Innovations For Healthy Living

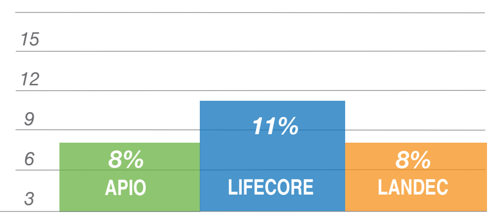
2014

Landec Annual Report

LANDEC®

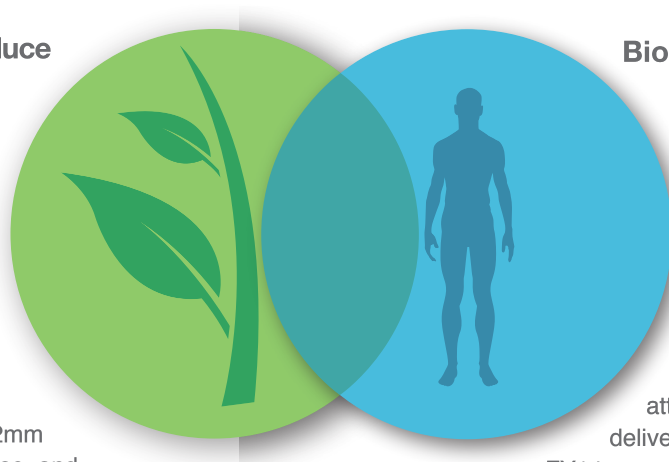
Landec® is focused on developing new products that promote healthy living. By continuing to invest in innovation within its packaged fresh produce and biomedical businesses, Landec is creating value for customers and driving growth for shareholders.

FY14 vs. FY13 Revenue Growth



Investing in Growth

In FY14, Landec continued to invest in both of its core operating businesses in response to consumer healthy living trends by: (1) introducing innovative, healthy food products under the Eat Smart® brand through Apio, Inc., Landec's wholly-owned fresh-cut packaged produce business, and (2) adding new biomedical materials products at Lifecore Biomedical, Inc., Landec's wholly-owned biomedical materials business, that improve overall quality of life. During FY14, Landec invested $22.1mm in growth initiatives, including $14.9mm in capital equipment and $7.2mm in new product development. As a result of these initiatives and similar past investments, Landec grew FY14 revenues to $477mm, representing an 8% increase over FY13 revenues of $442mm.



Specialty Packaged Value-Added (VA) Produce

Apio™ utilizes Landec's BreatheWay® packaging technology to naturally extend the shelf life of fresh produce. Apio is a leader in fresh-cut, specialty packaged vegetables in North America. In FY14, Apio achieved revenues of $431mm, representing a $32mm or 8% year-over-year increase, and generated $27.2mm in pre-tax income. This growth was primarily a result of continued expansion of Apio's new superfood products, led by continued gains in Sweet Kale Salad sales and distribution. Incremental capacity was added in Q1 FY14 to process the growing demand for superfood products. However, as demand continued to escalate, capacity utilization on the new equipment line quickly exceeded 100%. The capital for an additional salad processing line was approved and is expected to be operational by Q1 FY15. Advancements were also made in Apio's East Coast manufacturing facility with the installation of new processing and packaging lines in Bowling Green, Ohio. This allows Apio to expand its next day service to customers on the East Coast for not only green beans but also a broader array of vegetable products. Finally, Apio's equity investment in its strategic licensing partner, Windset Farms,® contributed $11.1mm in pre-tax net income, representing a $1.9mm or 21% year-over-year increase.

Biomedical Materials

Lifecore® is a premium provider of the biopolymer Hyaluronan (HA) with a leadership position in ophthalmology. Since being acquired by Landec in April 2010, Lifecore has contributed strong topline growth and attractive margins. Lifecore delivered $46mm in revenue in FY14, a year-over-year increase of 11%, and generated $11.5mm in pre-tax income, representing a 21% year-over-year growth[(i)]. Utilizing its proprietary manufacturing capabilities, strong quality control systems, process development expertise and long-term partner relationships, Lifecore continues to grow its business with existing customers, as well as through new partners. During FY14, Lifecore invested $8.6mm in new growth initiatives, with the majority of this investment being utilized to double its existing aseptic filling capacity. With this increased aseptic filling capacity, Lifecore is able to support the anticipated growth with existing customers and be prepared for new opportuities when they arise.

(i) Lifecore FY13 pre-tax net income was $9.4mm before intercompany charges

FY2014 Financial Overview

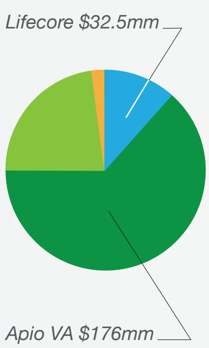
Growth Through Innovation

Fiscal Year	2011	2012	2013	2014	3-year CAGR
Revenue	$277mm	$318mm	$442mm	$477mm	20%
EPS	$0.33[i]	$0.49	$0.70[ii]	$0.71	29%
Operating Cash	$14.5mm	$22.2mm	$21.2mm	$21.0mm	13%

Revenue Growth by Business Segment

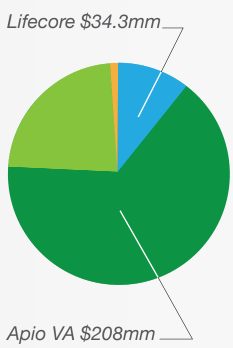
FY2011

$277mm



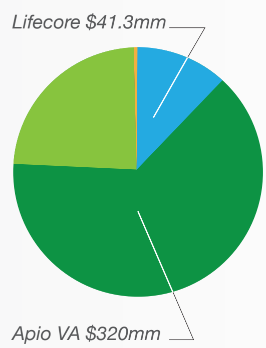
FY2012

$318mm



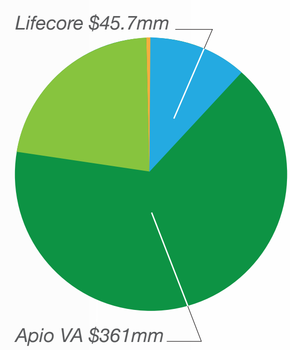
FY2013

$442mm



FY2014

$477mm



Total Assets	$314mm
R&D and Cap. Ex.	$22.1mm
Employees	531
U.S. Patents Issued:	43

Lifecore Biomedical (core business)

Apio Value-Added (core business)

Apio Export

Landec Licensing

For FY14, Landec increased revenues 8% to $477mm from $442mm in FY13. The $35mm increase was primarily due to growth at Apio, with a 13% or $40mm increase in its specialty packaged, value-added business driven by the new vegetable salad kit product line. Lifecore revenues increased 11% due to the introduction of new products, while Apio's Food Export business decreased 11% or $9mm due to lower volume sales driven primarily from Indonesian import quotas on fruit.

Landec's net income continues to grow, excluding one-time nonrecurring items, as a result of increasing overall revenues and its investment in Windset Farms. FY14 net income grew despite incurring significant operational variances in Apio's value added business resulting from produce sourcing issues, higher labor costs and lower processing yields.

In FY14, Apio's pre-tax income growth benefited from a $10mm increase in the fair market value of its investment in Windset Farms and $1.1mm in dividends from its Windset Farms preferred stock ownership. The $11.1mm total represents a 21% increase over the pre-tax income of $9.2mm received in FY13 from Windset.

Looking to fiscal 2015, we expect Landec consolidated revenues to increase 7-8% compared to fiscal 2014 and surpass $0.5 billion in revenues for the first time in Landec's history. We expect net income to be flat as we make significant investments in marketing and sales, production labor, produce sourcing and facilities for future growth.

(i) Before the $4.8mm non-recurring expense associated with the goodwill impairment charge for Landec Ag prior to its sale to INCOTEC Coating and Seed Technology Companies in June 2012.
(ii) Before the $3.9mm non-recurring expense reduction associated with the earn-out adjustment from the Greenline acquisition.

Innovative Products That Make

Eat Smart Products Make Eating Healthy Easy

Obesity has grown dramatically in the US. In 1962, obesity in the US was estimated at 13% of the US population.(i) In 2010, the Centers for Disease Control and Prevention (CDC) reported 36% of American adults and 17% of American children are obese.(ii) With a commitment to delivering high quality, fresh vegetable products in convenient formats, Eat Smart products are contributing to the reversal of this trend by making it easy for people to eat healthy foods.

Eat Smart's new line of Vegetable Salad Kits offers highly nutritious salads that are full of flavor. Packed with superfoods, these salads can play a critical role in maintaining a healthy diet. With restaurant-inspired recipes and a colorful array of vegetables, you can also be proud to serve these salads to your family and friends. Eat Smart salads leverage Landec's BreatheWay packaging technology to extend shelf life and keep the vegetables fresh for a longer period of time. With everything you need in the package, all you do is mix and serve.

Sweet Kale Salad Kit

Apio launched the first superfood product, Sweet Kale Salad, nearly two years ago under its Eat Smart brand. Over these two years, demand for this product has continued to grow to become the number one selling salad kit in club and retail stores throughout North America.(iii) This salad combines seven nutrient-dense superfoods with a sweet poppyseed dressing to deliver a taste that makes you crave more.

The Ginger Bok Choy Salad Kit includes six superfoods with peanuts and a ginger sesame dressing and was launched after the Sweet Kale Salad. Ginger Bok Choy has gained broad distribution among retailers during FY14 due to a consumer trend for Asian flavor.

Ginger Bok Choy Salad Kit

Wild Greens & Quinoa Salad Kit

Wild Greens & Quinoa is Eat Smart's most recent superfood salad, creating a total of three superfood salads for consumers. This salad contains seven superfoods, feta cheese and a proprietary avocado herb dressing.

Apio, INC.

(i) "Obesity", Wikpedia, retrieved 2013-06-05; Early Release of Selected Estimates Based on Data from the 2004 National Health Interview Survey, CDC, NCHS, 2005-06-21, retrieved 2008-03-15.
(ii) "Obesity",Wikpedia, retrieved 2013-06-05; National Obesity Trends, CDC, NCHS, 2010, retrieved 2012-03-26
(iii) Apio internal estimate based on Nielsen data in North America retail stores combined with internal data from club stores.

Eating Healthy Taste Delicious

Eat Smart products now make it easy to create hot and healthy home-cooked meals in minutes. The Kale & Red Chard Stir Fry Kit and the Shanghai Stir Fry Kit combine five superfood vegetables that are pre-washed and pre-cut, with a gourmet sauce.

Apio is committed to developing innovative products that make it easy and delicious to eat healthy. With a deep understanding of consumer and food trends, we work closely with our culinary team to deliver fresh products that combine unique vegetable blends and flavor profiles. During FY15, additional superfood products will be launched in a variety of formats that make it easier for consumers to eat healthy at every meal.

Who knew that eating healthy could taste so delicious?

Kale & Red Chard Stir Fry Kit

Shanghai Stir Fry Kit

Apio Value-Added Business: Transformation Timeline

1999

Apio is acquired by Landec and leverages its patented BreatheWay packaging technology to expand the value-added vegetable category

Revenues = $47mm

2005

Apio patents the first vegetable "flip tray" design

Revenues = $121mm

2012

Apio acquires GreenLine® with East Coast processing facilities and nationwide distribution

Revenues = $208mm

2014

Apio's superfood products provide an aggressive growth platform

Revenues = $361mm

Apio FY2014 Highlights

FY14

Revenue:	$431mm
Pre-tax Income:	$27.2mm
Year-over-year Revenue Growth:	8%
Year-over-year Pre-tax Income Growth[(i)]:	2%

Apio's FY14 financial results clearly reflect Landec's continued commitment to invest dollars and resources that drive growth within its core businesses.

Apio's FY14 revenues were $431mm, an increase of 8% over FY13 revenues of $399mm. This increase was driven by a $40mm or 13% increase in Apio's value-added business to $361mm, which was a result of the rapid expansion of our new superfood salad kits and stir fry kits as well as category growth. Apio's FY14 operating income, excluding the one-time earn-out adjustment in FY13, decreased 8% from $19.3mm to $17.7mm, primarily as a result of significant operational variances in Apio's value-added business during FY14 resulting from produce sourcing issues, higher labor costs and lower processing yields. Apio was able to offset most of the negative variances with increased revenues and a very favorable product mix shift to higher margin superfood products.

A continued increase in the value of Apio's investment in Windset Farms contributed to Apio's YOY increase in pre-tax net income, before intercompany charges and the one-time earn-out adjustment in FY13, from $26.6m to $27.2mm. In February 2011, Apio invested $15mm in Windset Farms, a hydroponic greenhouse grower of high quality produce, a business that has year round harvesting. Windset produces tomatoes, peppers and cucumbers with higher yields and more robust flavor than similar field grown products and uses only a fraction of the water.

In addition, because Windset's products are grown in greenhouses, they are not susceptible to the typical downside growing risks from unpredictable adverse weather conditions.

From Apio's investment of $15mm for a 20.1% ownership investment in Windset, Apio receives a 7.5% annual dividend and a 20.1% share of the increase in fair market value of Windset, which combined contributed $11.1mm to pre-tax income in FY14. When combined with the $17.2mm of pre-tax income received from February 2011 through FY13, Apio has thus far realized a ROI of nearly 200% on this investment.

During FY15, we plan to invest heavily in our Eat Smart specialty packaged vegetable products, supported by investments in new product development and sales and marketing, with significant expansion of processing capacity and capabilities. We believe our products are "on trend" with North American consumers who are increasingly equating healthy eating with healthy living.

(i) Before the $3.9mm non-recurring expense reduction associated with the FY13 earn-out adjustment from the GreenLine acquisition.

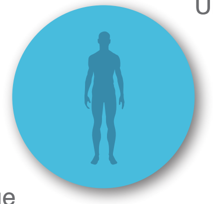
Lifecore FY2014 Highlights

FY14

Revenue:	$45.7mm
Pre-tax Income:	$11.5mm
Year-over-year Revenue Growth:	11%
Year-over-year Pre-tax Income Growth:	21%

We estimate that Lifecore's injectable materials have been used in over 50 million patients over the last 25 years, primarily for use in eye surgeries which are projected to increase with an aging population.

Lifecore Biomedical is a premium supplier of hyaluronan (HA) and provides specialized aseptic fill and finish services for use in medical applications. For FY14, Lifecore had revenues of $46mm and pre-tax income before intercompany charges of $11.5mm compared to $41mm and $9.4mm for FY13. The growth at Lifecore was primarily attributed to recent FDA approval of partner products containing Lifecore HA. Lifecore worked closely with its partners during FY14 to commercialize these products. Lifecore also advanced new partner opportunities during the year that are intended to leverage Lifecore's unique fermentation and aseptic filling capabilities for difficult to produce and fill HA and non-HA products.



Lifecore primarily develops and manufactures products composed of the biopolymer hyaluronan (also known as hyaluronic acid, sodium hyaluronate, or hyaluronate). Hyaluronan is an important extra-cellular matrix component involved in lubricating and biological maintenance of many tissues. Lifecore's hyaluronan is used in a wide and growing range of products for several medical specialties including ophthalmic surgery, orthopedics, veterinary medicine, drug delivery, tissue regeneration and aesthetics.

Lifecore is dedicated to the development of technically advanced hyaluronan-based products that offer long-term compatibility with the human body. Lifecore's commitment to quality and service ensures that its products meet the highest standards set by the United States Food and Drug Administration, the European Community and other international agencies. Lifecore has earned ISO 13485 and CE certifications on several products, international symbols of quality system assurance and compliance.

During FY14, Landec continued to invest in capital equipment to upgrade Lifecore facilities and position it with the needed capacity to support active development programs that are reaching anticipated commercialization. As in the past, Lifecore will continue to focus on growing revenues and earnings while maintaining its high operating margins. Lifecore will continue to leverage its long-term partner relationships and utilize its 114,000 square foot FDA registered pharmaceutical grade facility to develop new products and partnerships to achieve this growth.

Shareholders Letter

Fiscal year 2014 was a productive year for Landec. Revenues grew to a record $477 million by growing both of our core businesses by double-digit rates. We continued to increase sales of the most successful fresh-cut salad kit in recent history and launched additional new products to expand our superfood product line. We also invested in Apio and Lifecore facilities to enable continued growth for the future.

Dear Shareholders,

In fiscal year 2014, we achieved another year of solid sales growth with consolidated revenues increasing 8% to $477 million driven by strong sales of Apio's new Eat Smart superfood products and Lifecore biomedical materials products. Cash flow from operations was $21 million and year-end cash balances total $14 million with total assets of $314 million. Adjusting for a one-time non-recurring gain in fiscal year 2013, fiscal year 2014 net income and corresponding earnings per share were essentially flat year-over-year as operational cost variances were significant due to produce sourcing issues, higher labor costs and lower processing yields.

Our two core businesses which are focused on healthy living continued to demonstrate double digit sales growth. Our Apio specialty packaged value-added vegetable business grew 13% this past year due to strong consumer demand for our products and a favorable product mix to higher priced superfood products. Our Lifecore biomedical materials business grew 11% as an increasing number of people seek medical care for eye surgeries and orthopedic joint therapy.

Starting in FY13, Landec initiated an innovation program to develop and commercialize a family of new food products under our Eat Smart brand made from unique blends of superfood vegetables and other ingredients in the form of salad kits. Our roll-out of these products started with our Sweet Kale Salad Kit, consisting of a unique blend of seven superfoods and dressing. This product has exceeded all expectations and by the end of May, sales of this product exceeded $1 million per week. We followed with the roll-out of additional superfood packaged salad kits, including the Ginger Bok Choy and Wild Greens & Quinoa salads along with two vegetable stir fry kits. The consumer response has been remarkable and we are working diligently to expand our processing capacity and capabilities and augment our marketing and product support efforts.

We believe that Landec's new specialty packaged produce products are "on trend" as more and more consumers recognize the value of healthy eating. We intend to continue to launch a family of superfood products packaged in our proprietary BreatheWay packaging. Our packaging technology extends the shelf life of produce and this combined with our innovative blends and strong channels of distribution provides substantial future growth potential.

Lifecore Biomedical, our biomedical materials business, is the manufacturing leader in supplying injectable viscoelastic materials for the ophthalmic market. Lifecore's medical products enable people to maintain a desired lifestyle and stay more active as they grow older. We intend to continue to invest in expanded capabilities at Lifecore especially in the specialized aseptic filling areas allowing us to provide finished products to our customers and partners.

As a management team, we are focused on growing Landec's core food and biomedical materials businesses for the long term which will be accomplished by achieving our five year strategic growth plan that we completed in fiscal year 2014.

As we enter our new fiscal year 2015, we will aggressively increase our investments in facilities and equipment, expand our innovation, marketing and sales support activities and strengthen our operational capabilities to capitalize on our growth prospects.

Our charter at Landec is clear. We are dedicated to developing and commercializing innovative new products that promote healthy living and a more active lifestyle resulting in sustainable growth in sales and earnings.

Thank you for your continued support.

Respectfully,

Gary T. Steele

Gary T. Steele
Chairman of the Board, President and CEO

LANDEC

2014 Proxy Statement and 10-K

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LANDEC

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 9, 2014

TO THE STOCKHOLDERS OF LANDEC CORPORATION:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Landec Corporation (the "***Company***") will be held on Thursday, October 9, 2014, at 1:30 p.m., local time, at Seaport Conference Center, 459 Seaport Court, Redwood City, CA 94063 for the following purposes:

1. To elect four directors to serve for a term expiring at the Annual Meeting of Stockholders held in the second year following the year of their election and until their successors are duly elected and qualified;

2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2015;

3. To approve a non-binding advisory proposal on executive compensation; and

4. To transact such other business as may properly come before the meeting or any postponement or adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on August 15, 2014, are entitled to notice of and to vote at the meeting and any adjournment(s) thereof.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to mark, sign, and date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose or vote your shares by telephone or via the Internet.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Geoffrey P. Leonard

GEOFFREY P. LEONARD
Secretary

Menlo Park, California
September 8, 2014

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE OR VOTE YOUR SHARES BY TELEPHONE OR VIA THE INTERNET. IF A QUORUM IS NOT REACHED, THE COMPANY MAY HAVE THE ADDED EXPENSE OF RE-ISSUING THESE PROXY MATERIALS. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. THANK YOU FOR ACTING PROMPTLY.

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LANDEC

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 9, 2014

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of the Board of Directors of Landec Corporation, a Delaware corporation ("***Landec***" or the "***Company***"), for use at the annual meeting of stockholders (the "***Annual Meeting***") to be held on Thursday, October 9, 2014, at 1:30 p.m., local time, or at any postponement or adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at Seaport Conference Center, 459 Seaport Court, Redwood City, CA 94063. The telephone number at that location is (650) 482-3500.

The Company's principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025. The Company's telephone number at that location is (650) 306-1650.

Solicitation

These proxy solicitation materials are to be mailed on or about September 8, 2014 to all stockholders entitled to vote at the meeting. The costs of soliciting these proxies will be borne by the Company. These costs will include the expenses of preparing and mailing proxy materials for the Annual Meeting and the reimbursement of brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the Annual Meeting to beneficial owners of the Company's common stock, par value $0.001 per share (the "***Common Stock***"). The Company may conduct further solicitation personally, telephonically or by facsimile through its officers, directors and regular employees, none of whom will receive additional compensation for assisting with the solicitation.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on October 9, 2014.

This Proxy Statement and the Company's Annual Report to Stockholders are available at http://landec.com/proxy

You may also find a copy of this Proxy Statement and our Annual Report (with exhibits) on the SEC website at *http://www.sec.gov.* **We will, upon written request and without charge, send you additional copies of our Annual Report (without exhibits) and this Proxy Statement. To request additional copies, please send your request by mail to Gregory S. Skinner, Chief Financial Officer, Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025 (telephone number: (650) 306-1650). Exhibits to the Annual Report may be obtained upon written request to Mr. Skinner and payment of the Company's reasonable expenses in furnishing such exhibits.**

Voting Procedure

You may vote by mail.

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote in person at the Annual Meeting.

We will pass out written ballots to anyone who wants to vote at the Annual Meeting. Holding shares in "street name" means your shares of stock are held in an account by your stockbroker, bank or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in "street name" and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain proper documentation to vote your shares at the Annual Meeting.

You may vote by telephone or electronically.

You may submit your proxy by following the Vote by Phone instructions accompanying the proxy card. Also, you may vote online by following the Vote by Internet instructions accompanying the proxy card.

You may change your mind after you have returned your proxy card.

If you change your mind after you return your proxy card or submit your proxy by telephone or Internet, you may revoke your proxy at any time before the polls close at the Annual Meeting. You may do this by:

- signing and returning another proxy card with a later date, or
- voting in person at the Annual Meeting.

Voting

Holders of Common Stock are entitled to one vote per share.

Votes cast in person or by proxy at the Annual Meeting will be tabulated by the Inspector of Elections. The Inspector of Elections will also determine whether or not a quorum is present. A majority of the shares entitled to vote, represented either in person or by proxy, will constitute a quorum for the transaction of business. The Inspector of Elections will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

If a broker indicates on the enclosed proxy or its substitute that it has not received voting instructions with respect to shares held in "street name" with such broker and either (i) does not have discretionary authority as to certain shares to vote on a particular matter or (ii) has discretionary voting authority but nevertheless refrained from voting on the matter ("***broker non-votes***"), those shares will be counted for purposes of determining the presence of a quorum, but will not be considered as voting with respect to that matter.

Proposal No. 1 – Election of directors: Each director is elected by a majority of the votes cast with respect to such director. Any votes "withheld" for a particular director are effectively votes against that director. Shares present and not voted, whether by broker non-vote, abstention or otherwise, will have no effect on this vote.

Proposal No. 2 – Ratification of independent registered public accounting firm: This proposal must be approved by a majority of the shares present and voted on the proposal. Shares present and not voted, whether by broker non-vote, abstention or otherwise, will have no effect on this vote.

Proposal No. 3 — Advisory (non-binding) vote on executive compensation: This advisory proposal will be approved if a majority of the shares present and voted on the proposal are voted in favor of the resolution. Shares present and not voted, whether by broker non-vote, abstention or otherwise, will have no effect on this advisory vote.

Any proxy which is returned using the form of proxy enclosed and which is not marked as to a particular item will be voted FOR the election of the director nominees proposed by the Board of Directors; FOR the ratification of the appointment of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2015; FOR the advisory vote on executive compensation; and as the proxy holders deem advisable on other matters that may come before the meeting or any adjournment(s) thereof, as the case may be, with respect to the item not marked. Broker non-votes will not be considered as voting with respect to these matters.

Record Date and Share Ownership

Only stockholders of record at the close of business on August 15, 2014, are entitled to notice of, and to vote at, the Annual Meeting. As of August 15, 2014, 26,841,722 shares of the Company's Common Stock were issued and outstanding.

Deadline for Receipt of Stockholder Proposals for the Company's Annual Meeting of Stockholders in 2015

If any stockholder desires to present a stockholder proposal at the Company's 2015 Annual Meeting of Stockholders, such proposal must be received by the Secretary of the Company no later than May 11, 2015, in order that they may be considered for inclusion in the proxy statement and form of proxy relating to that meeting.

Householding of Proxy Materials

Some companies, brokers, banks, and other nominee record holders participate in a practice commonly known as "householding," where a single copy of our Proxy Statement and Annual Report is sent to one address for the benefit of two or more stockholders sharing that address. Householding is permitted under rules adopted by the SEC as a means of satisfying the delivery requirements for proxy statements and annual reports, potentially resulting in extra convenience for stockholders and cost savings for companies. We will promptly deliver a separate copy of either document to you if you contact our Chief Financial Officer at the address listed above or call us at (650) 306-1650. If you are receiving multiple copies of our Proxy Statement and Annual Report at your household and wish to receive only one, please notify your bank, broker, or other nominee record holder, or contact our Chief Financial Officer at the address listed above.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Nominees

The Company's Bylaws currently provide for no fewer than six (6) and no more than ten (10) directors, and the Company's Certificate of Incorporation provides for the classification of the Board of Directors into two classes serving staggered terms. Each Class 1 and Class 2 director is elected for a two-year term, with the Class 1 directors elected in even numbered years (*e.g.*, 2014) and the Class 2 directors elected in odd numbered years (*e.g.*, 2015). Accordingly, at the Annual Meeting four (4) Class 1 directors will be elected.

The Board of Directors has nominated the persons named below to serve as Class 1 directors until the 2016 Annual Meeting, at which their successors will be elected and qualified. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's four (4) nominees named below, all of whom are presently directors of the Company. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible, and, in such event, the specific nominees to be voted for will be determined by the proxy holders. Assuming a quorum is present, the four (4) nominees for director receiving at least a majority of votes cast at the Annual Meeting will be elected.

Nominees for Class 1 Directors

Name of Director	Age	Principal Occupation	Director Since
Gary T. Steele................	65	President, Chief Executive Officer and Chairman of the Board of Directors of the Company	1991
Frederick Frank.............	82	Chairman, Burrill Securities	1999
Steven Goldby...............	74	Partner, Venrock	2008
Catherine A. Sohn.........	61	Retired Senior Executive Glaxo Smith Kline	2012

Except as set forth below, each of the Class 1 directors has been engaged in the principal occupation set forth next to his or her name above during the past five years. There is no family relationship between any director and executive officer of the Company.

Gary T. Steele has served as President, Chief Executive Officer and a director since September 1991 and as Chairman of the Board of Directors since January 1996. Mr. Steele has over 30 years of experience in the biotechnology, instrumentation and material science fields. From 1985 to 1991, Mr. Steele was President and Chief Executive Officer of Molecular Devices Corporation, a bioanalytical instrumentation company. From 1981 to 1985, Mr. Steele was Vice President, Product Development and Business Development at Genentech, Inc., a biomedical company focusing on pharmaceutical drug development. Mr. Steele has also worked with McKinsey & Company and Shell Oil Company. Mr. Steele received a B.S. from Georgia Institute of Technology and an M.B.A. from Stanford University.

Mr. Steele's significant knowledge and understanding of the Company and its businesses together with his extensive experience in the biotechnology field provide the Board of Directors with significant insight into the Company's businesses and operations.

On September 3, 2014, the Company announced that Mr. Steele had informed the Board of Directors of his intent to retire from the positions of President and Chief Executive Officer of the Company and Chairman of the Board of Directors at the end of fiscal year 2015. The Board of Directors has nominated Mr. Steele for re-election as a Class 1 director at the Annual Meeting and, if re-elected, Mr. Steele will continue to serve as Chairman of the Board of Directors until his anticipated retirement at the end of fiscal year 2015, and, thereafter, as a director of the Company. The Board of Directors believes that Mr. Steele's continued service as Chairman of the Board of Directors until his anticipated retirement is important for business continuity and to facilitate the transition in leadership once Mr. Steele's successor is identified. The Board of Directors has commenced a search to evaluate candidates to serve as Mr. Steele's successor as Chief Executive Officer of the Company.

Frederick Frank has served as director since December 1999. Mr. Frank is Chairman of the Board of Burrill Securities, an investment banking and advisory firm. Prior to joining Burrill Securities, Mr. Frank was Vice Chairman of Peter J. Solomon Company ("***Solomon***"). Before joining Solomon, Mr. Frank was Vice Chairman of Lehman Brothers, Inc. ("***Lehman***") and Barclays Capital. Before joining Lehman as a Partner in October 1969, Mr. Frank was co-director of research, as well as Vice President and Director of Smith Barney & Co. Incorporated. During his over 50 years on Wall Street, Mr. Frank has been involved in numerous financings and merger and acquisition transactions. He serves as an advisor to the board of directors of PDL BioPharma, and was a director for the Institute for Systems Biology and Pharmaceutical Product Development, Inc. Mr. Frank is Chairman of the National Genetics Foundation and he serves on the Advisory Boards for Yale School of Organization and Management, the Massachusetts Institute of Technology Center of Biomedical Innovation and was formerly an Advisory Member of the Johns Hopkins Bloomberg School of Public Health, and the Harvard School of Public Health. He is a graduate of Yale University, received an M.B.A. from Stanford University and is a Chartered Financial Analyst.

Mr. Frank has over 50 years of capital markets experience and has been involved in numerous financings, commercial transactions and mergers and acquisitions. As such, Mr. Frank provides the Board of Directors with extensive experience and knowledge with respect to transactions and financings in the public company context and corporate governance experience based on his experience as a director of public and non-public companies.

Steven Goldby has served as a director since December 2008. Mr. Goldby has been a Partner at Venrock, a venture capital firm, since 2007. Mr. Goldby was Chairman and Chief Executive Officer of Symyx Technologies, Inc. ("***Symyx***") from 1998 to 2007; he became the Executive Chairman in 2008, and Chairman in 2009. Before joining Symyx, Mr. Goldby served as Chief Executive Officer for more than ten years at MDL Information Systems, Inc., the enterprise software company that pioneered scientific information management. Earlier, Mr. Goldby held various management positions at ALZA Corporation, including President of Alza Pharmaceuticals. Mr. Goldby received a B.S. degree in chemistry from the University of North Carolina and a law degree from Georgetown University Law Center.

Mr. Goldby's extensive experience with biotechnology companies provides the Board of Directors with significant understanding of the technology issues facing the Company.

Catherine A. Sohn has served as a director since November 2012. Dr. Sohn brings significant industry experience in pharmaceutical and health-related sectors based on her leadership and achievements in business development and new product development for 28 years at Glaxo Smith Kline ("***GSK***"). Most recently, Dr. Sohn was Senior Vice President of Worldwide Business Development and Strategic Alliance for GSK's $8 billion consumer healthcare division. Early in her career, Dr. Sohn established the U.S. vaccine business unit for SmithKline Beecham Pharmaceuticals and she subsequently led the commercialization of Paxil, which became one of GSK's top five pharmaceutical products. Currently Dr. Sohn serves as president of Sohn Health Strategies, LLC, providing business development and new product marketing consultation to biotechnology, specialty pharmaceutical and healthcare companies. Dr. Sohn is a National Association of Corporate Directors ("***NACD***") Governance Fellow. She has demonstrated her commitment to boardroom excellence by completing NACD's comprehensive program of study for corporate directors. She supplements her skill sets through ongoing engagement with the director community and access to leading practices. Dr. Sohn received her Doctor of Pharmacy degree from University of California in San Francisco.

With over 30 years of experience in health-related sectors, Dr. Sohn provides the Board of Directors with significant expertise in business development and new product development within healthcare, which has a direct benefit to Landec's wholly-owned biomedical subsidiary, Lifecore Biomedical, Inc. ("***Lifecore***").

Director Stephen Halprin, a Class 1 director, will retire at the end of his term effective October 9, 2014 and, therefore, will not be standing for reelection at the Annual Meeting.

Class 2 Directors

Directors continuing in office until the 2015 Annual Meeting of Stockholders are:

Name of Director	Age	Principal Occupation	Director Since
Dean Hollis	54	Retired President and Chief Operating Officer, ConAgra Foods, Inc. Consumer Foods and International Division	2009
Robert Tobin	76	Retired Chief Executive Officer, Ahold, USA	2004
Nicholas Tompkins	59	Managing Member, NKT Commercial LLC, Chairman of the Board of Apio, Inc.	2003
Tonia Pankopf	46	Managing Partner, Pareto Advisors, LLC	2012
Albert D. Bolles	57	Executive Vice President and Chief Technical and Operations Officer, ConAgra Foods, Inc.	2014

Except as set forth below, each of the Class 2 directors has been engaged in the principal occupation set forth next to his or her name above during the past five years. There is no family relationship between any director and any executive officer of the Company.

Dean Hollis has served as a director since July 2009. Mr. Hollis was most recently President and Chief Operating Officer of the Consumer Foods and International Division of ConAgra Foods, Inc. ("***ConAgra***"), one of North America's largest packaged foods companies. Mr. Hollis had management responsibility for ConAgra's consumer and customer branded businesses consisting of over 40 global brands in 110 countries. During Mr. Hollis' 21 years with ConAgra, he had a broad array of responsibilities, including Executive Vice President, Retail Products; President, Frozen Foods; President, Grocery Foods; President, Specialty Foods; and President, Gilardi Foods. Currently, Mr. Hollis is a Senior Advisor for Oaktree Capital Management, L.P. ("***Oaktree***"). He is also the chairman of the board of directors for Advance Pierre Foods, an Oaktree portfolio company, and a member of the boards of directors of Boulder Brands, Inc. and Diamond Foods. Mr. Hollis is a graduate of Stetson University and he currently serves on its board.

With over 20 years of experience in the food industry, Mr. Hollis provides the Board of Directors with significant expertise in marketing and sales of packaged foods, overall strategy development for food products and in-depth general management expertise for investing in growth companies, which has a direct benefit to Landec's wholly-owned food subsidiary, Apio, Inc. ("***Apio***").

Robert Tobin has served as a director since December 2004. Mr. Tobin retired from his position as Chief Executive Officer of Ahold USA, a food retailer, in 2001. Mr. Tobin has over 40 years of industry experience in the food retail and food service sectors, having served as Chairman and CEO of Stop and Shop Supermarkets. An industry leader, Mr. Tobin serves on the advisory boards of the College of Agriculture and Life Sciences and the Undergraduate Business Program at Cornell University where he received his B.S. in Agricultural Economics.

Mr. Tobin's experience as the chief executive officer of food retailers and his knowledge of the food retail and food service sectors provide the Board of Directors with significant expertise with respect to issues facing the Company's food business. In addition, Mr. Tobin's service on advisory boards provides the Board of Directors with knowledge of the scientific issues that face Apio.

Nicholas Tompkins has served as a director since October 2003. Mr. Tompkins has been the Chairman of the Board of Apio, since January 2008. Prior to becoming the Chairman of the Board of Apio, Mr. Tompkins was the Chief Executive Officer of Apio, a position he had held since Apio's inception in 1979. Landec acquired Apio in December 1999. Mr. Tompkins is also a current board member and past chairman of the Ag Business Advisory Council for California Polytechnic State University in San Luis Obispo, California. He was a member of the board of directors of the United Fresh Fruit and Vegetable Association through 2008 and was Chairman of that organization in 2005 and 2006. Mr. Tompkins received a B.S. in Agricultural Business from California State University, Fresno.

Mr. Tompkins brings to the Board of Directors extensive experience in the area of agriculture. In addition, Mr. Tompkin's prior service as the Chief Executive Officer of Apio and as its current Chairman provides the Board of Directors with in-depth knowledge of the operations of Apio, a significant portion of the Company's business.

Tonia Pankopf has served as a director since November 2012. Ms. Pankopf has been managing partner of Pareto Advisors, LLC since 2005. Previously, she was a senior analyst and managing director at Palladio Capital Management from January 2004 through April 2005. From 2001 to 2003, Ms. Pankopf served as an analyst and portfolio manager with P.A.W. Capital Partners, LP. Ms. Pankopf was a senior analyst and vice president at Goldman, Sachs & Co. from 1999 to 2001 and at Merrill Lynch & Co. from 1998 to 1999. Ms. Pankopf serves on the Board of Directors of TICC Capital Corp. and served on the Board of the University System of Maryland Foundation from 2006 to 2012. Ms. Pankopf is a member of the NACD and has been designated an NACD Governance Fellow in recognition of her ongoing involvement in director professionalism and engagement with the director community. Ms. Pankopf received a Bachelor of Arts degree summa cum laude from the University of Maryland and an M.S. degree from the London School of Economics.

Ms. Pankopf's extensive experience in investment research and financial analysis and corporate governance provides the Board of Directors with valuable insights of an experienced investment manager and institutional shareholder as well as a diverse perspective.

Albert D. Bolles, Ph.D, has served as a director since May 2014. Dr. Bolles is currently the Executive Vice President and Chief Technical and Operations Officer of ConAgra. Dr. Bolles leads ConAgra's Research, Quality & Innovation and Supply Chain organizations. He joined ConAgra in 2006 as Executive Vice President, Research, Quality & Innovation. Under his leadership, the ConAgra's Research, Quality & Innovation team has brought to market highly successful products that have led to substantial business growth. Prior to joining ConAgra, Dr. Bolles led worldwide research and development for PepsiCo Beverages and Foods. Dr. Bolles serves on several professional advisory boards, including the Grocery Manufacturers Association (GMA) Scientific Regulatory Committee, and is currently the chairman of the Trout Council/Food Science program. He has a Ph.D. and master's degree in food science and a bachelor's degree in microbiology, all from Michigan State University. He holds several patents and has won numerous awards for his contributions to the world of food science.

Dr. Bolles is a preeminent leader in food science and provides the Board of Directors with valuable areas of expertise in new product development, innovation, quality, and supply chain in the packaged consumer food business.

Board of Directors Meetings and Committees

The Board of Directors held a total of eight meetings during the fiscal year ended May 25, 2014. Each director attended at least 75% of all Board and applicable committee meetings during fiscal year 2014. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each of which operates under a written charter approved by the Board of Directors. The charter for each of the committees is available on the Company's website (http://landec.com). It is our policy to encourage the members of the Board of Directors to attend the Company's annual meeting of stockholders. All directors on the Board of Directors at the time attended our 2013 Annual Meeting of Stockholders.

The Audit Committee currently consists of Mr. Halprin (Chairman), Mr. Goldby, Ms. Pankopf and Dr. Sohn, each of whom, in the determination of the Board of Directors, meets the independence requirements of the Securities and Exchange Commission (the "***SEC***") and The Nasdaq Stock Market, LLC ("***NASDAQ***"). Ms. Pankopf has been elected Chairperson of the Audit Committee effective immediately following the expiration of Mr. Halprin's term as a Class 1 director. The Audit Committee assists the Board of Directors in its oversight of Company affairs relating to the quality and integrity of the Company's financial statements, the qualifications and independence of the Company's independent registered public accounting firm, the performance of the Company's internal audit function and independent registered public accounting firm, and the Company's compliance with legal and regulatory requirements. The Audit Committee is responsible for appointing, compensating, retaining and overseeing the Company's independent registered public accounting firm, approving the services performed by the independent registered public accounting firm and reviewing and evaluating the Company's accounting principles and its system of internal accounting controls. Rules adopted by the SEC require us to disclose whether the Audit Committee includes at least one member who is an "audit committee financial expert," as that phrase is defined in SEC rules and regulations. The Board of Directors has determined that Mr. Halprin, Mr. Goldby and Ms. Pankopf are "audit committee financial experts" within the meaning of applicable SEC rules. The Audit Committee held four meetings during fiscal year 2014. Please see the section entitled "Audit Committee Report" for further matters related to the Audit Committee. The Board has adopted a written charter for the Audit Committee. The Audit Committee reviews the charter annually for changes, as appropriate.

The Compensation Committee currently consists of Mr. Hollis (Chairman), Mr. Frank, Mr. Tobin and Dr. Sohn, each of whom, in the determination of the Board of Directors, meets the current independence requirements of the SEC and NASDAQ. The function of the Compensation Committee is to review and set the compensation of the Company's Chief Executive Officer and certain of the Company's most highly compensated officers, including salary, bonuses and other cash incentive awards, stock equity awards and other forms of compensation, to administer the Company's stock plans and approve stock equity awards, and to oversee the career development of senior management. The Compensation Committee held one meeting during fiscal year 2014. The Compensation Committee engaged a compensation consultant during fiscal year 2014 to advise on compensation matters with respect to fiscal year 2015. Please see the section entitled "Executive Compensation and Related Information" for further matters related to the Compensation Committee, including its report for the fiscal year ended May 25, 2014.

The Nominating and Corporate Governance Committee currently consists of Mr. Frank (Chairman), Mr. Tobin, Ms. Pankopf and Dr. Bolles each of whom, in the determination of the Board of Directors, meets the current independence requirements of the SEC and NASDAQ. The functions of the Nominating and Corporate Governance Committee are to recommend qualified candidates for election as officers and directors of the Company and oversee the Company's corporate governance policies. The Nominating and Corporate Governance Committee held one meeting during fiscal year 2014.

The Nominating and Corporate Governance Committee will consider director nominees proposed by current directors, officers, employees and stockholders. Any stockholder who wishes to recommend candidates for consideration by the Nominating and Corporate Governance Committee may do so by writing to the Secretary of the Company, Geoffrey P. Leonard of Ropes & Gray LLP, Three Embarcadero Center, San Francisco, CA 94111, and providing the candidate's name, biographical data and qualifications. The Company does not have a formal policy regarding the consideration of director candidates recommended by security holders. The Company believes this is appropriate because the Nominating and Corporate Governance Committee evaluates any such nominees based on the same criteria as all other director nominees. In selecting candidates for the Board of Directors, the Nominating and Corporate Governance Committee strives for a variety of experience and background that adds depth and breadth to the overall character of the Board of Directors. The Nominating and Corporate Governance Committee evaluates potential candidates using standards and qualifications such as the candidates' business experience, independence, diversity, skills and expertise to collectively establish a number of areas of core competency of the Board of Directors, including business judgment, management and industry knowledge. Although the Nominating and Corporate Governance Committee does not have a formal policy on diversity, it believes that diversity is an important consideration in the composition of the Board of Directors, and it seeks to include Board members with diverse backgrounds and experiences. Further criteria include a candidate's integrity and values, as well as the willingness to devote sufficient time to attend meetings and participate effectively on the Board of Directors and its committees.

Corporate Governance

The Company provides information about its corporate governance policies, including the Company's Code of Ethics, and charters for the Audit, Nominating and Corporate Governance, and Compensation Committees of the Board of Directors on the Corporate Governance page of its website. The website can be found at *www.landec.com*.

The Company's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of NASDAQ and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- A majority of the board members are independent;

- All members of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are independent;

- The independent members of the Board of Directors meet at each board meeting, and at least twice per year, in executive sessions without the presence of management, and the Board of Directors has designated a lead independent director who, among other duties, is responsible for presiding over executive sessions of the independent directors;

- The Company has an ethics hotline available to all employees, and the Audit Committee has procedures in place for the anonymous submission of employee complaints regarding accounting, internal controls, or auditing matters; and

- The Company has adopted a Code of Ethics that applies to all of its employees, including its principal executive officer and all members of its finance department, including the principal financial officer and principal accounting officer, as well as the Board of Directors. Any substantive amendments to the Code of Ethics or grant of any waiver, including any implicit waiver, from a provision of the Code of Ethics to the Company's principal executive officer, principal financial officer or principal accounting officer, will be disclosed either on the Company's website or in a report on Form 8-K.

Following a review of all relevant relationships and transactions between each director (including each director's family members) and the Company, the Board has determined that each member of the Board, other than Mr. Steele, is an independent director under applicable NASDAQ listing standards. Mr. Steele does not meet the independence standards because he was an employee of the Company during fiscal year 2014.

Mr. Halprin currently serves as the Company's lead independent director. Mr. Goldby has been elected lead independent director effective immediately following the expiration of Mr. Halprin's term as a Class 1 director.

Leadership Structure of the Board of Directors

The Board of Directors believes that it is important to retain its flexibility to allocate the responsibilities of the positions of the Chairman of the Board (the "***Chairman***") and Chief Executive Officer in the way that it believes is in the best interests of the Company. The Board of Directors does not have a formal policy with respect to whether the Chief Executive Officer should also serve as Chairman. Rather, the Board of Directors makes this decision based on its evaluation of current circumstances and the specific needs of the Company at any time it is considering either or both roles.

After due consideration, the Board of Directors has concluded that combining the roles of Chairman and Chief Executive Officer is in the best interests of the Company at this time. The Board of Directors believes that the combination of the roles of Chairman and Chief Executive Officer promotes the Board of Directors and executive management's pursuit of the Company's business objectives because it allows our current Chief Executive Officer, who also possesses significant business and industry knowledge, to lead and speak on behalf of both the Company and the Board of Directors, while also providing for effective independent oversight by non-management directors through a lead independent director.

At each Board of Directors meeting, the lead independent director presides over an executive session of the non-management directors without the presence of management. The lead independent director also may call additional meetings of the non-management directors as he deems necessary; serves as a liaison between the Chairman and the non-management directors; advises the Chairman of the informational needs of the Board of Directors and approves information sent to the Board of Directors; and is available for consultation and communication if requested by major stockholders.

The Board of Directors also adheres to sound corporate governance practices, as reflected in the Company's corporate governance policies, which the Board of Directors believes has promoted, and continues to promote, the effective and independent exercise of Board leadership for the Company and its stockholders.

Stockholder Communications

Our Board of Directors welcomes communications from our stockholders. Stockholders and other interested parties may send communications to the Board of Directors, or the independent directors as a group, or to any director in particular or the lead independent director, c/o Gregory S. Skinner, Chief Financial Officer, Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025. Any correspondence addressed to the Board of Directors or to any one of our directors in care of Mr. Skinner will be promptly forwarded to the addressee. The independent directors review and approve the stockholder communication process periodically to ensure effective communication with stockholders.

Oversight of Risk Management

The Board of Directors' role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, and strategic and reputational risks. Our Audit Committee oversees management of financial risk exposures, including the integrity of our accounting and financial reporting processes and controls. As part of this responsibility, the Audit Committee meets periodically with the Company's independent registered public accounting firm, our internal auditor and our financial and accounting personnel to discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Additionally, the Audit Committee reviews significant findings prepared by the Company's independent registered public accounting firm and our internal auditor, together with management's response. Our Nominating and Corporate Governance Committee has responsibility for matters relating to corporate governance. As such, the charter for our Nominating and Corporate Governance Committee provides for the committee to periodically review and discuss our corporate governance guidelines and policies.

Our management also reviewed with our Compensation Committee the compensation policies and practices of the Company that could have a material impact on the Company. Our management review considered whether any of these policies and practices may encourage inappropriate risk-taking, whether any policy or practice may give rise to risks that are reasonably likely to have a material adverse effect on the Company, and whether it would recommend any changes to the Company's compensation policies and practices. Management also reviewed with the Board of Directors risk-mitigating controls such as the degree of committee and senior management oversight of each compensation program and the level and design of internal controls over such programs. Based on these reviews, the Board of Directors determined that risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

The Board of Directors has adopted an executive compensation clawback policy, which provides for recoupment of executive incentive compensation in the event of certain restatements of financial results of the Company. Under the policy, in the event of a substantial restatement of the Company's financial results due to material noncompliance with financial reporting requirements, if the Board of Directors determines in good faith that any portion of a current or former executive officer's incentive compensation was paid as a result of such noncompliance, then the Company may recover that portion of such compensation that was based on the erroneous financial data.

Compensation of Directors

The following table sets forth compensation information for the fiscal year ended May 25, 2014, for each member of our Board of Directors who was not an executive officer during fiscal year 2014. The Chief Executive Officer, Gary T. Steele, who serves on our Board of Directors, does not receive additional compensation for serving on the Board of Directors. See "Summary Compensation Table" for disclosure related to Mr. Steele.

Name	Fee Earned or Paid in Cash (3)	Stock Awards (1)	Option Awards	Total
Albert Bolles, Ph.D. (2)	$ —	$ —	$ —	$ —
Frederick Frank	$ 57,500	$ 50,000	$ —	$ 107,500
Steven Goldby	$ 50,000	$ 50,000	$ —	$ 100,000
Stephen Halprin	$ 85,000	$ 50,000	$ —	$ 135,000
Dean Hollis	$ 55,000	$ 50,000	$ —	$ 105,000
Tonia Pankopf	$ 52,917	$ 50,000	$ —	$ 102,917
Catherine A. Sohn	$ 46,458	$ 50,000	$ —	$ 96,458
Robert Tobin	$ 52,500	$ 50,000	$ —	$ 102,500
Nicholas Tompkins	$ 40,000	$ 50,000	$ —	$ 90,000

(1) The amounts shown in the Stock Awards column do not reflect compensation actually received by a director. Instead, the amounts shown are the aggregate grant date value, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Options, of awards granted in fiscal year 2014.

(2) Dr. Bolles became a member of our Board of Directors late in fiscal year 2014 and did not receive any fees during that fiscal year.

(3) Includes amounts (if any) deferred pursuant to the Company's Nonqualified Deferred Compensation Plan, the terms of which are described under "Nonqualified Deferred Compensation Plan" below.

At May 25, 2014, the aggregate number of stock awards and option awards outstanding was: Dr. Bolles – 0 shares; Mr. Frank – 43,496 shares; Mr. Goldby – 33,496 shares; Mr. Halprin – 53,496 shares; Mr. Hollis – 28,496 shares; Ms. Pankopf – 16,829 shares; Dr. Sohn – 16,829 shares; Mr. Tobin – 63,496 shares; and Mr. Tompkins – 28,496 shares.

The Compensation Committee engaged Fredrick W. Cook and Co., Inc ("***Cook***"), a compensation consulting firm, during fiscal year 2013 to advise the Compensation Committee on director compensation. Based on the recommendations of Cook, director cash and equity compensation was changed in fiscal year 2014. For fiscal year 2014, each non-employee director earned $40,000 per year as a retainer for service as a member of our Board of Directors. The Compensation Committee eliminated the practice of earning additional compensation for attending a Board or Committee meeting in person or by telephone. In addition, each director who served on the Audit Committee received an annual retainer of $10,000, with the Chairman of the Audit Committee receiving an annual retainer of $20,000. Each director who served on the Compensation Committee received an annual retainer of $7,500, with the Chairman of the Compensation Committee receiving $15,000. Each director who served on the Nominating and Corporate Governance Committee received an annual retainer of $5,000, with the Chairman of the Nominating and Corporate Governance Committee receiving $10,000. The lead independent director received an annual retainer of $25,000. Consistent with the general industry trend toward fixed-value restricted stock unit (an "***RSU***") awards, it was recommended by Cook that each non-employee director should receive an RSU award each year with a face value of $50,000, based on the fair market value of the Company's Common Stock on the date of the grant, vesting on the first anniversary of the grant. The first grant to non-employee directors under the new arrangement occurred on June 7, 2013.

In addition to cash fees, each director is reimbursed for reasonable out-of-pocket expenses incurred by a director to attend Board meetings, committee meetings or stockholder meetings in his or her capacity as a director.

Required Vote

The election of each of the four (4) Class 1 director nominees requires the affirmative vote of the holders of a majority of the shares of the Company's Common Stock present at the Annual Meeting in person or by proxy and voted with respect to such director. This means that in order for a director to be elected, the number of shares voted "FOR" a director must exceed the number of votes cast against that director. As such, a "WITHHOLD" vote is effectively a vote against a director.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES LISTED ABOVE.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed the firm of Ernst & Young LLP as the Company's independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending May 31, 2015, and recommends that the stockholders vote for ratification of this appointment. In the event the stockholders do not ratify such appointment, the Audit Committee may reconsider its selection. Ernst & Young LLP has audited the Company's financial statements since the fiscal year ending October 31, 1994. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Fees Paid to Independent Registered Public Accounting Firm

The following table presents the aggregate fees billed to the Company for professional services rendered by Ernst & Young LLP for the fiscal years ended May 25, 2014 and May 26, 2013.

Fee Category	Fiscal Year 2014	Fiscal Year 2013
Audit Fees	$ 1,343,000	$ 1,208,000
Audit-Related Fees(1)	12,000	11,000
Tax Fees	—	—
All Other Fees	—	—
Total	$ 1,355,000	$ 1,219,000

(1) Audit-related fees were for agreed upon procedures work performed by Ernst & Young LLP related to the Company's loans from General Electric Capital Corporation.

Audit Fees were for professional services rendered for the integrated audit of the Company's annual financial statements and internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, for the review of the Company's interim financial statements included in the Company's Quarterly Reports on Form 10-Q, and for assistance with and review of documents filed by the Company with the SEC.

Audit Committee Pre-Approval Policies

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Company's independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with such pre-approval, and the fees for the services performed to date. The Audit Committee, or its designee, may also pre-approve particular services on a case-by-case basis.

Required Vote

The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm requires the affirmative vote of the holders of a majority of the shares of the Company's Common Stock present at the Annual Meeting in person or by proxy and voted.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING MAY 31, 2015.

PROPOSAL NO. 3

NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Compensation Discussion and Analysis beginning on page 24 of this Proxy Statement describes the Company's executive compensation program and the compensation decisions that the Compensation Committee and Board of Directors made in fiscal year 2014 with respect to the compensation of our named executive officers. The Board of Directors is asking stockholders to cast a non-binding, advisory vote **FOR** the following resolution:

> "RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED on an advisory basis."

We urge stockholders to read the Compensation Discussion and Analysis beginning on page 24 of this Proxy Statement, as well as the 2014 Summary Compensation Table and related compensation tables, appearing on pages 31 through 34, which provide detailed information on the Company's compensation policies and practices.

As we describe in the Compensation Discussion and Analysis, our executive compensation program is designed to attract, reward and retain talented officers and embodies a pay-for-performance philosophy that supports Landec's business strategy and aligns the interests of our executives with our stockholders. Specifically, executive compensation is allocated among base salaries and short- and long-term incentive compensation. The base salaries are fixed in order to provide the executives with a stable cash income, which allows them to focus on the Company's strategies and objectives as a whole, while the short- and long-term incentive compensation are designed to both reward the named executive officers based on the Company's overall performance and align the named executive officers' interests with those of our stockholders. Our annual cash incentive award program is intended to encourage our named executive officers to focus on specific short-term goals important to our success. Our executive officers' cash incentive awards are determined based on objective performance criteria. The awards payable under our annual cash incentive award program are subject to a maximum payout, which limits the overall payout potential. The Company's current practice is to grant our named executive officers both options and restricted stock units. This mixture is designed to provide a balance between the goals of increasing the price of our Common Stock and aligning the interests of our executive officers with those of our stockholders (as stock options only have value if the stock price increases after the option is granted) and encouraging retention of our executive officers. Because grants are generally subject to vesting schedules, they help ensure that executives always have significant value tied to long-term stock price performance.

For these reasons, the Board of Directors is asking stockholders to support this proposal. Although the vote we are asking you to cast is non-binding, the Compensation Committee and the Board of Directors value the views of our stockholders and will consider the outcome of the vote when determining future compensation arrangements for our named executive officers.

At the 2013 annual meeting of stockholders, 98.4% of votes cast expressed support for our compensation policies and practices, and we believe our program continues to be effective.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION.

Equity Compensation Plan Information

The following table summarizes information with respect to options and other equity awards under Landec's equity compensation plans as of May 25, 2014:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	1,202,860	$ 8.46	2,000,000(3)
Equity compensation plans not approved by security holders	13,000(4)	$ 7.50	0
Total	1,215,860	$ 8.45	2,000,000

(1) Includes only options outstanding under Landec's equity compensation plans, as no stock warrants or other rights were outstanding as of May 25, 2014.

(2) The weighted average exercise price of outstanding options, warrants and rights does not take restricted stock units into account as restricted stock units have no purchase price.

(3) Represents shares remaining for issuance pursuant to the 2013 Stock Incentive Plan.

(4) Represents shares remaining for issuance upon exercise of options that are outstanding under the 1996 Non-Executive Stock Option Plan, which has been terminated, and no future awards will be made pursuant to such plan. A description of this plan is set forth under Note 8 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal year 2014.

The 2013 Stock Incentive Plan

The 2013 Stock Incentive Plan (the "***2013 Plan***"), which was approved by stockholders, authorizes the grant of equity awards, including stock options, restricted stock and restricted stock units to employees, including officers and directors, outside consultants and non-employee directors of the Company. 2,000,000 shares are authorized to be issued under this plan. The exercise price of stock options to be granted under the 2013 Plan will be the fair market value of the Company's Common Stock on the date the options are granted. Options to be granted under the 2013 Plan will generally be exercisable upon vesting and will generally vest ratably over three years.

The 2009 Stock Incentive Plan

The 2009 Stock Incentive Plan (the "***2009 Plan***"), which was approved by stockholders and has been terminated, authorized the grant of equity awards, including stock options, restricted stock and restricted stock units to employees, including officers and directors, outside consultants and non-employee directors of the Company. 1,900,000 shares were authorized to be issued under this plan. The exercise price of stock options granted under the 2009 Plan was the fair market value of the Company's Common Stock on the date the options were granted. Options granted under the 2009 Plan were exercisable upon vesting and generally vested ratably over three years. No further awards will be made pursuant to the 2009 Plan.

The 2005 Stock Incentive Plan

The 2005 Stock Incentive Plan, which was approved by stockholders and has been terminated, authorized the grant of equity awards, including stock options, restricted stock units and restricted stock to employees, including officers and directors, outside consultants and non-employee directors of the Company. 861,038 shares were authorized to be issued under this plan. The exercise price of stock options granted under this plan was the fair market value of the Company's Common Stock on the date the options were granted. Options generally were exercisable upon vesting and generally vested ratably over three years. No future awards will be made pursuant to this plan.

The 1996 Non-Executive Stock Option Plan

The 1996 Non-Executive Stock Option Plan authorized the grant of non-qualified stock options to employees, including officers, and outside consultants of the Company. The plan was not approved by the Company's stockholders. As amended in 1999, 1,500,000 shares were authorized to be issued under this plan. The exercise price of the options was equal to the fair market value of the Company's Common Stock on the date the options were granted. Options were exercisable upon vesting and generally vested ratably over four years. The 1996 Non-Executive Stock Option Plan has been terminated, and no future awards will be made pursuant to such plan.

AUDIT COMMITTEE REPORT

*The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "**Securities Act**"), or the Exchange Act.*

Composition

The Audit Committee of the Board of Directors consists of the four directors whose names appear below and operates under a written charter adopted by the Board of Directors. Each member of the Audit Committee meets the independence and financial experience requirements of NASDAQ and the SEC currently in effect. In addition, the Board of Directors has determined that each of Mr. Halprin, Mr. Goldby and Ms. Pankopf is an audit committee financial expert, as defined by the rules and regulations of the SEC.

Responsibilities

The responsibilities of the Audit Committee include appointing an independent registered public accounting firm and assisting the Board of Director's oversight of the preparation of the Company's financial statements. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. Management is responsible for the Company's internal controls and financial reporting process. The Audit Committee's responsibility is to oversee these processes and the Company's internal controls. The Audit Committee members are not acting as professional accountants or auditors, and their functions are not to duplicate or to certify the activities of management and the independent registered public accounting firm.

Review with Management and Independent Auditors

The Audit Committee held four meetings during fiscal year 2014. The Audit Committee met and held discussions with management and representatives of the Company's independent registered public accounting firm, Ernst & Young LLP. Management represented to the Audit Committee that the Company's consolidated financial statements for the fiscal year ended May 25, 2014 were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements for the fiscal year ended May 25, 2014 with management and the Company's independent registered public accounting firm.

The Audit Committee met with the Company's independent registered public accounting firm, with and without management present, to discuss the overall scope and plans for their audit, the results of their examination, their evaluation of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards ("***SAS***") No. 114, *The Auditor's Communication with Those Charged with Governance*, as adopted by the Public Company Accounting Oversight Board ("***PCAOB***") in Rule 3200T, which supersedes SAS No. 61, as amended, including the judgment of the independent registered public accounting firm as to the quality of the Company's accounting principles.

The Audit Committee also received the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the PCAOB regarding the independent accountants' communications with the Audit Committee concerning independence, and the Audit Committee discussed the independence of Ernst & Young LLP with that firm. The Audit Committee has considered the compatibility of non-audit services with the auditors' independence.

Summary

Based upon the Audit Committee's discussions with management and the Company's independent registered public accounting firm, the Audit Committee's review of the representations of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended May 25, 2014, as filed with the SEC.

This report is submitted by the Audit Committee.

Stephen Halprin (Chairman)
Steven Goldby
Tonia Pankopf
Catherine A. Sohn

EXECUTIVE OFFICERS OF THE COMPANY

The following sets forth certain information with regard to each named executive officer and each current executive officer of the Company. Ages are as of August 15, 2014.

Gary T. Steele (age 65) has been President, Chief Executive Officer and a director of the Company since 1991 and Chairman of the Board of Directors since January 1996. Mr. Steele has over 30 years of experience in the biotechnology, instrumentation and material science fields. From 1985 to 1991, Mr. Steele was President and Chief Executive Officer of Molecular Devices Corporation, a bioanalytical instrumentation company. From 1981 to 1985, Mr. Steele was Vice President, Product Development and Business Development at Genentech, Inc., a biomedical company focusing on pharmaceutical drug development. Mr. Steele has also worked with McKinsey & Company and Shell Oil Company. On September 3, 2014, the Company announced that Mr. Steele had informed the Board of Directors of his intent to retire from the positions of President and Chief Executive Officer of the Company and Chairman of the Board of Directors at the end of fiscal year 2015. The Board of Directors has commenced a search to evaluate candidates to serve as Mr. Steele's successor as Chief Executive Officer of the Company.

Gregory S. Skinner (age 53) has been Chief Financial Officer and Vice President of Finance of the Company since November 1999 and Vice President of Administration since November 2000. From May 1996 to October 1999, Mr. Skinner served as Controller of the Company. From 1994 to 1996, Mr. Skinner was Controller of DNA Plant Technology and from 1988 to 1994 he was with Litton Electron Devices. Prior to joining Litton Electron Devices, Mr. Skinner was with Litton Industries, Inc. and Arthur Anderson & Company.

Molly A. Hemmeter (age 47) has been Chief Operating Officer since January 2014. Prior to that she served as Chief Commercial Officer of the Company from December 2010 to January 2014 and Vice President, Business Development and Global Marketing of the Company from June 2009 to December 2010. From July 2006 until joining the Company in June 2009, Ms. Hemmeter was Vice President of Global Marketing and New Business Development for the Performance Materials division of Ashland, Inc., a global specialty chemicals company. Prior to joining Ashland, Inc., Ms. Hemmeter was Vice President of Strategy and Marketing for Siterra Corporation in San Francisco, a privately held company delivering on-demand software for managing real estate asset portfolios.

Ronald L. Midyett (age 48) has been President and Chief Executive Officer of Apio since January 2008, and a Vice President of the Company since February 2008. Mr. Midyett joined Apio in May 2005 as Chief Operating Officer. Prior to joining Apio, Mr. Midyett was Senior Vice President of Operations for Dole Fresh Vegetables. Mr. Midyett has over 20 years of technology and operations experience in the produce industry. Mr. Midyett was chairman of the board of directors of the United Fresh Fruit and Vegetable Association from April 2013 through April 2014 and is currently a member of its executive committee. Mr. Midyett is currently a director of Windset Holdings 2010 Ltd., a privately held Canadian corporation.

Larry D. Hiebert (age 58) has been President of Lifecore since June 2013. Mr. Hiebert served as Lifecore's Vice President and General Manager from July 2006 to June 2013. Prior to that he was Lifecore's Vice President of Operations from March 2004 to June 2006 and Director of Operations from March 1997 to March 2004, and held various Manufacturing and Materials Management positions within Lifecore from October 1983 to March 1997. Mr. Hiebert has over 30 years of operational experience in the biomaterials industry.

Steven P. Bitler, Ph.D. (age 56) has been Vice President, Corporate Technology of the Company since March 2002. From 1988 until March 2002, Dr. Bitler held various positions with the Company related to the Company's polymer product development and thermal switch products. Prior to joining the Company, Dr. Bitler developed new high strength polymeric materials at SRI International.

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the Company's Common Stock as of August 15, 2014 as to (i) each person who is known by the Company to beneficially own more than five percent of any class of the Company's voting stock, (ii) each of the Company's directors, (iii) each of the executive officers named in the Summary Compensation Table of this proxy statement (the "***Named Executive Officers***"), and (iv) all directors and executive officers as a group. The business address of each director and executive officer named below is c/o Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025.

	SHARES BENEFICIALLY OWNED (1)	
NAME	NUMBER OF SHARES OF COMMON STOCK	PERCENT OF TOTAL(2)
5% Stockholders		
Security Investors, LLC One Security Benefit Place Topeka, KS 66636	2,632,961(3)	9.53%
Ariel Investments LLC 200 E. Randolph Street, Suite 2700 Chicago, IL 60601	2,405,127(4)	8.96%
Dimensional Fund Advisors, L.P. 6300 Bee Cave Road, Building One Austin, TX 78746	2,127,378(5)	7.93%
Opus Capital Group LLC 221 E. Fourth Street, Suite 2700 Cincinnati, OH 45202	1,949,180(6)	7.26%
Wynnefield Capital, Inc 450 Seventh Ave, #509 New York, NY 10123	1,714,400(7)	6.39%
BlackRock, Inc 40 E. 52nd Street New York, NY 10022	1,671,472(8)	6.23%
Executive Officers and Directors		
Gary T. Steele President and Chief Executive Officer and Chairman of the Board of Directors	199,676(9)	*
Gregory S. Skinner Chief Financial Officer and Vice President of Finance & Administration	350,057(10)	1.30%
Molly A. Hemmeter Chief Operating Officer	88,332(11)	*
Ronald L. Midyett President and Chief Executive Officer of Apio, Inc and Vice President of Landec	188,704(12)	*

	SHARES BENEFICIALLY OWNED (1)	
NAME	NUMBER OF SHARES OF COMMON STOCK	PERCENT OF TOTAL(2)
Larry D. Hiebert President of Lifecore Biomedical, Inc. and Vice President of Landec	16,801(13)	*
Albert D. Bolles, Ph.D., Director	--	*
Frederick Frank, Director	139,596(14)	*
Steven Goldby, Director	43,497(15)	*
Stephen Halprin, Director	126,183(16)	*
Dean Hollis, Director	36,830(17)	*
Tonia Pankopf, Director	9,884(18)	*
Catherine A. Sohn, Director	9,884(19)	*
Robert Tobin, Director	72,008(20)	*
Nicholas Tompkins, Director	54,167(21)	*
All directors and executive officers as a group (15 persons)	1,433,286(22)	5.19%

* Less than 1%

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of capital stock.

(2) As of August 15, 2014, 26,841,722 shares of Common Stock were issued and outstanding. Percentages are calculated with respect to a holder of options exercisable within 60 days after August 15, 2014 as if such holder had exercised his options. Option shares held by other holders are not included in the percentage calculation with respect to any other holder.

(3) This information is based on a Form 13F filed by Guggenheim Capital with the SEC showing such beneficial owner's holdings as of June 30, 2014.

(4) This information is based on a Form 13F filed by Ariel Investments LLC with the SEC showing such beneficial owner's holdings as of June 30, 2014.

(5) This information is based on a Form 13F filed by Dimensional Fund Advisors, L.P. with the SEC showing such beneficial owner's holdings as of June 30, 2014.

(6) This information is based on a Form 13F filed by Opus Capital Group LLC with the SEC showing such beneficial owner's holdings as of June 30, 2014.

(7) This information is based on a Form 13F filed by Wynnefield Capital, Inc with the SEC showing its holdings as of June 30, 2014.

(8) This information is based on a Form 13F filed by the five institutions: BlackRock Institutional Trust Company, N.A.; BlackRock Fund Advisors; BlackRock Advisors, LLC; BlackRock Investment Management, LLC; and BlackRock Asset Management Canada Limited under the parent company BlackRock, Inc with the SEC showing its holdings as of June 30, 2014.

(9) This number includes 67,176 shares held in trust of which Mr. Steele is a beneficial owner. This number also includes 132,500 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(10) This number includes 217,224 shares held in trust of which Mr. Skinner is a beneficial owner. This number includes 132,833 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(11) This number includes 88,332 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(12) This number includes 132,832 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(13) This number includes 10,500 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(14) This number includes 35,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(15) This number includes 30,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(16) This number includes 81,183 shares held in a trust of which Mr. Halprin is a beneficial owner. This number also includes 45,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(17) This number includes 25,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(18) This number includes 6,388 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(19) This number includes 6,388 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(20) This number includes 55,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(21) This number includes 29,167 shares held in trust of which Mr. Tompkins is a beneficial owner. This number also includes 25,000 shares subject to outstanding stock options exercisable within 60 days after August 15, 2014.

(22) This number includes an aggregate of 771,995 shares held by officers and directors that are subject to outstanding stock options exercisable within 60 days after August 15, 2014.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("***CD&A***") section discusses the compensation programs and policies for our Named Executive Officers. The CD&A also provides an overview of the Compensation Committee's role in the design and administration of these programs and policies, and its role in making specific compensation decisions for our Named Executive Officers. Our Named Executive Officers for fiscal year 2014 were Gary T. Steele, President and Chief Executive Officer and Chairman of the Board, Gregory S. Skinner, Vice President of Finance and Administration and Chief Financial Officer, Molly Hemmeter, Chief Operating Officer, Ronald Midyett, President and Chief Executive Officer of Apio, Inc. (**"*Apio*"**) and Larry Hiebert, President of Lifecore Biomedical, Inc. (**"*Lifecore*"**).

Overview of Compensation Program and Philosophy

Landec's compensation program is intended to meet three principal objectives: (1) attract, reward and retain officers and other key employees; (2) motivate these individuals to achieve the Company's short-term and long-term corporate goals; and (3) align the interests of our executives with those of our stockholders.

The compensation program is designed to balance an executive's achievements in managing the day-to-day business and addressing shorter-term challenges facing the Company or its subsidiaries, such as the effects of weather-related disruptions and competitive pressures, with incentives to achieve our long-term vision to be the innovative leader in our food products technology and hyaluronan-based biomaterials businesses.

The above policies guide the Compensation Committee (the "***Committee***") in assessing the proper allocation among long-term compensation, current cash compensation and short-term bonus compensation. Other considerations include Landec's business objectives, its fiduciary and corporate responsibilities (including internal equity considerations and affordability), competitive practices and trends, and regulatory requirements.

Establishing Executive Compensation

Landec's executive compensation program is overseen and administered by the Committee, which is comprised entirely of independent directors as determined in accordance with applicable NASDAQ, SEC and Internal Revenue Code rules. The Committee operates under a written charter adopted by our Board of Directors. A copy of the Committee's charter is available at www.landec.com.

In determining the particular elements of compensation that are used to implement Landec's overall compensation policies, the Committee takes into consideration a number of objective factors related to Landec's performance, such as Landec's earnings per share, profitability, revenue growth and business-unit-specific operational and financial performance, as well as the competitive practices among our peer group. The Committee evaluates the Company's financial and strategic performance in the context of determining compensation as well as the individual performance of each Named Executive Officer.

During fiscal year 2014, the Committee engaged Board Advisory, LLC (the "***Consultant***"), an independent compensation consulting firm, to advise the Committee on ways to strengthen the peer group to better reflect Landec's current diverse business, conduct an assessment of total direct compensation levels and assess the current incentive plans for executive compensation. The Committee used information provided by the Consultant as a reference to assist in determining the compensation levels for the Named Executive Officers. Based on the Consultant's recommendations, the Committee modified the peer group for fiscal year 2014 and modified executive compensation levels for fiscal year 2015.

The Committee meets regularly to review overall executive compensation. The Committee also meets with Landec's President and Chief Executive Officer, Mr. Steele, and other executives to obtain recommendations with respect to Company compensation programs, practices and packages for executives, other employees and directors. The CEO makes recommendations to the Committee on the base salary, bonus targets and equity compensation for the executive team and other employees, but not for himself. The Committee, however, has the ultimate responsibility for determining executive compensation, which is recommended to the Board of Directors for its final approval.

Peer Group

The Committee uses peer group information to provide context for its compensation decision-making for the Named Executive Officers. The Committee monitors the peer group to assess its appropriateness as a source of competitive compensation data and reassesses the relevance of the peer group as needed. Following the recommendations of the Consultant, in an effort to more accurately reflect the significant portion of the Company attributable to Apio's operations, the peer group was adjusted and simplified, to now allow for comparisons on how these peers deal with the volatility and unpredictability of financial results as well as to assess competitive pay levels in the food and life sciences industries.. Based on the Consultant's recommendations, the Committee has revised its peer group from fiscal year 2013 as follows:

2013 Peer Group			2014 Peer Group
Food	**Materials**	**Specialty Chemicals**	**New Peer Group**
Calavo Growers	Anika Therapeutics	Acccuracy *	Anika Therapeutics
Chiquita Brands *	Atrion *	Affymetrix *	Balchem **
Diamond Foods	Cardiac Science *	American Pacific *	Calavo Growers
Fresh Del Monte Produce *	Cryolife *	Biamarin Pharaceuticals *	Cal-Maine Foods **
	DIGI International *	Cepheid *	Diamond Foods
	Exactech *	Exponent *	Farmer Bros. **
	FSI International *	Flotek Industries *	Hi-Tech Pharmacal **
	Heska *	KMG Chemicals *	J&J Snack Foods **
	I Flow *	Leapfrog Enterprises *	John B Sanfilippo & Son **
	Medtox Scientific *	Onyx Pharmaceuticals *	Limoneira **
	Metabolix *	Shutterfly *	Nature's Sunshine Products **
	OM Group *	Zoltek Cos. *	Omega Protein **
	Omnova Solutions *		Penford **
	Orasure Technologies *		Seneca **
	Polypore International *		Surmodics
	Quaker Chemical *		
	Surmodics		
	Synovis Life Technologies *		
	Vital Images *		

* Deleted from Peer Group for fiscal year 2014

** Added to Peer Group for fiscal year 2014

In addition to better aligning with Landec's diverse business mix, the new peer group has median revenues that are more directly aligned with Landec's different business units. Peer group data is gathered with respect to base salary, bonus targets and all equity and non-equity awards (including stock options, performance shares, restricted stock and long-term, cash-based awards).

Upon the Consultant's recommendation, the Committee also reviewed national and Northern California surveys of executive compensation data for life sciences companies with headcounts in the range of 150 to 499 employees, which is comparable to Landec's headcount size.

Landec's goal is to target total compensation for Named Executive Officers at a level that is competitive with the 50th percentile within the selected peer group for the Named Executive Officers. The Committee analyzes base pay, target cash compensation and target total direct compensation to determine variances from the peer group to the Company's compensation targets.

Clawback Policy

In May 2014, the Board of Directors adopted an executive compensation clawback policy, which provides for recoupment of executive incentive compensation in the event of certain restatements of financial results of the Company. Under the policy, in the event of a substantial restatement of the Company's financial results due to material noncompliance with financial reporting requirements, if the Board of Directors determines in good faith that any portion of a current or former executive officer's incentive compensation was paid as a result of such noncompliance, then the Company may recover that portion of such compensation that was based on the erroneous financial data. In determining whether to seek recovery of compensation, the Board of Directors or the Committee may take into account any considerations it deems appropriate, including whether the assertion of a claim may violate applicable law or adversely impact the interests of the Company in any related proceeding or investigation, the extent to which the executive officer was responsible for the error that resulted in the restatement, and the cost and likely outcome of any potential litigation in connection with the Company's attempts to recoup compensation.

Elements of Compensation

There are three major elements that comprise Landec's compensation program: (i) base salary; (ii) annual cash incentive opportunities, including bonuses; and (iii) equity incentives in the form of stock options and/or restricted stock unit awards.

Base Salaries

The base salaries of executive officers are set at levels intended to be competitive with those companies in our peer groups with which we compete for executive talent. In determining base salary, the Committee also considers factors such as job performance, skill set, prior experience, the executive's time in his or her position and with Landec, internal consistency regarding pay levels for similar positions or skill levels within the Company, external pressures to attract and retain talent, and market conditions generally.

Base salaries are not adjusted annually but are generally adjusted when the Committee judges that a change is warranted by a change in an executive officer's responsibilities, demonstrated performance or relevant market data. For a discussion of base salary decisions made in or for fiscal year 2014, see "Compensation of Chief Executive Officer" and "Compensation of Other Named Executive Officers" below.

Annual Cash Incentive Award Plan

Landec maintains an annual cash incentive award plan for senior executives to encourage and reward achievement of Landec's business goals and to assist Landec in attracting and retaining executives by offering an opportunity to earn a competitive level of compensation. This plan is consistent with our overall "pay-for-performance" compensation objective and our goal of attracting and retaining top level executive officers in the industry. In keeping with our "pay for performance" philosophy, a portion of our Named Executive Officers' annual compensation is "at risk" compensation, resulting in years, such as fiscal year 2014, in which most of our Named Executive Officers received no annual cash incentive award. Award targets are set as a percentage of base salary. Incentive award targets and ranges are typically set early in each fiscal year, together with specific criteria for corporate, business unit and individual objectives. The overall corporate objectives are intended to be challenging but achievable. Such objectives are based on actual performance compared to predetermined financial performance targets, which are weighted depending upon whether the employee is a member of a business unit or the corporate staff. Incentive award targets and criteria for executive officers are subject to approval by the Committee.

Fiscal Year 2014 Cash Incentive Award Plan

At the beginning of fiscal year 2014, the Committee approved the cash incentive award plan for the year (the "***2014 Incentive Award Plan***"), which included financial objectives for each business unit and at the corporate level on a consolidated basis. The financial objectives were based on the internally-developed financial plan for the fiscal year. In fiscal year 2014, the Company's financial performance was measured based on established targets for revenues and operating income. In order for a Named Executive Officer to earn an award under the 2014 Incentive Award Plan, a specific operating income target had to be met. For fiscal year 2014, the CEO's target cash incentive award was 100% of his base salary, and the other Named Executive Officers' target incentive awards ranged from 50% of base salary up to a maximum of 100% of base salary.

For Messrs. Steele and Skinner and Ms. Hemmeter (the "***Corporate Executives***"), the award target for fiscal year 2014 was based on the Company's annual consolidated financial results, and consisted of targets for the Company's consolidated revenues of $468.9 million and consolidated operating income of $25.6 million. For Mr. Midyett, the award target was based on Apio's annual financial results, and consisted of targets for Apio's revenues of $422.1 million and operating income of $24.1 million. For Mr. Hiebert, the award target was based on Lifecore's annual financial results, and consisted of targets for Lifecore's revenues of $46.1 million and operating income of $11.4 million.

Based on the metrics described above, the Named Executive Officers' target incentive awards, maximum awards and actual amounts earned for fiscal year 2014 were as follows:

Named Executive Officer	Target Incentive Awards	Maximum Incentive Awards	Earned Incentive Awards
Gary T. Steele	$ 450,000	$ 450,000	—
Gregory S. Skinner	$ 186,000	$ 310,000	—
Molly A. Hemmeter	$ 142,500	$ 285,000	—
Ronald L. Midyett	$ 165,000	$ 330,000	—
Larry D. Hiebert	$ 130,000	$ 260,000	$ 130,110

Long-Term Incentive Compensation

Landec provides long-term incentive compensation through equity-based awards, generally in the form of stock options and restricted stock units (also referred to as "***restricted stock units***," "***RSUs***" or "***stock awards***") under a broad-based equity award program (**"*Equity Award Plan*"**). Landec's Equity Award Plan is intended to align the interests of officers with those of the stockholders by creating an incentive for officers to maximize long-term stockholder value. The Equity Award Plan also is designed to encourage officers to remain employed with Landec despite a competitive labor market in its industry.

Awards to eligible employees, including Named Executive Officers, are generally made on an annual basis. Awards must be approved by the Committee or the Board of Directors. Awards typically take the form of stock options and RSUs, and are generally granted with a three-year vesting schedule. In general, the number of options/RSUs awarded to each executive officer is determined subjectively based on a number of factors, including an analysis of peer group data, the officer's degree of responsibility, general level of performance, ability to affect future Company performance, salary level and recent noteworthy achievements, as well as prior years' awards. All stock option grants have a per share exercise price equal to the fair market value of Landec Common Stock on the grant date. The Committee has not granted, nor does it intend in the future to grant, equity compensation awards to executives in anticipation of the release of material nonpublic information that is likely to result in changes to the price of Landec Common Stock, such as a significant positive or negative earnings announcement. Similarly, the Committee has not timed and does not intend to time the release of material nonpublic information based on equity award grant dates. Also, because equity compensation awards typically vest over a three-year period, the value to recipients of any immediate increase in the price of Landec's stock following a grant will be attenuated.

The Committee regularly monitors the environment in which Landec operates and makes changes to the Equity Award Plan and the overall annual compensation paid to executives in order to help the Company meet its goals, including achieving long-term stockholder value. The Company has granted both stock options and RSUs as part of the Equity Award Plan. Landec grants stock options because they can be an effective tool for meeting Landec's compensation goal of increasing long-term stockholder value. Employees are able to profit from stock options only if Landec's stock price increases in value over the stock option's exercise price. Landec believes that the options it grants provide effective incentives to option holders to achieve increases in the value of Landec's stock. Landec grants RSUs because they provide a more predictable value to employees than stock options, and therefore are efficient tools in retaining and motivating employees, while also serving as an incentive to increase the value of Landec's stock. RSUs also can be a more efficient means of using equity plan share reserves because fewer RSUs are needed to provide a retention and incentive value as compared to awards of stock options.

During fiscal year 2014, the Committee granted awards under the Equity Award Plan to executive officers, including our Named Executive Officers, as noted below under “Grants of Plan-Based Awards”. In making this determination, the Committee considered prior awards made to our Named Executive Officers and the value of such holdings as well as the overall compensation package paid to our executive officers for fiscal year 2014. These awards are reflected in compensation paid to our Named Executive Officers for fiscal year 2014.

Long-term Incentive Plan

On July 25, 2013, the Board of Directors approved a long-term incentive plan (“LTIP”) under which certain employees (“Participating Employees”) of the Company selected by the Committee, including the Company’s Named Executive Officers, are eligible to receive bonuses based on the Company’s aggregate operating income, excluding non-recurring events and future acquisitions (“Adjusted Operating Income”) for fiscal years 2014, 2015 and 2016. If the aggregate Adjusted Operating Income for those fiscal years meets a specified target amount, each Participating Employee will receive a bonus equal to the average of his or her annual base salary during those fiscal years or such shorter period of time as such Participating Employee was receiving a base salary (the “Target Bonus”). If the aggregate Adjusted Operating Income for fiscal years 2014, 2015 and 2016 exceeds the target amount, then a sum equal to 15% of the excess will be added to the bonus pool and distributed to the Participating Employees pro rata based on the Target Bonus payable to each of them. Each Participating Employee’s eligibility to receive the foregoing bonus will be subject to his or her continuing as an employee or director of the Company through the last day of fiscal year 2016.

Nonqualified Deferred Compensation Plan

On July 25, 2013, the Board approved the Nonqualified Deferred Compensation Plan (the “Deferral Plan”) for non-employee directors and certain participating employees, including the Named Executive Officers. The Deferral Plan is administered by a committee consisting of the Chief Executive Officer and the Chief Financial Officer of the Company or persons designated by them. The Deferral Plan allows non-employee directors to defer up to 100% of the fees earned for their service as director and allows participating employees to defer up to 50% of their base salary and up to 100% of their annual cash bonus. Any amounts deferred by a participating employee are invested on behalf of the participating employee, and any investment returns earned thereon are credited to the participating employee’s account. Investment options are determined by the committee that administers the Deferral Plan. Each participating employee may designate the investment option or options for his or her account and may change those investment options at any time.

A participating employee may elect to receive distributions from his or her account beginning in a specified payment year no sooner than three years after the calendar year to which the deferred compensation relates, to be paid in a lump sum or in annual installments not to exceed ten years, according to the participating employee’s election. This election is made at the time when the participating employee makes an election to defer compensation. The participating employee may subsequently elect to delay the year in which deferred compensation is paid, provided that such election must be made at least 12 months before the year in which payment was previously scheduled to occur, must specify a new payment year that is at least five years after the year in which payment was to be made and will not take effect for 12 months. A participating employee will also receive distributions upon the occurrence of certain events specified in Deferral Plan, including termination of employment.

The Company has the discretion, but not the obligation, to make contributions to the Deferral Plan for the benefit of the participating employees, subject to the terms and conditions of the Deferral Plan.

Retirement Benefits under the 401(k) Plan, Executive Perquisites and Generally Available Benefit Programs

Landec maintains a tax-qualified 401(k) plan (the ***"401(k) Plan"***), which provides for broad-based employee participation. Under the 401(k) Plan, all Landec employees are eligible to receive matching contributions from Landec. The 401(k) Plan is a safe harbor plan (as defined in the Internal Revenue Code of 1986) with a safe harbor match of 100% on the first 3% of deferrals and 50% on the next 2% of each participant's pretax contributions; and the match is calculated and paid to participants' accounts on a payroll-by-payroll basis, subject to applicable federal limits. The 401(k) Plan does not have an associated vesting schedule. Landec also makes an annual "reconciling match" by recalculating the regular matching contribution as if it were paid on an annualized, instead of payroll-by-payroll, basis. If the annualized matching contribution would have been higher, Landec makes a contribution to the participant's account in an amount equal to the difference between the two amounts. Other than the 401(k) Plan, Landec does not provide defined benefit pension plans or defined contribution retirement plans to its executives or other employees.

Landec also offers a number of other benefits to the Named Executive Officers pursuant to benefit programs that provide for broad-based employee participation. These benefit programs include medical, dental and vision insurance, long-term and short-term disability insurance, life and accidental death and dismemberment insurance, health and dependent care flexible spending accounts, wellness programs, educational assistance and certain other benefits.

The 401(k) Plan and other generally available benefit programs allow Landec to remain competitive with respect to employee talent, and Landec believes that the availability of the benefit programs generally enhances employee productivity and loyalty to Landec. The main objectives of Landec's benefit programs are to give our employees access to quality healthcare, financial protection from unforeseen events, assistance in achieving retirement financial goals and enhanced health and productivity. These generally available benefits typically do not specifically factor into decisions regarding an individual executive's total compensation or equity award package.

Compensation of Chief Executive Officer

On June 19, 2014, the Company entered into a new executive employment agreement with Mr. Steele, effective (the ***"Steele Agreement"***) as of May 26, 2014, setting forth the terms of his employment. The Steele Agreement expires on May 29, 2016 unless renewed or extended by both parties, and provides that Mr. Steele shall be paid an annual base salary of $500,000 (an increase to his annual base salary of $450,000 for fiscal year 2014) through the term of the Steele Agreement, and continue to participate in the annual cash incentive award plan. Mr. Steele is also eligible for grants of equity interests under the Equity Award Plan at such times and in such amounts as determined by the Committee. See the section entitled "Employment Contracts and Potential Payments upon Termination or Change in Control" for a further discussion of the terms of the Steele Agreement.

In making decisions with respect to Mr. Steele's salary, target bonus and equity compensation grant, the Committee relied on the peer group data described above and gave considerable weight to the Chief Executive Officer's significant and direct influence over Landec's overall performance. The Committee also considered the overall compensation policies discussed above.

As discussed above under "Annual Cash Incentive Award Plan," Landec's actual financial performance for fiscal year 2014 did not result in an incentive award payment to Mr. Steele under the 2014 Incentive Award Plan. As noted below under "Grants of Plan-Based Awards", during fiscal year 2014, the Committee granted Mr. Steele an option to purchase 45,000 shares of Common Stock and 15,000 RSUs. Mr. Steele's total compensation for fiscal year 2014 was below the 50th percentile of companies described above under "Peer Group."

Compensation of Other Named Executive Officers

On December 7, 2012, the Company entered into an executive employment agreement with Mr. Skinner (the ***"Skinner Agreement"***), effective as of January 1, 2013, setting forth the terms of his employment. The Skinner Agreement expires on December 31, 2015 unless renewed or extended by both parties, and provides that Mr. Skinner shall be paid an annual base salary of $310,000 through the term of the Skinner Agreement (unless modified by the Compensation Committee), and continue to participate in the annual cash incentive award plan. Mr. Skinner is also eligible for grants of equity interests under the Equity Award Plan at such times and in such amounts as determined by the Committee. See the section entitled "Employment Contracts and Potential Payments upon Termination or Change in Control" for a further discussion of the terms of the Skinner Agreement.

In making decisions with respect to base salary for Named Executive Officers other than the CEO, the Committee reviews peer group data as described above and takes into account the date of the most recent adjustment in the base pay of each Named Executive Officer.

As indicated above under “Annual Cash Incentive Award Plan,” only Mr. Hiebert, the President of Lifecore, received a cash award under the 2014 Incentive Award Plan as a result of the financial performance of Lifecore, which exceeded the target approved by the Committee at the beginning of fiscal year 2014. As noted below under “Grants of Plan-Based Awards”, the Committee granted equity awards to the Named Executive Officers under the Equity Award Plan in fiscal year 2014. The total compensation received by each Named Executive Officer during fiscal year 2014 was below the 50th percentile for his or her peer group as described above under “Peer Group.”

Say on Pay Voting Results

At the 2013 annual meeting of stockholders, the Company asked stockholders for a non-binding advisory vote to approve the compensation of the Named Executive Officers as disclosed in the 2013 proxy statement. The holders of 98.4% of the shares present and voting at the 2013 annual meeting of stockholders voted for approval of the compensation of our Named Executive Officers. The Company is pleased with this result and believes that stockholders confirmed our executive compensation philosophy, policies and programs. The Committee took these results into account by continuing to emphasize our pay-for-performance philosophy by utilizing performance measures that provide incentives to deliver value to our stockholders.

Compliance with Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally disallows a tax deduction to public companies for certain compensation in excess of $1 million paid to a company’s executive officers. Certain compensation, including qualified performance-based compensation, will not be subject to the deduction limit if specified requirements are met. The Committee reviews the potential effect of Section 162(m) periodically and may seek to structure the long-term incentive compensation granted to Named Executive Officers in a manner that is intended to avoid disallowance of deductions under Section 162(m). Nevertheless, there can be no assurance that compensation attributable to long-term incentive awards will be treated as qualified performance-based compensation under Section 162(m). In addition, the Committee reserves the right to authorize compensation payments that may be in excess of the limit when the Committee believes such payments are appropriate and in the best interest of Landec and its stockholders, after taking into consideration changing business conditions and the performance of its employees.

Compensation Committee Interlocks and Insider Participation

The Committee is composed of Mr. Hollis (Chairman), Mr. Frank, Mr. Tobin and Dr. Sohn. During fiscal year 2014, none of the Company’s executive officers served on the board of directors of any entities whose directors or officers serve on the Committee. None of the Committee’s current or former members has at any time been an officer or employee of Landec. None of Landec’s executive officers currently serve, or in the past fiscal year have served, as members of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on Landec’s Board of Directors or the Committee.

Compensation Committee Report

The information contained in this report shall not be deemed to be “soliciting material” or “filed” with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Landec specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The Committee has reviewed and discussed with management the Compensation Discussion and Analysis for fiscal year 2014. Based on the review and discussions, the Committee recommended to the Board of Directors, and the Board of Directors has approved, that the Compensation Discussion and Analysis be included in Landec’s Proxy Statement for its 2014 Annual Meeting of Stockholders and incorporated into our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

This report is submitted by the Committee.

Dean Hollis (Chairman)
Frederick Frank
Robert Tobin
Catherine A. Sohn

Summary Compensation

The following table shows compensation information for fiscal years 2014, 2013 and 2012 for the Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Year	Salary ($) (1)	Stock Awards ($) (2)	Option Awards ($) (3)	Non-Equity Incentive Plan Compensation ($) (4)	All Other Compensation ($) (5)	Total ($)
Gary T. Steele	2014	450,000	214,500	198,397	—	13,948	876,845
President and Chief Executive	2013	450,000	—	—	—	13,882	463,882
Officer and Chairman of the Board	2012	450,000	—	—	395,935	21,297	867,232
Gregory S. Skinner	2014	310,000	143,000	132,265	—	11,160	596,425
Chief Financial Officer and	2013	310,000	—	—	—	10,873	320,873
V.P. of Finance and Administration	2012	310,000	—	—	171,503	12,254	493,757
Molly A. Hemmeter	2014	285,000	143,000	132,265	—	11,160	571,425
Chief Operating Officer	2013	285,000	—	—	—	8,786	293,786
	2012	285,000	—	—	151,234	10,760	446,994
Ronald L Midyett	2014	330,000	143,000	132,265	—	26,668	631,933
President and Chief Executive	2013	300,000	—	—	—	27,294	327,294
Officer of Apio, Inc.	2012						
Vice President of Landec		300,000	—	—	157,200	26,183	483,683
Larry D. Hiebert (6)	2014	259,231	85,800	79,359	130,110	22,872	577,372
President of Lifecore Biomedical, Inc. Vice President of Landec							

(1) Includes amounts (if any) deferred at the election of the Named Executive Officer pursuant to the Deferral Plan.

(2) Amounts shown do not reflect compensation actually received by the Named Executive Officer. Instead, the amounts shown are the compensation costs recognized by Landec in fiscal year 2014 for RSU awards as determined pursuant to ASC 718. These compensation costs reflect RSU awards granted in fiscal year 2014. The assumptions used to calculate the value of the RSU awards are set forth under Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. In accordance with SEC rules, these amounts exclude estimates of forfeitures in the case of awards with service-based vesting conditions.

(3) Amounts shown do not reflect compensation actually received by the Named Executive Officer. Instead, the amounts shown are the compensation costs recognized by Landec in fiscal year 2014 for stock option awards as determined pursuant to ASC 718. The assumptions used to calculate the value of stock option awards are set forth under Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. In accordance with SEC rules, these amounts exclude estimates of forfeitures in the case of awards with service-based vesting conditions.

(4) Amounts consist of bonuses earned for exceeding financial performance targets in fiscal year 2014 under the 2014 Incentive Award Plan, and in fiscal year 2012 under the 2012 Incentive Award Plan.

(5) Amounts consist of Company-paid life insurance and an employer 401(k) match for all Named Executive Officers. The amount shown for Mr. Steele also includes Company-paid disability insurance for which Mr. Steele is the beneficiary and a 20-year service award amounting to $7,468 in fiscal year 2012. The amount shown for Mr. Hiebert also includes Company-paid disability insurance for which Mr. Heibert is the beneficiary. For Mr. Midyett, the amount shown includes an annual car allowance of $15,000.

(6) Mr. Hiebert became President of Lifecore and a Vice President of the Company on June 1, 2013.

Grants of Plan-Based Awards

The following table shows all plan-based awards granted to the Named Executive Officers during fiscal year 2014. The option awards and the unvested portion of the stock awards identified in the table below are also reported in the "Outstanding Equity Awards at Fiscal 2014 Year-End" table on the following page.

Grants of Plan-Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/share)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**				
Gary T. Steele		0	450,000	450,000	—	—	—	—
	06/07/2013				—	45,000	14.30	198,397
	06/07/2013				15,000	—	—	214,500
Gregory S. Skinner		0	186,000	310,000	—	—	—	—
	06/07/2013				—	30,000	14.30	132,265
	06/07/2013				10,000	—	—	143,000
Molly A. Hemmeter		0	142,500	285,000	—	—	—	—
	06/07/2013				—	30,000	14.30	132,265
	06/07/2013				10,000	—	—	143,000
Ronald L. Midyett		0	165,000	330,000	—	—	—	—
	06/07/2013				—	30,000	14.30	132,265
	06/07/2013				10,000	—	—	143,000
Larry D. Hiebert		0	130,000	260,000	—	—	—	—
	06/07/2013				—	18,000	14.30	79,359
	06/07/2013				6,000	—	—	85,800

(1) Amounts shown are estimated payouts for fiscal year 2014 to the Named Executive Officers under the 2014 Incentive Award Plan. The target amount is based on a percentage of the individual's fiscal year 2014 base salary. The maximum amount shown is equal to the individual's base salary for the Named Executives. Only Mr. Hiebert received a cash incentive award for fiscal year 2014. For more information on these awards, including the amount actually paid, see "Compensation Discussion and Analysis-Annual Cash Incentive Award Plan."

(2) The value of a stock award or option award is based on the fair value as of the grant date of such award determined pursuant to ASC 718. Stock awards consist only of RSUs. The exercise price for all options granted to the Named Executive Officers is 100% of the fair market value of the shares of Landec Common Stock on the grant date. The option exercise price has not been deducted from the amounts indicated above. Regardless of the value placed on a stock option on the grant date, the actual value of the option will depend on the market value of Landec Common Stock at such date in the future when the option is exercised. The value of the option following this exercise does not include the option exercise price. The options vest at the rate of 1/36th per month and are fully vested three years after the date of grant. RSUs vest on the third anniversary of the date of grant.

Equity Awards

The following table shows all outstanding equity awards held by the Named Executive Officers at the end of fiscal year 2014. The awards for fiscal year 2014 identified in the table below are also reported in the "Grants of Plan-Based Awards" table on the previous page.

Outstanding Equity Awards at Fiscal 2014 Year-End

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable (#) (1)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#) (2)**	**Market Value of Shares Or Units of Stock That Have Not Vested ($) (3)**
Gary T. Steele	13,750	31,250	14.30	06/07/2020	15,000	180,150
	75,000	—	5.63	05/26/2017	—	—
	37,500	—	6.22	05/21/2016	—	—
Gregory S. Skinner.....	9,165	20,835	14.30	06//07/2020	10,000	120,100
	75,000	—	5.63	05/26/2017	—	—
	22,500	—	6.22	05/21/2016	—	—
	22,000	—	7.50	09/30/2014	—	—
Molly A. Hemmeter ...	9,165	20,835	14.30	06//07/2020	10,000	120,100
	37,500	—	5.63	05/26/2017	—	—
	37,500	—	6.47	06/22/2016		
Ronald L. Midyett	9,165	20,835	14.30	06//07/2020	10,000	120,100
	67,000	—	6.19	05/28/2017		—
	52,500	—	6.22	05/21/2016	—	—
Larry D. Hiebert.........	5,500	12,500	14.30	06//07/2020	6,000	72,060
	2,500		5.63	05/26/2017		

(1) All options vest at the rate of 1/36 per month over a three-year period from date of grant.

(2) The RSUs vest on the third anniversary of the date of grant.

(3) Value is based on the closing price of the Company's Common Stock of $12.01 on May 25, 2014 as reported on the Nasdaq Global Select Market.

Option Exercises and Stock Vested

The following table shows all stock options exercised and the value realized upon exercise and the number of stock awards vested and the value realized upon vesting by the Named Executive Officers during fiscal year 2014.

Option Exercises and Stock Vested For Fiscal 2014

	Option Awards			Stock Awards		
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) (1)	Number of shares withheld to cover exercise price & taxes (#) (2)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)	Number of shares withheld to cover taxes (#) (2)
Gary T. Steele	50,000	230,650	—	—	—	—
	50,000	223,480	—	—	—	—
Gregory S. Skinner	—	—	—	—	—	—
Molly A. Hemmeter	—	—	—	—	—	—
Ronald L. Midyett	—	—	—	22,333	316,905	8,072
Larry D. Hiebert	—	—	—	—	—	—

(1) The value realized equals the difference between the option exercise price and the fair market value of Landec Common Stock on the date of exercise, multiplied by the number of shares for which the option was exercised.

(2) Indicates shares withheld at the election of the Named Executive Officer to cover the exercise price and/or the taxes owed on the exercise of the option or the vesting of the stock award.

Nonqualified Deferred Compensation

The following table shows all compensation deferred by the Named Executive Officers, and earnings on such deferred compensation, under the Deferral Plan during fiscal year 2014:

NONQUALIFED DEFERRED COMPENSATION

Name	Executive Contributions in Fiscal Year 2014 ($)(1)	Registrant Contributions in Fiscal Year 2014 ($)	Aggregate Earnings in Fiscal Year 2014 ($)(2)	Aggregate Withdrawals in Fiscal Year 2014 ($)	Aggregate Balance at End of Fiscal Year 2014 ($)
Gary T. Steele	—	—	—	—	—
Gregory S. Skinner	—	—	—	—	—
Molly A. Hemmeter	73,990	—	3,545	—	77,535
Ronald L. Midyett	—	—	—	—	—
Larry D. Hiebert	—	—	—	—	—

(1) Contributions reported in this column are reported as compensation in the Salary column of the Summary Compensation Table.

(2) Amounts reported in this column represent the aggregate earnings accrued and credited to a Named Executive Officer's account during fiscal year 2014.

Employment Contracts and Potential Payments upon Termination or Change in Control

Employment Contracts

On June 19, 2014, the Company entered into a new executive employment agreement with Mr. Steele, (the ***"Steele Agreement"***) effective as of May 26, 2014, setting forth the terms of his employment. The Steele Agreement expires on May 29, 2016 unless renewed or extended by both parties, and provides that Mr. Steele shall be paid an annual base salary of $500,000 through the term of the Steele Agreement, and continue to participate in the annual cash incentive award plan. Mr. Steele is also eligible for grants of equity interests under the Equity Award Plan at such times and in such amounts as determined by the Compensation Committee.

The Steele Agreement provides that upon Mr. Steele's death or disability, the Company shall pay Mr. Steele or his estate his unpaid base salary and the pro rata portion of his annual cash incentive award through the date of termination.

Mr. Steele agreed, as part of the Steele Agreement, not to solicit, induce, recruit, encourage or take away employees or consultants of the Company for a period of two years following his termination. In addition, Mr. Steele agreed not to solicit any licensor to or customer of the Company for a period of two years following his termination.

On December 7, 2012, the Company entered into a new executive employment agreement with Mr. Skinner (the ***"Skinner Agreement"***), effective as of January 1, 2013, setting forth the terms of his employment. The Skinner Agreement expires on December 31, 2015 unless renewed or extended by both parties, and provides that Mr. Skinner shall be paid an annual base salary of $310,000 through the term of the Skinner Agreement (unless modified by the Compensation Committee), and continue to participate in the annual cash incentive award plan. Mr. Skinner is also eligible for grants of equity interests under the Equity Award Plan at such times and in such amounts as determined by the Committee.

Mr. Skinner agreed, as part of the Skinner Agreement, not to solicit, induce, recruit, encourage or take away employees or consultants of the Company for a period of two years following his termination. In addition, Mr. Skinner agreed not to solicit any licensor to or customer of the Company for a period of two years following his termination.

Potential Payments upon Termination or Change in Control

If Mr. Steele is terminated without cause or if he terminates his employment for good reason (generally, any relocation of Mr. Steele's place of employment, reduction in salary, reduction in his target bonus amount or material reduction of his duties or authority), Mr. Steele will receive a severance payment equal to 100% of his annual base salary over a twelve month period, a pro-rated portion of any annual cash incentive award to which he is entitled and a one-year acceleration of his unvested stock options and other equity awards, and the Company will pay or reimburse Mr. Steele for the monthly Medicare premiums for Mr. Steele (and his spouse) for the remainder of their lives or at such earlier time as Mr. Steele receives substantially equivalent health insurance coverage in connection with new employment. In addition, the Steele Agreement provides that if Mr. Steele is terminated without cause or terminates his employment for good reason within two (2) years following a "change of control," Mr. Steele will receive a severance payment equal to 150% of his annual base salary over a twelve month period, a pro-rated portion of any annual cash incentive award to which he is entitled and the Company will pay or reimburse Mr. Steele for the monthly Medicare premiums for Mr. Steele (and his spouse) for the remainder of their lives or until such earlier time as Mr. Steele receives substantially equivalent health insurance coverage in connection with new employment. In the event of a "change of control," all of Mr. Steele's unvested stock options and other equity awards shall immediately vest and become exercisable.

The Steele Agreement provides that if Mr. Steele retires, the Company will pay or reimburse Mr. Steele for the monthly premiums for Medicare for the remainder of the lives of Mr. Steele and his spouse; provided that this benefit shall cease to be available at such time as Mr. Steele commences receiving substantially equivalent health insurance coverage in connection with new employment.

If Mr. Skinner is terminated without cause or if he terminates his employment for good reason (generally, any relocation of Mr. Skinner's place of employment, reduction in salary, reduction in his target bonus amount or material reduction of his duties or authority), Mr. Skinner will receive a severance payment equal to 100% of his annual base salary over a twelve month period, a pro-rated portion of any annual cash incentive award to which he is entitled and a one-year acceleration of his unvested stock options and other equity awards, and the Company will pay the monthly premiums for health insurance coverage for Mr. Skinner (and his spouse and eligible dependents) for the maximum period permitted under COBRA or at such earlier time as Mr. Skinner receives substantially equivalent health insurance coverage in connection with new employment. In addition, the Skinner Agreement provides that if Mr. Skinner is terminated without cause or terminates his employment for good reason within two (2) years following a "change of control," Mr. Skinner will receive a severance payment equal to 150% of his annual base salary over a twelve month period and a pro-rated portion of any annual cash incentive award to which he is entitled and the Company will pay the monthly premiums for health insurance coverage for Mr. Skinner (and his spouse and eligible dependents) for the maximum period permitted under COBRA or at such earlier time as Mr. Skinner receives substantially equivalent health insurance coverage in connection with new employment. In the event of a "change of control," all of Mr. Skinner's unvested stock options and other equity awards shall immediately vest and become exercisable.

If Mr. Steele's or Mr. Skinner's employment with the Company had been terminated without cause or for good reason not in connection with a change of control of the Company on May 25, 2014, the last day of Landec's fiscal year 2014, Mr. Steele and Mr. Skinner would have received the following severance benefits under the Steele Agreement and Skinner Agreement, respectively:

Name	Base Salary (1)	Bonus Payment	Accelerated Vesting of Options	Accelerated Vesting of RSUs (2)	Post-Termination Health Insurance Premiums	Total
Gary T. Steele	$ 450,000	$ —	$ —	$ 180,150	$ 167,537(3)	$ 797,687
Gregory S. Skinner	$ 310,000	$ —	$ —	$ 120,100	$ 25,273(4)	$ 455,373

(1) Reflects potential payments based on salaries as of May 25, 2014.

(2) The dollar value of RSUs was calculated using the last reported stock price for fiscal 2014 ($12.01).

(3) Represents the maximum amount of Medicare premiums that would have been paid by the Company on behalf of Mr. Steele and his spouse, assuming life expectancy as estimated in the Actuarial Life Tables compiled by the Social Security Administration.

(4) Represents the maximum amount of premiums that would have been paid under COBRA on behalf of Mr. Skinner

If Mr. Steele's or Mr. Skinner's employment with the Company had been terminated without cause or for good reason in connection with a change of control of the Company on May 25, 2014, the last day of Landec's fiscal year 2014, Mr. Steele and Mr. Skinner would have received the severance benefits under the Steele Agreement and Skinner Agreement set forth above, except that amounts received for base salary would have been $675,000 and $465,000 for Mr. Steele and Mr. Skinner, respectively, and therefore total compensation would have been $1,022,687 and $610,373 for Mr. Steele and Mr. Skinner, respectively.

Policies and Procedures with Respect to Related Party Transactions

The Audit Committee, all of whose members are independent directors, reviews and approves in advance all related party transactions (other than compensation transactions). In reviewing related party transactions, the Audit Committee takes into account factors it deems appropriate, such as whether the related party transaction is on terms no less favorable than terms generally available to an unrelated third party under the same or similar conditions and the extent of the related party's interest in the transaction. To identify related party transactions, each year we require our executive officers and directors to complete a questionnaire identifying any transactions between the Company and the respective executive officer or director and their family members. Additionally, under the Company's Code of Ethics, directors, officers and all other employees and consultants are expected to avoid any relationship, influence or activity that would cause or even appear to cause a conflict of interest.

Certain Relationships and Related Transactions

Apio sells products to and earns license fees from Windset Holdings 2010 Ltd., a Canadian corporation ("***Windset***"). Apio holds a 26.9% equity interest in Windset. During fiscal year 2014, Apio recognized $365,000 of revenues from Windset.

Additionally, unrelated to the revenue transactions above, Apio purchases produce from Windset for sale to third parties. During fiscal year 2014, Apio purchased $1.6 million of produce from Windset.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company’s directors and executive officers, and persons who own more than ten percent of a registered class of the Company’s equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and holders of more than ten percent of the Company’s Common Stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company’s knowledge, based solely upon review of the copies of such reports filed with the SEC and written representations that no other reports were required, during the fiscal year ended May 25, 2014 all Section 16(a) filing requirements applicable to the Company’s officers, directors and holders of more than ten percent of the Company’s Common Stock were satisfied.

OTHER MATTERS

The Board of Directors knows of no other matters to be submitted to the stockholders at the annual meeting. If any other matters properly come before the meeting, then the persons named in the enclosed form of proxy will vote the shares they represent in such manner as the Board of Directors may recommend.

It is important that the proxies be returned promptly and that your shares be represented. Stockholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope or vote their shares by telephone or via the Internet.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Geoffrey P. Leonard

GEOFFREY P. LEONARD
SECRETARY

Menlo Park, California
September 8, 2014

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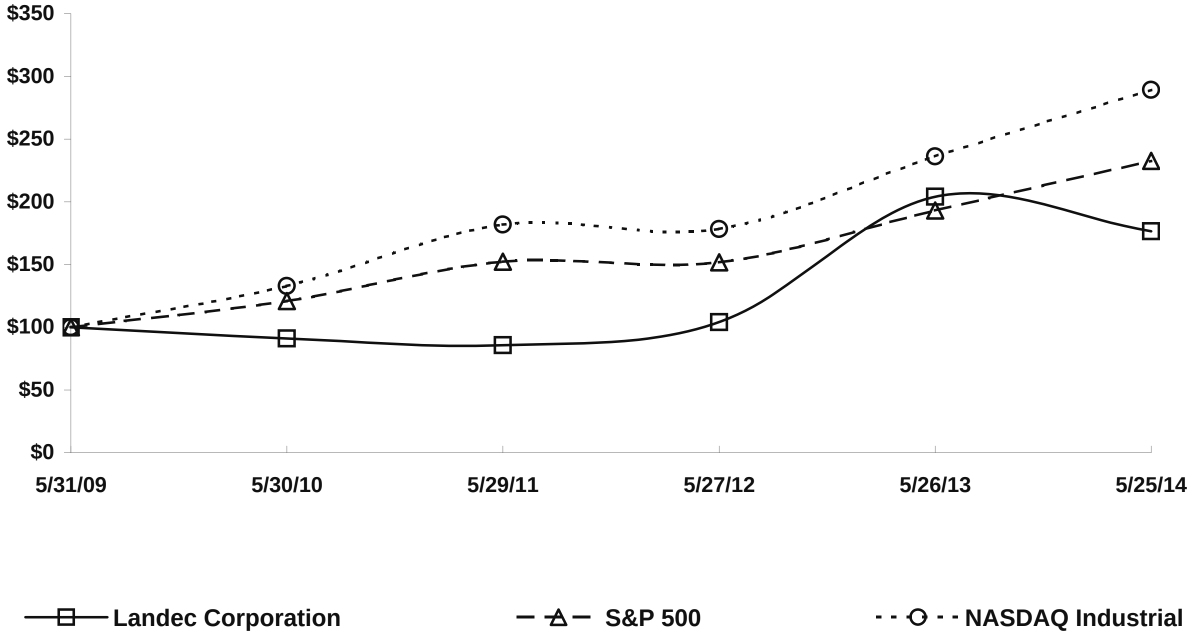
COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Landec Corporation, the S&P 500 Index, and the NASDAQ Industrial Index



*$100 invested on 5/31/09 in stock or index, including reinvestment of dividends.
Fiscal year ending May 25. Indexes calculated on a month-end basis.

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

FORM 10-K

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

For the Fiscal Year Ended May 25, 2014, or

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

For the Transition period for _________ to _________.

Commission file number: **0-27446**

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

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

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Global Select Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No X

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No ___

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ___	Accelerated Filer X
Non Accelerated Filer ___	Smaller Reporting Company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ___ No X

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $294,141,000 as of November 24, 2013, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price on The NASDAQ Global Select Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 18, 2014, there were 26,839,725 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its October 2014 Annual Meeting of Stockholders which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

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LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. *Business*

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Words such as “projected,” “expects,” “believes,” “intends,” “assumes” and similar expressions are used to identify forward-looking statements. These statements are made based upon current expectations and projections about our business and assumptions made by our management and are not guarantees of future performance, nor do we assume any obligation to update such forward-looking statements after the date this report is filed. Our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. “Risk Factors” and the factors discussed below.

Corporate Overview

Landec Corporation and its subsidiaries (“Landec” or the “Company”) design, develop, manufacture and market differentiated products in food and biomedical materials markets and license technology applications to partners. The Company is focused on health and wellness solutions and applications within the packaged food and biomaterial markets. In our Apio, Inc. (“Apio”) food business, we are committed to offering healthy, fresh produce products conveniently packaged to consumers. Apio also exports whole fruit and vegetables, predominantly to Asia through its subsidiary, Cal Ex Trading Company (“Cal-Ex”). In our Lifecore Biomedical, Inc. (“Lifecore”) biomedical materials business, we commercialize products that enable people to stay more active as they grow older.

Landec’s food and biomedical materials businesses utilize polymer chemistry technology, a key differentiating factor. Both core businesses focus on business-to-business selling such as selling directly to retail grocery store chains and club stores for Apio and directly to large ophthalmic suppliers for Lifecore. Both core businesses also benefit from the momentum that underlies consumer interest in healthy living - eating better and staying active.

Within our two core businesses, Landec has three operating segments – Food Products Technology, Food Export and HA-based Biomaterials, each of which is described below. Financial information concerning each of these segments for fiscal years 2014, 2013 and 2012 is summarized in Note 14 to the Consolidated Financial Statements.

Apio operates our Food Products Technology business, which combines our proprietary BreatheWay® food packaging technology with the capabilities of a large national food supplier and value-added produce processor which sells products under the Eat Smart® and GreenLine® brands. In Apio’s value-added operations, produce is processed by trimming, washing, mixing, and packaging in bags and trays that in most cases incorporate Landec’s BreatheWay membrane technology. The BreatheWay membrane increases shelf life and reduces shrink (waste) for retailers and helps ensure that consumers receive fresh produce by the time the product makes its way through the supply chain. Apio also licenses the BreatheWay technology to partners such as Chiquita Brands International, Inc. (“Chiquita”) for packaging and distribution of bananas and to Windset Holding 2010 Ltd., a Canadian corporation (“Windset”), for packaging of greenhouse grown cucumbers and peppers.

Apio also operates the Food Export business. The Food Export business purchases and sells whole fruit and vegetable products predominantly to Asian markets.

Lifecore operates our Biomaterials business and is principally involved in the manufacture of pharmaceutical-grade sodium hyaluronate (“HA”) products. Sodium hyaluronate is a naturally occurring polysaccharide that is widely distributed in the extracellular matrix in animals and humans. Based upon Lifecore’s expertise working with highly viscous HA, the Company also specializes in aseptic filling services, as a contract development and manufacturing organization (CDMO), for difficult to handle (viscous) medicines filled in finished dose syringes.

Landec was incorporated in California on October 31, 1986 and reincorporated as a Delaware corporation on November 6, 2008. Our common stock is listed on The NASDAQ Global Select Market under the symbol “LNDC”.

Technology Overview

The Company has two proprietary polymer technology platforms: 1) Intelimer® materials which are the key technology behind our BreatheWay membrane technology, and 2) hyaluronan biopolymers. The Company's materials are generally proprietary as a result of being patented or due to being specially formulated for specific customers to meet specific commercial applications and/or specific regulatory requirements. The Company's polymer technologies, its customer relationships and trade names and its strong channels of distribution, are the foundation and key differentiating advantages on which Landec has built its business.

A) Intelimer Polymers

Intelimer polymers are crystalline, hydrophobic polymers that use a temperature switch to control and modulate properties such as viscosity, permeability and adhesion when varying the materials' temperature above and below the temperature switch. The sharp temperature switch is adjustable at relatively low temperatures (0°C to 100°C) and the changes resulting from the temperature switch are relatively easy to maintain in industrial and commercial environments. 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 liquid state.

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

Landec's Intelimer materials are readily available and are generally synthesized from long side-chain acrylic monomers that are derived primarily from natural materials such as coconut and palm oils that are highly purified and designed to be manufactured economically through known synthetic processes. These acrylic-monomer raw materials are then polymerized by Landec leading to many different side-chain crystallizable polymers whose properties vary depending upon the initial materials and the synthetic process. Intelimer materials can be made into many different forms, including films, coatings, microcapsules and discrete forms. Intelimer polymers are the coatings on the substrate used to form our BreatheWay membranes.

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BreatheWay Membrane Packaging

Certain types of fresh-cut and whole produce can spoil or discolor rapidly when packaged in conventional packaging materials and, therefore, are limited in their ability to be distributed broadly to markets. The Company's proprietary BreatheWay packaging technology utilizes Landec's Intelimer polymer technology to naturally extend the shelf life and quality of fresh-cut and whole produce.

After harvesting, vegetables and fruit continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay. The respiration rate of produce varies for each fruit and vegetable. Conventional packaging films used today, such as polyethylene and polypropylene, can be made with modest permeability to oxygen and carbon dioxide, but often do not provide the optimal atmosphere for the packaged produce. To achieve optimal product performance, each fruit or vegetable requires its own unique package atmosphere conditions. The challenge facing the industry is to develop packaging that meets the highly variable needs that each product requires in order to achieve value-creating performance. The Company believes that its BreatheWay packaging technology possesses all of the critical functionalities required to serve this diverse market. In creating a product package, a BreatheWay membrane is applied over a small cutout section or an aperture of a flexible film bag or plastic tray. This highly permeable "window" acts as the mechanism to provide the majority of the gas transmission requirements for the entire package. These membranes are designed to provide three principal benefits:

High Permeability. Landec's BreatheWay packaging technology is designed to permit transmission of oxygen and carbon dioxide at 300 to 1,000 times the rate of conventional packaging films. The Company thinks that these higher permeability levels will facilitate the packaging diversity required to market many types of fresh-cut and whole produce in many package sizes and configurations.

Ability to Adjust Oxygen and Carbon Dioxide Ratios. BreatheWay packaging can be tailored with carbon dioxide to oxygen transfer ratios ranging from 1.0 to 12.0 to selectively transmit oxygen and carbon dioxide at optimum rates to sustain the quality and shelf life of packaged produce. Other high permeability packaging materials, such as micro-perforated films cannot differentially control carbon dioxide permeability resulting in sub-optimal package atmosphere conditions for many produce products.

Temperature Responsiveness. Landec has developed breathable membranes that can be designed to increase or decrease permeability in response to environmental temperature changes. The Company has developed packaging that responds to higher oxygen requirements at elevated temperatures but is also reversible, and returns to its original state as temperatures decline. As the respiration rate of fresh produce also increases with temperature, the BreatheWay membrane’s temperature responsiveness allows packages to compensate for the change in produce respiration by automatically adjusting gas permeation rates. By doing so, detrimental package atmosphere conditions are avoided and improved quality is maintained through the distribution chain.

B) Sodium Hyaluronate (HA)

Sodium hyaluronate is a non-crystalline, hydrophilic polymer that exists naturally as part of the extracellular matrix in many tissues within the human body, most notably within the aqueous humor of the eye, synovial fluid, skin and umbilical cord. The viscoelastic properties and water solubility of HA make it ideal for medical applications where space maintenance, lubricity or tissue protection are critical. Because of its widespread presence in tissues, its critical role in normal physiology, and its high degree of biocompatibility, the Company believes that hyaluronan will continue to be used in existing applications and for an increasing variety of other medical applications.

Sodium hyaluronate can primarily be produced in two ways, either through bacterial fermentation or through extraction from rooster combs. Lifecore produces HA only from fermentation, using an extremely efficient microbial fermentation process and a highly effective purification operation.

Sodium hyaluronate was first demonstrated to have commercial medical utility as a viscoelastic solution in cataract surgery. In this application, it is used for maintaining the space in the anterior chamber and protecting corneal tissue during the removal and implantation of intraocular lenses. The first ophthalmic HA product, produced by extraction from rooster comb tissue, became commercially available in the United States in 1981. In 1985, Lifecore introduced the bacterial fermentation process to manufacture premium HA and received patent protection until 2002. HA-based products, produced either by rooster comb extraction or by fermentation processes such as Lifecore’s, have since gained widespread acceptance in ophthalmology and are currently used in the majority of cataract extraction procedures in the world. HA has also become a significant component in several products used in orthopedics. Lifecore’s HA is used as a viscous carrier for allogeneic freeze-dried demineralized bone used in spinal surgery, and as the active component of devices to treat the symptoms of osteoarthritis, and as a component to provide increased lubricity to medical devices. Lifecore’s HA has also been utilized in veterinary drug applications to treat traumatic arthritis.

Description of Business Segments

In this Description of Business Segments section, “Apio” and the “Food Products Technology business” will be used interchangeably; however, when describing Apio’s export business it will be referred to as the “Food Export business”.

A) Food Products Technology Business

The Food Products Technology business had revenues of $361 million for the fiscal year ended May 25, 2014, $320 million for the fiscal year ended May 26, 2013 and $208 million for the fiscal year ended May 27, 2012.

Based in Guadalupe, California, Apio's primary business is fresh-cut and whole value-added products typically packaged in our proprietary BreatheWay packaging. Apio's fresh-cut value-added products business markets a variety of fresh-cut and whole vegetables to the top retail grocery chains, club stores and food service operators. During the fiscal year ended May 25, 2014, Apio shipped approximately twenty-nine million cartons of produce to its customers throughout North America, primarily in the United States.

Most vegetable products packaged in our BreatheWay packaging have 17 to 20 days of shelf life. In addition to packaging innovation, Landec's Apio food business develops innovative blends and combinations of vegetables that are sold in flexible film bags or rigid trays. More recently, the Company has launched a family of salad kits that are comprised of "superfood" mixtures of vegetables with healthy toppings/dressings. The launch of the first of these products called Sweet Kale Salad has broken all of Apio's records for speed of adoption with weekly sales of well over $1 million as of May 2014. Additionally, we have launched several other superfood salad kits including Ginger Bok Choy, Apple Fennel, Kale and Chard Stir Fry and Shanghai Stir Fry, as examples. The Company's expertise includes accessing leading culinary experts and nutritionists nationally to help in the new product development process. We believe that our new products are "on trend" and strong market acceptance supports this belief. Recent statistics show that 39% of Americans are obese and 23% of Americans have diabetes. More and more consumers are beginning to make better food choices in their schools, homes and in restaurants and that is where our superfood products can fit into consumers daily healthy food choices.

In addition to proprietary packaging technology and a strong new product development pipeline, the Company has strong channels of distribution throughout North America with retail grocery store chains and club stores. Landec has one or more of its products in over 70% of all retail and club store sites in North America giving us a strong platform for introducing new products.

The Company sells its products under the nationally-known brands EatSmart® and GreenLine®. The Company also periodically licenses its BreatheWay packaging technology to partners such as Chiquita for packaging bananas and to Windset for packaging peppers and cucumbers that are grown hydroponically in greenhouses. The Company is engaged in the testing and development of other BreatheWay products. These packaging license relationships generate revenues either from product sales or royalties once commercialized.

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Apio Business Model

Landec is working with leaders in club stores, retail grocery chains and food service customers. The Company thinks it will have growth opportunities for the next several years through new customers and the introduction of innovative products in the United States, expansion of its existing customer relationships, and export and shipment of specialty packaged produce.

Landec manufactures its BreatheWay packaging through selected qualified contract manufacturers. In addition to using BreatheWay packaging for its value-added produce business, the Company markets and sells BreatheWay packaging directly to select partner food distributors.

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

Value-Added Supplier: Apio has structured its business as a marketer and seller of branded and private label fresh-cut and whole value-added produce. It is focused on selling products under its Eat Smart and GreenLine brands and private label brands for its fresh-cut and whole value-added products. As retail grocery chains, club stores and food service operators 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 during certain times of the year, enters into joint ventures with growers for produce. The year-round sourcing of produce is a key component to the fresh-cut and whole value-added processing business.

Access to Customer Base: Apio has strategically invested in the rapidly growing fresh-cut and whole value-added business. Apio's value-added processing plant in Guadalupe, CA, is automated with state-of-the-art vegetable processing equipment. Apio operates one large central processing facility in one of the lowest cost growing regions in California, the Santa Maria Valley, and for the majority of its non-green bean vegetable business, uses its packaging technology for nationwide delivery. With the acquisition of GreenLine, Apio now has three East Coast processing facilities and five East Coast distribution centers for nationwide delivery of green beans and recently Apio began processing non-green bean products in one of our East Coast processing facilities to meet the next-day delivery needs of customers.

Expanded Product Line Using Technology and Unique Blends: Apio, through the use of its BreatheWay packaging technology, is introducing new value-added products each year. These new product offerings range from various sizes of fresh-cut bagged products, to vegetable trays, to whole produce, to vegetable salads and to snack packs. During the last twelve months, Apio has introduced eleven new unique products.

Products Currently in Over 70% of U.S. Retail Grocery Stores: With the acquisition of GreenLine, Apio now has products in over 70% of all U.S. retail grocery stores. This gives Apio the opportunity to cross sell Eat Smart value-added products to GreenLine customers and GreenLine value-added products to Eat Smart customers.

Windset

On February 15, 2011, Apio entered into a share purchase agreement (the "Purchase Agreement") with Windset. Pursuant to the Purchase Agreement, Apio purchased 150,000 senior preferred shares for $15 million and 201 common shares for $201 (the "Purchased Shares"). The Company's common shares represent a 20.1% interest in Windset. The non-voting senior preferred shares yield a cash dividend of 7.5% annually. The dividend is payable within 90 days of each anniversary of the execution of the Purchase Agreement. The Purchase Agreement includes a put and call option, which can be exercised on the sixth anniversary of the Purchase Agreement whereby Apio can exercise the put to sell its Purchased Shares to Windset, or Windset can exercise the call to purchase the Purchased Shares from Apio, in either case, at a price equal to 20.1% of the appreciation in the fair market value of Windset from the date of the Company's investment through the put/call date, plus the purchase price of the Purchased Shares. Under the terms of the arrangement with Windset, the Company is entitled to designate one of five members on the Board of Directors of Windset. On July 15, 2014, the Company purchased an additional 6.8% of Windset common stock and 8.5% of Windset's outstanding junior preferred stock for an aggregate price of $11.0 million increasing its ownership to 26.9% of Windset's common stock.

The Company thinks that hydroponically grown produce using Windset's know-how and growing practices will result in higher yields with competitive growing costs that will provide dependable year round supply to Windset's customers. In addition, the produce grown in Windset's greenhouses has a very high safety profile as no soil is used in the growing process. Windset owns and operates greenhouses in British Columbia, Canada and in Nevada and California. In addition to growing produce in their own greenhouses, Windset has numerous marketing arrangements with other greenhouse growers and utilizes buy/sell arrangements to meet fluctuation in demand from their customers.

B) Food Export Business

Food Export revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia through Apio's export company, Cal-Ex. The Food Export business is a commission-based buy/sell business that realizes a gross margin in the 5-8% range.

The Food Export business had revenues of $70 million for the fiscal year ended May 25, 2014, $79 million for the fiscal year ended May 26, 2013 and $71 million for the fiscal year ended May 27, 2012.

Apio is strategically positioned with Cal-Ex to benefit from the growing population and wealth in Asia and other parts of the world over the next decade. Through Cal-Ex, Apio is currently one of the largest U.S. exporters of broccoli to Asia. Other large export items include apples, grapes, stonefruit and citrus.

C) HA-based Biomaterials

Our HA-based Biomaterials business operates through our Lifecore subsidiary. Lifecore had revenues of $46 million for the fiscal year ended May 25, 2014, $41 million for the fiscal year ended May 26, 2013 and $34 million for the fiscal year ended May 27, 2012.

Lifecore operates our medical materials business and is principally involved in the manufacture of pharmaceutical-grade sodium hyaluronate products in the form of injectable products for ophthalmologic and orthopedic applications. There is now a greater percentage of Americans age 65 and older than at any other time in U.S. history and currently over 40 million Americans are 65 years of age or older and this trend is going to accelerate dramatically over the upcoming years. As our population ages, eye surgeries such as cataract surgeries, are going to increase. Additionally, patients will seek joint therapy as cartilage and soft tissue deteriorates. HA injections are a primary course of treatment and Lifecore has built a leadership position in the markets it serves. It is estimated that there will be 22 million cataract surgeries in 2014 worldwide. Lifecore's expertise includes its ability to ferment, separate, purify, and aseptically fill HA for injectable product use. In addition to ophthalmic and orthopedic uses, veterinary medicine is another application for Lifecore's HA. Lifecore leverages its fermentation process to manufacture premium, pharmaceutical-grade HA and uses its aseptic filling capabilities to also deliver private-labeled HA finished products to its customers. Lifecore sells its products through partners in the U.S., Europe and South America. Lifecore has built its reputation as a premium supplier of HA.

Lifecore's products are primarily sold to strategic marketing partners for use in three medical areas: (1) Ophthalmic, (2) Orthopedic and (3) Veterinary. In addition, Lifecore provides product development services to its partners for HA-based, as well as non-HA based, fermented products and aseptically formulated products. These services include activities such as tech transfer, material component changes, analytical method development, pilot studies, stability studies, process validation, and clinical production.

By leveraging its fermentation process and aseptic formulation and filling expertise, Lifecore has become a leader in the supply of HA-based products for multiple applications, and has taken advantage of non-HA device and drug opportunities by leveraging its expertise in manufacturing and aseptic syringe filling capabilities. Elements of Lifecore's strategy include the following:

- *Establish strategic relationships with market leaders.* Lifecore will continue to develop applications for products with partners who have strong marketing, sales and distribution capabilities to end-user markets. Through its strong reputation and history of providing pharmaceutical grade HA and products, Lifecore has been able to establish long-term relationships with the market leading ophthalmic surgical companies, and leverages those partnerships to attract new relationships in other medical markets.

- *Expand medical applications for HA.* Due to the growing knowledge of the unique characteristics of HA, and the role it plays in normal physiology, Lifecore continues to identify and pursue opportunities for the use of HA in other medical applications, such as wound care, aesthetic surgery, drug delivery, device coatings and through pharmaceutical sales to academic and corporate research customers. As part of this effort, Lifecore continues to explore applications for its Corgel® Biohydrogel technology licensed from the Cleveland Clinic Foundation. Further applications may involve expanding process development activity and/or additional licensing of technology.

• *Utilize manufacturing infrastructure to pursue contract aseptic filling and fermentation opportunities.* Lifecore has made strategic capital investments in its contract manufacturing and development business focusing on extending its aseptic filling capacity and capabilities. It is investing in this segment to meet increasing partner demand and attract new contract filling opportunities. Lifecore is using its manufacturing capabilities to provide contract manufacturing and development services to its partners in the area of sterile pre-filled syringes and fermentation and purification requirements.

• *Maintain flexibility in product development and supply relationships.* Lifecore's vertically integrated development and manufacturing capabilities allow it to establish a variety of contractual relationships with global corporate partners. Lifecore's role in these relationships extends from supplying HA raw materials to providing tech transfer and development services to manufacturing aseptically-packaged, finished sterile products and to assuming full supply chain responsibilities.

Trademarks/Trade names

Intelimer®, Landec®, Apio™, Eat Smart®, BreatheWay®, GreenLine®, Clearly Fresh™, Lifecore®, LUROCOAT® and Ortholure™ are some of the trademarks or registered trademarks and trade names of the Company in the United States and other countries. This Annual Report on Form 10-K also refers to the trademarks of other companies.

Sales and Marketing

Apio is supported by dedicated sales and marketing resources. Apio has 36 sales and marketing employees, located in central California and throughout the U.S., supporting the Food Products Technology business and the Food Export business. During fiscal years 2014, 2013 and 2012, sales to the Company's top five customers accounted for approximately 42%, 40% and 45%, respectively, of its revenues, with the top two customers, both from the Food Products Technology segment, Costco Wholesale Corporation which accounted for approximately 21%, 16%, and 17%, respectively, and Wal-mart, Inc. which accounted for approximately 11%, 13%, and 11%, respectively, of the Company's revenues. A loss of either of these customers would have a material adverse effect on the Company's business.

Lifecore sells products to partners under supply agreements and also through distribution agreements. Excluding research sales, Lifecore does not sell to end users and, therefore, does not have the traditional infrastructure of a dedicated sales force and marketing employees and its name recognition allows Lifecore to attract new customers and offer its services with a minimal marketing and sales infrastructure.

Seasonality

Apio's sales are seasonal. The Food Products Technology business can be affected by seasonal weather factors, such as the high cost of sourcing product due to a shortage of essential value-added produce items, which have impacted quarterly results in the past. The Food Export business also typically recognizes a much higher percentage of its revenues and profit during the first half of Landec's fiscal year compared to the second half. Lifecore's business is not significantly affected by seasonality.

Manufacturing and Processing

Food Products Technology Business

The manufacturing process for the Company's proprietary BreatheWay packaging products is comprised of polymer manufacturing, membrane manufacturing and label package conversion. A third party toll manufacturer currently makes virtually all of the polymers for the BreatheWay packaging system. Select outside contractors currently manufacture the breathable membranes, and Landec has transitioned virtually all of the label package conversion to Apio's Guadalupe facility to meet the increasing product demand and to provide additional developmental capabilities.

Apio processes virtually all of its fresh-cut, value-added non-green bean products in its processing facility located in Guadalupe, California. Cooling of produce is done through third parties and Apio Cooling LP, a separate consolidated subsidiary in which Apio has a 60% ownership interest and is the general partner.

Apio processes its fresh-cut, value-added green bean products, acquired with the acquisition of GreenLine in April 2012, in four processing plants located in Guadalupe, California; Bowling Green, Ohio; Hanover, Pennsylvania; and Vero Beach, Florida.

Hyaluronan-based Biomaterials Business

The commercial production of HA by Lifecore requires fermentation, separation and purification capabilities. Products are supplied in a variety of bulk and single dose configurations.

Lifecore produces its HA through a bacterial fermentation process. Medical grade HA was initially commercially available only through an extraction process from rooster combs. Lifecore believes that the fermentation manufacturing approach is superior to rooster comb extraction because of greater efficiency and flexibility, a more favorable long-term regulatory environment, and better economies of scale in producing large commercial quantities. Today’s HA competitors are primarily utilizing a fermentation process.

Lifecore’s 114,000 square foot facility in Chaska, Minnesota is used primarily for the HA manufacturing process, formulation and aseptic syringe and bulk filling. The Company considers that the current inventory on-hand, together with its manufacturing capacity, will be sufficient to allow it to meet the needs of its current customers for the foreseeable future.

Lifecore provides versatility in the manufacturing of various types of finished products. It supplies several different forms of HA in a variety of molecular weight fractions as powders, solutions and gels, and in a variety of bulk and single-use finished packages. Lifecore continues to conduct development work designed to improve production efficiencies and expand its capabilities to achieve a wider range of HA product specifications in order to address the broadening opportunities for using HA in medical applications.

The FDA inspects the Company’s manufacturing systems periodically and requires compliance with the FDA’s Quality System Regulation (“QSR”). In addition, Lifecore’s customers conduct intensive quality audits of the facility and its operations. Lifecore also periodically contracts with independent regulatory consultants to conduct audits of its operations. Similar to other manufacturers subject to regulatory and customer specific requirements, Lifecore’s facility was designed to meet applicable regulatory requirements and has been cleared for the manufacturing of both device and pharmaceutical products. The Company maintains a Quality System which complies with applicable standards and regulations: FDA Medical Device Quality System requirements (21 CFR 820); FDA Drug Good Manufacturing Practices (21 CFR 210-211); European Union Good Manufacturing Practices (EudraLex Volume 4); Medical Device Quality Management System (ISO 13485); European Medical Device Directive; Canadian Medical Device Regulations; International Guide for Active Pharmaceutical Ingredients (ICH Q7), and Australian Therapeutic Goods Regulations). Compliance with these international standards of quality greatly assists in the marketing of Lifecore’s products globally.

General

Several of the raw materials used in manufacturing certain of the Company’s products are currently purchased from a single source. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products, no assurance can be given that interruptions in supplies will not occur in the future, that the Company will be able to obtain substitute vendors, or that the Company will be able to procure comparable materials at similar prices and terms within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company’s ability to manufacture and distribute its products and, consequently, could materially and adversely affect the Company’s business, operating results and financial condition.

Research and Development

Landec is focusing its research and development resources on both existing and new product applications. Expenditures for research and development for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012 were $7.2 million, $9.3 million and $9.6 million, respectively. Research and development expenditures funded by corporate or governmental partners were zero during fiscal year 2014, $688,000 during fiscal year 2013 and zero in fiscal year 2012. The Company may seek funds for applied materials research programs from U.S. government agencies as well as from commercial entities. The Company anticipates that it will continue to incur significant research and development expenditures in order to maintain its competitive position with a continuing flow of innovative, high-quality products and services. As of May 25, 2014, Landec had 61 employees engaged in research and development with experience in polymer and analytical chemistry, product application, product formulation, and mechanical and chemical engineering.

Competition

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

Patents and Proprietary Rights

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has had 43 U.S. patents issued of which 28 remain active as of May 25, 2014 with expiration dates ranging from 2014 to 2028. There can be no assurance that any of the pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or design around the Company's patents. Any of the foregoing results could have a material adverse effect on the Company's business, operating results and financial condition.

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

Government Regulation

Government regulation in the United States and other countries is a significant factor in the marketing of certain of the Company’s products and in the Company’s ongoing research and development activities. Some of the Company’s products are subject to extensive and rigorous regulation by the FDA, which regulates some of the products as medical devices and which, in some cases, requires Pre-Market Approval (“PMA”), and by foreign countries, which regulate some of the products as medical devices or drugs. Under the Federal Food, Drug, and Cosmetic Act (“FDC Act”), the FDA regulates the clinical testing, manufacturing, labeling, distribution, sale and promotion of medical devices in the United States.

Other regulatory requirements are placed on the manufacture, processing, packaging, labeling, distribution, recordkeeping and reporting of a medical device and on the quality control procedures, such as the FDA’s device QSR regulations. Manufacturing facilities are subject to periodic inspections by the FDA to assure compliance with device QSR requirements, along with pre-approval inspection (PAI) for PMA product introduction. Lifecore’s facility is subject to inspections as both a device and a drug manufacturing operation. For PMA devices, the Company that owns the product submission is required to submit an annual report and to obtain approval of a PMA supplement for modifications to the device or its labeling. Other applicable FDA requirements include the medical device reporting (“MDR”) regulation, which requires that the Company provide information to the FDA regarding deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur.

Employees

As of May 25, 2014, Landec had 531 full-time employees, of whom 432 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 99 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in connection with the development, manufacturing and marketing of its products. None of Landec's employees is represented by a union, and Landec considers its relationship with its employees to be good.

Available Information

Landec’s website is http://www.landec.com. Landec makes available free of charge its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the SEC. Information contained on our website is not part of this Report.

Item 1A. ***Risk Factors***

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 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.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect the Company’s operations, profitability or reputation.

We are committed to maintaining high standards of internal control over financial reporting and disclosure controls and procedures. Nevertheless, lapses or deficiencies in disclosure controls and procedures or in our internal control over financial reporting may occur from time to time. On January 2, 2013, we reported that our audit committee reached a determination to restate our previously-filed interim financial statements for the quarter ended August 26, 2012 and that our previously-filed interim financial statements for the quarter ended August 26, 2012 should not be relied upon. We also reported management’s determination that a material weakness existed in our internal control over financial reporting at August 26, 2012. As a result of the material weakness, management also concluded that our disclosure controls and procedures were not effective at August 26, 2012.

There can be no assurance that our disclosure controls and procedures will be effective in preventing a material weakness or significant deficiency in internal control over financial reporting from occurring in the future. Any such lapses or deficiencies may materially and adversely affect our business and results of operations or financial condition, restrict our ability to access the capital markets, require us to expend resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, harm our reputation, or otherwise cause a decline in investor confidence.

Adverse Weather Conditions and Other Acts of God May Cause Substantial Decreases in Our Sales and/or Increases in Our Costs

Our Food Products Technology business is subject to weather conditions that affect commodity prices, crop quality and yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as unexpected or excessive rain or other precipitation, unseasonable temperature fluctuations, floods, droughts, frosts, windstorms, earthquakes 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. In fiscal year 2014, the Company’s operating income was negatively impacted by approximately $9.3 million in operational variances driven from produce quality and yield issues, higher labor costs and lower processing yields in the Food Products Technology business. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines reflecting production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

The Global Economy is Experiencing Continued Volatility, Which May Have an Adverse Effect on Our Business

In recent years, the U.S. and international economy and financial markets experienced a significant slowdown and volatility due to uncertainties related to the availability of credit, energy prices, difficulties in the banking and financial services sectors, softness in the housing market, diminished market liquidity, geopolitical conflicts, falling consumer confidence and high unemployment rates. Ongoing volatility in the economy and financial markets could further lead to reduced demand for our products, which in turn, would reduce our revenues and adversely affect our business, financial condition and results of operations. In particular, volatility in the global markets have resulted in softer demand and more conservative purchasing decisions by customers, including a tendency toward lower-priced products, which could negatively impact our revenues, gross margins and results of operations. In addition to a reduction in sales, our profitability may decrease because we may not be able to reduce costs at the same rate as our sales decline. We cannot predict the ultimate severity or length of the current period of volatility, whether the recent signs of economic recovery will prove sustainable, or the timing or severity of future economic or industry downturns.

Given the current uncertain economic environment, our customers, suppliers and partners may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to make timely payments to us. This may result in lower sales and/or inventory that may not be saleable or bad debt expense for Landec. In addition to the impact of the current market uncertainty on our customers, some of our vendors and growers may experience a reduction in their availability of funds and cash flows, which could negatively impact their business as well as ours. A further worsening of the economic environment or continued or increased volatility of the U.S. economy, including increased volatility in the credit markets, could adversely impact our customers' and vendors' ability or willingness to conduct business with us on the same terms or at the same levels as they have historically. Further, this economic volatility and uncertainty about future economic conditions makes it challenging for Landec to forecast its operating results, make business decisions, and identify the risks that may affect its business, sources and uses of cash, financial condition and results of operations.

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. Apio can be affected by seasonal and weather factors which have impacted our financial results due to a shortage of essential value-added produce items. In fiscal year 2014, operational variances driven from produce quality and yield issues, higher labor costs and lower processing yields in the Food Products Technology business had an approximate $9.3 million negative impact on our operating income. Our earnings may also fluctuate based on our ability to collect accounts receivable from customers and notes receivable from growers and on price fluctuations in the fresh vegetable and fruit markets. Other factors that affect our operations include:

the seasonality and availability 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 and timing 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.

Uncertainty Relating To Integration Of New Business Acquisitions.

The successful integration of new business acquisitions, including the GreenLine acquisition, may require substantial effort from the Company's management. The diversion of the attention of management and any difficulties encountered in the transition process could have a material adverse effect on the Company's ability to realize the anticipated benefits of the acquisitions. The successful combination of new businesses also requires coordination of research and development activities, manufacturing, and sales and marketing efforts. In addition, the process of combining organizations located in different regions of the United States could cause the interruption of, or a loss of momentum in, the Company's activities. There can be no assurance that the Company will be able to retain key management, technical, sales and customer support personnel, or that the Company will realize the anticipated benefits of any acquisitions, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

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

Our success in generating significant sales of our products depends in part on our ability 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,

regulatory approvals,

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 or our partners/customers are in the early stage of product commercialization of certain Intelimer-based specialty packaging, HA-based products and other Intelimer polymer products. We expect that our future growth will depend in large part on our or our partners/customers 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 companies will depend substantially on 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, industrial, medical and pharmaceutical 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 a Concentration of Manufacturing for Apio and Lifecore and May Have to Depend on Third Parties to Manufacture Our Products

Any disruptions in our primary manufacturing operation at Apio’s facilities in Guadalupe, California or Bowling Green, Ohio or Lifecore’s facility in Chaska, Minnesota 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 adversely 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. In addition, we may not be able to procure comparable materials 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, substrate materials for our breathable membrane products and raw materials for our HA products. 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 may receive notices from third parties, including some of our competitors, claiming infringement by our products of their patent and other proprietary rights. Regardless of their merit, responding to any such claim could be time-consuming, result in costly litigation and require us to enter royalty and licensing agreements which may not be offered or available on terms acceptable to us. If a successful claim is made against us and we fail to develop or license a substitute technology, we could be required to alter our products or processes and our business, results of operations or financial position could be materially adversely affected. 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 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 FDA 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 food packaging products are subject to regulation under the Food, Drug and Cosmetic Act (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. 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.

Our Food Products Technology business is subject to the Perishable Agricultural Commodities Act (“PACA”). PACA regulates fair trade standards in the fresh produce industry and governs all the products 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 effect on our business.

Lifecore’s existing products and its products under development are considered to be medical devices and therefore, require clearance or approval by the FDA before commercial sales can be made in the United States. The products also require the approval of foreign government agencies before sales may be made in many other countries. The process of obtaining these clearances or approvals varies according to the nature and use of the product. It can involve lengthy and detailed safety, efficacy and clinical studies, as well as extensive site inspections and lengthy regulatory agency reviews. There can be no assurance that any of the Company’s clinical studies will show safety or effectiveness; that any of the Company’s products that require FDA clearance or appoval will obtain such clearance or approval on a timely basis, on terms acceptable to the Company for the purpose of actually marketing the products, or at all; or that following any such clearance or approval previously unknown problems will not result in restrictions on the marketing of the products or withdrawal of clearance or approval.

In addition, most of the existing products being sold by Lifecore and its customers are subject to continued regulation by the FDA, various state agencies and foreign regulatory agencies which regulate manufacturing, labeling and record keeping procedures for such products. Marketing clearances or approvals by these agencies can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. These agencies can also limit or prevent the manufacture or distribution of Lifecore’s products. A determination that Lifecore is in violation of such regulations could lead to the imposition of civil penalties, including fines, product recalls or product seizures, injunctions, and, in extreme cases, criminal sanctions.

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.

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 such 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. 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.

Our International Sales May Expose Our Business to Additional Risks

For fiscal year 2014, approximately 29% 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 in 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 fiscal year 2014, sales to our top five customers accounted for approximately 42% of our revenues, with our two largest customers from our Food Products Technology segment, Costco Wholesale Corporation and Wal-mart, Inc. accounting for approximately 21% and 11%, respectively, 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 revenues. We may experience changes in the composition of our customer base as we have experienced in the past. 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 and Lifecore are sole sourced to 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 involve 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. Such events 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 consider to be appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance. While we think the coverage and limits are consistent with industry standards, 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 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.

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 undocumented workers 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 on 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 for an extended period would likely harm our business. In addition, competition for senior level personnel with knowledge and experience in our different lines 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

The issuance of 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 dividends on our Common Stock since inception and do not expect to in the foreseeable future. Any dividends may be subject to preferential dividends payable on any preferred stock we may issue.

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. In accordance with accounting guidance, 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 reported profitability.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of May 25, 2014, the Company owned or leased properties in Menlo Park and Arroyo Grande, Guadalupe California; Chaska, Minnesota; Bowling Green, Perrysburg and McClure, Ohio; Hanover, Pennsylvania; Vero Beach, Florida; Rock Hill, South Carolina and Rock Tavern, New York.

These properties are described below:

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Menlo Park, CA	Corporate	Leased	14,600 square feet of office and laboratory space	—	12/31/16
Chaska, MN	HA-based Biomaterials	Owned	114,000 square feet of office, laboratory and manufacturing space	27.5	—
Guadalupe, CA..........	Food Products Technology	Owned	199,000 square feet of office space, manufacturing and cold storage	17.7	—
Bowling Green, OH ...	Food Products Technology	Owned	55,900 square feet of office space, manufacturing and cold storage	7.7	—
Hanover, PA..............	Food Products Technology	Owned	18,700 square feet of office space, manufacturing and cold storage	15.3	—
Vero Beach, FL	Food Products Technology	Leased	9,200 square feet of office space, manufacturing and cold storage	—	12/31/14
Rock Hill, SC	Food Products Technology	Owned	16,400 square feet of cold storage and office space	3.6	—
Rock Tavern, NY	Food Products Technology	Leased	7,700 square feet of cold storage and office space	—	8/23/23
McClure, OH.............	Food Products Technology	Leased	Farm land	185	12/31/14
Perrysburg, OH	Food Products Technology	Leased	9,000 square feet of office space	—	10/31/14
Guadalupe, CA..........	Food Products Technology	Leased	105,000 square feet of parking space	2.4	9/30/18
Guadalupe, CA..........	Food Products Technology	Leased	5,300 square feet of office space	—	5/31/17
Arroyo Grande, CA....	Food Export	Leased	1,100 square feet of office space	—	Month-to-Month

The obligations of the Company under its credit agreement with BMO Harris Bank N.A. (“BMO Harris”) are secured by a lien on the Chaska, MN land and building. The obligations of the Company under its credit agreement with General Electric Capital Corporation (“General Electric”) are secured by a lien on all of the land and buildings of the Food Products Technology segment.

Item 3. ***Legal Proceedings***

As of the date of this report, the Company is not a party to any legal proceedings.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

The Common Stock is traded on The NASDAQ Global Select Market under the symbol "LNDC". The following table sets forth for each period indicated the high and low sales prices for the Common Stock.

Fiscal Year Ended May 25, 2014	High	Low
4th Quarter ending May 25, 2014	$ 12.16	$ 10.19
3rd Quarter ending February 23, 2014	$ 12.62	$ 10.08
2nd Quarter ending November 24, 2013	$ 13.57	$ 11.34
1st Quarter ending August 25, 2013	$ 15.82	$ 13.21

Fiscal Year Ended May 26, 2013	High	Low
4th Quarter ending May 26, 2013	$ 14.66	$ 10.48
3rd Quarter ending February 24, 2013	$ 12.87	$ 9.15
2nd Quarter ending November 25, 2012	$ 12.20	$ 8.86
1st Quarter ending August 26, 2012	$ 9.96	$ 6.72

Holders

There were approximately 57 holders of record of 26,839,725 shares of outstanding Common Stock as of July 18, 2014. Since certain holders are listed under their brokerage firm's names, the actual number of stockholders is higher.

Dividends

The Company has not paid any dividends on the Common Stock since its inception. The Company presently intends to retain all future earnings, if any, for its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Issuer Purchases of Equity Securities

There were no shares repurchased by the Company during fiscal years 2014 or 2013. The Company may still repurchase up to $3.8 million of the Company's Common Stock under the Company's stock repurchase plan announced on July 14, 2010.

Item 6. ***Selected Financial Data***

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

	Year Ended May 25, 2014	Year Ended May 26, 2013	Year Ended May 27, 2012	Year Ended May 29, 2011	Year Ended May 30, 2010
Statement of Income Data: (in thousands)					
Product sales	476,813	441,708	317,552	276,729	238,224
Cost of product sales	414,249	378,948	265,414	230,034	204,458
Gross profit	62,564	62,760	52,138	46,695	33,766
Operating costs and expenses:					
Research and development	7,204	9,294	9,625	9,275	4,361
Selling, general and administrative	35,170	32,531	26,515	24,608	17,698
Other operating (income)/expenses	—	(3,933)	1,421	4,780	3,725
Total operating costs and expenses	42,374	37,892	37,561	38,663	25,784
Operating profit	20,190	24,868	14,577	8,032	7,982
Dividend income	1,125	1,125	1,125	328	—
Interest income	260	179	180	430	834
Interest expense and other	(1,650)	(2,008)	(929)	(820)	(88)
Other income	10,000	8,100	5,331	472	—
Net income before taxes	29,925	32,264	20,284	8,442	8,728
Income tax expense	(10,583)	(9,452)	(7,185)	(4,181)	(4,262)
Consolidated net income	19,342	22,812	13,099	4,261	4,466
Non-controlling interest	(197)	(225)	(403)	(341)	(482)
Net income applicable to common stockholders	$ 19,145	$ 22,587	$ 12,696	$ 3,920	$ 3,984
Basic net income per share	$ 0.72	$ 0.87	$ 0.49	$ 0.15	$ 0.15
Diluted net income per share	$ 0.71	$ 0.85	$ 0.49	$ 0.15	$ 0.15
Shares used in per share computation:					
Basic	26,628	25,830	25,849	26,397	26,382
Diluted	27,120	26,626	26,126	26,626	26,633
	May 25, 2014	May 26, 2013	May 27, 2012	May 29, 2011	May 30, 2010
Balance Sheet Data: (in thousands)					
Cash and cash equivalents	$ 14,243	$ 13,718	$ 22,177	$ 8,135	$ 27,817
Total assets	313,623	290,942	277,692	206,312	200,197
Long-term debt	34,372	40,305	47,317	19,830	23,770
Retained earnings	71,554	52,409	29,822	17,126	13,206
Total stockholders' equity	$ 203,069	$ 178,693	$ 149,742	$ 136,055	$ 130,784

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements contained in Item 8 of this report. Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities 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 in Item 1A. "Risk Factors." 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.

Overview

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell differentiated products for food and biomaterials markets and license technology applications to partners. The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) hyaluronan ("HA") biopolymers. The Company's HA biopolymers are proprietary in that they are specially formulated for specific customers to meet strict regulatory requirements. The Company's polymer technologies, along with its customer relationships and trade names, are the foundation, and a key differentiating advantage upon which Landec has built its business. The Company sells specialty packaged branded Eat Smart and GreenLine and private label fresh-cut vegetables and whole produce to retailers, club stores and foodservice operators, primarily in the United States, Canada and Asia through its Apio, Inc. ("Apio") subsidiary and sells HA-based biomaterials through its Lifecore Biomedical, Inc. ("Lifecore") subsidiary.

Landec has three core businesses – Food Products Technology, Food Export, and HA-based Biomaterials. The Food Products Technology segment combines the Company's BreatheWay packaging technology with Apio's branded Eat Smart and GreenLine and private label fresh-cut and whole produce business. The Food Export business is operated through Apio's Cal-Ex export company which purchases and sells whole fruit and vegetable products to predominantly Asian markets. The HA-based Biomaterials business sells products utilizing HA in the ophthalmic, orthopedic and veterinary segments and also supplies HA to customers pursuing other medical applications, such as aesthetic surgery, medical device coatings, tissue engineering and pharmaceuticals. See "Business - Description of Core Business".

As of May 25, 2014, the Company's retained earnings were $72 million. The Company may incur losses in the future. The amount of future net profits, if any, is uncertain and there can be no assurance that the Company will be able to sustain profitability in future years.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most significant and subjective judgments include revenue recognition; sales returns and allowances; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived assets; the valuation of intangible assets and inventory; the valuation of investments; and the valuation and recognition of stock-based compensation.

These estimates involve the consideration of complex factors and require management to make judgments. The analysis of historical and future trends can require extended periods of time to resolve, and are subject to change from period to period. The actual results may differ from management's estimates.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on review of the overall condition of accounts receivable balances and review of significant past due accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

Inventories are stated at the lower of cost or market. If the cost of the inventories exceeds their expected market value, provisions are recorded currently for the difference between the cost and the market value. These provisions are determined based on specific identification for unusable inventory and an additional reserve, based on historical losses, for inventory currently considered to be usable.

Revenue Recognition

Revenue from product sales is recognized when there is persuasive evidence that an arrangement exists, title has transferred, the price is fixed and determinable, and collectability is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts based on specific identification and historical losses.

Apio's Food Products Technology revenues generally consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are generally washed and packaged in our proprietary packaging and sold under Apio's Eat Smart and GreenLine brands and various private labels. Revenue is generally recognized upon shipment of these products to customers. The Company takes title to all produce it trades and/or packages, and therefore, records revenues and cost of sales at gross amounts in the Consolidated Statements of Comprehensive Income

In addition, Food Products Technology value-added revenues include the revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position and from the sale of BreatheWay packaging to license partners. Revenue is recognized on the vegetable cooling operations as cooling and storage services are provided to our customers. Sales of BreatheWay packaging are recognized when shipped to our customers.

Apio's Food Export revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia by Cal-Ex. As most Cal-Ex customers are in countries outside of the U.S., title transfers and revenue is generally recognized upon arrival of the shipment in the foreign port. Apio records revenue equal to the sale price to third parties because it takes title to the product while in transit.

Our HA-based Biomaterials business principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 60% of Lifecore's revenues in fiscal year 2014, (2) Orthopedic, which represented approximately 20% of Lifecore's revenues in fiscal year 2014 and (3) Veterinary/Other. The vast majority of revenues from our HA-based Biomaterials business are recognized upon shipment.

A small amount of revenues from our HA-based Biomaterials business is related to contract research and development (R&D) services and multi-element arrangement services with customers where we provide products and/or services in a bundled arrangement.

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

For sales arrangements that contain multiple elements, the Company splits the arrangement into separate units of accounting if the individually delivered elements have value to the customer on a standalone basis. The Company also evaluates whether multiple transactions with the same customer or related party should be considered part of a multiple element arrangement, whereby the Company assesses, among other factors, whether the contracts or agreements are negotiated or executed within a short time frame of each other or if there are indicators that the contracts are negotiated in contemplation of each other. The Company then allocates revenue to each element based on a selling price hierarchy. The relative selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if VSOE is not available, or estimated selling price, if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition. The Company is not typically able to determine VSOE or TPE, and therefore, uses estimated selling prices to allocate revenue between the elements of the arrangement.

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or future performance obligations or subject to customer-specific cancellation rights. The Company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value, and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by the Company. The Company considers a deliverable to have stand-alone value if the product or service is sold separately by the Company or another vendor or could be resold by the customer. Further, the revenue arrangements generally do not include a general right of return relative to the delivered products. Where the aforementioned criteria for a separate unit of accounting are not met, the deliverable is combined with the undelivered element(s) and treated as a single unit of accounting for the purposes of allocation of the arrangement consideration and revenue recognition. The Company allocates the total arrangement consideration to each separable element of an arrangement based upon the relative selling price of each element. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price. In instances where the Company has not established fair value for any undelivered element, revenue for all elements is deferred until delivery of the final element is completed and all recognition criteria are met.

Licensing revenue is recognized in accordance with prevailing accounting guidance. Initial license fees are deferred and amortized to revenue over the period of the agreement when a contract exists, the fee is fixed and determinable, and collectability is reasonably assured. Noncancellable, nonrefundable license fees are recognized over the period of the agreement, including those governing research and development activities and any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement.

From time to time, the Company offers customers sales incentives, which include volume rebates and discounts. These amounts are estimated on a quarterly basis and recorded as a reduction of revenue.

A summary of revenues by type of revenue arrangement as described above is as follows (in thousands):

	Year ended May 25, 2014	Year ended May 26, 2013
Recorded upon shipment	$ 398,938	$ 359,518
Recorded upon acceptance in foreign port	69,710	78,442
Revenue from license fees, R&D contracts and royalties/profit sharing	1,354	1,975
Revenue from multiple element arrangements	6,811	1,773
TOTAL	$ 476,813	$ 441,708

Goodwill and Other Intangibles

The Company's intangible assets are comprised of customer relationships with an estimated useful life of twelve to thirteen years and trademarks/trade names and goodwill with indefinite lives (collectively, "intangible assets"), which the Company recognized in accordance with accounting guidance (i) upon the acquisition of GreenLine by Apio in April 2012, (ii) upon the acquisition of Lifecore in April 2010 and (iii) upon the acquisition of Apio in December 1999. Accounting guidance defines goodwill as "the excess of the cost of an acquired entity over the net of the estimated fair values of the assets acquired and the liabilities assumed at date of acquisition." All intangible assets, including goodwill, associated with the acquisition of Lifecore was allocated to our HA-based Biomaterials reporting unit and the acquisitions of Apio and GreenLine were allocated to our Food Products Technology reporting unit pursuant to accounting guidance based upon the allocation of assets and liabilities acquired and consideration paid for each reporting unit. As of May 25, 2014, the HA-based Biomaterials reporting unit had $13.9 million of goodwill and the Food Products Technology reporting unit had $35.7 million of goodwill.

The Company tests its indefinite-lived intangible assets for impairment at least annually, in accordance with accounting guidance. For non-goodwill indefinite-lived assets, the Company performs a qualitative analysis in accordance with ASC 350-30-35. For goodwill, the Company performs a quantitative analysis in accordance with ASC 350-20-35.

Application of the impairment tests for indefinite-lived intangible assets requires significant judgment by management, including identification of reporting units, assignment of assets and liabilities to reporting units, assignment of intangible assets to reporting units, and the determination of the fair value of each indefinite-lived intangible asset and reporting unit based upon projections of future net cash flows, discount rates and market multiples, which judgments and projections are inherently uncertain.

During the fiscal quarter ended February 23, 2014, the Company voluntarily changed the date of its annual goodwill and indefinite-lived intangible assets impairment testing from the last day of the fiscal month in July to the first day of the fiscal fourth quarter. This voluntary change is preferable under the circumstances as it provides the Company with additional time to complete its annual goodwill and indefinite-lived intangible asset impairment testing in advance of its year-end reporting and results in better alignment with the Company's strategic planning and forecasting process. The voluntary change in accounting principle related to the annual testing date will not delay, accelerate, or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

The Company tested its indefinite-lived intangible assets for impairment as of February 24, 2014 and determined that no adjustments to the carrying values of these assets were necessary as of that date. On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its indefinite-lived intangible assets, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the indefinite-lived intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of these assets in the current period.

The Company uses the discounted cash flow ("DCF") approach to develop an estimate of fair value for goodwill. The DCF approach recognizes that current value is premised on the expected receipt of future economic benefits. Indications of value are developed by discounting projected future net cash flows to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The market approach is not used to value the Company's reporting units because insufficient market comparables exist to enable the Company to develop a reasonable fair value due to the unique nature of each of the Company's reporting units.

The DCF associated with the annual goodwill impairment analysis for the Food Products Technology reporting unit is based on management's five-year projection of revenues, gross profits and operating profits by fiscal year and assumes a 36% effective tax rate for each year. Management takes into account the historical trends of the Food Products Technology reporting unit and the industry categories in which it operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. The estimated fair value of the Food Products Technology reporting unit as of February 24, 2014 was 136% of its book value at that date, therefore, no goodwill impairment was deemed to exist. For the test performed as of July 21, 2013, the projected cash flow from operations for determining the DCF for fiscal year 2014 was $10.1 million for the Food Products Technology reporting unit. The actual cash flow from operations for fiscal year 2014 was $10.5 million.

The DCF associated with the annual goodwill impairment analysis for the HA-based Biomaterials reporting unit is based on management's five-year projections of revenues, gross profits and operating profits by fiscal year and assumes a 36% effective tax rate for each year. Management takes into account the historical trends of HA-based Biomaterials reporting unit and the industry categories in which it operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. The estimated fair value of the HA-based Biomaterials reporting unit as of February 24, 2014 was 176% of its book value at that date, therefore, no goodwill impairment was deemed to exist. For the test performed as of July 21, 2013, the projected cash flow from operations for determining the DCF for fiscal year 2014 was $6.3 million for the HA-based Biomaterials reporting unit. The actual cash flow from operations for fiscal year 2014 was $10.2 million. The difference of $3.9 million is primarily due to timing of working capital changes and lower than planned intercompany charges for income taxes.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. The Company maintains valuation allowances when it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the Company's income tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. At May 25, 2014, the Company had a valuation allowance of $881,000 against deferred tax assets.

In addition to valuation allowances, the Company establishes tax-contingency accruals for uncertain tax positions. The tax-contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company's effective tax rate includes the impact of tax-contingency accruals as considered appropriate by management.

A number of years may elapse before a particular matter, for which the Company has accrued, is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes its tax-contingency accruals are adequate to address known tax contingencies. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate. Any resolution of a tax issue may require the use of cash in the year of resolution. The Company's tax-contingency accruals are presented in the balance sheet within accrued liabilities.

Stock-Based Compensation

The Company's stock-based awards include stock option grants and restricted stock unit awards (RSUs).

The estimated fair value for stock options, which determines the Company's calculation of compensation expense, is based on the Black-Scholes pricing model. In addition, the accounting guidance requires the estimation of the expected forfeitures of stock-based awards at the time of grant. As a result, the Company uses historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest and revises those estimates in subsequent periods if the actual forfeitures differ from the prior estimates.

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. The Company has elected the fair value option for its investment in a non-public company (see Note 4 to the Consolidated Financial Statements). The Company has not elected the fair value option for any of its other eligible financial assets or liabilities.

The accounting guidance established a three-tier hierarchy for fair value measurements, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – observable inputs such as quoted prices for identical instruments in active markets.

Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

Level 3 – unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

As of May 25, 2014, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including cash equivalents, marketable securities, interest rate swap and its minority interest investment in Windset.

The fair value of the Company's marketable securities is determined based on observable inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized its marketable securities as a Level 1 measurement.

The fair value of the Company's interest rate swap is determined based on model inputs that can be observed in a liquid market, including yield curves, and is categorized as a Level 2 measurement.

The Company has elected the fair value option of accounting for its investment in Windset. The calculation of fair value utilizes significant unobservable inputs in the discounted cash flow models, including projected cash flows, growth rates and discount rates. As a result, the Company's investment in Windset is considered to be a Level 3 measurement investment. The change in the fair market value of the Company's investment in Windset for the fiscal years ended May 25, 2014 and May 26, 2013 was due to the Company's 20.1% minority interest in the change in the fair market value of Windset during those periods. In determining the fair value of the investment in Windset, the Company utilizes the following significant unobservable inputs in the discounted cash flow models:

	At May 25, 2014	At May 26, 2013
Annual consolidated revenue growth rates	4%	3% to 9%
Annual consolidated expense growth rates	4%	3% to 8%
Consolidated income tax rates	15%	15%
Consolidated discount rates	16% to 22%	18% to 28%

The revenue growth, expense growth and income tax rate assumptions, consider the Company's best estimate of the trends in those items over the discount period. The discount rate assumption takes into account the risk-free rate of return, the market equity risk premium and the company's specific risk premium and then applies an additional discount for lack of marketability of the underlying securities. The discounted cash flow valuation model used by the Company has the following sensitivity to changes in inputs and assumptions (in thousands):

	Impact on value of Windset investment as of May 25, 2014
10% increase in revenue growth rates	$ 3,200
10% increase in expense growth rates	$ (2,300)
10% increase in income tax rates	—
10% increase in discount rates	$ (1,500)

Imprecision in estimating unobservable market inputs can affect the amount of gain or loss recorded for a particular position. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes the fair value of the Company's assets and liabilities that are measured at fair value on a recurring basis, as of May 25, 2014 and May 26, 2013 (in thousands):

	Fair Value at May 25, 2014			Fair Value at May 26, 2013		
Assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Marketable securities	$ -	$ -	$ -	$ 1,545	$ -	$ -
Investment in private company	-	-	39,600	-	-	29,600
Total	$ -	$ -	$ 39,600	$ 1,545	$ -	$ 29,600
Liabilities:						
Interest rate swap...........................	-	44	-	-	163	-
Total	$ -	$ 44	$ -	$ -	$ 163	$ -

Financials

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a company's contracts with customers. ASU 2014-09 will be effective beginning the first quarter of the Company's fiscal year 2018 and early application is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. Management is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

Unrecognized Tax Benefits

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, related to the presentation of unrecognized tax benefits. The update requires presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward in the statement of financial position. The guidance does not apply to the extent that a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. The guidance is effective for fiscal years (and interim periods within those years) beginning after December 15, 2013, with early adoption permitted. The Company early adopted this standard in the first fiscal quarter of fiscal year 2014 and such adoption did not have a significant impact on the Company's Consolidated Financial Statements or disclosures.

Financials

Results of Operations

Fiscal Year Ended May 25, 2014 Compared to Fiscal Year Ended May 26, 2013

Revenues (in thousands):

	Fiscal Year ended May 25, 2014	Fiscal Year ended May 26, 2013	Change
Food Products Technology	$ 360,728	$ 320,447	13%
Food Export	69,827	78,568	(11%)
Total Apio	430,555	399,015	8%
HA-based Biomaterials	45,704	41,281	11%
Corporate	554	1,412	(61%)
Total Revenues	$ 476,813	$ 441,708	8%

Food Products Technology (Apio)

Apio's Food Products Technology revenues consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are washed and packaged in our proprietary packaging and sold under Apio's Eat Smart and GreenLine brands and various private labels. In addition, value-added revenues include the revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position, and from the sale of BreatheWay packaging to license partners.

The increase in Apio's Food Products Technology revenues for the fiscal year ended May 25, 2014 compared to the same period last year was primarily due to a 8% increase in unit volume sales resulting primarily from expanded product offerings and a 10% unit volume increase in the fresh-cut vegetable category, according to Nielsen, coupled with new product introductions which typically have a higher price per unit than historical offerings.

Food Export (Apio)

Apio's Food Export revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia by Cal-Ex. Apio records revenue equal to the sale price to third parties because it takes title to the product while in transit.

The decrease in revenues in Apio's Food Export business for the fiscal year ended May 25, 2014 compared to the same period last year was due to a 6% decrease in unit volume sales primarily as a result of new Indonesian import quotas on fruit coupled with a product mix change to lower priced export items compared to fiscal year 2013.

HA-based Biomaterials (Lifecore)

Lifecore principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 60% of Lifecore's revenues in fiscal year 2014, (2) Orthopedic, which represented approximately 20% of Lifecore's revenues in fiscal year 2014 and (3) Veterinary/Other.

The increase in Lifecore's revenues for fiscal year 2014 compared to the same period last year was due to a 32% increase in revenues in Lifecore's aseptic filling business from increased sales to existing customers partially offset by a 13% decrease in fermentation sales.

Corporate

Corporate revenues are generated from the licensing agreements with Air Products, Nitta and INCOTEC.

The decrease in Corporate revenues for fiscal year 2014 compared to the same period of last year was not significant.

Financials

Gross Profit (in thousands):

	Fiscal Year ended May 25, 2014	Fiscal Year ended May 26, 2013	Change
Food Products Technology	$ 36,318	$ 37,077	(2%)
Food Export	5,340	5,274	1%
Total Apio	41,658	42,351	(2%)
HA-based Biomaterials	20,456	19,102	7%
Corporate	450	1,307	(66%)
Total Gross Profit	$ 62,564	$ 62,760	0%

General

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sale discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the costs related to the sale of products in accordance with U.S. generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping-related costs. The following are the primary reasons for the changes in gross profit for the fiscal year ended May 25, 2014 compared to the same period last year as outlined in the table above.

Food Products Technology (Apio)

The decrease in gross profit for the Food Products Technology business for fiscal year 2014 compared to the same period last year was primarily due to much higher than expected operating costs including higher labor costs to meet higher than expected volumes and higher raw produce sourcing costs during primarily the first six months of fiscal year 2014 resulting from lower yields and poor quality due to a variety of factors, most importantly the heavy rains in the Midwest and along the East Coast and large temperatures swings in California throughout most of the year. The higher operating costs reduced Apio's gross profit by approximately $9.3 million during fiscal year 2014 which was partially offset by the gross profit generated from the 13% increase in revenues.

Food Export (Apio)

Apio's Food Export business is a buy/sell business that typically realizes a gross margin in the 5-8% range.

The increase in gross profit for Apio's Food Export business for fiscal year 2014 compared to the same period last year was primarily due to favorable product mix changes to higher margin products, primarily into Indonesia, which resulted in a higher gross margin percentage during fiscal year 2014 of 7.6% compared to a gross margin percentage of 6.7% during fiscal year 2013. The favorable product mix was offset by the decrease in gross profit resulting from an 11% decrease in revenues.

HA-based Biomaterials (Lifecore)

Lifecore operates in the medical devices industry and has historically realized an overall gross margin percentage of approximately 45-50%.

The increase in gross profit for fiscal year 2014 compared to the same period last year was due to an 11%, or $4.4 million increase in revenues resulting from the increased sales of both historical products and new products to existing customers. The increase in gross profit from higher revenues was partially offset by an unfavorable product mix change to higher sales of lower margin aseptically filled products from higher margin fermentation sales.

Corporate

The decrease in Corporate gross profit for fiscal year 2014 compared to the same period last year was not significant.

Financials

Operating Expenses (in thousands):

	Fiscal Year ended May 25, 2014	Fiscal Year ended May 26, 2013	Change
Research and Development:			
Apio	$ 1,105	$ 1,088	2%
Lifecore	4,739	4,930	(4%)
Corporate	1,360	3,276	(58%)
Total R&D	$ 7,204	$ 9,294	(22%)
Selling, General and Administrative:			
Apio	$ 22,860	$ 21,976	4%
Lifecore	4,251	4,595	(7%)
Corporate	8,059	5,960	35%
Total S,G&A	$ 35,170	$ 32,531	8%
Other operating expenses:			
Apio	$ —	$ (3,933)	N/M
Total Other Operating Expenses	$ —	$ (3,933)	N/M

Research and Development

Landec's research and development consisted primarily of product development and commercialization initiatives. Research and development efforts at Apio are focused on the Company's proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. In the Lifecore business, the research and development efforts are focused on new products and applications for HA-based biomaterials. For Corporate, the research and development efforts are focused on supporting the development and commercialization of new products and new technologies in our food and HA businesses along with developing uses for our proprietary Intelimer polymers outside of our food and HA businesses.

The decrease in research and development expenses for fiscal year 2014 compared to last year was primarily due to a decrease in Corporate R&D because of the Company transitioning away from R&D and licensing collaborations to maintain focus on R&D efforts at its core food and HA businesses.

Selling, General and Administrative (S,G&A)

Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses and staff and administrative expenses.

The increase in S,G&A expenses for fiscal year 2014 compared to the same period last year was primarily due to an increase in accounting and tax fees, public company costs and board of director fees in fiscal year 2014.

Other Operating Expenses

Other operating expenses in fiscal year 2013 consisted of a $3.9 million reversal of the earn-out liability at Apio associated with the GreenLine acquisition.

Non-operating income/(expense) (in thousands):

	Fiscal Year ended May 25, 2014	Fiscal Year ended May 26, 2013	Change
Dividend Income	$ 1,125	$ 1,125	—
Interest Income	$ 260	$ 179	45%
Interest Expense	$ (1,650)	$ (2,008)	(18%)
Other Income	$ 10,000	$ 8,100	23%
Income Taxes	$ (10,583)	$ (9,452)	12%
Non controlling Interest	$ (197)	$ (225)	(12%)

Dividend Income

Dividend income is derived from the dividends accrued on our $15 million preferred stock investment in Windset which yields a cash dividend of 7.5% annually. There was no change in dividend income in fiscal year 2014 compared to fiscal year 2013.

Interest Income

The increase in interest income for the fiscal year 2014 compared to the same period last year was not significant.

Interest Expense

The decrease in interest expense during fiscal year 2014 compared to the same period last year was due to the Company paying down its debt by $9.9 million during fiscal year 2014.

Other Income

The increase in other income for fiscal year 2014 compared to the same period last year is primarily due to the change in the fair market value of our Windset investment being $1.9 million higher in fiscal year 2014 compared to the increase in fiscal year 2013.

Income Taxes

The increase in the income tax expense for fiscal year 2014 was due to an increase in the effective tax rate for fiscal year 2014 to 36% compared to 30% in fiscal year 2013. The effective tax rates for last year was lower than this year as a result of the $3.9 million earn out adjustment last year which was not subject to income tax. The increase in income taxes due to the increase in the effective tax rate was partially offset by a 7% decrease in net income before taxes compared to the same period last year.

Non controlling Interest

The non controlling interest consists of the limited partners' equity interest in the net income of Apio Cooling, LP.

The decrease in non controlling interest for fiscal year 2014 compared to the same period last year was not significant.

Fiscal Year Ended May 27, 2013 Compared to Fiscal Year Ended May 27, 2012

Revenues (in thousands):

	Fiscal Year ended May 26, 2013	Fiscal Year ended May 27, 2012	Change
Food Products Technology	$ 320,447	$ 207,582	54%
Food Export	78,568	71,485	10%
Total Apio	399,015	279,067	43%
HA-based Biomaterials	41,281	34,283	20%
Corporate	1,412	4,202	(66%)
Total Revenues	$ 441,708	$ 317,552	39%

Food Products Technology (Apio)

Apio's Food Products Technology revenues consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are washed and packaged in our proprietary packaging and sold under Apio's Eat Smart and GreenLine brands and various private labels. In addition, value-added revenues include the revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position and from the sale of BreatheWay packaging to license partners.

The increase in Apio's Food Products Technology revenues for the fiscal year ended May 26, 2013 compared to the same period last year was primarily due to the following factors: (1) a $27 million increase in non-green bean value-added sales due to a 15% increase in unit volume sales to existing non-green bean customers resulting primarily from expanded product offerings, gaining additional distribution locations and growth in the fresh-cut vegetable category, (2) an $86 million increase in revenues from GreenLine which was acquired on April 23, 2012 and (3) a larger percentage of Apio's non-green bean value-added sales volume being generated from sales to club stores rather than retail grocery chains. These increases in revenue were partially offset by product mix changes in retail grocery chains to lower priced products from higher priced products.

Food Export (Apio)

Apio's Food Export revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia by Cal-Ex. Apio records revenue equal to the sale price to third parties because it takes title to the product while in transit.

The increase in revenues in Apio's Food Export business for the fiscal year ended May 26, 2013 compared to the same period last year was primarily due to more favorable pricing for export products in fiscal year 2013 compared to fiscal year 2012 resulting in higher prices per unit sold.

HA-based Biomaterials (Lifecore)

Lifecore principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 65% of Lifecore's revenues in fiscal year 2013, (2) Orthopedic, which represented approximately 20% of Lifecore's revenues in fiscal year 2013 and (3) Veterinary/Other.

The increase in Lifecore's revenues for fiscal year 2013 compared to the same period last year was due almost entirely to increased sales of existing aseptically filled products to existing customers and from new aseptically filled products recently approved by the FDA to existing customers in the Ophthalmic area.

Corporate

Corporate revenues are generated from the licensing agreements with Air Products, Nitta and INCOTEC.

The decrease in Corporate revenues for fiscal year 2013 compared to the same period of last year was due to the termination of the Monsanto Agreement at the end of the second quarter of fiscal year 2012. The Company recognized $2.7 million in license fees from the Monsanto Agreement during fiscal year 2012. The Monsanto license fees were partially offset by research and development revenues from Nitta.

Gross Profit (in thousands):

	Fiscal Year ended May 26, 2013	Fiscal Year ended May 27, 2012	Change
Food Products Technology	$ 37,077	$ 25,237	47%
Food Export	5,274	4,900	8%
Total Apio	42,351	30,137	41%
HA-based Biomaterials	19,102	17,994	6%
Corporate	1,307	4,007	(67%)
Total Gross Profit	$ 62,760	$ 52,138	20%

General

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sale discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the costs related to the sale of products in accordance with U.S. generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping-related costs. The following are the primary reasons for the changes in gross profit for the fiscal year ended May 26, 2013 compared to the same period last year as outlined in the table above.

Food Products Technology (Apio)

The increase in gross profit for the Food Products Technology business for the fiscal year 2013 compared to the same period last year was primarily due to (1) the 54% increase in revenues and (2) the addition of higher margin GreenLine products. These increases were partially offset by the negative impact of produce sourcing issues which primarily occurred during the second half of fiscal year 2013.

Food Export (Apio)

Apio's Food Export business is a buy/sell business that typically realizes a gross margin in the 5-8% range.

The increase in gross profit for Apio's Food Export business for fiscal year 2013 compared to the same period last year was primarily due to a 10% increase in revenues partially offset by higher procurement costs for certain export products.

HA-based Biomaterials (Lifecore)

Lifecore operates in the higher margin medical devices industry and has historically realized an overall gross margin of approximately 45-50%.

The increase in gross profit for fiscal year 2013 compared to the same period last year was due to an increase in revenues of $7.0 million resulting from the increased sales of both historical products and new products to existing customers which were partially offset by the revenue increase from aseptically filled products which have a lower gross margin than Lifecore's other products.

Corporate

The decrease in Corporate gross profit for fiscal year 2013 compared to the same period last year was due to the termination of the Monsanto Agreement at the end of the second quarter of fiscal year 2012. The Company recognized $2.7 million in license fees from the Monsanto Agreement during fiscal year 2012. The Monsanto license fees were partially offset by research and development revenues from Nitta.

Operating Expenses (in thousands):

	Fiscal Year ended May 26, 2013	Fiscal Year ended May 27, 2012	Change
Research and Development:			
Apio	$ 1,088	$ 1,106	(2%)
Lifecore	4,930	4,671	6%
Corporate	3,276	3,848	(15%)
Total R&D	$ 9,294	$ 9,625	(3%)
Selling, General and Administrative:			
Apio	$ 21,976	$ 14,776	49%
Lifecore	4,595	4,521	2%
Corporate	5,960	7,218	(17%)
Total S,G&A	$ 32,531	$ 26,515	23%
Other operating expenses:			
Apio	$ (3,933)	$ 871	N/M
Corporate	—	550	N/M
Total Other Operating Expenses	$ (3,933)	$ 1,421	N/M

Research and Development

Landec's research and development consisted primarily of product development and commercialization initiatives. Research and development efforts at Apio are focused on the Company's proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. In the Lifecore business, the research and development efforts are focused on new products and applications for HA-based biomaterials. For Corporate, the research and development efforts are focused on supporting the development and commercialization of new products and new technologies in our food and HA businesses along with developing uses for our proprietary Intelimer polymers outside of our food and HA businesses.

The decrease in research and development expenses for fiscal year 2013 compared to the same period last year was primarily due to the decrease in research and development expenses incurred by Corporate during fiscal year 2012 at the Company's former seed corn business which was sold in June 2012.

Selling, General and Administrative (S,G&A)

Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses and staff and administrative expenses.

The increase in S,G&A expenses for fiscal year 2013 compared to the same period last year was primarily due to: (1) a $4.6 million increase in S,G&A expenses at Apio from GreenLine which was acquired on April 23, 2012 and (2) a $2.6 million increase in SG&A at Apio, excluding GreenLine, due to the amortization of the customer base intangible acquired in the acquisition of GreenLine and additional sales and marketing expenses associated with the increase in revenues. These increases were partially offset by a $1.3 million decrease in S,G&A at Corporate due primarily to no Corporate bonuses being earned in fiscal year 2013 compared to $1.0 million of Corporate bonuses earned in fiscal year 2012 and from S,G&A expenses at the Company's former seed corn business in fiscal year 2012 which was sold in June 2012.

Other Operating Expenses

Other operating expenses in fiscal year 2013 consisted of a $3.9 million reversal of the earn-out liability at Apio associated with the GreenLine acquisition. Other operating expenses in fiscal year 2012 consisted of expenses incurred as a result of the acquisition of GreenLine.

Non-operating income/(expense) (in thousands):

	Fiscal Year ended May 26, 2013	Fiscal Year ended May 27, 2012	*Change*
Dividend Income	$ 1,125	$ 1,125	—
Interest Income	$ 179	$ 180	(1%)
Interest Expense	$ (2,008)	$ (929)	116%
Other Income	$ 8,100	$ 5,331	52%
Income Taxes	$ (9,452)	$ (7,185)	32%
Non controlling Interest	$ (225)	$ (403)	(44%)

Dividend Income

Dividend income is derived from the dividends accrued on our $15 million preferred stock investment in Windset which yields a cash dividend of 7.5% annually. There was no change in dividend income in fiscal year 2013 compared to fiscal year 2012.

Interest Income

The decrease in interest income for the fiscal year ended May 26, 2013 compared to the same period last year was primarily due to lower cash balances reflecting our use of cash to buyback shares of the Company's common stock during fiscal year 2012 and to purchase GreenLine.

Interest Expense

The increase in interest expense during fiscal year 2013 compared to the same period last year was due to interest on the $32 million of debt incurred in the acquisition of GreenLine. This increase was partially offset by decreases in interest expense at Lifecore due to paying down its debt by $3.3 million during fiscal year 2013.

Other Income

The increase in other income for fiscal year 2013 compared to the same period last year is primarily due to the change in the fair market value of our Windset investment being $2.3 million higher in fiscal year 2013 compared to the change in fiscal year 2012.

Income Taxes

The increase in the income tax expense for fiscal year 2013 is due to a 59% increase in net income before taxes compared to the same period last year. The effective tax rate for fiscal year 2013 was 30% compared to 36% for the same period last year primarily because the $3.9 million reversal of the earn-out liability during fiscal year 2013 related to the GreenLine acquisition was not subject to income taxes and various to other tax deductions and credits in fiscal year 2013, such as the return of the R&D credit and the change in the Company's state apportionment factors due to the addition of GreenLine, which resulted in a lower effective tax rate for fiscal year 2013.

Non-controlling Interest

The non-controlling interest consists of the limited partners' equity interest in the net income of Apio Cooling, LP.

The decrease in non-controlling interest for fiscal year 2013 compared to the same period last year was due to a decrease in Apio Cooling revenues.

Liquidity and Capital Resources

As of May 25, 2014, the Company had cash and cash equivalents of $14.2 million, a net increase of $525,000 from $13.7 million at May 26, 2013.

Cash Flow from Operating Activities

Landec generated $21.0 million of cash from operating activities during fiscal year 2014 compared to generating $21.2 million from operating activities during fiscal year 2013. The primary sources of cash from operating activities during fiscal year 2014 were from (1) $19.3 million of net income, (2) $8.5 million of depreciation/amortization and stock-based compensation expenses and (3) a $5.6 million net increase in deferred tax liabilities. The primary uses of cash from operating activities were from the $10.0 million non-cash increase in the Company's investment in Windset and a net increase of $2.7 million in working capital, excluding the portion of the increase in income taxes receivable which is attributable to the tax benefit from stock-based compensation.

The primary factors which increased working capital during fiscal year 2014 were a $8.0 million increase in receivables primarily due to May 2014 revenues for Apio and Lifecore being $5.3 million and $1.7 million higher, respectively, than Apio's and Lifecore's May 2013 revenues. These increases in working capital were partially offset by a $3.1 million increase in income taxes receivable due to overpayments and a $3.2 million increase in current liabilities resulting primarily from the timing of invoices at Apio.

Cash Flow from Investing Activities

Net cash used in investing activities for fiscal year 2014 was $13.3 million compared to $10.4 million for the same period last year. The primary uses of cash in investing activities during fiscal year 2014 were for the purchase of $14.9 million of equipment primarily to support the growth of the Apio value-added and Lifecore businesses.

Cash Flow from Financing Activities

Net cash used in financing activities for fiscal year 2014 was $7.2 million compared to $19.3 million for the same period last year. The net cash used in financing activities during fiscal year 2014 was primarily due to the $9.9 million of net payments on the Company's lines of credit and long-term debt offset by $2.3 million received from proceeds from the sale of Common Stock. The primary use of cash from financing activities during fiscal year 2013 was from a $10 million earn out payment made related to the Lifecore acquisition, $9.7 million of which was recorded as a contingent liability at the time of the acquisition and was therefore classified as a financing activity.

Capital Expenditures

During the fiscal year ended May 25, 2014, Landec continued its expansion of Apio's value-added processing facility and purchased vegetable processing equipment as well as made facility modifications and equipment purchases at Lifecore to support business growth. These expenditures represented the majority of the $14.9 million of capital expenditures during fiscal year 2014.

Debt

On August 19, 2004, Lifecore issued variable rate industrial revenue bonds (“IRBs”). These IRBs were assumed by Landec in the acquisition of Lifecore (see Note 9 to the Consolidated Financial Statements). The IRBs are collateralized by a bank letter of credit which is secured by a first mortgage on Lifecore’s facility in Chaska, Minnesota. In addition, Lifecore pays an annual remarketing fee equal to 0.125% and an annual letter of credit fee of 0.75%.

On April 23, 2012 in connection with the acquisition of GreenLine, Apio entered into three loan agreements with General Electric Capital Corporation and/or its affiliates (“GE Capital”), (collectively the “GE Debt Agreements”):

1) A five-year, $25.0 million asset-based working capital revolving line of credit, with an interest rate of LIBOR plus 2%, with availability based on the combination of the eligible accounts receivable and inventory balances of Apio and its subsidiaries (availability was $19.8 million at May 25, 2014). Apio’s revolving line of credit has an unused fee of 0.375% per annum. At May 25, 2014 and May 26, 2013, Apio had zero and $4.0 million, respectively, outstanding under its revolving line of credit.

2) A $12.7 million capital equipment loan which matures in seven years payable in monthly principal and interest payments of $175,356 with interest based on a fixed rate of 4.39% per annum.

3) A $19.2 million real estate loan, $1.2 million of which was paid in April 2013, and the remainder maturing in ten years. The real estate loan has a fifteen year amortization period due in monthly principal and interest payments of $141,962 with interest based on a fixed rate of 4.02% per annum. The principal balance remaining at the end of the ten year term is due in one lump sum on April 23, 2022.

Apio’s obligations under the GE Debt Agreements are secured by liens on all of the property of Apio and its subsidiaries. The GE Debt Agreements contain customary events of default under which obligations could be accelerated or increased. The GE Capital real estate and equipment loans are guaranteed by Landec, and Landec has pledged its equity interest in Apio as collateral under the line of credit agreement. The GE Debt Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Apio’s assets; (2) make loans or other investments; (3) pay dividends, sell stock or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; and (7) make changes in Apio’s corporate structure. In addition, Apio must maintain a minimum fixed charge coverage ratio of 1.10 to 1.0 if the availability under its line of credit falls below $7.5 million. Apio was in compliance with all financial covenants as of May 25, 2014 and May 26, 2013. Unamortized loan origination fees for the GE Debt Agreements were $964,000 and $1.2 million at May 25, 2014 and May 26, 2013, respectively, and are included in other assets in the Consolidated Balance Sheets.

On May 23, 2012, Lifecore entered into two financing agreements with BMO Harris Bank N.A. and/or its affiliates (“BMO Harris”), collectively (the “Lifecore Loan Agreements”):

(1) A Credit and Security Agreement (the “Credit Agreement”) which includes (a) a two-year, $10.0 million asset-based working capital revolving line of credit, with an interest rate of LIBOR plus 1.85%, with availability based on the combination of Lifecore’s eligible accounts receivable and inventory balances (availability was $7.9 million at May 25, 2014) and with no unused fee (as of May 25, 2014 and May 26, 2013, no amounts were outstanding under the line of credit) and (b) a $12.0 million term loan which matures in four years due in monthly payments of $250,000 with interest payable monthly based on a variable interest rate of LIBOR plus 2% (the “Term Loan”).

(2) A Reimbursement Agreement pursuant to which BMO Harris caused its affiliate Bank of Montreal to issue an irrevocable letter of credit in the amount of $3.5 million (the “Letter of Credit”) which is securing the IRBs described above.

The obligations of Lifecore under the Lifecore Loan Agreements are secured by liens on all of the property of Lifecore. The Lifecore Loan Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Lifecore's assets; (2) make loans or other investments; (3) pay dividends or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; (7) adopt certain benefit plans; and (8) make changes in Lifecore's corporate structure. In addition, under the Credit Agreement, Lifecore must maintain (a) a minimum fixed charge coverage ratio of 1.10 to 1.0 and a minimum quick ratio of 1.25 to 1.00, both of which must be satisfied as of the end of each fiscal quarter commencing with the fiscal quarter ending August 26, 2012 and (b) a minimum tangible net worth of $29,000,000, measured as of May 28, 2013, and as of the end of each fiscal year thereafter. Unamortized loan origination fees for the Lifecore Loan Agreements were $98,000 and $149,000 at May 25, 2014 and May 26, 2013, respectively, and are included in other assets in the Consolidated Balance Sheets. Lifecore was in compliance with all financial covenants as of May 25, 2014 and May 26, 2013.

The market value of the Company's debt approximates its recorded value as the interest rates on each debt instrument approximates current market rates.

The Term Loan was used to repay Lifecore's former credit facility with Wells Fargo Bank, N.A. ("Wells Fargo"). The Letter of Credit (which replaces a letter of credit previously provided by Wells Fargo) provides liquidity and credit support for the IRBs.

In May 2010, the Company entered into a five-year interest rate swap agreement under the prior credit agreement with Wells Fargo, which expires on April 30, 2015. The interest rate swap was designated as a cash flow hedge of future interest payments of LIBOR and had a notional amount of $20 million. As a result of the interest rate swap transaction, the Company fixed for a five-year period the interest rate at 4.24% subject to market based interest rate risk on $20 million of borrowings under the credit agreement with Wells Fargo. The Company's obligations under the interest rate swap transaction as to the scheduled payments were guaranteed and secured on the same basis as its obligations under the credit agreement with Wells Fargo at the time the agreement was consummated. Upon entering into the new Term Loan with BMO Harris, the Company used the proceeds from that loan to pay off the Wells Fargo credit facility. The swap with Wells Fargo was not terminated upon the extinguishment of the debt with Wells Fargo. As a result of extinguishing the debt with Wells Fargo as of May 23, 2012, the swap was no longer an effective hedge and therefore, the fair value of the swap at the time the debt was extinguished of $347,000 was reversed from other comprehensive income and recorded in other expense during fiscal year 2012. The fair value of the swap arrangement as of May 25, 2014 and May 26, 2013 was $44,000 and $163,000, respectively, and is included in other accrued liabilities in the accompanying Consolidated Balance Sheets.

Contractual Obligations

The Company's material contractual obligations for the next five years and thereafter as of May 25, 2014, are as follows (in thousands):

	Due in Fiscal Year Ended May						
Obligation	Total	2015	2016	2017	2018	2019	Thereafter
Income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Debt principal payments	34,372	6,055	6,181	3,318	3,456	3,599	11,763
Interest payments	5,198	1,146	958	795	663	525	1,111
Operating leases	11,038	2,916	2,720	2,225	1,375	929	873
Purchase commitments	5,046	5,046	—	—	—	—	—
Total	$ 55,654	$ 15,163	$ 9,859	$ 6,338	$ 5,494	$ 5,053	$ 13,747

The income tax amounts above exclude liabilities associated with the accounting for uncertainty in income taxes as we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

The interest payment amounts above include: (1) the 4.39% fixed interest rate payments on the GE Capital equipment loan, (2) the 4.02% fixed interest rate payments on the GE Capital real estate loan, (3) the estimated interest rate payment on the variable Term Loan with BMO Harris based on the four year historical average 30-day LIBOR plus 2% or 2.22% and (4) the estimated interest rate payment on the variable rate IRB based on the five year historical interest rate average for the Municipal Swap Index plus 20 basis points plus the letter of credit and remarketing fees of 0.875% resulting in a estimated rate of 1.25%.

Landec is not a party to any agreements with, or commitments to, any special purpose entities that would constitute material off-balance sheet financing other than the operating lease commitments.

Landec's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued 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.

Landec believes that its cash from operations, along with existing cash, cash equivalents and marketable securities will be sufficient to finance its operational and capital requirements for at least the next twelve months.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Not significant.

Item 8. ***Financial Statements and Supplementary Data***

See Item 15 of Part IV of this report.

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

Not applicable.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of May 25, 2014 our management evaluated, with participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and are effective in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of May 25, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (1992 Framework). Our management has concluded that, as of May 25, 2014, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting, which is included herein.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting during the fiscal year ended May 25, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Landec Corporation

We have audited Landec Corporation and subsidiaries' internal control over financial reporting as of May 25, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Landec Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Landec Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 25, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Landec Corporation and subsidiaries as of May 25, 2014 and May 26, 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 25, 2014 and our report dated August 1, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California
August 1, 2014

Item 9B. ***Other Information***

None

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 22, 2014 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 11. ***Executive Compensation***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 22, 2014 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 22, 2014 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 22, 2014 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 22, 2014 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Consolidated Financial Statements of Landec Corporation

2. All schedules provided for in the applicable accounting regulations of the Securities and Exchange Commission have been omitted since they pertain to items which do not appear in the financial statements of Landec Corporation and its subsidiaries or to items which are not significant or to items as to which the required disclosures have been made elsewhere in the financial statements and supplementary notes and such schedules.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Landec Corporation

We have audited the accompanying consolidated balance sheets of Landec Corporation and subsidiaries as of May 25, 2014 and May 26, 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 25, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Landec Corporation and subsidiaries at May 25, 2014 and May 26, 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 25, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Landec Corporation's internal control over financial reporting as of May 25, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated August 1, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California
August 1, 2014

LANDEC CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

ASSETS	May 25, 2014	May 26, 2013
Current assets:		
Cash and cash equivalents	$ 14,243	$ 13,718
Marketable securities	—	1,545
Accounts receivable, less allowance for doubtful accounts of $516 and $583 at May 25, 2014 and May 26, 2013, respectively	44,421	36,427
Accounts receivable, related party	304	316
Income taxes receivable	2,000	5,103
Inventories, net	24,735	24,113
Deferred taxes	2,056	1,582
Prepaid expenses and other current assets	3,170	2,856
Total current assets	90,929	85,660
Investment in non-public company, non-fair value	793	793
Investment in non-public company, fair value	39,600	29,600
Property and equipment, net	74,140	65,811
Goodwill, net	49,620	49,620
Trademarks/ trade names, net	48,428	48,428
Customer relationships, net	8,720	9,606
Other assets	1,393	1,424
Total Assets	$ 313,623	$ 290,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 31,981	$ 32,031
Accounts payable, related party	134	225
Accrued compensation	4,096	4,984
Other accrued liabilities	4,871	2,332
Deferred revenue	1,254	1,248
Lines of credit	—	4,000
Current portion of long-term debt	6,055	5,933
Total current liabilities	48,391	50,753
Long-term debt	28,317	34,372
Deferred taxes	30,133	24,054
Other non-current liabilities	2,021	1,349
Total liabilities	108,862	110,528
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 26,815,253 and 26,402,247 shares issued and outstanding at May 25, 2014 and May 26, 2013, respectively	27	26
Additional paid-in capital	131,488	126,258
Retained earnings	71,554	52,409
Total stockholders' equity	203,069	178,693
Non-controlling interest	1,692	1,721
Total Equity	204,761	180,414
Total Liabilities and Stockholders' Equity	$ 313,623	$ 290,942

See accompanying notes.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)

	Year Ended May 25, 2014	Year Ended May 26, 2013	Year Ended May 27, 2012
Product sales	476,813	441,708	317,552
Cost of product sales	414,249	378,948	265,414
Gross profit	62,564	62,760	52,138
Operating costs and expenses:			
Research and development	7,204	9,294	9,625
Selling, general and administrative	35,170	32,531	26,515
Other operating expenses	—	(3,933)	1,421
Total operating costs and expenses	42,374	37,892	37,561
Operating income	20,190	24,868	14,577
Dividend income	1,125	1,125	1,125
Interest income	260	179	180
Interest expense	(1,650)	(2,008)	(929)
Other income	10,000	8,100	5,331
Net income before taxes	29,925	32,264	20,284
Income tax expense	(10,583)	(9,452)	(7,185)
Consolidated net income	19,342	22,812	13,099
Non-controlling interest	(197)	(225)	(403)
Net income and comprehensive income applicable to common stockholders	$ 19,145	$ 22,587	$ 12,696
Basic net income per share	$ 0.72	$ 0.87	$ 0.49
Diluted net income per share	$ 0.71	$ 0.85	$ 0.49
Shares used in per share computation:			
Basic	26,628	25,830	25,849
Diluted	27,120	26,626	26,126

See accompanying notes.

Financials

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Total Stockholders' Equity	Non-controlling interest
	Shares	Amount					
Balance at May 29, 2011	26,405,799	$ 27	$ 119,169	$ 17,126	$ (267)	$ 136,055	$ 1,671
Issuance of common stock at $2.55 to $6.95 per share, net of taxes paid by Landec on behalf of employees	72,572	—	61	—	—	61	—
Issuance of common stock for vested restricted stock units	83,453	—	—	—	—	—	—
Common stock repurchased on the open market	(917,244)	(1)	(5,005)	—	—	(5,006)	—
Taxes paid by Company for stock swaps and RSUs	—	—	(260)	—	—	(260)	—
Stock-based compensation	—	—	1,872	—	—	1,872	—
Tax benefit from stock-based compensation expense	—	—	4,057	—	—	4,057	—
Non-controlling interest	—	—	—	—	—	—	403
Payments to non-controlling interest	—	—	—	—	—	—	(258)
Net and comprehensive income	—	—	—	12,696	267	12,963	—
Balance at May 27, 2012	25,644,580	26	119,894	29,822	—	149,742	1,816
Issuance of common stock at $1.66 to $13.32 per share, net of taxes paid by Landec on behalf of employees	597,537	—	3,416	—	—	3,416	—
Issuance of common stock for vested restricted stock units	160,130	—	—	—	—	—	—
Taxes paid by Company for stock swaps and RSUs	—	—	(49)	—	—	(49)	—
Stock-based compensation	—	—	1,695	—	—	1,695	—
Tax benefit from stock-based compensation expense	—	—	1,302	—	—	1,302	—
Non-controlling interest	—	—	—	—	—	—	225
Payments to non-controlling interest	—	—	—	—	—	—	(320)
Net and comprehensive income	—	—	—	22,587	—	22,587	—
Balance at May 26, 2013	26,402,247	26	126,258	52,409	—	178,693	1,721
Issuance of common stock at $5.63 to $13.32 per share, net of taxes paid by Landec on behalf of employees	372,852	1	2,297	—	—	2,298	—
Issuance of common stock for vested restricted stock units	40,154	—	—	—	—	—	—
Taxes paid by Company for stock swaps and RSUs	—	—	(345)	—	—	(345)	—
Stock-based compensation	—	—	1,356	—	—	1,356	—
Tax benefit from stock-based compensation expense	—	—	1,922	—	—	1,922	—
Non-controlling interest	—	—	—	—	—	—	197
Payments to non-controlling interest	—	—	—	—	—	—	(226)
Net and comprehensive income	—	—	—	19,145	—	19,145	—
Balance at May 25, 2014	26,815,253	$ 27	$ 131,488	$ 71,554	$ —	$ 203,069	$ 1,692

See accompanying notes

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Cash flows from operating activities:	Year Ended May 25, 2014	Year Ended May 26, 2013	Year Ended May 27, 2012
Consolidated net income	$ 19,342	$ 22,812	$ 13,099
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,114	7,295	5,621
Stock-based compensation expense	1,356	1,695	1,872
Deferred taxes	5,605	6,511	3,283
Change in investment in non-public company, fair value	(10,000)	(8,100)	(5,838)
Tax benefit from stock based compensation	(1,922)	(1,302)	(4,057)
Net loss on disposal of property and equipment	329	217	12
Earn out liability	—	(3,933)	—
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(7,994)	(4,121)	(3,246)
Accounts receivable, related party	12	(348)	130
Income taxes receivable	5,025	(3,754)	4,581
Inventories, net	(622)	(2,102)	(441)
Issuance of notes and advances receivable	(4,763)	(4,173)	(3,699)
Collection of notes and advances receivable	4,481	4,173	3,704
Prepaid expenses and other current assets	(32)	(278)	3,588
Accounts payable	(50)	8,826	(544)
Accounts payable, related party	(91)	10	476
Accrued compensation	38	(798)	2,701
Other accrued liabilities	3,211	(2,486)	3,434
Deferred revenue	6	1,086	(2,495)
Net cash provided by operating activities	21,045	21,230	22,181
Cash flows from investing activities:			
Purchases of property and equipment	(14,886)	(8,877)	(5,371)
Acquisition of GreenLine (Note 2)	—	—	(66,826)
Purchase of marketable securities	(1,417)	(4,959)	(30,723)
Proceeds from maturities of marketable securities	2,962	3,414	31,104
Proceeds from sales of marketable securities	—	—	27,743
Net cash used in investing activities	(13,341)	(10,422)	(44,073)
Cash flows from financing activities:			
Repurchase of outstanding common stock	—	—	(5,006)
Proceeds from sale of common stock	2,298	3,416	61
Taxes paid by Company for stock swaps and RSUs	(1,271)	(49)	(260)
Tax benefit from stock-based compensation expense	1,922	1,302	4,057
Earn out payment from Lifecore acquisition	—	(9,650)	—
Net change in other assets/liabilities	31	712	(1,813)
Proceeds from long term debt	—	—	31,816
Proceeds from lines of credit	9,500	—	12,766
Payments on long term debt	(5,933)	(7,012)	(4,329)
Payments on lines of credit	(13,500)	(7,666)	(1,100)
Payments to non-controlling interest	(226)	(320)	(258)
Net cash (used in) provided by financing activities	(7,179)	(19,267)	35,934
Net increase (decrease) in cash and cash equivalents	525	(8,459)	14,042
Cash and cash equivalents at beginning of year	13,718	22,177	8,135
Cash and cash equivalents at end of year	$ 14,243	$ 13,718	$ 22,177
Supplemental disclosure of cash flows information:			
Cash paid during the period for interest	$ 1,504	$ 1,728	$ 952
Cash paid during the period for income taxes, net of refunds received	$ 50	$ 5,605	$ 246

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Organization

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell differentiated products for food and biomaterials markets and license technology applications to partners. The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) hyaluronan ("HA") biopolymers. The Company's HA biopolymers are proprietary in that they are specially formulated for specific customers to meet strict regulatory requirements. The Company's polymer technologies, along with its customer relationships and trade names, are the foundation, and a key differentiating advantage upon which Landec has built its business. The Company sells specialty packaged branded Eat Smart and GreenLine and private label fresh-cut vegetables and whole produce to retailers, club stores and foodservice operators, primarily in the United States, Canada and Asia through its Apio, Inc. ("Apio") subsidiary and sells HA-based biomaterials through its Lifecore Biomedical, Inc. ("Lifecore") subsidiary.

Basis of Presentation

Basis of Consolidation

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and include the accounts of Landec Corporation and its subsidiaries, Apio and Lifecore. All material inter-company transactions and balances have been eliminated.

Arrangements that are not controlled through voting or similar rights are reviewed under the guidance for variable interest entities ("VIEs"). A company is required to consolidate the assets, liabilities and operations of a VIE if it is determined to be the primary beneficiary of the VIE.

An entity is a VIE and subject to consolidation, if by design: a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders or b) as a group the holders of the equity investment at risk lack any one of the following three characteristics: (i) the power, through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity. The Company reviewed the consolidation guidance and concluded that the partnership interest and equity investment in non-public companies by the Company are not VIEs.

Reclassifications

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

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most significant and subjective judgments include revenue recognition; sales returns and allowances; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived assets; the valuation of intangible assets and inventory; the valuation of investments; and the valuation and recognition of stock-based compensation.

These estimates involve the consideration of complex factors and require management to make judgments. The analysis of historical and future trends can require extended periods of time to resolve and are subject to change from period to period. The actual results may differ from management's estimates.

1. **Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)**

Concentrations of Risk

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

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, substrate materials for our breathable membrane products and raw materials for our HA products.

The operations of Windset, in which the Company holds a 20.1% minority investment, are predominantly located in British Columbia and Santa Maria, California. Routinely, the Company evaluates the financial strength and ability for Windset to continue as a going concern.

During the fiscal year ended May 25, 2014, sales to the Company's top five customers accounted for approximately 42% of total revenue with the top two customers from the Food Products Technology segment, Costco Wholesale Corporation and Wal-mart, Inc. accounting for approximately 21% and 11%, respectively, of total revenues. In addition, approximately 29% of the Company's total revenues were derived from product sales to international customers, none of which individually accounted for more than 5% of total revenues. As of May 25, 2014, the top two customers, Costco Wholesale Corporation and Wal-mart, Inc. represented approximately 16% and 12%, respectively, of total accounts receivable.

During the fiscal year ended May 26, 2013, sales to the Company's top five customers accounted for approximately 40% of total revenue with the top two customers, Costco Wholesale Corporation and Wal-mart, Inc. from the Food Products Technology segment, accounting for approximately 16% and 13%, respectively, of total revenues. In addition, approximately 30% of the Company's total revenues were derived from product sales to international customers, none of which individually accounted for more than 5% of total revenues. As of May 26, 2013, the top two customers, Costco Wholesale Corporation and Wal-mart, Inc. both represented approximately 15% of total accounts receivable.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flow expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value. The Company regularly evaluates its long-lived assets for indicators of possible impairment.

Financial Instruments

The Company's financial instruments are primarily composed of marketable securities, commercial-term trade payables, grower advances, notes receivable and debt instruments. For short-term instruments, the historical carrying amount approximates the fair value of the instrument. The fair value of long-term debt and lines of credit approximates their carrying value. Fair values for long-term financial instruments not readily marketable are estimated based upon discounted future cash flows at prevailing market interest rates. Based on these assumptions, management believes the fair market values of the Company's financial instruments are not significantly different from their recorded amounts as of May 25, 2014 and May 26, 2013.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Accounts Receivable and Sales Returns and Allowance for Doubtful Accounts

The Company carries its accounts receivable at their face amounts less an allowance for estimated sales returns and doubtful accounts. Sales return allowances are estimated based on historical sales return amounts. Further, on a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts and estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is determined based on review of the overall condition of accounts receivable balances and review of significant past due accounts. The allowance for doubtful accounts is based on specific identification of past due amounts and for accounts over 90-days past due. The changes in the Company's allowance for sales returns and doubtful accounts are summarized in the following table (in thousands).

	Balance at beginning of period	Additions from acquisitions and adjustments charged to revenue and expenses	Write offs, net of recoveries	Balance at end of period
Year ended May 27, 2012	$ 342	$ 248	$ (78)	$ 512
Year ended May 26, 2013	$ 512	$ 109	$ (38)	$ 583
Year ended May 25, 2014	$ 583	$ 143	$ (210)	$ 516

Revenue Recognition

Revenue from product sales is recognized when there is persuasive evidence that an arrangement exists, title has transferred, the price is fixed and determinable, and collectability is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts based on specific identification and historical losses.

Apio's Food Products Technology revenues generally consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are generally washed and packaged in our proprietary packaging and sold under Apio's Eat Smart and GreenLine brands and various private labels. Revenue is generally recognized upon shipment of these products to customers. The Company takes title to all produce it trades and/or packages, and therefore, records revenues and cost of sales at gross amounts in the Consolidated Statements of Comprehensive Income

In addition, Food Products Technology value-added revenues include the revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position and from the sale of BreatheWay packaging to license partners. Revenue is recognized on the vegetable cooling operations as cooling and storage services are provided to our customers. Sales of BreatheWay packaging are recognized when shipped to our customers.

Apio's Food Export revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia by Cal-Ex. As most Cal-Ex customers are in countries outside of the U.S., title transfers and revenue is generally recognized upon arrival of the shipment in the foreign port. Apio records revenue equal to the sale price to third parties because it takes title to the product while in transit.

Our HA-based Biomaterials business principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 60% of Lifecore's revenues in fiscal year 2014, (2) Orthopedic, which represented approximately 20% of Lifecore's revenues in fiscal year 2014 and (3) Veterinary/Other. The vast majority of revenues from our HA-based Biomaterials business are recognized upon shipment.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

A small amount of revenues from our HA-based Biomaterials business is related to contract research and development (R&D) services and multi-element arrangement services with customers where we provide products and/or services in a bundled arrangement.

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

For sales arrangements that contain multiple elements, the Company splits the arrangement into separate units of accounting if the individually delivered elements have value to the customer on a standalone basis. The Company also evaluates whether multiple transactions with the same customer or related party should be considered part of a multiple element arrangement, whereby the Company assesses, among other factors, whether the contracts or agreements are negotiated or executed within a short time frame of each other or if there are indicators that the contracts are negotiated in contemplation of each other. The Company then allocates revenue to each element based on a selling price hierarchy. The relative selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if VSOE is not available, or estimated selling price, if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition. The Company is not typically able to determine VSOE or TPE, and therefore, uses estimated selling prices to allocate revenue between the elements of the arrangement.

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or future performance obligations or subject to customer-specific cancellation rights. The Company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value, and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by the Company. The Company considers a deliverable to have stand-alone value if the product or service is sold separately by the Company or another vendor or could be resold by the customer. Further, the revenue arrangements generally do not include a general right of return relative to the delivered products. Where the aforementioned criteria for a separate unit of accounting are not met, the deliverable is combined with the undelivered element(s) and treated as a single unit of accounting for the purposes of allocation of the arrangement consideration and revenue recognition. The Company allocates the total arrangement consideration to each separable element of an arrangement based upon the relative selling price of each element. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price. In instances where the Company has not established fair value for any undelivered element, revenue for all elements is deferred until delivery of the final element is completed and all recognition criteria are met.

Financials

Licensing revenue is recognized in accordance with prevailing accounting guidance. Initial license fees are deferred and amortized to revenue over the period of the agreement when a contract exists, the fee is fixed and determinable, and collectability is reasonably assured. Noncancellable, nonrefundable license fees are recognized over the period of the agreement, including those governing research and development activities and any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement.

From time to time, the Company offers customers sales incentives, which include volume rebates and discounts. These amounts are estimated on a quarterly basis and recorded as a reduction of revenue.

A summary of revenues by type of revenue arrangement as described above is as follows (in thousands):

	Year ended May 25, 2014	Year ended May 26, 2013
Recorded upon shipment	$ 398,938	$ 359,518
Recorded upon acceptance in foreign port	69,710	78,442
Revenue from license fees, R&D contracts and royalties/profit sharing	1,354	1,975
Revenue from multiple element arrangements	6,811	1,773
Total	$ 476,813	$ 441,708

1. **Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)**

Shipping and Handling Costs

Amounts billed to third-party customers for shipping and handling are included as a component of revenues. Shipping and handling costs incurred are included as a component of cost of products sold and represent costs incurred to ship product from the sourcing locations to the end consumer markets.

Other Accounting Policies and Disclosures

Cash and Cash Equivalents

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents. Cash equivalents consist mainly of certificate of deposits (CDs), money market funds and U.S. Treasuries. The market value of cash equivalents approximates their historical cost given their short-term nature.

Marketable Securities

Short-term marketable securities consist of CDs that are FDIC insured and single A or better rated corporate and municipal bonds with original maturities of more than three months at the date of purchase regardless of the maturity date. The Company classifies all debt securities with readily determinable market values as “available for sale” as the Company views the funds within its portfolio as available for use in its current operations. The aggregate amount of CDs included in marketable securities as of May 25, 2014 and May 26, 2013 was zero and $701,000, respectively. The contractual maturities of the Company's marketable securities that are due in less than one year represent zero and $1.3 million of its marketable securities and those due in one to two years represent zero and $251,000 of the Company’s marketable securities as of May 25, 2014 and May 26, 2013, respectively. Investments in marketable securities are carried at fair market value with unrealized gains and losses reported as other income. The cost of debt securities is adjusted for amortization of premiums and discounts to maturity. This amortization is recorded to interest income. Realized gains and losses on the sale of available for sale securities are also recorded to interest income and were not significant for the fiscal years ended May 25, 2014 and May 26, 2013. During fiscal years 2014 and 2013, the Company did not sell any marketable securities. The cost of securities sold is based on the specific identification method.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. As of May 25, 2014 and May 26, 2013 inventories consisted of (in thousands):

	May 25, 2014	May 26, 2013
Finished goods	$ 11,111	$ 11,297
Raw materials	10,376	9,290
Work in progress	3,248	3,526
Inventories, net	$ 24,735	$ 24,113

If the cost of the inventories exceeds their net realizable value, provisions are recorded currently to reduce them to net realizable value. The Company also provides a provision for slow moving and obsolete inventories based on the estimate of demand for its products.

Advertising Expense

Advertising expenditures for the Company are expensed as incurred. Advertising expense for the Company for fiscal years 2014, 2013 and 2012 was $447,000, $445,000 and $406,000, respectively.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Notes and Advances Receivable

Apio issues notes and makes advances to produce growers for their crop and harvesting costs primarily for the purpose of sourcing crops for Apio's business. Notes receivable and advances are generally recovered during the growing season (less than one year) using proceeds from the crops sold to Apio. Notes are interest bearing obligations, evidenced by contracts and notes receivable. These notes and advances receivable are secured by perfected liens on crops, have terms that range from three to nine months, and are reviewed at least quarterly for collectability. A reserve is established for any note or advance deemed to not be fully collectible based upon an estimate of the crop value or the fair value of the security for the note or advance. There were no notes or advances outstanding at May 25, 2014.

Related Party Transactions

The Company sold products to and earned license fees from Windset Holding 2010 Ltd., a Canadian corporation (“Windset”) during fiscal year 2014. The Company also provided cooling and distribution services to Beachside Produce LLC ("Beachside"), a commodity produce distributor, in which the Chairman of Apio had a farming and ownership interest, until May 26, 2013. During fiscal years 2014, 2013 and 2012, the Company recognized related party revenues of $365,000, $2.5 million, and $3.8 million, respectively, which have been included in product sales in the accompanying Consolidated Statements of Comprehensive Income, from the sale of products and providing cooling services to these parties. As a result of Beachside no longer being a related party beginning in fiscal year 2014, the $2.1 million and $3.1 million of service revenue, related party for fiscal years 2013 and 2012, respectively, have been reclassified to product sales in the accompanying Consolidated Statements of Comprehensive Income. The related receivable balances of $304,000 and $316,000 from Windset are included in accounts receivable, related party in the accompanying Consolidated Balance Sheets as of May 25, 2014 and May 26, 2013, respectively.

Additionally, unrelated to the revenue transactions above, the Company purchases produce from Beachside and Windset for sale to third parties. During fiscal years 2014, 2013 and 2012, the Company recognized related party cost of product sales of $1.6 million, $6.7 million and $5.6 million, respectively, in the accompanying Consolidated Statements of Comprehensive Income, from the sale of products purchased from these parties. The related accounts payable of $134,000 and $225,000 from Windset are included in accounts payable, related party in the accompanying Consolidated Balance Sheets as of May 25, 2014 and May 26, 2013, respectively.

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

Property and Equipment

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

The Company capitalizes software development costs for internal use in accordance with accounting guidance. Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs using the straight-line basis over estimated useful lives of three to seven years. During fiscal year 2014, the Company capitalized $913,000 in software development costs. During fiscal years 2013 and 2012, the Company did not capitalize any software development costs.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Change in Depreciable Lives of Property and Equipment

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. This review primarily indicated that the actual lives of certain buildings and machinery and equipment at its processing facilities were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective November 25, 2013, the Company changed its estimates of the useful lives of its buildings and machinery and equipment to better reflect the estimated periods during which these assets will remain in service. The Company's buildings that previously averaged 29 years were increased to an average of 35 years. The Company's machinery and equipment that previously averaged 7 years were increased to an average of 11 years. The effect of this change in estimate for the six months ended May 25, 2014 was to decrease depreciation expense by $876,000, increase net income by $564,000, and increase basic and diluted earnings per share by $0.02.

Long-Lived Assets

The Company's Long-Lived Assets consist of property, plant and equipment, and intangible assets. Intangible assets are comprised of customer relationships with an estimated useful life of twelve to thirteen years (the "finite-lived intangible assets") and trademarks/trade names and goodwill with indefinite lives (collectively, "the indefinite-lived intangible assets"), which the Company recognized in accordance with accounting guidance (i) upon the acquisition of GreenLine Holding Company ("GreenLine") by Apio in April 2012, (ii) upon the acquisition of Lifecore in April 2010 and (iii) upon the acquisition of Apio in December 1999. Accounting guidance defines goodwill as "the excess of the cost of an acquired entity over the net of the estimated fair values of the assets acquired and the liabilities assumed at date of acquisition." All intangible assets, including goodwill, associated with the acquisition of Lifecore was allocated to the HA-based Biomaterials reporting unit and the acquisitions of Apio and GreenLine were allocated to the Food Products Technology reporting unit pursuant to accounting guidance based upon the allocation of assets and liabilities acquired and consideration paid for each reporting unit. As of May 25, 2014, the HA-based Biomaterials reporting unit had $13.9 million of goodwill and the Food Products Technology reporting unit had $35.7 million of goodwill.

Property, plant and equipment and finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances occur that indicate that the carrying amount of an asset (or asset group) may not be recoverable. The Company's impairment review requires significant management judgment including estimating the future success of product lines, future sales volumes, revenue and expense growth rates, alternative uses for the assets and estimated proceeds from the disposal of the assets. The Company conducts quarterly reviews of idle and underutilized equipment, and reviews business plans for possible impairment indicators. Impairment is indicated when the carrying amount of the asset (or asset group) exceeds its estimated future undiscounted cash flows and the impairment is viewed as other than temporary. When impairment is indicated, an impairment charge is recorded for the difference between the asset's book value and its estimated fair value. Depending on the asset, estimated fair value may be determined either by use of a discounted cash flow model or by reference to estimated selling values of assets in similar condition. The use of different assumptions would increase or decrease the estimated fair value of assets and would increase or decrease any impairment measurement.

The Company tests its indefinite-lived intangible assets for impairment at least annually, in accordance with accounting guidance. For non-goodwill indefinite-lived intangible assets, the Company performs a qualitative analysis in accordance with ASC 350-30-35. For goodwill, the Company performs a quantitative analysis in accordance with ASC 350-20-35.

Application of the impairment tests for indefinite-lived intangible assets requires significant judgment by management, including identification of reporting units, assignment of assets and liabilities to reporting units, assignment of intangible assets to reporting units, and the determination of the fair value of each indefinite-lived intangible asset and reporting unit based upon projections of future net cash flows, discount rates and market multiples, which judgments and projections are inherently uncertain.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

During the fiscal quarter ended February 23, 2014, the Company voluntarily changed the date of its annual goodwill and indefinite-lived intangible assets impairment testing from the last day of the fiscal month in July to the first day of the fiscal fourth quarter. This voluntary change is preferable under the circumstances as it provides the Company with additional time to complete its annual goodwill and indefinite-lived intangible asset impairment testing in advance of its year-end reporting and results in better alignment with the Company's strategic planning and forecasting process. The voluntary change in accounting principle related to the annual testing date will not delay, accelerate, or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

The Company tested its indefinite-lived intangible assets for impairment as of February 24, 2014 and determined that no adjustments to the carrying values of these assets were necessary as of that date. On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its indefinite-lived intangible assets, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the indefinite-lived intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of these assets in the current period.

The Company uses the discounted cash flow ("DCF") approach to develop an estimate of fair value for goodwill. The DCF approach recognizes that current value is premised on the expected receipt of future economic benefits. Indications of value are developed by discounting projected future net cash flows to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The market approach is not used to value the Company's reporting units because insufficient market comparables exist to enable the Company to develop a reasonable fair value due to the unique nature of each of the Company's reporting units.

The DCF associated with the annual goodwill impairment analysis for the Food Products Technology reporting unit is based on management's five-year projection of revenues, gross profits and operating profits by fiscal year and assumes a 36% effective tax rate for each year. Management takes into account the historical trends of the Food Products Technology reporting unit and the industry categories in which it operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. The estimated fair value of the Food Products Technology reporting unit as of February 24, 2014 was 136% of its book value at that date, therefore, no goodwill impairment was deemed to exist. For the test performed as of July 21, 2013, the projected cash flow from operations for determining the DCF for fiscal year 2014 was $10.1 million for the Food Products Technology reporting unit. The actual cash flow from operations for fiscal year 2014 was $10.5 million.

The DCF associated with the annual goodwill impairment analysis for the HA-based Biomaterials reporting unit is based on management's five-year projections of revenues, gross profits and operating profits by fiscal year and assumes a 36% effective tax rate for each year. Management takes into account the historical trends of HA-based Biomaterials reporting unit and the industry categories in which it operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. The estimated fair value of the HA-based Biomaterials reporting unit as of February 24, 2014 was 176% of its book value at that date, therefore, no goodwill impairment was deemed to exist. For the test performed as of July 21, 2013, the projected cash flow from operations for determining the DCF for fiscal year 2014 was $6.3 million for the HA-based Biomaterials reporting unit. The actual cash flow from operations for fiscal year 2014 was $10.2 million. The difference of $3.9 million is primarily due to timing of working capital changes and lower than planned intercompany charges for income taxes.

Investment in Non-Public Company

The Company's investment in Aesthetic Science is carried at cost and adjusted for impairment losses. Since there is no readily available market value information, the Company periodically reviews this investment to determine if an other than temporary decline in value has occurred based on the financial stability and viability of Aesthetic Science.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Aesthetic Science sold the rights to its Smartfil™ Injector System on July 16, 2010. As a result, Landec evaluated its cost method investment for impairment, utilizing a discounted cash flow analysis. Based on the terms of the agreement, the Company determined that its investment was other than temporarily impaired and therefore, recorded an impairment loss of $1.0 million in fiscal year 2010. The Company's carrying value of its investment in Aesthetic Sciences, net of the impairment loss, is $793,000 at May 25, 2014 and May 26, 2013, and reported as an investment in non-public company, non-fair value, in the accompanying Consolidated Balance Sheets.

On February 15, 2011, the Company made an investment in Windset which is reported as an investment in non-public company, fair value, in the accompanying Consolidated Balance Sheets as of May 25, 2014 and May 26, 2013. The Company has elected to account for its investment in Windset under the fair value option (see Note 4).

Partial Self-Insurance on Employee Health Plan

The Company provides health insurance benefits to eligible employees under a self-insured plan whereby the Company pays actual medical claims subject to certain stop loss limits. The Company records self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Any projection of losses concerning the Company's liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as inflation rates, changes in severity, benefit level changes, medical costs, and claims settlement patterns. This self-insurance liability is included in accrued liabilities and represents management's best estimate of the amounts that have not been paid as of May 25, 2014. It is reasonably possible that the expense the Company ultimately incurs could differ and adjustments to future reserves may be necessary.

Deferred Revenue

Cash received in advance of services performed are recorded as deferred revenue. At May 25, 2014, $1.3 million was recognized as advances from customers. At May 26, 2013, $1.2 million was recognized as advances from customers.

Non-Controlling Interest

The Company reports all non-controlling interests as a separate component of stockholders' equity. The non-controlling interest's share of the income or loss of the consolidated subsidiary is reported as a separate line item in our Consolidated Statements of Comprehensive Income, following the consolidated net income caption.

In connection with the acquisition of Apio, Landec acquired Apio's 60% general partner interest in Apio Cooling, a California limited partnership. Apio Cooling is included in the consolidated financial statements of Landec for all periods presented. The non-controlling interest balance of $1.7 million at both May 25, 2014 and May 26, 2013 is comprised of the non-controlling limited partners' interest in Apio Cooling.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. The Company maintains valuation allowances when it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the Company's income tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. At May 25, 2014, the Company had an $881,000 valuation allowance against its deferred tax assets.

In addition to valuation allowances, the Company establishes accruals for uncertain tax positions. The tax-contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company's effective tax rate includes the impact of tax-contingency accruals as considered appropriate by management.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

A number of years may elapse before a particular matter, for which the Company has accrued, is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes its tax-contingency accruals are adequate to address known tax contingencies. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate. Any resolution of a tax issue may require the use of cash in the year of resolution. The Company's tax-contingency accruals are recorded in other accrued liabilities in the accompanying Consolidated Balance Sheets.

Per Share Information

Accounting guidance requires the presentation of basic and diluted earnings per share. Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities and is computed using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution as if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted common equivalent shares consist of stock options and restricted stock units, calculated using the treasury stock method.

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

	Fiscal Year Ended May 25, 2014	Fiscal Year Ended May 26, 2013	Fiscal Year Ended May 27, 2012
Numerator:			
Net income applicable to Common Stockholders	$ 19,145	$ 22,587	$ 12,696
Denominator:			
Weighted average shares for basic net income per share	26,628	25,830	25,849
Effect of dilutive securities:			
Stock options and restricted stock units	492	796	277
Weighted average shares for diluted net income per share	27,120	26,626	26,126
Diluted net income per share	$ 0.71	$ 0.85	$ 0.49

Options to purchase 333,993, 88,022 and 1,855,167 shares of Common Stock at a weighted average exercise price of $14.15, $12.80 and $6.72 per share were outstanding during fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012, respectively, but were not included in the computation of diluted net income per share because the options' exercise price were greater than the average market price of the Common Stock and, therefore, their inclusion would be antidilutive.

Cost of Sales

The Company includes in cost of sales all the costs related to the sale of products. These costs include the following: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping related costs.

Research and Development Expenses

Costs related to both research and development contracts and Company-funded research is included in research and development expenses. Research and development costs are primarily comprised of salaries and related benefits, supplies, travel expenses, consulting expenses and corporate allocations.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Accounting for Stock-Based Compensation

The Company records compensation expense for stock-based awards issued to employees and directors in exchange for services provided based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods (generally the vesting period). For nonstatutory options, the cash flows resulting from the tax benefit due to tax deductions in excess of the compensation expense recognized for those options (excess tax benefit) are classified as financing activities within the statement of cash flows. The Company's stock-based awards include stock option grants and restricted stock unit awards ("RSUs").

The following table summarizes the stock-based compensation for options and RSUs (in thousands):

	Fiscal Year Ended May 25, 2014	Fiscal Year Ended May 26, 2013	Fiscal Year Ended May 27, 2012
Options	$ 558	$ 788	$ 1,046
RSUs	798	907	826
Total stock-based compensation expense	$ 1,356	$ 1,695	$ 1,872

The following table summarizes the stock-based compensation by income statement line item (in thousands):

	Fiscal Year Ended May 25, 2014	Fiscal Year Ended May 26, 2013	Fiscal Year Ended May 27, 2012
Research and development	$ 39	$ 718	$ 530
Sales, general and administrative	1,317	977	1,342
Total stock-based compensation expense	$ 1,356	$ 1,695	$ 1,872

Financials

The estimated fair value for stock options, which determines the Company's calculation of compensation expense, is based on the Black-Scholes option pricing model. RSUs are valued at the closing market price of the Company's common stock on the date of grant. The Company uses the straight line single option method to calculate and recognize the fair value of stock-based compensation arrangements. In addition, the Company uses historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest and revises those estimates in subsequent periods if the actual forfeitures differ from the prior estimates.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility and expected life of option awards, which have a significant impact on the fair value estimates. As of May 25, 2014, May 26, 2013 and May 27, 2012, the fair value of stock option grants was estimated using the following weighted average assumptions:

	Fiscal Year Ended May 25, 2014	Fiscal Year Ended May 26, 2013	Fiscal Year Ended May 27, 2012
Expected life (in years)	3.50	3.76	3.76
Risk-free interest rate	0.71%	0.48%	0.59%
Volatility	0.41	0.53	0.53
Dividend yield	0%	0%	0%

The weighted average estimated fair value of Landec employee stock options granted at grant date market prices during the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012 was $4.41, $3.57 and $2.65 per share, respectively. No stock options were granted above or below grant date market prices during the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. The Company has elected the fair value option for its investment in a non-public company (see Note 4). The Company has not elected the fair value option for any of its other eligible financial assets or liabilities.

The accounting guidance established a three-tier hierarchy for fair value measurements, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – observable inputs such as quoted prices for identical instruments in active markets.

Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

Level 3 – unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

As of May 25, 2014, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including cash equivalents, marketable securities, interest rate swap and its minority interest investment in Windset.

The fair value of the Company's marketable securities is determined based on observable inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized its marketable securities as a Level 1 measurement.

The fair value of the Company's interest rate swap is determined based on model inputs that can be observed in a liquid market, including yield curves, and is categorized as a Level 2 measurement.

The Company has elected the fair value option of accounting for its investment in Windset. The calculation of fair value utilizes significant unobservable inputs in the discounted cash flow models, including projected cash flows, growth rates and discount rates. As a result, the Company's investment in Windset is considered to be a Level 3 measurement investment. The change in the fair market value of the Company's investment in Windset for the fiscal years ended May 25, 2014 and May 26, 2013 was due to the Company's 20.1% minority interest in the change in the fair market value of Windset during those periods. In determining the fair value of the investment in Windset, the Company utilizes the following significant unobservable inputs in the discounted cash flow models:

	At May 25, 2014	At May 26, 2013
Annual consolidated revenue growth rates	4%	3% to 9%
Annual consolidated expense growth rates	4%	3% to 8%
Consolidated income tax rates	15%	15%
Consolidated discount rates	16% to 22%	18% to 28%

Financials

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

The revenue growth, expense growth and income tax rate assumptions, consider the Company's best estimate of the trends in those items over the discount period. The discount rate assumption takes into account the risk-free rate of return, the market equity risk premium and the company's specific risk premium and then applies an additional discount for lack of liquidity of the underlying securities. The discounted cash flow valuation model used by the Company has the following sensitivity to changes in inputs and assumptions (in thousands):

	Impact on value of Windset investment as of May 25, 2014
10% increase in revenue growth rates	$ 3,200
10% increase in expense growth rates	$ (2,300)
10% increase in income tax rates	—
10% increase in discount rates	$ (1,500)

Imprecision in estimating unobservable market inputs can affect the amount of gain or loss recorded for a particular position. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes the fair value of the Company's assets and liabilities that are measured at fair value on a recurring basis, as of May 25, 2014 and May 26, 2013 (in thousands):

	Fair Value at May 25, 2014			Fair Value at May 26, 2013		
Assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Marketable securities	$ -	$ -	$ -	$ 1,545	$ -	$ -
Investment in private company	-	-	39,600	-	-	29,600
Total	$ -	$ -	$ 39,600	$ 1,545	$ -	$ 29,600
Liabilities:						
Interest rate swap	-	44	-	-	163	-
Total	$ -	$ 44	$ -	$ -	$ 163	$ -

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a company's contracts with customers. ASU 2014-09 will be effective beginning the first quarter of the Company's fiscal year 2018 and early application is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. Management is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Unrecognized Tax Benefits

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, related to the presentation of unrecognized tax benefits. The update requires presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward in the statement of financial position. The guidance does not apply to the extent that a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. The guidance is effective for fiscal years (and interim periods within those years) beginning after December 15, 2013, with early adoption permitted. The Company early adopted this standard in the first fiscal quarter of fiscal year 2014 and such adoption did not have a significant impact on the Company's Consolidated Financial Statements or disclosures.

2. Acquisitions

GreenLine Holding Company

On April 23, 2012 (the “GreenLine Acquisition Date”), Apio acquired all of the outstanding equity of GreenLine under a Stock Purchase Agreement (the “GreenLine Purchase Agreement”) in order to expand its product offerings and enter into new markets such as foodservice. GreenLine, headquartered in Bowling Green, Ohio, was a privately-held company and is the leading processor and marketer of value-added, fresh-cut green beans in North America. GreenLine has four processing and distribution plants one each in Ohio, Pennsylvania, Florida and California and distribution centers in New York and South Carolina.

Under the GreenLine Purchase Agreement, the aggregate consideration paid at closing consisted of $62.9 million in cash. In addition, the GreenLine Purchase Agreement included a potential earn out payment up to $7.0 million in the event that GreenLine achieved certain revenue targets during calendar year 2012. The earn out was comprised of $4.0 million for achieving a certain revenue target during calendar year 2012, and up to an additional $3.0 million for exceeding the revenue target by $3.0 million or more. In April 2012, the Company performed an analysis of projected revenues for GreenLine and concluded at that time that it was probable that GreenLine would meet, but not exceed, the initial revenue target and therefore, the Company recorded a $3.9 million liability as of May 27, 2012, representing the present value of the expected earn out payment. As a result of the severe drought in the Midwest during 2012, lower than expected results from new product launches and new planned business not being realized, during the second quarter of fiscal year 2013, the Company determined that GreenLine did not achieve the earn out revenue target. As a result, the Company reversed the $3.9 million liability recorded for the earn out and recorded a corresponding credit to other operating expenses in its Consolidated Statements of Comprehensive Income for fiscal year 2013.

The operating results of GreenLine are included in the Company’s financial statements beginning April 23, 2012, in the Food Products Technology operating segment. Included in the Company’s results for the fiscal year 2012 was $9.1 million of GreenLine’s net sales.

Intangible Assets

The Company identified two intangible assets in connection with the GreenLine acquisition: trade names and trademarks valued at $36.0 million, which are considered to be indefinite life assets and therefore, will not be amortized; and customer base valued at $7.5 million with a thirteen year useful life. The trade name/trademark intangible asset was valued using the relief from royalty valuation method and the customer relationship intangible asset was valued using the distributor method.

2. Acquisitions (continued)

Goodwill

The excess of the consideration transferred over the fair values assigned to the assets acquired and liabilities assumed was $13.2 million on the closing date, which represents the goodwill amount resulting from the acquisition which can be attributable to GreenLine's long history, future prospects and the expected operating synergies from combining GreenLine with Apio's fresh-cut, value-added vegetable business. None of the goodwill is expected to be deductible for income tax purposes. The Company will test goodwill for impairment on an annual basis or sooner, if indicators of impairment are present.

Acquisition-Related Transaction Costs

The Company recognized $1.4 million of acquisition-related expenses that were expensed in the year ended May 27, 2012 and are included in other operating expenses in the Consolidated Statements of Comprehensive Income for the year ended May 27, 2012. These expenses included investment banker fees, legal, accounting and tax service fees and appraisals fees.

3. Sale of Landec Ag

On June 24, 2012, Landec entered into a stock purchase agreement and two licensing agreements (see Note 5) with INCOTEC® Coating and Seed Technology Companies ("INCOTEC"), a leading provider of seed and coating technology products and services to the seed industry.

In the stock purchase agreement, Landec sold its equity interest in its seed subsidiary, Landec Ag LLC, to INCOTEC for $600,000, which resulted in a gain of $400,000. Under accounting guidance, because the stock purchase agreement was entered into at the same time the license agreements were consummated (a multiple element agreement), a portion of the gain, or $300,000, has been deferred and will be recognized as revenue monthly from the sale date over the seven year life of the Pollinator Plus® license agreement (see Note 5). The remaining $100,000 of the gain was recognized during the first quarter of fiscal year 2013.

4. Investments in non-public companies

In December 2005, Landec entered into a licensing agreement with Aesthetic Sciences for the exclusive rights to use Landec's Intelimer materials technology for the development of dermal fillers worldwide under the agreement. The Company received shares of preferred stock in exchange for the license with a valuation of $1.8 million. Aesthetic Sciences sold the rights to its Smartfil Injector System on July 16, 2010. Landec has evaluated its investment in Aesthetic Sciences for impairment, utilizing a discounted cash flow analysis under the terms of the purchase agreement. Based on the terms of the sale, the Company determined that its investment was other than temporarily impaired and therefore, recorded an impairment charge of $1.0 million in fiscal year 2010. The Company's carrying value of its investment in Aesthetic Sciences is $793,000 as of May 25, 2014 and May 26, 2013. No additional impairment has been determined for the Company's investment in Aesthetic Sciences.

On February 15, 2011, Apio entered into a share purchase agreement (the "Windset Purchase Agreement") with Windset. Pursuant to the Windset Purchase Agreement, Apio purchased 150,000 senior preferred shares for $15 million and 201 common shares for $201 that were issued by Windset (the "Purchased Shares"). The Company's common shares represent a 20.1% interest in Windset. The non-voting senior preferred shares yield a cash dividend of 7.5% annually. The dividend is payable within 90 days of each anniversary of the execution of the Windset Purchase Agreement, the first three dividend payments of $1.1 million were made in May of 2014, 2013 and 2012. The Windset Purchase Agreement includes a put and call option, which can be exercised on the sixth anniversary of the Windset Purchase Agreement whereby Apio can exercise the put to sell its Purchased Shares to Windset, or Windset can exercise the call to purchase the Purchased Shares from Apio, in either case, at a price equal to 20.1% of the appreciation in the fair market value of Windset from the date of the Company's investment through the put and call date, plus the purchase price of the Purchased Shares. Under the terms of the arrangement with Windset, the Company is entitled to designate one of five members on the Board of Directors of Windset.

4. Investments in non-public companies (continued)

In accordance with accounting guidance, the investment in Windset does not qualify for equity method accounting as the investment does not meet the criteria of in-substance common stock due to returns through the annual dividend on the non-voting senior preferred shares that are not available to the common stock holders. As the put and call options require the Purchased Shares to be put or called in equal proportions, the Company has deemed that the investment, in substance, should be treated as a single security for purposes of accounting. The Company has adopted fair value option in the accounting for its investment in Windset effective on the acquisition date. The fair value of the Company's investment in Windset utilizes significant unobservable inputs in the discounted cash flow models, including projected cash flows, growth rates and the discount rate, and is therefore considered a Level 3 for fair value measurement purposes (see Note 1). The Company believes that reporting its investment at fair value provides its investors with useful information on the performance of the Company's investment and the anticipated appreciation in value as Windset expands its business.

The fair value of the Company's investment in Windset was determined utilizing the Windset Purchase Agreement's put/call calculation for value and a discounted cash flow model based on projections developed by Windset, and considers the put and call conversion options. These features impact the duration of the cash flows utilized to derive the estimated fair values of the investment. These two discounted cash flow models' estimate for fair value, which generally approximate a similar result, is then weighted. Assumptions included in these discounted cash flow models will be evaluated quarterly based on Windset's actual and projected operating results to determine the change in fair value.

During fiscal years 2014, 2013 and 2012, the Company recorded $1.1 million in dividend income and the Company recorded $10.0 million, $8.1 million and $5.8 million of income, respectively, which is included in other income in the Consolidated Statements of Comprehensive Income, from the increase in the fair market value of the Company's investment in Windset.

The Company also entered into an exclusive license agreement with Windset, which was executed in June 2010, prior to contemplation of Apio's investment in Windset (see Note 5).

5. License Agreements

Monsanto

On December 1, 2006, Landec entered into a five-year co-exclusive technology license and polymer supply agreement ("the Monsanto Agreement") with Monsanto Company ("Monsanto") for the use of Landec's Intellicoat polymer seed coating technology. On December 1, 2011, Monsanto terminated the Monsanto Agreement and paid the Company a $4 million termination fee and all rights to the Intellicoat seed coating technology reverted to Landec. For fiscal year 2012, Landec recognized license revenues from the Monsanto Agreement of $2.7 million.

INCOTEC

In connection with the sale of Landec Ag to INCOTEC on June 24, 2012 (see Note 3), Landec entered into a seven-year exclusive technology license and polymer supply agreement with INCOTEC for the use of Landec's Intellicoat® polymer seed coating technology for male inbred corn which is sold under the Pollinator Plus label. This license does not include the use of Intellicoat for the controlled release of an active ingredient for agricultural applications which was retained by Landec. Landec will be the exclusive supplier of Pollinator Plus polymer to INCOTEC during the term of the license agreement and will receive a royalty equal to 20% of the revenues realized by INCOTEC from the sale of or sublicense of Pollinator Plus coatings during the first four years of the agreement and 10% for the last three years of the agreement.

On June 24, 2012, Landec also entered into a five-year exclusive technology license and polymer supply agreement with INCOTEC for the joint development of new polymer and unique coatings for use in seed treatment formulations. In this agreement, Landec will receive a value share which will be mutually agreed to by both parties prior to each application being developed.

5. License Agreements (continued)

Air Products

In March 2006, Landec entered into an exclusive license and research and development agreement with Air Products and Chemicals, Inc. ("Air Products"). In accordance with the agreement, Landec receives 40% of the direct profit generated from the sale of products by Air Products occurring after April 1, 2007, that incorporate Landec's Intelimer materials.

Chiquita

The agreement with Chiquita has been renewed through December 2016 and requires Chiquita to pay annual gross profit minimums to Landec in order for Chiquita to maintain its exclusive license for bananas. Under the terms of the agreement, Chiquita must notify Landec before December 1st of each year whether it is going to maintain its exclusive license for the following calendar year and thus agree to pay the minimums for that year. Landec was notified in November 2012 of Chiquita's desire to not maintain its exclusive license. As a result, the agreement has reverted to a non-exclusive agreement in which Chiquita will pay the Company for membranes purchased and the Company is now entitled to sell its BreatheWay packaging technology for bananas to others.

Windset

In June 2010, Apio entered into an exclusive license agreement with Windset to allow for the use of Landec's proprietary breathable packaging to extend the shelf life of greenhouse grown cucumbers, peppers and tomatoes ("Exclusive Products"). In accordance with the agreement, Apio received and recorded a one-time upfront research and development fee of $100,000 and will receive license fees equal to 3% of net revenue of the Exclusive Products utilizing the proprietary breathable packaging technology, with or without the BreatheWay® trademark. The ongoing license fees are subject to annual minimums of $150,000 for each of the three types of exclusive product as each is added to the agreement. As of May 25, 2014, two products have been added to the agreement.

Nitta

In July 2012, the Company entered into an agreement with Nitta Corporation ("Nitta"), a Japanese company, to develop additional uses of the Company's adhesive polymer technology for electronics. During fiscal year 2013, the Company recognized $688,000 in research and development revenues from this agreement.

6. Property and Equipment

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

	Years of Useful Life	May 25, 2014	May 26, 2013
Land and building	15-40	$ 56,378	$ 52,527
Leasehold improvements	3-20	1,079	1,029
Computer, capitalized software, machinery, equipment and auto	3-20	53,715	44,583
Furniture and fixtures	3-7	824	766
Construction in process		6,975	5,838
Gross property and equipment		118,971	104,743
Less accumulated depreciation and amortization		(44,831)	(38,932)
Net property and equipment		$ 74,140	$ 65,811

Depreciation and amortization expense for property and equipment for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012 was $6.2 million, $6.3 million and $5.3 million, respectively. There were no equipment under capital leases at May 25, 2014 or May 26, 2013. Amortization related to capitalized software was $189,000, $160,000 and $136,000 for fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012, respectively. The unamortized computer software costs at May 25, 2014 and May 26, 2013 were $1.1 million and $343,000, respectively.

7. Intangible Assets

Changes in the carrying amount of goodwill for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012 by reportable segment, are as follows (in thousands):

	Food Products Technology	Corporate	Hyaluronan-based Biomaterials	Total
Balance as of May 29, 2011	22,581	—	13,881	36,462
Goodwill acquired during the period	13,158	—	—	13,158
Balance as of May 27, 2012	35,739	—	13,881	49,620
Balance as of May 26, 2013	$ 35,739	$ —	$ 13,881	$ 49,620
Balance as of May 25, 2014	$ 35,739	$ —	$ 13,881	$ 49,620

Information regarding Landec's other intangible assets is as follows (in thousands):

	Trademarks & Trade names	Customer Relationships	Total
Balance as of May 29, 2011	12,428	3,366	15,794
Acquired during the period	36,000	7,500	43,500
Amortization expense	—	(309)	(309)
Balance as of May 27, 2012	48,428	10,557	58,985
Amortization expense	—	(951)	(951)
Balance as of May 26, 2013	$ 48,428	$ 9,606	$ 58,034
Amortization expense	—	(886)	(886)
Balance as of May 25, 2014	$ 48,428	$ 8,720	$ 57,148

Accumulated amortization of Trademark and Trade names as of May 25, 2014 and May 26, 2013 was $872,000. Accumulated amortization of Customer Relationships as of May 25, 2014 and May 26, 2013 was $2.5 million and $1.6 million, respectively. Accumulated impairment losses as of May 25, 2014 and May 26, 2013 were $4.8 million. Lifecore's Customer Relationships amount of $3.7 million is being amortized over 12 years and Apio's customer relationships amount of $7.5 million is being amortized over 13 years. The amortization expense for the next five fiscal years is estimated to be $885,000 per year.

8. Stockholders' Equity

Holders of Common Stock are entitled to one vote per share.

Convertible Preferred Stock

The Company has authorized two million shares of preferred stock, and as of May 25, 2014 has no outstanding preferred stock.

Common Stock and Stock Option Plans

At May 25, 2014, the Company had 2.0 million common shares reserved for future issuance under Landec equity incentive plans.

On October 10, 2013, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2013 Stock Incentive Plan (the "Plan") became effective and replaced the Company's 2009 Stock Incentive Plan. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates are eligible to participate in the Plan.

8. Stockholders' Equity (continued)

The Plan provides for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Awards under the Plan will be evidenced by an agreement with the Plan participants and 2.0 million shares of the Company's Common Stock ("Shares") were initially available for award under the Plan. Under the Plan, no recipient may receive awards during any fiscal year that exceeds the following amounts: (i) stock options covering in excess of 500,000 Shares; (ii) stock grants and stock units covering in excess of 250,000 Shares in the aggregate; or (iii) stock appreciation rights covering more than 500,000 Shares. In addition, awards to non-employee directors are discretionary. However, a non-employee director may not be granted awards in excess of 30,000 Shares in the aggregate during any fiscal year. The exercise price of the options is the fair market value of the Company's Common Stock on the date the options are granted.

On October 15, 2009, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2009 Stock Incentive Plan (the "2009 Plan") became effective and replaced the Company's 2005 Stock Incentive Plan. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates are eligible to participate in the 2009 Plan. The 2009 Plan provides for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Under the 2009 Plan, 1.9 million Shares were initially available for awards and as of May 25, 2014, 1.0 million options to purchase shares and restricted stock units (RSUs) were outstanding.

On October 14, 2005, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2005 Stock Incentive Plan ("2005 Plan") became effective. The 2005 Plan replaced the Company's four then existing equity plans and no shares remain available for grant under those plans. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates were eligible to participate in the 2005 Plan. The 2005 Plan provided for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Under the 2005 Plan, 861,038 Shares were initially available for awards, and as of May 25, 2014, 283,250 options to purchase shares were outstanding. The exercise price of the options was the fair market value of the Company's Common Stock on the date the options were granted.

The 1995 Directors' Stock Option Plan (the "Directors' Plan") provided that each person who became a non-employee director of the Company, who had not received a previous grant, be granted a nonstatutory stock option to purchase 20,000 shares of Common Stock on the date on which the optionee first became a non-employee director of the Company. Thereafter, on the date of each annual meeting of the stockholders each non-employee director was granted an additional option to purchase 10,000 shares of Common Stock if, on such date, he or she had served on the Company's Board of Directors for at least six months prior to the date of such annual meeting. The exercise price of the options was the fair market value of the Company's Common Stock on the date the options were granted. Options granted under this plan were exercisable and vested upon grant. No shares remain available for grant under the Directors' Plan.

8. **Stockholders' Equity (continued)**

Activity under all Landec equity incentive plans is as follows:

Stock-Based Compensation Activity

	RSUs and Options Available for Grant	Restricted Stock Outstanding: Number of Restricted Shares	Restricted Stock Outstanding: Weighted Average Grant Date Fair Value	Stock Options Outstanding: Number of Stock Options	Stock Options Outstanding: Weighted Average Exercise Price
Balance at May 29, 2011	640,976	415,085	$ 5.96	2,318,753	$ 6.34
Granted	(191,333)	47,833	$ 6.67	143,500	$ 6.67
Awarded/Exercised	—	(111,252)	$ 6.36	(371,727)	$ 5.40
Forfeited	—	(3,500)	$ 5.84	(5,657)	$ 5.76
Plan shares expired	—	—	—	(38,437)	$ 8.23
Balance at May 27, 2012	449,643	348,166	$ 5.93	2,046,432	$ 6.50
Granted	(26,666)	6,666	$ 9.01	20,000	$ 9.01
Awarded/Exercised	—	(231,086)	$ 5.74	(671,563)	$ 6.30
Forfeited	—	(28,416)	$ 6.20	(44,977)	$ 6.34
Plan shares expired	—	—	—	(10,000)	$ 13.32
Balance at May 26, 2013	422,977	95,330	$ 6.52	1,339,892	$ 6.58
Additional shares reserved	2,000,000	—	—	—	—
Granted	(420,131)	128,631	$ 14.30	291,500	$ 14.30
Awarded/Exercised	—	(62,499)	$ 6.18	(398,080)	$ 6.45
Forfeited	—	(12,162)	$ 8.86	(12,452)	$ 6.66
Plan shares expired	(2,846)	—	—	(5,000)	$ 13.32
Balance at May 25, 2014	2,000,000	149,300	$ 13.17	1,215,860	$ 8.45

Upon vesting of certain RSUs and the exercise of certain options during fiscal years 2014, 2013 and 2012, certain RSUs and exercised options were net share-settled to cover the required exercise price and withholding tax and the remaining amounts were converted into an equivalent number of shares of Common Stock. The Company withheld shares with value equivalent to the exercise price for options and the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld for fiscal years 2014, 2013 and 2012 were 47,573, 145,159 and 326,954 RSUs and options, respectively, which was based on the value of the option and/or RSUs on their exercise or vesting date as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the taxing authorities during fiscal years 2014 and 2013 were approximately $1.3 million and $49,000, respectively. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise have been issued as a result of the vesting and did not represent an expense to the Company.

The following table summarizes information concerning stock options outstanding and exercisable at May 25, 2014**:**

Range of Exercise Prices	Options Outstanding: Number of Shares Outstanding	Options Outstanding: Weighted Average Remaining Contractual Life (in years)	Options Outstanding: Weighted Average Exercise Price	Options Outstanding: Aggregate Intrinsic Value	Options Exercisable: Number of Shares Exercisable	Options Exercisable: Weighted Average Exercise Price	Options Exercisable: Aggregate Intrinsic Value
$ 5.63 - $5.63	287,219	3.01	$ 5.63	$1,832,457	287,219	$ 5.63	$1,832,457
$ 5.65 - $6.22	321,085	2.63	$ 6.15	$1,881,142	321,085	$ 6.15	$1,881,142
$ 6.35 - $7.50	230,056	2.63	$ 6.76	$1,207,945	214,612	$ 6.77	$1,125,386
$ 8.19 - $14.30	377,500	5.03	$ 13.58	$ 136,400	161,694	$ 12.94	$ 106,400
$ 5.63 - $14.30	1,215,860	3.46	$ 8.45	$5,057,944	984,610	$ 7.25	$4,945,385

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8. Stockholders' Equity (continued)

At May 25, 2014 and May 26, 2013 options to purchase 984,610 and 1,262,934 shares of Landec's Common Stock were vested, respectively and 231,250 and 76,958 were unvested, respectively. No options have been exercised prior to being vested. The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $12.01 on May 23, 2014, which would have been received by holders of stock options had all holders of stock options exercised their stock options that were in-the-money as of that date. The total number of in-the-money stock options exercisable as of May 25, 2014, was 852,916 shares. The aggregate intrinsic value of stock options exercised during the fiscal year 2014 was $2.3 million.

Option Awards

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Vested	984,610	$ 7.25	2.88	$ 4,945,385
Expected to vest	226,625	$ 13.56	5.93	110,308
Total	1,211,235	$ 8.43	3.45	$ 5,055,693

As of May 25, 2014, there was $2.0 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Company's incentive stock plans. Total expense is expected to be recognized over the weighted-average period of 1.9 years for both stock options and restricted stock awards.

Stock Repurchase Plan

On July 14, 2010, the Board of Directors of the Company approved the establishment of a stock repurchase plan which allows for the repurchase of up to $10 million of the Company's Common Stock. The Company may repurchase its common stock from time to time in open market purchases or in privately negotiated transactions. The timing and actual number of shares repurchased is at the discretion of management of the Company and will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, the relative attractiveness of other capital deployment opportunities and other corporate priorities. The stock repurchase program does not obligate Landec to acquire any amount of its common stock and the program may be modified, suspended or terminated at any time at the Company's discretion without prior notice. During fiscal years 2014 and 2013, the Company did not purchase any shares on the open market. During fiscal year 2012, the Company purchased on the open market 917,244 shares of its Common Stock for $5.0 million and retired those shares.

9. Debt

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

	May 25, 2014	May 26, 2013
Real estate loan agreement with General Electric Capital Corporation ("GE Capital"); due in monthly principal and interest payments of $133,060 through May 1, 2022 with interest based on a fixed rate of 4.02% per annum	$ 16,137	$ 17,065
Capital equipment loan with GE Capital; due in monthly principal and interest payments of $175,356 through May 1, 2019 with interest based on a fixed rate of 4.39% per annum	9,430	11,080
Term note with BMO Harris; due in monthly payments of $250,000 through May 23, 2016 with interest payable monthly at LIBOR plus 2% per annum	6,000	9,000
Industrial revenue bonds ("IRBs") issued by Lifecore; due in annual payments through 2020 with interest at a variable rate set weekly by the bond remarketing agent (0.28% and 0.38% at May 25, 2014 and May 26, 2013, respectively)	2,805	3,160
Total	34,372	40,305
Less current portion	(6,055)	(5,933)
Long-term portion	$ 28,317	$ 34,372

9. Debt (continued)

The future minimum principal payments of the Company's debt for each year presented are as follows (in thousands):

	GE RE Loan	GE Equipment	BMO Harris	IRB	Total
FY 2015	965	1,725	3,000	365	6,055
FY 2016	1,005	1,801	3,000	375	6,181
FY 2017	1,046	1,882	—	390	3,318
FY 2018	1,089	1,967	—	400	3,456
FY 2019	1,134	2,055	—	410	3,599
Thereafter	10,898	—	—	865	11,763
Total	$ 16,137	$ 9,430	$ 6,000	$ 2,805	$ 34,372

In addition to entering into the GE Capital real estate and equipment loans mentioned above, on April 23, 2012 in connection with the acquisition of GreenLine, Apio also entered into a five-year, $25.0 million asset-based working capital revolving line of credit with GE Capital, with an interest rate of LIBOR plus 2%, with availability based on the combination of the eligible accounts receivable and eligible inventory (availability was $19.8 million at May 25, 2014). Apio's revolving line of credit has an unused fee of 0.375% per annum. At May 25, 2014 and May 26, 2013, Apio had zero and $4.0 million, respectively, outstanding under its revolving line of credit.

The GE real estate, equipment and line of credit agreements (collectively the "GE Debt Agreements") are secured by liens on all of the property of Apio and its subsidiaries. The GE Debt Agreements contain customary events of default under which obligations could be accelerated or increased. The GE Capital real estate and equipment loans are guaranteed by Landec, and Landec has pledged its equity interest in Apio as collateral under the line of credit agreement. The GE Debt Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Apio's assets; (2) make loans or other investments; (3) pay dividends, sell stock or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; and (7) make changes in Apio's corporate structure. In addition, Apio must maintain a minimum fixed charge coverage ratio of 1.10 to 1.0 if the availability under its line of credit falls below $7.5 million. Apio was in compliance with all financial covenants as of May 25, 2014 and May 26, 2013. Unamortized loan origination fees for the GE Debt Agreements were $964,000 and $1.2 million at May 25, 2014 and May 26, 2013, respectively, and are included in other assets in the Consolidated Balance Sheets.

On May 23, 2012, Lifecore entered into two financing agreements with BMO Harris Bank N.A. and/or its affiliates ("BMO Harris"), collectively (the "Lifecore Loan Agreements"):

(1) A Credit and Security Agreement (the "Credit Agreement") which includes (a) a two-year, $10.0 million asset-based working capital revolving line of credit, with an interest rate of LIBOR plus 1.85%, with availability based on the combination of Lifecore's eligible accounts receivable and inventory balances (availability was $7.9 million at May 25, 2014) and with no unused fee (as of May 25, 2014 and May 26, 2013, no amounts were outstanding under the line of credit) and (b) a $12.0 million term loan which matures in four years due in monthly payments of $250,000 with interest payable monthly based on a variable interest rate of LIBOR plus 2% (the "Term Loan").

(2) A Reimbursement Agreement pursuant to which BMO Harris caused its affiliate Bank of Montreal to issue an irrevocable letter of credit in the amount of $3.5 million (the "Letter of Credit") which is securing the IRBs described above.

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9. Debt (continued)

The obligations of Lifecore under the Lifecore Loan Agreements are secured by liens on all of the property of Lifecore. The Lifecore Loan Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Lifecore's assets; (2) make loans or other investments; (3) pay dividends or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; (7) adopt certain benefit plans; and (8) make changes in Lifecore's corporate structure. In addition, under the Credit Agreement, Lifecore must maintain (a) a minimum fixed charge coverage ratio of 1.10 to 1.0 and a minimum quick ratio of 1.25 to 1.00, both of which must be satisfied as of the end of each fiscal quarter commencing with the fiscal quarter ending August 26, 2012 and (b) a minimum tangible net worth of $29,000,000, measured as of May 28, 2013, and as of the end of each fiscal year thereafter. Lifecore was in compliance with all financial covenants as of May 25, 2014 and May 26, 2013. Unamortized loan origination fees for the Lifecore Loan Agreements were $98,000 and $149,000 at May 25, 2014 and May 26, 2013, respectively, and are included in other assets in the Consolidated Balance Sheets.

The market value of the Company's debt approximates its recorded value as the interest rates on each debt instrument approximates current market rates.

The Term Loan was used to repay Lifecore's former credit facility with Wells Fargo Bank, N.A. ("Wells Fargo"). The Letter of Credit (which replaces a letter of credit previously provided by Wells Fargo) provides liquidity and credit support for the IRBs.

On August 19, 2004, Lifecore issued variable rate industrial revenue bonds ("IRBs"). These IRBs were assumed by Landec in the acquisition of Lifecore (see Note 2). The IRBs are collateralized by a bank letter of credit which is secured by a first mortgage on the Company's facility in Chaska, Minnesota. In addition, the Company pays an annual remarketing fee equal to 0.125% and an annual letter of credit fee of 0.75%. The maturities on the IRBs are held in a sinking fund account, recorded in Other Current Assets in the accompanying Consolidated Balance Sheets, and are paid out each year on September 1st.

10. Derivative Financial Instruments

In May 2010, the Company entered into a five-year interest rate swap agreement under the credit agreement with Wells Fargo. The interest rate swap was designated as a cash flow hedge of future interest payments of LIBOR and had a notional amount of $20 million. As a result of the interest rate swap transaction, the Company fixed for a five-year period the interest rate at 4.24% subject to market based interest rate risk on $20 million of borrowings under the credit agreement with Wells Fargo. The Company's obligations under the interest rate swap transaction as to the scheduled payments were guaranteed and secured on the same basis as its obligations under the credit agreement with Wells Fargo at the time the agreement was consummated. Upon entering into the new Term Loan with BMO Harris in May 2012, the Company used the proceeds from that loan to pay off the Wells Fargo credit facility. The swap with Wells Fargo was not terminated upon the extinguishment of the debt with Wells Fargo. As a result of extinguishing the debt with Wells Fargo as of May 23, 2012, the swap was no longer an effective hedge and therefore, the fair value of the swap at the time the debt was extinguished of $347,000 was reversed from other comprehensive income and recorded in other expense during fiscal year 2012. The fair value of the swap arrangement as of May 25, 2014 and May 26, 2013 was $44,000 and $163,000, respectively, and is included in other accrued liabilities in the accompanying Consolidated Balance Sheets.

11. Income Taxes

The provision for income taxes consisted of the following (in thousands):

Current:	Year ended May 25, 2014	Year ended May 26, 2013	Year ended May 27, 2012
Federal	$ 4,785	$ 2,808	$ 4,597
State	157	(18)	(586)
Foreign	56	56	56
Total	4,998	2,846	4,067
Deferred:			
Federal	5,059	6,218	2,641
State	526	388	477
Total	5,585	6,606	3,118
Income tax expense	$ 10,583	$ 9,452	$ 7,185

The actual provision for income taxes differs from the statutory U.S. federal income tax rate as follows (in thousands):

	Year Ended May 25, 2014	Year Ended May 26, 2013	Year Ended May 27, 2012
Provision at U.S. statutory rate (1)	$ 10,405	$ 11,214	$ 6,958
State income taxes, net of federal benefit	711	731	451
Change in valuation allowance	99	370	1
Tax-exempt interest	—	—	(40)
Tax credit carryforwards	(378)	(801)	(368)
Transaction costs	—	—	322
Domestic manufacturing deduction	(406)	(172)	(208)
Change in value of contingent consideration	—	(1,450)	—
Other	152	(440)	69
Total	$ 10,583	$ 9,452	$ 7,185

(1) Statutory rate was 35% for fiscal years 2014, 2013 and 2012.

The increase in income tax expense in fiscal year 2014 compared to fiscal year 2013 is primarily due to the benefit received in fiscal year 2013 related to the change in value of contingent consideration, the absence of which increased the effective tax tax rate from 30% in fiscal year 2013 to 36% in fiscal year 2014 partially offset by a 7% decrease in net income before taxes. The increase in the income tax expense in fiscal year 2013 compared to fiscal year 2012 is due to a 59% increase in net income before taxes partially offset by a decrease in the Company’s effective tax rate to 30% down from 36% in fiscal year 2012 related to a change in value of contingent consideration in fiscal year 2013

The effective tax rates for fiscal year 2014 differ from the statutory federal income tax rate of 35 percent as a result of several factors, including state taxes, non-deductible stock-based compensation expense, disqualified dispositions of incentive stock options, domestic manufacturing deduction, the benefit of federal and state research and development credits, and the change in valuation allowance. The effective tax rates for fiscal year 2013 differ from the statutory federal income tax rate of 35 percent as a result of several factors, including state taxes, change in value of contingent consideration, non-deductible stock-based compensation expense, disqualified dispositions of incentive stock options, domestic manufacturing deduction, the benefit of federal and state research and development credits, and the change in valuation allowance. The effective tax rates for fiscal year 2012 differ from the statutory federal income tax rate of 35 percent as a result of several factors, including state taxes, non-deductible stock-based compensation expense, tax exempt interest, domestic manufacturing deduction and the benefit of federal and state research and development credits, and accounting for transaction costs associated with the GreenLine acquisition in fiscal year 2012.

11. Income Taxes (continued)

Significant components of deferred tax assets and liabilities consisted of the following (in thousands):

	May 25, 2014	May 26, 2013
Deferred tax assets:		
Net operating loss carryforwards	$ 3,630	$ 3,853
Accruals and reserves	1,746	1,388
Stock-based compensation	723	621
Research and AMT credit carryforwards	495	486
Other	545	450
Gross deferred tax assets	7,139	6,798
Valuation allowance	(881)	(783)
Net deferred tax assets	6,258	6,015
Deferred tax liabilities:		
Basis difference in investment in non-public company	(9,270)	(5,505)
Depreciation and amortization	(5,705)	(5,822)
Goodwill and other indefinite life intangibles	(19,360)	(17,160)
Deferred tax liabilities	(34,335)	(28,487)
Net deferred tax liabilities	$ (28,077)	$ (22,472)

As of May 25, 2014, the Company had federal, California, Indiana, and other state net operating loss carryforwards of approximately $8.3 million, $1.7 million, $6.7 million, and $14.7 million respectively. These losses expire in different periods through 2032, if not utilized. Such net operating losses consist of excess tax benefits from employee stock option exercises and have not been recorded in the Company’s deferred tax assets. The Company will record approximately $915,000 of the gross California net operating loss to additional paid in capital as and when such excess tax benefits are ultimately realized. The Company acquired additional net operating losses through the acquisition of GreenLine. Utilization of these acquired net operating losses in a specific year is limited due to the “change in ownership” provision of the Internal Revenue Code of 1986 and similar state provisions. The net operating losses presented above for federal and state purposes is net of any such limitation.

The federal research and development credit has again expired and is currently unavailable for calendar 2014. As such, the Company is not benefiting any federal research credits for the last five months of the fiscal year ended May 25, 2014.

The Company has California research and development tax credits carryforwards of approximately $1.6 million. The research and development tax credit carryforwards have an unlimited carryforward period for California purposes. Certain tax credit carryovers are attributable to excess tax benefits from employee stock option exercises and have not been recorded in the Company’s deferred tax assets. The Company will record $1.1 million of the gross California research and development credit to additional paid in capital as and when such excess tax benefits are ultimately realized.

Valuation allowances are reviewed each period on a tax jurisdiction by jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets. Based on this analysis and considering all positive and negative evidence, the Company determined that a valuation allowance of $881,000 should be recorded as a result of uncertainty around the utilization of certain state net operating losses and a book impairment loss on the Company's investment in Aesthetic Sciences as it is more likely than not that a portion of the deferred tax asset will not be realized in the foreseeable future. The valuation allowance increased by $99,000 in fiscal year 2014 primarily due to uncertainty around the utilization of certain state net operating losses and credits.

The accounting for uncertainty in income taxes recognized in an enterprise’s financial statements prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and the derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

11. Income Taxes (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	As of		
	May 25, 2014	May 26, 2013	May 27, 2012
Unrecognized tax benefits – beginning of the period	$ 998	$ 766	$ 760
Gross increases – tax positions in prior period	7	103	1
Gross decreases – tax positions in prior period	(48)	—	(1)
Gross increases – current-period tax positions	78	129	246
Lapse of statute of limitations	—	—	(240)
Unrecognized tax benefits – end of the period	$ 1,035	$ 998	$ 766

As of May 25, 2014, the total amount of net unrecognized tax benefits was $1.0 million, of which, $817,000, if recognized, would affect the effective tax rate. As of May 26, 2013, the total amount of net unrecognized tax benefits was $1.0 million, of which, $807,000, if recognized, would affect the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The total amount of penalties and interest was not material as of May 25, 2014 and May 26, 2013. Additionally, the Company does not expect its unrecognized tax benefits to change materially within the next twelve months.

Due to tax attribute carryforwards, the Company is subject to examination for tax years 1997 forward for U.S. tax purposes. The Company is also subject to examination in various state jurisdictions for tax years 1998 forward, none of which were individually material.

12. Commitments and Contingencies

Operating Leases

Landec leases facilities and equipment under operating lease agreements with various terms and conditions, which expire at various dates through fiscal year 2020. Certain of these leases have renewal options.

The approximate future minimum lease payments under these operating leases, excluding land leases, at May 25, 2014 are as follows (in thousands):

	Amount
FY2015	$ 2,916
FY2016	2,720
FY2017	2,225
FY2018	1,375
FY2019	929
Thereafter	873
Total	$ 11,038

Rent expense for operating leases, including month to month arrangements was $4.4 million, $4.8 million and $1.5 million for the fiscal years 2014, 2013 and 2012, respectively.

Capital Leases

There was no equipment under capital lease agreements at May 25, 2014.

Employment Agreements

Landec has entered into employment agreements with certain key employees. These agreements provide for these employees to receive incentive bonuses based on the financial performance of certain divisions in addition to their annual base salaries. The accrued incentive bonuses amounted to $656,000 at May 25, 2014 and $548,000 at May 26, 2013.

12. Commitments and Contingencies (continued)

Purchase Commitments

At May 25, 2014, the Company was committed to purchase $5.0 million of produce during fiscal year 2015 in accordance with contractual terms at market rates. Payments of $7.1 million were made in fiscal year 2014 under these arrangements.

Loss Contingencies

As of May 25, 2014, the Company is not a party to any legal proceedings.

13. Employee Savings and Investment Plans

The Company sponsors a 401(k) plan which is available to substantially all of the Company's employees. Landec's Corporate Plan, which is available to all Landec employees ("Landec Plan"), allows participants to contribute from 1% to 50% of their salaries, up to the Internal Revenue Service (IRS) limitation into designated investment funds. The Company matches 67% on the first 6% contributed by an employee. Employee and Company contributions are fully vested at the time of the contributions. The Company retains the right, by action of the Board of Directors, to amend, modify, or terminate the plan. For fiscal years 2014, 2013 and 2012, the Company contributed $1.1 million, $939,000 and $789,000**,** respectively, to the Landec Plan.

14. Business Segment Reporting

The Company manages its business operations through three strategic business units. Based upon the information reported to the chief operating decision maker, who is the Chief Executive Officer, the Company has the following reportable segments: the Food Products Technology segment, the Food Export segment and the Hyaluronan-based Biomaterials segment.

The Food Products Technology segment markets and packs specialty packaged whole and fresh-cut fruit and vegetables, the majority of which incorporate the BreatheWay specialty packaging for the retail grocery, club store and food services industry. In addition, the Food Products Technology segment sells BreatheWay packaging to partners for non-vegetable products. The Food Export segment consists of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia and domestically. The HA-based Biomaterials segment sells products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans, for medical use primarily in the Ophthalmic, Orthopedic and Veterinary markets. Corporate licenses Landec's patented Intellicoat seed coatings to the farming industry and licenses the Company's Intelimer polymers for personal care products and other industrial products. The Corporate segment also includes general and administrative expenses, non-Food Products Technology and non HA-based Biomaterials interest income and income tax expenses. Beginning in fiscal year 2013, the Food Products Technology, the Food Export and the Hyaluronan-based Biomaterials segments include charges for corporate services and tax sharing allocated from the Corporate segment. All of the assets of the Company are located within the United States of America.

The Company's international sales by geography are based on the billing address of the customer and were as follows (in millions):

	May 25, 2014	May 26, 2013	May 27, 2012
Canada	$ 46.6	$ 27.8	$ 20.8
Taiwan	$ 30.7	$ 31.0	$ 22.7
Belgium	$ 13.1	$ 16.6	$ 15.6
Japan	$ 9.9	$ 10.6	$ 11.1
Indonesia	$ 9.6	$ 21.0	$ 23.0
China	$ 8.2	$ 5.0	$ 4.3
All Other Countries	$ 19.1	$ 20.8	$ 17.0

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14. Business Segment Reporting (continued)

Operations by segment consisted of the following (in thousands):

Fiscal Year Ended May 25, 2014	Food Products Technology	Food Export	Hyaluronan-based Biomaterials	Corporate	TOTAL
Net sales	$ 360,728	$ 69,827	$ 45,704	$ 554	$ 476,813
International sales	$ 47,224	$ 69,710	$ 20,312	$ —	$ 137,246
Gross profit	$ 36,318	$ 5,340	$ 20,456	$ 450	$ 62,564
Net income (loss)	$ 19,041	$ 1,973	$ 9,695	$ (11,564)	$ 19,145
Identifiable assets	$ 196,257	$ 25,391	$ 85,858	$ 6,117	$ 313,623
Depreciation and amortization	$ 4,751	$ 6	$ 2,221	$ 136	$ 7,114
Capital expenditures	$ 10,950	$ —	$ 3,877	$ 59	$ 14,886
Dividend income	$ 1,125	$ —	$ —	$ —	$ 1,125
Interest income	$ 12	$ —	$ 242	$ 6	$ 260
Interest expense	$ 1,402	$ —	$ 248	$ —	$ 1,650
Income tax expense	$ 33	$ 3	$ 17	$ 10,530	$ 10,583
Fiscal Year Ended May 26, 2013					
Net sales	$ 320,447	$ 78,568	$ 41,281	$ 1,412	$ 441,708
International sales	$ 27,532	$ 78,442	$ 26,792	$ —	$ 132,766
Gross profit	$ 37,077	$ 5,274	$ 19,102	$ 1,307	$ 62,760
Net income (loss)	$ 20,526	$ 1,660	$ 6,835	$ (6,434)	$ 22,587
Identifiable assets	$ 180,104	$ 21,737	$ 80,940	$ 8,161	$ 290,942
Depreciation and amortization	$ 4,761	$ 4	$ 2,379	$ 151	$ 7,295
Capital expenditures	$ 5,598	$ —	$ 3,190	$ 89	$ 8,877
Dividend income	$ 1,125	$ —	$ —	$ —	$ 1,125
Interest income	$ 42	$ —	$ 137	$ —	$ 179
Interest expense	$ 1,707	$ —	$ 301	$ —	$ 2,008
Income tax expense	$ 3,399	$ 339	$ 1,400	$ 4,314	$ 9,452
Fiscal Year Ended May 27, 2012					
Net sales	$ 207,582	$ 71,485	$ 34,283	$ 4,202	$ 317,552
International sales	$ 20,528	$ 71,054	$ 22,904	$ —	$ 114,486
Gross profit	$ 25,237	$ 4,900	$ 17,994	$ 4,007	$ 52,138
Net income (loss)	$ 17,527	$ 2,269	$ 7,672	$ (14,772)	$ 12,696
Identifiable assets	$ 169,541	$ 18,425	$ 81,927	$ 7,799	$ 277,692
Depreciation and amortization	$ 3,191	$ 7	$ 2,242	$ 181	$ 5,621
Capital expenditures	$ 2,498	$ —	$ 2,798	$ 75	$ 5,371
Dividend income	$ 1,125	$ —	$ —	$ —	$ 1,125
Interest income	$ 30	$ —	$ 129	$ 21	$ 180
Interest expense	$ 178	$ —	$ 751	$ —	$ 929
Income tax expense	$ —	$ —	$ —	$ 7,185	$ 7,185

15. Quarterly Consolidated Financial Information (unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2014, 2013 and 2012 (in thousands, except for per share amounts):

FY 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2014
Revenues	$ 109,479	$ 120,026	$ 126,379	$ 120,929	$ 476,813
Gross profit	$ 12,532	$ 13,734	$ 20,155	$ 16,143	$ 62,564
Net income	$ 4,752	$ 3,451	$ 6,400	$ 4,542	$ 19,145
Net income per basic share	$ 0.18	$ 0.13	$ 0.24	$ 0.17	$ 0.72
Net income per diluted share	$ 0.18	$ 0.13	$ 0.24	$ 0.17	$ 0.71

Financials

15. Quarterly Consolidated Financial Information (unaudited) (continued)

FY 2013	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2013
Revenues	$ 102,074	$ 114,654	$ 117,867	$ 107,113	$ 441,708
Gross profit	$ 13,763	$ 18,459	$ 17,508	$ 13,030	$ 62,760
Net income	$ 4,366	$ 8,913	$ 4,789	$ 4,519	$ 22,587
Net income per basic share	$ 0.17	$ 0.35	$ 0.19	$ 0.17	$ 0.87
Net income per diluted share	$ 0.17	$ 0.34	$ 0.18	$ 0.17	$ 0.85

FY 2012	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2012
Revenues	$ 73,301	$ 81,570	$ 80,064	$ 82,617	$ 317,552
Gross profit	$ 11,250	$ 13,010	$ 13,172	$ 14,706	$ 52,138
Net income (loss)	$ 1,812	$ 3,340	$ 4,765	$ 2,779	$ 12,696
Net income (loss) per basic share	$ 0.07	$ 0.13	$ 0.19	$ 0.11	$ 0.49
Net income (loss) per diluted share	$ 0.07	$ 0.13	$ 0.18	$ 0.11	$ 0.49

16. Subsequent Events

On July 15, 2014, Apio purchased from a shareholder of Windset an additional 68 shares of common stock and 15,857 shares of junior preferred stock of Windset for $11.0 million. After the purchase, Apio's common stock ownership represents a 26.9% interest in Windset. The non-voting junior preferred stock does not yield a dividend unless declared by the Board of Directors of Windset. The newly purchased shares of common stock will be included in the put/call arrangement with Windset and will be adjusted to fair value on a quarterly basis along with the previously purchased common stock.

On July 17, 2014, Apio entered into the amendment with GE Capital, which amends the Credit Agreement dated April 23, 2012 among the parties. Under the amendment, the parties have agreed to increase the current revolving line of credit from $25 million to $40 million, reduce the interest rate from LIBOR plus 2.0% to LIBOR plus 1.75%, extend the term to July 17, 2019 and make certain other changes.

(b) Index of Exhibits.

Exhibit Number:	Exhibit Title
3.1	Certificate of Incorporation of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K dated November 7, 2008.
3.2	Amended and Restated Bylaws of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K dated October 18, 2011.
10.1	Form of Indemnification Agreement, incorporated herein by reference to Exhibit 10.1 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 29, 2005.
10.2*	Form of Option Agreement for 1995 Directors’ Stock Option Plan, incorporated herein by reference to Exhibit 10.4 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.3	Industrial Real Estate Lease dated March 1, 1993 between the Registrant and Wayne R. Brown & Bibbits Brown, Trustees of the Wayne R. Brown & Bibbits Brown Living Trust dated December 30, 1987, incorporated by reference to Exhibit 10.6 to the Registrant’s Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
10.4*	Form of Option Agreement for the 1996 Non-Executive Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.16 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.5*	1996 Amended and Restated Stock Option Plan, incorporated herein by reference to Exhibit 10.17 to the Registrant’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2001.
10.6*	Form of Option Agreement for 1996 Amended and Restated Stock Option Plan, incorporated herein by reference to Exhibit 10.17 to the Registrant’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1997.
10.7*	New Executive Stock Option Plan, incorporated herein by reference to Exhibit 10.30 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 29, 2000.
10.8*	1996 Non-Executive Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.35 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 28, 2001.
10.9	Supply Agreement between the Registrant and Apio Fresh LLC and the Growers listed therein, dated as of July 3, 2003, incorporated herein by reference to Exhibit 2.3 to the Registrant’s Current Report on Form 8-K dated July 3, 2003.
10.10*	1995 Directors’ Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.53 to the Registrant’s Annual Report on Form 10-Q for the fiscal quarter ended May 25, 2003.
10.11#	License and research and development agreement between the Registrant and Air Products and Chemicals, Inc. dated March 14, 2006, incorporated herein by reference to Exhibit 10.63 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 28, 2006.
10.12*	2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 14, 2005.
10.13*	Form of Stock Grant Agreement for 2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 14, 2005.

Financials

Exhibit Number:	Exhibit Title
10.14*	Form of Notice of Stock Option Grant and Stock Option Agreement for 2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 10.66 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 28, 2006.
10.15*	Form of Stock Unit Agreement for 2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 10.67 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 28, 2006.
10.16*	Form of Stock Appreciation Right Agreement for 2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 14, 2005.
10.17	Agreement and Plan of Merger between Landec Corporation, a California corporation, and the Registrant, dated as of November 6, 2008, incorporated herein by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K dated November 7, 2008.
10.18*	2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.19*	Form of Stock Grant Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.20*	Form of Notice of Stock Option Grant and Stock Option Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.21*	Form of Stock Unit Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.22*	Form of Stock Appreciation Right Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.23	Stock Purchase Agreement by and among the Registrant, Lifecore Biomedical, Inc., Lifecore Biomedical, LLC and Warburg Pincus Private Equity IX, L.P., dated April 30, 2010, incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated May 5, 2010.
10.24	Amended and Restated License, Supply and R&D Agreement dated November 27, 2009 by and among the Registrant, Landec Ag, LLC and Monsanto Company, incorporated by reference to Exhibit 10.25 to the Registrant’s Current Report on Form 8-K dated December 3, 2009.
10.25	Share Purchase Agreement, dated February 15, 2011, by and between Apio, Inc. and Windset Holdings 2010 Ltd., incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated February 18, 2011.
10.26	Stock Purchase Agreement by and among Apio, Inc., GreenLine Holding Company and 2003 Riverside Capital Appreciation Fund, L.P., dated April 23, 2012, incorporated herein by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K dated April 27, 2012.
10.27	Loan agreements by and between the Registrant, Apio, Inc. and General Electric Capital Corporation dated April 23, 2012, incorporated herein by reference to Exhibits 10.1 through 10.9 to the Registrant’s Current Report on Form 8-K dated May 27, 2012.

Exhibit Number:	Exhibit Title
10.28	Credit Agreement and Reimbursement Agreement by and between Lifecore Biomedical, LLC and BMO Harris Bank N.A. dated May 23, 2012, incorporated herein by reference to Exhibits 10.1 and 10.2 to the Registrant's Current Report on Form 8-K dated May 29, 2012.
10.29	Long-Term Incentive Plan, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated July 31, 2013.
10.30	Employment Agreement between the Registrant and Gregory S. Skinner effective as of January 1, 2013, incorporated herein by reference to Exhibit 10.37 to the Registrant's Current Report on Form 8-K dated December 10, 2012.
10.31	Nonqualified Deferred Compensation Plan, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated July 31, 2013.
10.32	2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.33	Form of Stock Grant Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.34	Form of Notice of Stock Option Grant and Stock Option Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.35	Form of Stock Unit Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.36	Form of Stock Appreciation Right Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.37*	2015 Cash Bonus Plan, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated June 23, 2014.
10.38*	Employment Agreement between the Registrant and Gary T. Steele effective as of May 26, 2014, incorporated herein by reference to Exhibit 10.35 to the Registrant's Current Report on Form 8-K dated June 23, 2014.
10.39	Stock Transfer Agreement dated July 15, 2014 among Apio, Inc., Newell Capital Corporation and Windset Holdings 2010 Ltd., incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 21, 2014.
10.40	Second Amendment to Credit Agreement dated July 17, 2014 among Apio, Inc., CalEx Trading Company, Greenline Logistics, Inc. and General Electric Capital Corporation, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated July 21, 2014.
21.1	Subsidiaries of the Registrant at May 25, 2014 — State of Incorporation Apio, Inc. — Delaware Lifecore Biomedical, Inc. — Delaware
23.1+	Consent of Independent Registered Public Accounting Firm
24.1+	Power of Attorney – See signature page

Financials

Exhibit Number:	Exhibit Title
31.1+	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2+	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
*	Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) of Form 10-K.
**	Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.
+	Filed herewith.
#	Confidential treatment requested as to certain portions. The term “confidential treatment” and the mark “*” as used throughout the indicated Exhibit means that material has been omitted.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on August 1, 2014.

LANDEC CORPORATION

By: /s/ Gregory S. Skinner

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gary T. Steele and Gregory S. Skinner, and each of them, as his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Gary T. Steele Gary T. Steele	President and Chief Executive Officer and Director (Principal Executive Officer)	August 1, 2014
/s/ Gregory S. Skinner Gregory S. Skinner	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	August 1, 2014
/s/ Nicholas Tompkins Nicholas Tompkins	Chairman of the Board of Apio, Inc. and Director	August 1, 2014
/s/ Robert Tobin Robert Tobin	Director	August 1, 2014
/s/ Albert D. Bolles, Ph.D Albert D. Bolles, Ph.D	Director	August 1, 2014
/s/ Frederick Frank Frederick Frank	Director	August 1, 2014
/s/ Stephen E. Halprin Stephen E. Halprin	Director	August 1, 2014
/s/ Steven Goldby Steven Goldby	Director	August 1, 2014
/s/ Richard Dean Hollis Richard Dean Hollis	Director	August 1, 2014
/s/ Catherine A. Sohn Catherine A. Sohn	Director	August 1, 2014
/s/ Tonia Pankopf Tonia Pankopf	Director	August 1, 2014

EXHIBIT INDEX

Exhibit Number	Exhibit Title
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney. See signature page.
31.1	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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Corporate Directory

BOARD OF DIRECTORS

Albert D. Bolles, Ph.D.
Executive Vice President,
Chief Technical and Operations Officer
ConAgra Foods, Inc.

Frederick Frank
Chairman,
Burrill Securities

Steven Goldby
Partner,
Venrock

Stephen Halprin
Retired General Partner,
OSCCO Ventures

Dean Hollis
Retired President and Chief Operating Officer,
ConAgra Foods, Inc.
Consumer Foods and International Division

Tonia Pankopf
Managing Partner,
Pareto Advisors, LLC

Catherine A. Sohn
Retired Senior Executive,
GlaxoSmithKline (GSK)

Gary T. Steele
Chairman of the Board,
President and Chief Executive Officer
Landec Corporation

Robert Tobin
Retired CEO,
AHOLD USA

Nicholas Tompkins
Chairman of the Board,
Apio Inc.

CORPORATE MANAGEMENT

Gary T. Steele
Chairman of the Board,
President and Chief Executive Officer

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

Molly A. Hemmeter
Vice President,
Chief Operating Officer

Ronald L. Midyett
President and Chief Executive Officer,
Apio, Inc.

Larry D. Hiebert
President,
Lifecore Biomedical, Inc.

Steven P. Bitler, Ph.D.
Vice President,
Corporate Technology

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
San Francisco, CA

CORPORATE COUNSEL

Ropes & Gray LLP
San Francisco, CA

SHAREHOLDERS' INFORMATION

Transfer Agent and Registrar
The stock transfer agent and registrar for Landec Corporation is Broadridge. Shareholders who wish to transfer their stock, or change the name in which the shares are registered, should contact:

Broadridge Corporate Issuer Solutions, Inc.
44 West Lancaster Ave.
Ardmore, PA 19003
Tel 610-649-7300
Fax 610-649-7302
www.shareholder.broadridge.com

CORPORATE HEADQUARTERS

Landec Corporation
3603 Haven Avenue
Menlo Park, CA 94025-1010
650-306-1650

STOCK LISTING

The Company's common stock is traded on the Nasdaq Global Select Market under the symbol LNDC. The Company has filed an annual report on Form 10-K with the Securities and Exchange Commission. Shareholders may obtain a copy of this report and Form 10-K without charge by writing the Company at:

3603 Haven Avenue
Menlo Park, CA 94025
Attn: Investor Relations

Except for the historical information contained here, the matters discussed in the enclosed materials are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially including risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

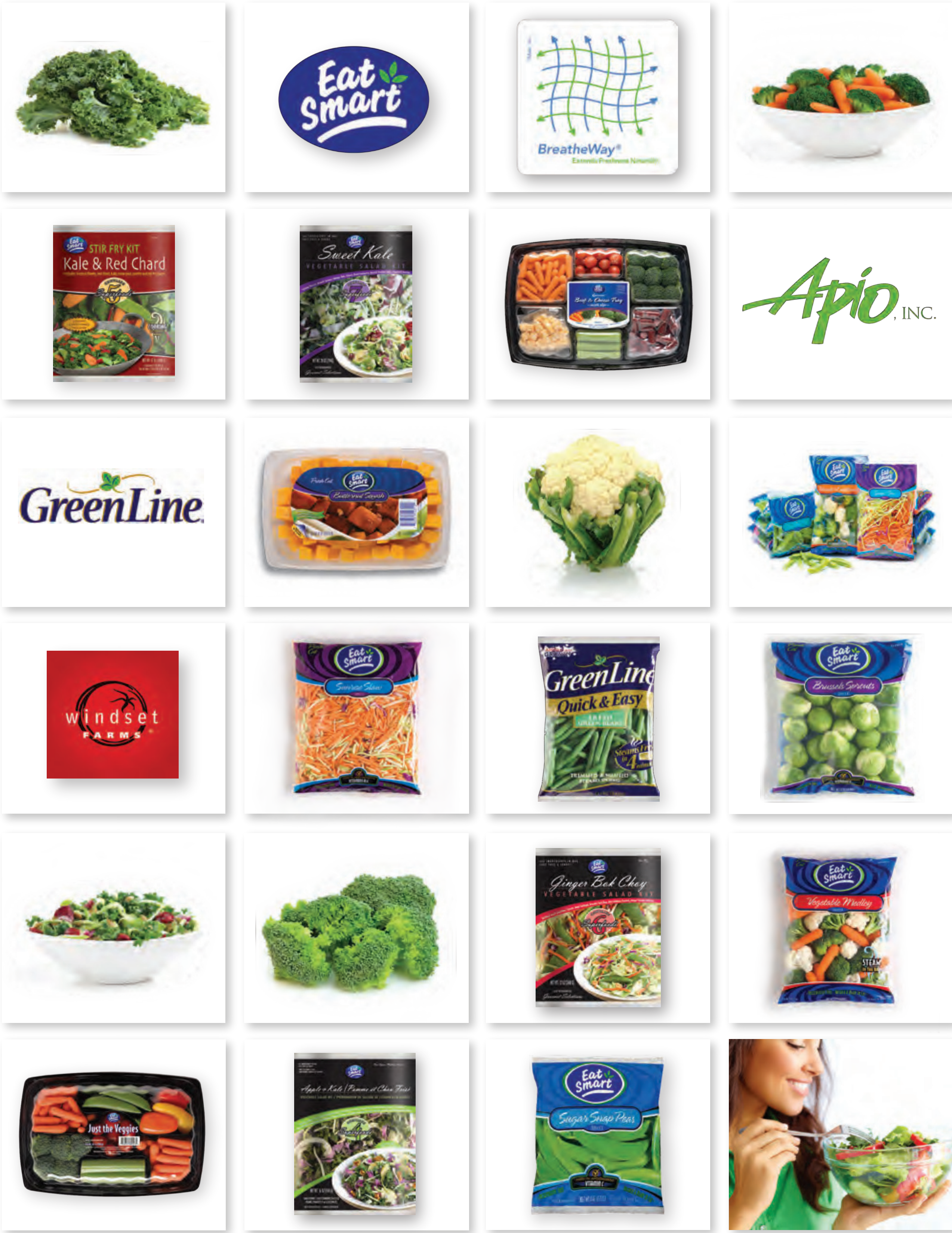
TRADEMARKS

The following are some of the official trademarks and service marks of the Landec Corporation and its subsidiaries:

Landec®	GreenLine®
Intelimer®	Lifecore®
Apio™	Corgel® BioHydrogel
Clearly Fresh®	Lurocoat® Ophthalmic Viscoelastic
BreatheWay®	Ortholure™ Orthopedic Viscosupplement
Eat Smart®	Revitalure™
Cal Ex®	Smart Polymers to Fuel Innovation™

Windset Farms® is a registered trademark of Greenhouse Grown Foods Inc.

Innovations For Healthy Living



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