that, as of the Evaluation Date, Landec's disclosure controls and procedures as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective such that the material information required to be disclosed by Landec in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Since the Evaluation Date, there have not been any significant changes in Landec's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

At the Company's Annual Meeting of Shareholders held on March 27, 2003 the following proposals were adopted by the margins indicated:

		Number of Shares	
		Voted For	Withheld
1.	Four Class I directors were elected by the margins indicated to serve for a term of office to expire at the second succeeding annual meeting of shareholders at which their successors will be elected and qualified:		
	Frederick Frank	17,898,306	468,290
	Stephen E. Halprin	17,898,806	467,790
	Richard S. Schneider, Ph.D.	16,834,906	1,531,690
	Kenneth E. Jones	16,647,907	1,718,689

The three Class II directors were not up for election at the Annual Meeting. These three Class II directors, Gary T. Steele, Kirby L. Cramer and Richard Dulude will serve as Class II directors until the next Annual Meeting, when their successors will be elected and qualified.

		Voted For	Voted Against	Abstain	Broker Non-Votes
2.	To ratify the appointment of Ernst & Young LLP as independent public accountants of the Company for the 2003 fiscal year.	18,184,418	62,406	119,772	—

Item 5. Other Information

(a) Audit Committee Approval of Non-Audit Services

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002 (the "Act"), we are required to disclose the non-audit services approved by our Audit Committee to be performed by Ernst & Young LLP, our independent accountants. Non-audit services are defined in the Act as services other than those provided in connection with an audit or a review of the financial statements of a company. On February 20, 2003, the Audit Committee approved the engagement of Ernst & Young LLP for the following non-audit services: (1) tax matter consultations and compliance and (2) the preparation of federal and state income tax returns for fiscal year 2002.

(b) Change in Fiscal Year

As a result of the change in the Company's fiscal year from a fiscal year including 52 or 53 weeks that ends on the last Sunday in October to a fiscal year including 52 or 53 weeks that ends on the last Sunday in May, the Company expects to hold its next annual meeting of shareholders in October 2003, rather than April 2004. If a shareholder does not notify the Chief Financial Officer of the Company on or before August 11, 2003 of a proposal for the October 2003 annual meeting of shareholders, management intends to use its discretionary voting authority to vote on such proposal, even if the matter is not discussed in the proxy statement for the October 2003 annual meeting of shareholders.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit Number	Exhibit Title:
3.1+	Amended and Restated Bylaws of Registrant
10.43(1)	Amendment No. 12 to Loan Agreement between Apio, Inc. and the Bank of America dated as of February 28, 2003.
10.44+	Amendment No. 13 to Loan Agreement between Apio, Inc. and the Bank of America dated as of May 1, 2003.
10.45+*	Employment Agreement between the Registrant and Gary T. Steele dated as of April 5, 2003.
10.46+	Fourth Amendment to Credit Agreement dated as of May 15, 2003.
99.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
99.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to identically numbered exhibit filed with Registrants Form 10-Q for the quarter ended January 26, 2003.

* Management contracts or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 6 of Form 10-Q.

+ Filed herewith.

(b) Reports on Form 8-K

A report on Form 8-K was filed on February 27, 2003 reporting the change in the Registrant's fiscal year end.

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: June 10, 2003

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;

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;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

/s/ GARY T. STEELE

Gary T. Steele
President and Chief 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;

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;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

/s/ GREGORY S. SKINNER

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

Exhibit Number	Exhibit	Sequentially Numbered Page
3.1+	Amended and Restated Bylaws of Registrant	
10.43(1)	Amendment No. 12 to Loan Agreement between Apio, Inc. and the Bank of America dated as of February 28, 2003.	
10.44+	Amendment No. 13 to Loan Agreement between Apio, Inc. and the Bank of America dated as of May 1, 2003.	
10.45+*	Employment Agreement between the Registrant and Gary T. Steele dated as of April 5, 2003.	
10.46+	Fourth Amendment to Credit Agreement dated as of May 15, 2003.	
99.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	
99.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	

QuickLinks

Exhibit 3.1

AMENDED AND RESTATED BYLAWS

OF

LANDEC CORPORATION

(as of May 8, 2003)

AMENDED AND RESTATED BYLAWS

OF

LANDEC CORPORATION

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

AMENDED AND RESTATED BYLAWS

OF

LANDEC CORPORATION

ARTICLE I

CORPORATE OFFICES

1.1 PRINCIPAL OFFICE

The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside such state and the corporation has one or more business offices in such state, then the board of directors shall fix and designate a principal business office in the State of California.

1.2 OTHER OFFICES

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS

Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

2.2 ANNUAL MEETING

The annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of shareholders shall be held on the third Wednesday of October in each year at 10:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected, and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the shareholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors or the president or the chairman of the board, then the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting, so long as that time is not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, then the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) (or, if sent by third-class mail pursuant to Section 2.5 of these bylaws, thirty (30)) nor more than sixty (60) days before the date of the meeting. The notice shall

specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the shareholders (but subject to the provisions of the next paragraph of this Section 2.4 any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California (the "Code"), (ii) an amendment of the articles of incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of the Code, or (v) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, then the notice shall also state the general nature of that proposal.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of shareholders shall be given either (i) personally or (ii) by first-class mail or (iii) by third-class mail but only if the corporation has outstanding shares held of record by five hundred (500) or more persons (determined as provided in Section 605 of the Code) on the record date for the shareholders' meeting, or (iv) by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, then all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

2.6 QUORUM

The presence in person or by proxy of the holders of a majority of the shares entitled to vote thereat constitutes a quorum for the transaction of business at all meetings of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

2.7 ADJOURNED MEETING; NOTICE

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting,

either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.6 of these bylaws.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than forty-five (45) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.10 of these bylaws, subject to the provisions of Sections 702 through 704 of the Code (relating to voting shares held by a fiduciary, in the name of a corporation or in joint ownership).

The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder at the meeting and before the voting has begun.

Except as may be otherwise provided in the articles of incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of the shareholders. Any shareholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

If a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or a vote by classes is required by the Code or by the articles of incorporation.

2.9 CUMULATIVE VOTING

Shareholders shall not be entitled to cumulate votes for the election of directors of this corporation.

This Article shall become effective only when the corporation becomes, and only for so long as the corporation remains, a listed corporation within the meaning of Section 301.5 of the California Corporations Code.

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

No action shall be taken by the shareholders of the corporation other than at an annual or special meeting of the shareholders, upon due notice and in accordance with the other provisions of these Bylaws.

2.11 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent or approval need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 2.4 of these bylaws, the waiver of notice or consent or approval shall state the general nature of the proposal. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of and presence at that meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the Code to be included in the notice of the meeting but not so included, if that objection is expressly made at the meeting.

2.12 RECORD DATE FOR SHAREHOLDER NOTICE; VOTING

For purposes of determining the shareholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only shareholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Code.

If the board of directors does not so fix a record date the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

The record date for any other purpose shall be as provided in Article VIII of these bylaws.

2.13 PROXIES

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) the person who executed the proxy revokes it prior to the time of voting by delivering a writing to the corporation stating that the proxy is revoked or by executing a subsequent proxy and presenting it to the meeting or by voting in person at the meeting, or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of

the postmark dates on the envelopes in which they are mailed. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

2.14 INSPECTORS OF ELECTION

Before any meeting of shareholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, then the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more shareholders or proxies, then the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) receive votes, ballots or consents;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine when the polls shall close;

(f) determine the result; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the Code and any limitations in the articles of incorporation and these bylaws relating to actions required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS

The number of directors of the corporation shall be not less than four (4) nor more than seven (7). The exact number of directors shall be seven (7) until changed, within the limits specified above, by a bylaw amending this Section 3.2, duly adopted by the board of directors or by the shareholders. The indefinite number of directors may be changed, or a definite number may be fixed without provision for an indefinite number, by a duly adopted amendment to the articles of incorporation or by an amendment to this bylaw duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of an action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote thereon. No

amendment may change the stated maximum number of authorized directors to a number greater than two (2) times the stated minimum number of directors minus one (1).

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

The board of directors shall be divided into two classes, as nearly equal in number as possible. The term of office of the first class shall expire at the 1997 annual meeting of shareholders or any special meeting in lieu thereof and the term of office of the second class shall expire at the 1998 annual meeting of shareholders or any special meeting in lieu thereof. At each annual meeting of shareholders or special meeting in lieu thereof following such initial classification, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the second succeeding annual

meeting of shareholders or special meeting in lieu thereof after their election and until their successors are duly elected and qualified. The foregoing provisions shall become effective only when the corporation becomes a listed corporation within the meaning of Section 301.5 of the California Corporations Code. Directors need not be shareholders unless so required by the articles of incorporation or these bylaws, wherein other qualifications for directors may be prescribed.

3.4 RESIGNATION AND VACANCIES

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; however, a vacancy created by the removal of a director by the vote of the shareholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a majority of the required quorum). Each director so elected shall hold office for a term expiring at the annual meeting of shareholders at which the term of office of the class to which they have been elected expires, if applicable, and if no such classes shall have been established, at the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist (i) in the event of the death, resignation or removal of any director, (ii) if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of

court or convicted of a felony, (iii) if the authorized number of directors is increased, or (iv) if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be elected at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election other than to fill a vacancy created by removal shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director’s address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the

director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which

a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees), Section 317(e) of the Code (as to indemnification of directors), the articles of incorporation, and other applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE

Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.10 ADJOURNMENT

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.11 NOTICE OF ADJOURNMENT

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.7 of these bylaws, to the directors who were not present at the time of the adjournment.

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.13 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

3.14 APPROVAL OF LOANS TO OFFICERS*

The corporation may, upon the approval of the board of directors alone, make loans of money or property to, or guarantee the obligations of, any officer of the corporation or its parent or subsidiary, whether or not a director, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the board of directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the corporation, (ii) the corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the Code) on the date of approval by the board of directors, and (iii) the approval of the board of directors is by a vote sufficient without counting the vote of any interested director or directors.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote

* This section is effective only if it has been approved by the shareholders in accordance with Sections 315(b) and 152 of the Code.

of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or any committee;

(d) the amendment or repeal of these bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members of such committees.

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment. Any contract of employment with an officer shall be unenforceable unless in writing and specifically authorized by the board of directors.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and shareholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee

meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its directors and officers against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of

the fact that such person is or was an agent of the corporation. For purposes of this Article VI, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the Code, to indemnify each of its employees and agents (other than directors and officers) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Article VI, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 PAYMENT OF EXPENSES IN ADVANCE

Expenses incurred in defending any civil or criminal action or proceeding for which indemnification is required pursuant to Section 6.1 or for which indemnification is permitted pursuant to Section 6.2 following authorization thereof by the Board of Directors shall be paid by the corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article VI.

6.4 INDEMNITY NOT EXCLUSIVE

The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent that such additional rights to indemnification are authorized in the articles of incorporation.

6.5 INSURANCE INDEMNIFICATION

The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability

asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

6.6 CONFLICTS

No indemnification or advance shall be made under this Article VI, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(1) That it would be inconsistent with a provision of the articles of incorporation, these bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER

The corporation shall keep either at its principal executive office or at the office of its transfer agent or registrar (if either be appointed), as determined by resolution of the board of directors, a record of its shareholders listing the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation who holds at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who holds at least one percent (1%) of such voting shares and has filed a Schedule 14B with the Securities and Exchange Commission relating to the election of directors, may (i) inspect and copy the records of shareholders' names, addresses, and shareholdings during usual business hours on five (5) days' prior written demand on the corporation, (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the date of demand. Such list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or five (5) days after the date specified in the demand as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate.

Any inspection and copying under this Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BYLAWS

The corporation shall keep at its principal executive office or, if its principal executive office is not in the State of California, at its principal business office in California the original or a copy of these bylaws as amended to date, which bylaws shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, then the secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of these bylaws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS

The accounting books and records and the minutes of proceedings of the shareholders, of the board of directors, and of any committee or committees of the board of directors shall be kept at such place or places as are designated by the board of directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney and shall include the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS

Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of every kind as well as the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by an agent or attorney. The right of inspection includes the right to copy and make extracts of documents.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER

The board of directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days (or, if sent by third-class mail, thirty-five (35) days) before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 2.5 of these bylaws for giving notice to shareholders of the corporation.

The annual report shall contain (i) a balance sheet as of the end of the fiscal year, (ii) an income statement, (iii) a statement of changes in financial position for the fiscal year, and (iv) any report of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the corporation are held by fewer than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS

If no annual report for the fiscal year has been sent to shareholders, then the corporation shall, upon the written request of any shareholder made more than one hundred twenty (120) days after the close of such fiscal year, deliver or mail to the person making the request, within thirty (30) days thereafter, a copy of a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year ended more than thirty (30) days before the date of the request, and for a balance sheet of the corporation as of the end of that period, then the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, the statements referred to in the first paragraph of this Section 7.6 shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or by the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

7.7 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the shareholders entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only shareholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Code.

If the board of directors does not so fix a record date, then the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the

name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 CERTIFICATES FOR SHARES

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid. The board of directors may authorize the issuance of certificates for shares partly paid provided that these certificates shall state the total amount of the consideration to be paid for them and the amount actually paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the vice chairman of the board or the president or a vice president and by the chief financial officer or an assistant treasurer or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate ceases to be that officer, transfer agent or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require

indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Code shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS

New bylaws may be adopted or these bylaws may be amended or repealed by the vote of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the articles of incorporation of the corporation set forth the number of authorized directors of the corporation, then the authorized number of directors may be changed only by an amendment of the articles of incorporation.

9.2 AMENDMENT BY DIRECTORS

Subject to the rights of the shareholders as provided in Section 9.1 of these bylaws, bylaws, other than a bylaw or an amendment of a bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a bylaw providing for a variable number of directors), may be adopted, amended or repealed by the board of directors.

Exhibit 10.44

AMENDMENT NO. 13 TO
LOAN AGREEMENT

This Amendment No. 13 to Loan Agreement (this "Amendment"), dated as of May 1, 2003, 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. Section 1.1 — Amended Definitions. The following defined terms contained in Section 1.1 of the Loan Agreement are hereby amended and restated in full to read as follows:

"Base Margin" means (a) for the Initial Pricing Period, one and three-quarters percent (1.75%), and (b) for each subsequent Pricing Period, the interest rate margin set forth below opposite the Pricing Level for that Pricing Period:

Pricing Level	Base Rate Margin
I	1.25%
IA	1.50%
II	2.00%
IIA	2.50%
III	3.00%

"Commitment Fee Rate" means (a) for the Initial Pricing Period, one-quarter of one percent (0.25%), and (b) for each Pricing Period thereafter, the rate per annum set forth below opposite the Pricing Level in effect during that Pricing Period:

Pricing Level	Commitment Fee Rate
I	0.150%
IA	0.175%
II	0.200%
IIA	0.225%
III	0.250%

"Overadvance Margin" means the interest rate margin set forth below opposite the applicable Pricing Level:

Pricing Level	Overadvance Margin
I	3.00%
IA	3.50%
II	4.25%
IIA	4.50%
III	4.75%

"Pricing Level" means, for each Pricing Period, the level set forth below opposite the Pricing Ratio as of the last day of the Fiscal Quarter ending two months prior to the commencement of that Pricing Period:

Pricing Level	Pricing Ratio
I	Greater than 1.25:1.00
IA	Less than or equal to 1.25:1.00, but greater than or equal to 1.20:1.00
II	Less than 1.20: 1.00, but greater than or equal to 1.15:100
IIA	Less than 1.15: 1.00, but greater than or equal to 1.00: 1.00
III	Less than 1.00: 1.00

The Pricing Level shall change as of the first day of each Pricing Period on the basis of the then most recently delivered Compliance Certificate. In the event that Borrower fails to deliver a Compliance Certificate on a timely basis, the Pricing Level shall increase to the highest level set forth above until such time as Borrower delivers a Compliance Certificate.

"Revolver Termination Date" means August 1, 2003, or such later anniversary of such date as may be established pursuant to Section 2.6.

2. Delivery of Operating Budget. Section 8 of Amendment No. 12 to the Loan Agreement, dated as of February 28, 2003 ("Amendment No. 12") is hereby amended such that Borrower hereby covenants and agrees that, not later than June 9, 2003, it shall deliver to the Administrative Agent, a proposed operating budget (the "Operating Budget") for Borrower and its Subsidiaries for the Borrower's Fiscal Year ending approximately May 31, 2004, which operating budget shall include, without limitation, the Borrower's monthly projected balance sheet, profit and loss statement, cash flow statement and Borrowing Base. On or prior to June 16, 2003, Borrower and Pelton (as defined below) shall present the final Operating Budget to the Administrative Agent. Each of the parties hereto hereby agrees that the failure of Borrower to satisfy the provisions of this Section 2 shall constitute an Event of Default under the Loan Agreement.

3. Delivery of Joint Venture Agreements; Growing Plan and Crop Strategy. Section 11 of Amendment No. 12 is hereby amended such that Borrower hereby covenants and agrees that, not later than June 16, 2003, it shall deliver to the Administrative Agent, (a) a Certificate of a Responsible Official of Borrower certifying that (i) attached thereto as Exhibit A is a full, correct and complete listing of each joint venture or similar arrangement to which Borrower or any of its Subsidiaries is a party and (ii) with respect to each item listed on Exhibit A, attached thereto as Exhibit B are true, complete and correct, duly executed copies of the joint venture agreement (or similar documentation) related thereto and (b) a summary of the Borrower's growing plan and crop sourcing strategy for the Fiscal Year ending approximately May 31, 2004, including, without limitation, (i) a listing of all of Borrower's growers, (iii)

the percentage of total supply, by division, that each such grower represents and (iii) a description of the financial/economic arrangements between Borrower and such grower. The summary required by this Section 3 shall be substantially in the form of Annex II attached hereto, or such other form as shall be reasonably satisfactory to the Administrative Agent. Each of the parties hereto hereby agrees that the failure of Borrower to satisfy the provisions of this Section 3 shall constitute an Event of Default under the Loan Agreement.

4. Consultant Engagement. Each of the parties hereto hereby acknowledges that Borrower has informed the Administrative Agent that Borrower has engaged John Pelton & Associates ("Pelton") to review and validate, among other things, the information described in Sections 2 and 3 above. Borrower further covenants and agrees that, (a) promptly following receipt thereof, Borrower shall deliver to the Administrative Agent, true, complete and correct copies of all reports or other documentation prepared by Pelton and delivered to Borrower and (b) Administrative Agent shall be free to communicate with Pelton at all such times and with respect to all such matters as Administrative Agent shall deem appropriate in its sole discretion. Each of the parties hereto hereby agrees that the failure of Borrower to satisfy the provisions of this Section 4 shall constitute an Event of Default under the Loan Agreement.

5. Summary of Affiliate Indebtedness. Borrower hereby covenants and agrees that not later than May 9, 2003, it shall deliver to the Administrative Agent, in form and substance satisfactory to the Administrative Agent, a summary of all Indebtedness (a) of Borrower due and owing to any Affiliate of Borrower and (b) of any Affiliate of Borrower due and owing to Borrower, which summary shall indicate whether (i) such Indebtedness constitutes a Subordinated Obligation under the Loan Agreement and (ii) such Indebtedness constitutes an obligation permitted to be reimbursed pursuant to the proviso contained in Section 9 of Amendment No. 12 to the Loan Agreement (each such obligation, a "Permitted Reimbursement Obligation"). Each of the parties hereto hereby agrees that the failure of Borrower to satisfy the provisions of this Section 5 shall constitute an Event of Default under the Loan Agreement.

6. Landec Payments to Nicholas Tompkins. Borrower hereby represents and warrants that (a) in January, 2003, Landec made certain payments to Nicholas Tompkins in an approximate amount of $2,000,000 (the "January Subordinated Loan Payment"), (b) the January Subordinated Loan Payment was made by Landec in satisfaction of certain obligations of Borrower to Nicholas Tompkins and (c) the January Subordinated Loan Payment was deemed a subordinated loan from Landec to Borrower. Each of the parties hereto hereby agrees that (i) the January Subordinated Loan Payment shall constitute a "Subordinated Obligation" under the Loan Agreement and the Landec Subordination Agreement and (ii) the January Subordinated Loan Payment shall not constitute a Permitted Reimbursement Obligation.

7. Release. As a material inducement to the Lenders to enter into this Consent, the Borrower hereby fully releases and discharges 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 Consent. The Borrower hereby expressly waives 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 hereby agrees 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 its successors or assigns, of any action, claim or cause of

actions released pursuant to this Section.

8. Effectiveness. This Amendment shall become effective on such date (the "Effective Date") as the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders, (a) duly executed counterparts of this Amendment , (b) a duly executed counterparts of Annex I attached hereto, signed by each Party thereto and (c) the Amendment Fee referred to in Section 11 hereto.

9. 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.

10. 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, 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 9 shall constitute an Event of Default under the Loan Agreement.

11. 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 account of the Lenders, an amendment fee of $20,000.

12. 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.

[THIS SPACE INTENTIONALLY LEFT

BLANK SIGNATURE PAGES TO FOLLOW]

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: _____
Name: _____
Title: _____

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

By: _____
Carol Clements, Senior Vice President

ANNEX I TO AMENDMENT NO. 13

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

Each of the undersigned guarantors and pledgors hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 13 to Loan Agreement ("Amendment No. 13"). In connection therewith, each of 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.

Each of 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.

Each of 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. 13.

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, 2003.

LANDEC CORPORATION, a California corporation

By: _____
Name: _____
Title: _____

CAL EX TRADING COMPANY, a California corporation

By: _____
Name: _____
Title: _____

ANNEX II

CROP STRATEGY 2003

Value Added

Grower	% Supply	Joint Venture Yes/No	Financial/Economic Arrangements
			> Projected advance/investment ($$) > Repayment terms > Uses > Collateral

Export

Grower	% Supply	Joint Venture Yes/No	Financial/Economic Arrangements
			> Projected advance/investment ($$) > Repayment terms > Uses > Collateral

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (this "Agreement") is entered into as of the last date set forth on the signature page below, by and between Landec Corporation (the "Company) and Gary T. Steele (the "Executive").

1. POSITION AND DUTIES

The Executive will continue in his present positions of President, Chief Executive Officer ("CEO"), and Chairman of the Board ("COB") of the Company from the date of this Agreement and for the period of time specified in this Agreement. The prior sentence notwithstanding, the Board of Directors (the "Board") may designate another Director as the COB, at the Board's sole discretion, without violating this agreement. As President, CEO, and COB, the Executive reports to the Board and will assist the Board in developing and implementing the Company's ongoing business strategy and objectives. Executive is also responsible for the general management and operation of the Company and may have additional powers and duties as prescribed from time to time by the Board.

Executive agrees to devote all of his business time, skill, attention and best efforts to the Company's business and to discharge and fulfill the responsibilities assigned to him by the Company during his employment under this Agreement. Executive further agrees that he will not render services to any other person or entity without the prior written consent of the Company, and that he will not engage in any activity which conflicts or interferes with the performance of the duties and responsibilities of his position.

2. TERM OF EMPLOYMENT

This Agreement covers the Executive's employment with the Company from the date of this Agreement through December 31, 2005, at which point it will expire unless renewed or extended by the written consent of both parties.

3. LOCATION

Executive will be based at the Company's executive offices in Menlo Park, California or elsewhere as may be designated from time to time by the Company. The Executive will be expected to travel to the Company's offices at other locations as needed for the performance of his duties and responsibilities.

4. COMPENSATION, BENEFITS AND PERQUISITES

(a) Salary

In consideration of services to be rendered, Executive will be paid a salary of not less than $330,000 per year, to be earned and paid in equal semi-monthly installments, less any deductions required by law, pursuant to the procedures regularly established by the Company. Executive will be eligible for periodic increases in base salary under the Company's normal policies and procedures for executive salary increases, which currently provide for review of the chief

---

executive officer's salary every three (3) years. Executive's salary will not be reduced below its current level of $330,000 without both the Company's and the Executive's prior written consent.

(b) Annual Incentive Compensation

The Executive will continue to participate in the Company's annual incentive plan as it may be modified from time to time (the "Incentive Plan"). Under the terms of the current Incentive Plan, the Executive's annual bonus is based upon the attainment of pre-determined goals mutually established by the Company and the Executive. Actual bonus(es) payable will be determined by the terms of the Incentive Plan. The Company reserves the right to modify, amend, or discontinue the Incentive Plan at any time.

(c) Long Term Incentive Compensation

The Executive will be eligible to receive grants of stock options under the Company's 1996 Stock Option Plan and such other long-term incentive plans applicable to executives of the Company (the "Equity Plans") as the Company may adopt. The 1996 Stock Option Plan currently provides for possible grants of stock purchase rights, incentive stock options, and non-statutory stock options. Any awards of stock options or other long-term incentives are at the discretion of the Board, and are subject to the terms of the plan. The Company reserves the right to modify, amend, or discontinue the Equity Plans at any time.

(d) Benefits

The Executive will participate in the Company's standard medical, life, accident, disability and retirement plans provided to its eligible employees.

(e) Vacation

The Executive will receive Company paid vacation time off in accordance with the Company's policies and procedures, as may be amended from time to time and which currently provide for four weeks vacation per year.

(f) Expenses

The Company will reimburse Executive for travel, lodging, entertainment, and other reasonable business expenses incurred by him in the performance of his duties in accordance with the Company's general policies, as may be amended from time to time.

5. TERMINATION OF EMPLOYMENT

(a) By Death or Disability

Executive's employment will terminate automatically upon the death of Executive or when Executive begins to receive benefits under the Company's Long Term Disability Plan. In such cases, the Company will pay the Executive (in the case of long term disability) or his estate or a person who acquired the right to receive such payments by bequest or inheritance (in the case of death):

(i) the salary to which he is entitled through the date of termination; and

(ii) a pro rata portion of the Executive's annual incentive award, if any, to which he is entitled under the Incentive Plan through the date of termination.

Upon payment of such amounts, the Company's obligations under this Agreement will then cease.

(b) By Company for Cause

The Company may terminate, without liability, Executive's employment for Cause (as defined below) at any time and without notice. The Company will pay the Executive the salary to which he is entitled through the date of termination and thereafter the Company's obligations under this Agreement will then cease. The Executive will not be entitled to any annual incentive award under the Incentive Plan for the year in which termination occurs.

Termination shall be for Cause if the Executive:

(i) willfully breaches significant and material duties he is required to perform;

(ii) commits a material act of fraud, dishonesty, misrepresentation, or other act of moral turpitude;

(iii) is convicted of a felony or another crime which is materially injurious to the reputation of the Company;

(iv) exhibits gross negligence in the course of his employment;

(v) is ordered removed by a regulatory or other governmental agency pursuant to applicable law; or

(vi) fails to obey a lawful direction from the Board.

(c) By Company Without Cause

The Company may terminate the Executive's employment and this Agreement, at any time, for any reason, without Cause and without liability.

If employment is terminated by the Company as described in the preceding paragraph, the Company will pay to Executive the salary to which he is entitled and will continue to cover Executive in the Company's benefit programs for a period of one year beginning on the date of such termination (the "Severance Period"). In addition, such number of shares subject to any unvested stock options and such number of shares of restricted stock as would have vested at the end of the Severance Period shall vest as of the date of termination. Executive will receive a pro-rata portion of the annual incentive award, if any, to which he is entitled under the Incentive Plan through the date of termination. After payment of termination benefits, the Company's obligations under this Agreement will cease.

(d) Voluntary Termination

The Executive may terminate his employment at any time by giving the Company three (3) months' advance written notice of such termination. In this event, the Company will pay the salary to which the Executive is entitled through the end of the notice period, and the Company's obligations under this Agreement will then cease. The Executive will not be entitled to any annual incentive award under the Incentive Plan for the year in which he terminates his employment.

(e) Termination for "Good Reason"

The Executive may also terminate his employment for "Good Reason". For purposes of this Agreement, "Good Reason" shall mean:

(i) any assignment to the Executive of duties other than those contemplated by this Agreement or typically assumed by a President and CEO or which represent a material reduction in the scope and authority of Executive's position, except that the designation of another Director as Chairman of the Board shall not constitute "Good Reason";

(ii) a Company required relocation of Executive's principal place of work which is not agreed to by Executive and which requires an increase in Executive's normal commute of more than 35 miles, unless such relocation results from the relocation of the Company's executive offices; or,

(iii) any reduction in salary below $330,000 per year which is not agreed to by Executive.

If Executive terminates employment for "Good Reason", Company shall continue to pay to Executive at the then current rate (or the rate prior to a reduction referred to in clause (iii) above) the salary to which he is entitled and will continue to cover Executive in the Company's benefit program for one year following the date of termination of employment for "Good Reason" (the "Severance Period"). In addition, such number of shares subject to any unvested stock options and such number of shares of restricted stock as would have vested at the end of the Severance Period shall vest as of the date of termination. Executive will receive a pro-rata portion of the annual incentive award, if any, to which he is entitled under the Incentive Plan through the date of termination. Thereafter, the Company's obligations under this agreement shall cease.

(f) Termination Obligations

Executive acknowledges and agrees that all personal property and equipment furnished to or prepared by the Executive in the course of or incident to his employment belong to the Company and shall be promptly returned to the Company upon termination of employment. Executive further acknowledges and agrees that all confidential materials and documents, whether written or contained in computer files, diskettes or any other media, remain the property of the Company and shall be promptly returned to the Company upon termination of employment.

6. ACCELERATED VESTING UPON CHANGE OF CONTROL

A "Change of Control" is defined as the occurrence of one or more of the following events:

(i) a report on Schedule 13D is filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 disclosing that any person other than the Company, a subsidiary of the Company, or any employee benefits plan sponsored by the Company, is the beneficial owner of 50% or more of the combined voting power of the then-outstanding securities of the Company;

(ii) any person purchases securities pursuant to a tender or exchange offer, which, upon the consummation thereof, results in beneficial ownership of 50% or more of the voting power of the then-outstanding securities of the Company;

(iii) the stockholders of the Company approve a consolidation or merger of the Company in which the Company is not the surviving corporation, or the Company's shares are converted to cash, securities or other property, or all or substantially all of the assets of the Company are sold, leased, exchanged or transferred; or,

(iv) a majority of the members of the Company's Board of Directors change within a 24 month period unless the election or nomination for election of such Directors shall have been approved by a majority of the Directors still in office who were also Directors at the beginning of the 24 month period.

If, within a period of two (2) years subsequent to a Change of Control (as defined above), the Executive is involuntarily terminated without Cause as described in Section 5(c) or terminates for "Good Reason" as described in Section 5(e), then all unvested stock options and shares of restricted stock granted under any Equity Plans shall immediately vest and become exercisable.

The preceding paragraph notwithstanding, aggregate amounts payable to the Executive will be limited by the amount necessary to ensure that no payments to Executive will result in excise taxes under Section 4999 of the Internal Revenue Code (the "Code") and that the Company will not be subject to the loss of tax deductions under Section 280G of the Code. The Executive shall have the right to elect which items of compensation he waives in this event.

7. SOLICITATION OF EMPLOYEES, CONSULTANTS AND OTHER PARTIES.

Executive agrees that during the term of this Agreement, and for a period of two (2) years thereafter, Executive shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to terminate their relationship with the Company, or take away such employees or consultants, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for Executive or for any other person or entity. Further, for a period of two (2) years following termination of this Agreement, Executive shall not solicit any licensor to or customer of the Company or licensee of the Company's products, in each case, that are known to Executive, with respect to any business, products or services that are competitive to the products or services offered by the Company or under development as of the date of such termination.

8. CONFIDENTIAL INFORMATION

Executive agrees that at all times during the term of this Agreement and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company, or to disclose to any person, firm, corporation or other entity without written authorization of the Board, any Confidential Information of the Company and agrees to abide by the terms of his Confidential Information and Invention Assignment Agreement with the Company. Executive understands that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, suppliers, customer lists and customers, prices and costs, markets, software, developments, inventions, laboratory notebooks, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, licenses, finances, budgets or other business information disclosed to Executive by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or created by Executive during the term of this Agreement. Executive understands that "Confidential Information" includes, but is not limited to, information pertaining to any aspects of the Company's business which is either information not known by actual or potential competitors of the Company or is proprietary information of the Company or its customers or suppliers, whether of a technical nature or otherwise. Executive further understands that Confidential Information does not include any of the foregoing items which has become publicly and widely known and made generally available through no wrongful act of Executive or of others who were under confidentiality obligations as to the item or items involved.

9. ASSIGNMENT

The Executive's rights and obligations under this Agreement may not be assigned, and any attempted assignment shall be null and void. The Company may assign this Agreement, but only to a successor or affiliated organization.

10. NOTICES

All notices referred to in this Agreement shall be in writing and delivered to the Company at its principal address, 3603 Haven Avenue, Menlo Park, CA 94025-1010, or to the Executive at [insert home address].

11. ENTIRE AGREEMENT

The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the employment of the Executive by the Company and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms, and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding involving this Agreement.

12. AMENDMENTS AND WAIVERS

This Agreement may not be modified, amended, or terminated except in writing, signed by the Executive and by a duly authorized representative of the Company other than the Executive. No

failure to exercise and no delay in exercising any right, remedy, or power hereunder shall operate as a waiver thereof.

13. SEVERABILITY AND ENFORCEMENT

If any provision of this Agreement shall be held by a court of competent jurisdiction to be invalid, unenforceable, or void, the remainder of this Agreement shall remain in full force and effect.

14. GOVERNING LAW

This Agreement shall be interpreted and construed in compliance with the laws of the state of California, unless a superseding Federal law is applicable.

15. ARBITRATION

In the event that any material dispute arises between the Company and the Executive with respect to any aspect of this Agreement, the controversy shall be submitted to binding arbitration by a disinterested arbitrator, in accordance with the current arbitration rules of the American Arbitration Association.

[signature page follows]

This Executive Employment Agreement was executed as of the last date set forth below

COMPANY:

LANDEC CORPORATION

By: _____

Richard S. Schneider
Director and Member of the Compensation Committee

Date: _____

EXECUTIVE:

GARY T. STEELE

_____

Date: _____

FOURTH AMENDMENT TO CREDIT AGREEMENT

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

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

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

- "Eligible Inventory" means seed corn inventory owned by the Company :(i) for which the Company has either made payment or been invoiced by Hubner and title has been passed to the Company and is classified as the Company's inventory under GAAP, (ii) that is held in a warehouse in Illinois or Indiana approved in advance by the Bank, or at Hubner's plant located in West Lebanon, Indiana (each of the foregoing called a "Warehouse"), (iii) which is segregated at each such Warehouse from other non-Fielder's Choice Direct seed corn inventory that is clearly marked in bags or other containers with the words "Fielder's Choice Direct" or another name clearly identifying the Company's seed corn supported by the books and records of the Company as being owned by the Company, (iv) as to which all creditors of the owner or lessee of the Warehouse where such inventory is located have entered into an Ownership Acknowledgment Agreement or similar agreement, appropriate lien waivers have been executed, and appropriate UCC financing statements disclaiming any interest in such seed corn inventory have been filed, complete copies of which have been provided to the Bank, and (v) as to which the Bank has filed the appropriate UCC financing statements giving notice of the Bank's security interest in the Company's seed corn inventory located at such Warehouse and perfecting the Bank's lien thereon.

- "Revolving Loan Maturity Date" means October 31, 2004, and thereafter any subsequent date to which the Commitment may be extended by the Bank pursuant to the terms of Section 2(a)(iv).

b. New Definition. The following definition is hereby added to Section 1 of the Agreement as follows:

- "Fourth Amendment" means that certain agreement entitled "Fourth Amendment to Credit Agreement" between the Company and the Bank dated as of May 15, 2003.

2. **THE REVOLVING LOAN.** Section 2(a)(i), the first sentence of Section 2(a)(ii), and Section 2(a)(iii) of the Agreement are hereby amended and restated in their respective entireties as follows:

(i) The Commitment — Use of Proceeds. From the date of the Fourth Amendment and until the Revolving Loan Maturity Date, the Bank agrees to make Advances (collectively, the "Revolving Loan") under a revolving line of credit from time to time to the Company of amounts not exceeding in the aggregate at any time outstanding the lesser of Seven Million Five Hundred Thousand and 00/100 Dollars ($7,500,000.00) (the "Commitment") or the Borrowing Base, provided that all of the conditions of lending stated in Section 7 of this Agreement as being applicable to the Revolving Loan have been fulfilled at the time of each Advance. Proceeds of the Revolving Loan may be used by the Company only for working capital purposes.

(ii) Method of Borrowing. The obligation of the Company to repay the Revolving Loan shall be evidenced by the Promissory Note of the Company in the form of Exhibit "A" attached to the Fourth Amendment (the "Revolving Note").

(iii) Interest on the Revolving Loan. The principal amount of the Revolving Loan outstanding from time to time shall bear interest until maturity of the Revolving Note at a rate per annum equal to the Prime Rate plus one-half percent (1/2%). After maturity, whether on the Revolving Loan Maturity Date or on account of acceleration upon the occurrence of an Event of Default, and until paid in full, the Revolving Loan shall bear interest at a per annum rate equal to the Prime Rate plus four and one-half percent (4-1/2%). Accrued interest shall be due and payable monthly on the last Banking Day of each month prior to maturity. After maturity, interest shall be payable as accrued and without demand.

3. **REPORTING OBLIGATIONS.** Sections 5(b)(i) and 5(b)(iii) of the Agreement are hereby amended and restated in their respective entireties as follows:

(i) Company's and Landec's Annual Financial Statements. As soon as available and in any event within ninety (90) days after the close of each fiscal year of the Company, the consolidated and consolidating financial statements of Landec for such fiscal year prepared by Landec's internal accountants, which statements shall include, among other things, an income statement broken out for the Company, prepared and presented in accordance with GAAP, consistently applied (except for changes in which the

independent accountants of Landec concur) in each case setting forth in comparative form corresponding figures for the preceding fiscal year for Landec and for the Company, together with the management letter issued by independent certified public accountants approved by the Bank, which approval shall not be unreasonably withheld.

(iii) Landec's 10-K and 10-Q. The Company shall provide the Bank as soon as available and in any event within one hundred twenty (120) days after the close of each of Landec's fiscal years with a copy of Landec's Form 10—K, and within forty-five (45) days after the end of each of Landec's fiscal quarters, with a copy of Landec's Form 10-Q.

4. **INVENTORY REPORTS.** A new Section 5(b)(ix) is hereby added to the Agreement as follows:

(ix) Inventory Reports. The Company shall from time to time and no less frequently than once each calendar month deliver to the Bank inventory reports issued by Hubner and certified to the Bank certifying the amount of seed corn owned by the Company and held in the Warehouses.

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

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

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

a. This Amendment.

b. The Revolving Loan Note in the form attached hereto as Exhibit "A".

c. The Third Amendment to Mortgage, Security Agreement, Assignment of Rents and Fixture Filing in the form attached hereto as Exhibit "B."

d. The Reaffirmation of Guaranty Agreement in the form attached hereto as Exhibit "C," duly executed by Landec Corporation.

e. The Acknowledgment and Consent of Subordinated Creditor in the form attached hereto as Exhibit "D," duly executed by Landec Corporation.

f. A Resolution of the Board of Directors of the Company authorizing the execution, delivery and performance of this Amendment and the other Loan Documents named herein to which the Company is a party certified as of the closing date by the Secretary of the Board of Directors.

g. A certificate of the Secretary of the Board of Directors of the Company certifying the names of the officer or officers authorized to sign this Amendment and other Loan Documents named herein to which the Company is a party.

h. A Resolution of the Board of Directors of Landec authorizing the execution, delivery and performance of the Reaffirmation of Guaranty Agreement, the Acknowledgment and Consent of Subordinated Creditor, and the other Loan Documents named herein to which Landec is a party certified as of the closing date by the Secretary of the Board of Directors.

i. A certificate of the Secretary of the Board of Directors of the Landec certifying the names of the officer or officers authorized to execute the Reaffirmation of Guaranty Agreement, the Acknowledgment and Consent of Subordinated Creditor, and other Loan Documents named herein to which Landec is a party.

j. Payment of the commitment fee in the amount of $37,500.00 in consideration for the agreement of the Bank to extend the Revolving Loan Maturity Date as provided herein.

k. Payment of the reasonable attorneys' fees of counsel for the Bank incurred in connection with the drafting and negotiation of this Amendment; and

l. Such other instruments, agreements, and documents as may be required by the Bank pursuant hereto.

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

IN WITNESS WHEREOF, the Company and the Bank, by their respective duly authorized officers, have executed and delivered in Indiana this Fourth Amendment to Credit Agreement as of May 15, 2003.

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

By: _____
Michael E. Godlove, Chief Financial Officer

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

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

SCHEDULE OF EXHIBITS

Exhibit “A”	-	Promissory Note (Revolving Loan) ($7,500,000.00)
Exhibit “B”	-	Third Amendment to Mortgage, Security Agreement, Assignment of Rents and Fixture Filing (Landec Ag, Inc.)
Exhibit “C”	-	Reaffirmation of Guaranty Agreement (Landec Corporation)
Exhibit “D”	-	Acknowledgment and Consent of Subordinated Creditor (Landec Corporation)

Exhibit 99.1

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;

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;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

/s/ Gary T. Steele
Gary T. Steele
President and Chief Executive Officer

Exhibit 99.2

CERTIFICATIONS (Cont.)

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;

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;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 10, 2003

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