

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Fiscal Quarter Ended February 29, 2004, or

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

For the Transition period from to .

Commission file number: 0-27446

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-3025618
(IRS Employer
Identification Number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes No

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

Yes No

As of April 2, 2004, there were 21,355,627 shares of Common Stock and 170,729 shares of Convertible Preferred Stock, convertible into ten shares of Common Stock for each share of Preferred Stock, outstanding.

LANDEC CORPORATION

FORM 10-Q For the Fiscal Quarter Ended February 29, 2004

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION CONSOLIDATED BALANCE SHEETS (In thousands)

	February 29, 2004 (Unaudited)	May 25, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,248	\$ 3,699
Restricted cash	375	2,382
Accounts receivable, less allowance for doubtful accounts of \$247 and \$191 at February 29, 2004 and May 25, 2003	11,336	17,313
Accounts receivable, related party	364	¾
Inventory	16,668	11,716
Investment in farming activities	162	50
Notes and advances receivable	935	2,312
Notes receivable, related party	326	83
Prepaid expenses and other current assets	1,812	1,614
Total Current Assets	38,226	39,169
Property and equipment, net	18,636	18,511
Goodwill, net	25,987	26,116
Trademarks and other intangible, net	11,680	11,710
Notes receivable	925	1,120
Notes receivable, related party	151	¾
Other assets	350	261
Total Assets	\$ 95,955	\$ 96,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 11,289	\$ 13,940
Grower payables	¾	3,234
Related party payables	436	632
Accrued compensation	993	1,223
Other accrued liabilities	2,435	3,931
Deferred revenue	11,772	719
Lines of credit	6,279	7,244
Current maturities of long term debt	1,645	2,375
Total Current Liabilities	34,849	33,298
Long term debt, less current maturities	2,261	3,875
Other liabilities	659	760
Minority interest	1,301	1,051
Shareholders' Equity:		

Preferred stock		5,876	5,531
Common stock		110,564	110,100
Accumulated deficit		(59,555)	(57,728)
Total Shareholders' Equity		56,885	57,903
Total Liabilities and Shareholders' Equity	\$	95,955	\$ 96,887

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	February 29, 2004	March 2, 2003	February 29, 2004	March 2, 2003
Revenues:				
Product sales	\$ 47,347	\$ 39,547	\$ 127,738	\$ 109,700
Services revenue	¾	5,780	2,083	16,790
Product sales, related party	279	¾	704	¾
Services revenue, related party	815	356	2,641	1,879
License fees	22	105	66	1,363
Research, development and royalty revenues	63	180	240	889
Royalty revenues, related party	62	¾	184	¾
Total revenues	48,588	45,968	133,656	130,621
Cost of revenue:				
Cost of product sales	39,292	33,586	108,695	94,862
Cost of product sales, related party	1,342	193	3,627	1,409
Cost of services revenue	506	4,742	2,775	13,864
Total cost of revenue	41,140	38,521	115,097	110,135
Gross profit	7,448	7,447	18,559	20,486
Operating costs and expenses:				
Research and development	881	1,040	2,799	3,013
Selling, general and administrative	5,631	6,620	16,335	19,267
Total operating costs and expenses	6,512	7,660	19,134	22,280
Operating income (loss)	936	(213)	(575)	(1,794)
Interest income	42	74	134	169
Interest expense	(162)	(308)	(695)	(848)
Other (expense) income	(91)	12	(346)	380
Net income (loss) from continuing operations	725	(435)	(1,482)	(2,093)
Net loss from discontinued operations	¾	¾	¾	(1,688)
Net income (loss)	725	(435)	(1,482)	(3,781)
Dividends on Series B preferred stock:	(117)	(108)	(345)	(318)
Net income (loss) applicable to common shareholders	\$ 608	\$ (543)	\$ (1,827)	\$ (4,099)
Basic net income (loss) per share:				
Net income (loss) from continuing operations	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.12)
Net loss from discontinued operations	¾	¾	¾	(0.09)
Basic net income (loss) per share	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.21)
Diluted net income (loss) per share:				
Net income (loss) from continuing operations	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.12)
Net loss from discontinued operations	¾	¾	¾	(0.09)
Diluted net income (loss) per share	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.21)
Shares used in per share computation:				
Basic	21,321	21,085	21,250	19,941
Diluted	24,034	21,085	21,250	19,941

See accompanying notes.

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LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Nine Months Ended	
	February 29, 2004	March 2, 2003
Cash flows from operating activities:		
Net loss	\$ (1,482)	\$ (3,781)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,689	2,687
Loss from discontinued operations	¾	1,688
Write down of goodwill	120	¾
Gain on sale of property and equipment	¾	(458)
Increase in minority interest liability	404	421
Changes in current assets and liabilities, net of effects from discontinued operations:		
Accounts receivable, net	5,613	5,741
Inventory	(5,191)	(6,674)
Investment in farming activities	(112)	459
Notes and advances receivable	1,823	1,620
Prepaid expenses and other current assets	(198)	1,330
Accounts payable	(2,651)	(3,558)
Grower payables	(3,234)	(2,436)
Related party payables	(196)	(385)
Accrued compensation	(230)	(366)
Other accrued liabilities	(1,496)	(5,042)
Deferred revenue	10,818	7,446
Net cash provided by (used in) operating activities	6,677	(1,308)
Cash flows from investing activities:		
Purchases of property and equipment	(2,776)	(1,501)
Change in other assets and liabilities	(360)	507
Acquisition of business, net of cash acquired	¾	(152)
Change in restricted cash	2,007	(1,426)
Proceeds from the sale of property and equipment	¾	2,972
Net proceeds from sale of discontinued operations	¾	9,406
Net cash (used in) provided by investing activities	(1,129)	9,806
Cash flows from financing activities:		
Proceeds from sale of common stock	464	299
Borrowings on lines of credit	95,890	25,979
Payments on lines of credit	(96,855)	(26,079)
Payments on long term debt	(2,344)	(8,181)
Proceeds from issuance of long term debt	¾	60
Distributions to minority interest	(154)	(511)
Net cash used in financing activities	(2,999)	(8,433)
Net increase in cash and cash equivalents	2,549	65
Cash and cash equivalents at beginning of period	3,699	2,064
Cash and cash equivalents at end of period	\$ 6,248	\$ 2,129
Supplemental schedule of noncash investing and financing activities:		
Sale of assets and services for notes receivable	\$ 239	\$ —
Issuance of Series B preferred stock as dividends to Series B preferred stockholders	\$ 345	\$ 210

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements of Landec have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position at February 29, 2004 and the results of operations and cash flows for all periods presented. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted per the rules and regulations of the Securities

and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec's Annual Report on Form 10-K for the seven month period ended May 25, 2003.

The results of operations for the three and nine months ended February 29, 2004 are not necessarily indicative of the results that may be expected for an entire fiscal year. For instance, due to the cyclical nature of the corn seed industry, a significant portion of Landec Ag revenues and profits will be concentrated over a few months during the spring planting season (generally during Landec's third and fourth fiscal quarters). In February 2003, the Company changed its fiscal year end from a fiscal year including 52 or 53 weeks that ended on the last Sunday in October to a fiscal year including 52 or 53 weeks that ends on the last Sunday in May.

Use of Estimates

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

For instance, the carrying value of notes and advances receivable, as well as investments in farming activities, are impacted by current market prices for the related crops, weather conditions and the fair value of the underlying security obtained by the Company, such as, liens on property and crops. The Company recognizes losses when it estimates that the fair value of the related crops or security is insufficient to cover the advance, note receivable or investment.

Discontinued Operations

The income statement accounts of Dock Resins Corporation, ("Dock Resins"), the Company's former specialty chemicals subsidiary that was sold on October 24, 2002, have been reclassified to discontinued operations in accordance with Accounting Principles Board Opinion 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30") in the accompanying Statements of Operations.

Reclassifications

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

2. Exit of Domestic Commodity Vegetable Business

Effective June 30, 2003, the Company exited the selling of domestic commodity vegetable products and sold certain assets associated with this business to Apio Fresh LLC ("Apio Fresh"). Apio Fresh is owned by a group of entities and persons that supply produce to Apio. One of the owners of Apio Fresh is Apio's CEO (see Note 9). Under the terms of the sale, Apio Fresh purchased certain equipment and carton inventory from the Company at their net book value of approximately \$410,000 in exchange for notes receivables due in monthly installments over 24 months. In addition, Apio will be providing information technology service to Apio Fresh for 36 months in exchange for a note receivable for \$235,000. In connection with the sale, Apio Fresh will pay the Company an on-going royalty fee (\$62,000 and \$184,000 for the three and nine months ended February 29, 2004, respectively) per carton sold for the use of Apio's brand names. Apio Fresh and its owner growers also entered into a long-term supply agreement with the Company to supply produce to Apio for its fresh-cut, value-added business. As a result of the sale, the Company recorded during the first quarter of fiscal year 2004, a write down of goodwill of \$120,000 allocable to this business.

3. Net Income Per Diluted Share

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

	Three Months Ended February 29, 2004
Numerator:	
Net income	\$ 725
Less: Minority interest in income of subsidiary	(98)
Net income for diluted net income per share	\$ 627
Denominator:	
Weighted average shares for basic net income per share	21,321
Effect of dilutive securities:	
Stock Options	963
Convertible preferred stock	1,750
Total dilutive common shares	2,713
Weighted average shares for diluted net income per share	24,034
Diluted net income per share	\$ 0.03

4. Stock-Based Compensation

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

employee stock option and stock purchase plans, unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock at the date of grant.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 148 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions: risk-free interest rates ranging from 3.07% to 3.27% for the three months ended February 29, 2004, 2.90% to 3.05% for the three months ended March 2, 2003; 2.27% to 3.37% for the nine months ended February 29, 2004, and 2.90% to 4.19% for the nine months ended March 2, 2003; a dividend yield of 0.0% for the three and nine months ended February 29, 2004 and March 2, 2003; a volatility factor of the expected market price of the Company's common stock of .72 and .83 as of February 29, 2004 and March 2, 2003, respectively; and a weighted average expected life of the options of 4.99 years and 5.66 years for the three and nine months ended February 29, 2004 and March 2, 2003, respectively.

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

	Three Months Ended		Nine Months Ended	
	February 29, 2004	March 2, 2003	February 29, 2004	March 2, 2003
Net income (loss)	\$ 725	\$ (435)	\$ (1,482)	\$ (3,781)
Deduct:				
Stock-based employee expense determined under SFAS 123	(165)	(183)	(732)	(639)
Pro forma net income (loss)	\$ 560	\$ (618)	\$ (2,214)	\$ (4,420)
Basic net income (loss) per share – as reported	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.21)
Diluted net income (loss) per share – as reported	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.21)
Basic pro forma net income (loss) per share	\$ 0.03	\$ (0.03)	\$ (0.10)	\$ (0.22)
Diluted pro forma net income (loss) per share	\$ 0.02	\$ (0.03)	\$ (0.10)	\$ (0.22)

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

5. Goodwill and Other Intangibles

The Company is required under SFAS 142 to review goodwill and indefinite lived intangible assets at least annually. During the nine months ended February 29, 2004, the Company completed its second annual impairment review. The review is performed by grouping the net book value of all long-lived assets for reporting entities, including goodwill and other intangible assets, and comparing this value to the related estimated fair value. The determination of fair value is based on estimated future discounted cash flows related to these long-lived assets. The

discount rate used was based on the risks associated with the reporting entities. The determination of fair value was performed by management using the services of an independent appraiser. The review concluded that the fair value of the reporting entities exceeded the carrying value of their net assets and thus no impairment charge was warranted as of February 29, 2004.

On June 30, 2003, the Company sold its domestic commodity vegetable business. As a result of this sale, the Company reduced its goodwill by \$120,000, which was the amount allocable to this business.

6. Inventories

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

	February 29, 2004	May 25, 2003
Finished goods	\$ 12,815	\$ 8,379
Raw material	3,797	3,193
Work in process	56	144
Total	\$ 16,668	\$ 11,716

7. Debt

On August 20, 2003, Apio entered into a \$12 million revolving line of credit (borrowings are based on Apio's accounts receivable levels) and a \$3.0 million equipment line of credit (the "Lines") with Wells Fargo Business Credit, Inc. ("Wells Fargo"). Outstanding amounts under the Lines bear interest at the prime rate set by Wells Fargo plus one percent (5% at February 29, 2004). The Lines expire July 31, 2006. The Lines contain certain restrictive covenants, which, among other things, affect the ability of Landec to receive payments on debt owed by Apio to Landec. Landec has pledged substantially all

of the assets of Apio to secure the Lines. Concurrently with entering into this agreement with Wells Fargo, the Company paid off and terminated its revolving line of credit with Bank of America.

8. Related Party

Apio provides packing, cooling and distributing services for farms in which the Chief Executive Officer of Apio (the "Apio CEO") has a financial interest and purchases produce from those farms. Revenues, cost of product sales and the resulting payable and the note receivable from advances for ground lease payments, crop and harvesting costs, are classified as related party in the accompanying financial statements as of February 29, 2004 and May 25, 2003 and for the three and nine months ended February 29, 2004 and March 2, 2003.

Apio leases, for approximately \$1.2 million on an annual basis, agricultural land that is either owned, controlled or leased by the Apio CEO. Apio, in turn, subleases that land at cost to growers who are obligated to deliver product from that land to Apio for value added products. There is generally no net statement of operations impact to Apio as a result of these leasing activities but Apio creates a guaranteed source of supply for the value added business. Apio has loss exposure on the leasing activity to the extent that it is unable to sublease the land.

Apio's domestic commodity vegetable business was sold to Apio Fresh, effective June 30, 2003. The Apio CEO is a 12.5% owner in Apio Fresh. The revenues and resulting accounts receivable from Apio Fresh are classified as related party in the accompanying financial statements as of February 29, 2004 and for the three and nine months ended February 29, 2004.

In addition, the Apio CEO has a 6% ownership interest in Apio Cooling LP, a limited partnership in which Apio is the general partner with a 60% ownership interest. Included in the minority interest liability is \$206,000 owed to the Apio CEO.

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

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9. Dividends

Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first three years, ten percent (10%) for the fourth year and twelve percent (12%) thereafter, following the initial sale on October 25, 2001, of shares of Series B Convertible Preferred Stock. Series B preferred stockholders were issued 3,218 shares of Series B preferred stock on July 31, 2003, 3,282 on October 31, 2003 and 3,348 on January 31, 2004 for accrued stock dividends. Dividends for Series B preferred stock are cumulative and were declared by the Company's Board of Directors and issued at a price of \$35 per share as per the agreement.

10. Comprehensive income / loss

The comprehensive income/loss of Landec is the same as the net income/loss.

11. Business Segment Reporting

Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs specialty packaged whole and fresh-cut vegetables that incorporate the Intelimer[®] based specialty packaging for the retail grocery, club store and food services industry. In June 2003, the Company exited the selling of domestic commodity vegetable products (see Note 2). The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is developing seed coatings using Landec's proprietary Intelimer polymers. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and other amounts include non-core operating activities and corporate operating costs. All of the assets of the Company are located within the United States of America.

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Operations by Business Segment (in thousands):

	Food Products Technology	Agricultural Seed Technology	Corporate and Other	TOTAL
<u>Three months ended February 29, 2004</u>				
Net revenues	\$ 39,614	\$ 8,857	\$ 117	\$ 48,588
International sales	\$ 8,238	\$ —	\$ —	\$ 8,238
Gross profit	\$ 3,671	\$ 3,670	\$ 107	\$ 7,448
Net income (loss)	\$ (550)	\$ 1,245	\$ 30	\$ 725
Interest expense	\$ 137	\$ 25	\$ —	\$ 162
Interest income	\$ 39	\$ 2	\$ 1	\$ 42
Depreciation and amortization	\$ 697	\$ 124	\$ 47	\$ 868
<u>Three months ended March 2, 2003</u>				
Net revenues	\$ 38,176	\$ 7,507	\$ 285	\$ 45,968
International sales	\$ 6,106	\$ —	\$ —	\$ 6,106
Gross profit	\$ 4,084	\$ 3,078	\$ 285	\$ 7,447
Net income (loss) from continuing operations	\$ (1,263)	\$ 756	\$ 72	\$ (435)
Interest expense	\$ 259	\$ 49	\$ —	\$ 308
Interest income	\$ 62	\$ 2	\$ 10	\$ 74
Depreciation and amortization	\$ 721	\$ 125	\$ 37	\$ 883

Nine months ended February 29, 2004

Net revenues	\$	124,277	\$	9,003	\$	376	\$	133,656
International sales	\$	36,737	\$	—	\$	—	\$	36,737
Gross profit	\$	14,501	\$	3,718	\$	340	\$	18,559
Net income (loss)	\$	1,554	\$	(3,068)	\$	32	\$	(1,482)
Interest expense	\$	567	\$	128	\$	—	\$	695
Interest income	\$	125	\$	6	\$	3	\$	134
Depreciation and amortization	\$	2,190	\$	356	\$	143	\$	2,689

Nine months ended March 2, 2003

Net revenues	\$	121,141	\$	7,478	\$	2,002	\$	130,621
International sales	\$	25,013	\$	—	\$	—	\$	25,013
Gross profit	\$	15,297	\$	3,187	\$	2,002	\$	20,486
Net income (loss) from continuing operations	\$	(112)	\$	(3,623)	\$	1,642	\$	(2,093)
Interest expense	\$	757	\$	90	\$	1	\$	848
Interest income	\$	130	\$	14	\$	25	\$	169
Depreciation and amortization	\$	2,224	\$	390	\$	73	\$	2,687

During the nine months ended February 29, 2004 and March 2, 2003, sales to the Company's top five customers accounted for approximately 42% and 36%, respectively, of revenues, with the Company's top customers from the Food Products Technology segment, Sam's Club, accounting for approximately 13% and 14%, respectively, and Costco Wholesale Corp., accounting for approximately 12% and 12%, respectively of revenues. The Company expects that, for the foreseeable future, a limited number of customers may continue to account for a significant portion of its net revenues.

Item 2.

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I—Item 1 of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Landec's Annual Report on Form 10-K for the seven months ended May 25, 2003.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in Landec's Annual Report on Form 10-K for the seven months ended May 25, 2003. Landec undertakes no obligation to update or revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

Critical Accounting Policies and Use of Estimates

There have been no material changes to the Company's critical accounting policies which are included and described in the Form 10-K for the seven-month fiscal period ended May 25, 2003 filed with the Securities and Exchange Commission on August 22, 2003.

The Company

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

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

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

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

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

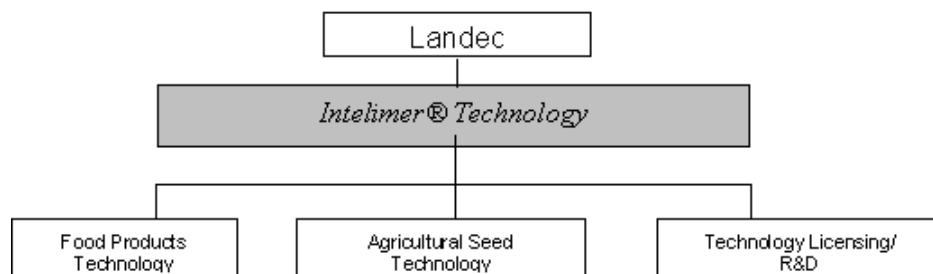
In addition to our two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses and/or supplies products outside of our core businesses to industry leaders such as Alcon Laboratories, Inc. and L’Oreal of Paris.

Landec has been unprofitable during each fiscal year since its inception, except for the seven-month period ended May 25, 2003, and may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year. From inception through February 29, 2004, Landec’s accumulated deficit was \$59.6 million.

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

Description of Core Business

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



Food Products Technology Business

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

Based in Guadalupe, California, Apio, when acquired in December 1999, consisted of two major businesses – first, the “fee-for-service” selling and marketing of whole produce and second, the specialty packaged fresh-cut and whole value-added processed products that are washed and packaged in our proprietary packaging. Effective June 30, 2003, the Company exited the selling of domestic commodity vegetable products and sold certain assets associated with this business to Apio Fresh LLC (“Apio Fresh”). Apio Fresh is owned by a group of entities and persons that supply produce to Apio. The Apio CEO is a 12.5% owner in Apio Fresh. The fresh-cut value-added produce processing business sells a variety of fresh-cut vegetables to the top retail grocery chains representing over 9,900 retail and club stores. During the twelve months ended May 25, 2003, Apio shipped more than 19 million

cartons of produce to some 700 customers including leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

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

- **Value-Added Supplier:** Apio has structured its business as a marketer and seller of fresh-cut and whole value-added produce. It is focused on developing its Eat Smart® brand and the Dole® brand for all of its fresh-cut and whole value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.
- **Reduced Farming Risks:** Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce. The year-round sourcing of produce is a key component to the fresh-cut and whole value-added processing business.
- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing fresh-cut and whole value-added business. Apio’s 49,000 square foot value-added processing plant is automated with state-of-the-art vegetable processing equipment. Virtually all of Apio’s value-added products utilize Landec’s proprietary Intelimer packaging technology. Our strategy is to operate one large central processing facility in one of California’s largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.
- **Export Capability:** Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia and is selling its iceless products to Asia using proprietary Intelimer packaging technology.
- **Expanded Product Line Using Technology:** Apio, through the use of Landec’s Intelimer packaging technology, is introducing on average twelve 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 a meal line of products. During the last twelve months, Apio has introduced twenty-eight new products, including sixteen new Dole branded products.

Agricultural Seed Technology Business

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

Landec Ag is selling and conducting field trials using Intellicoat seed coatings, an Intelimer-based agricultural material designed to control seed germination timing, increase crop yields and extend crop planting windows. These coatings are initially being applied to corn and soybean seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 2003 in the United States for corn and soybean seed exceeded 79.1 million and 73.7 million, respectively.

In fiscal year 2000, Landec Ag successfully launched its first commercial product, Pollinator Plus[®] coatings for inbred corn seed. As a result of the success realized in fiscal years 2002 and 2003, we are expanding our sales of inbred corn seed coating products in fiscal year 2004 to regional and national seed companies in the United States. This application is targeted to approximately 640,000 acres in ten states and is now being used by 40 seed companies in the United States. In addition, based on the successful field trial results during 2003 for our Early Plant[™] hybrid coated corn, we are expanding our sales in 2004. The Company currently projects that sales in 2004 of its Pollinator Plus and Early Plant products could increase 50% compared to 2003. Early Plant hybrid corn, perhaps Landec Ag's largest seed coating opportunity, allows the farmer to plant corn seed 3 to 4 weeks earlier than typically possible due to cold soil temperatures. By allowing the farmer to plant earlier than normal, Early Plant hybrid corn enables large farmers to utilize staff and equipment more efficiently and provide flexibility during the critical planting period. Current sales verify our research that farmers will pay a significant premium for Landec Ag's Early Plant hybrid corn. Our Relay[™] Intercropping of wheat and soybean allows farmers to plant and harvest two crops during the year on the same land, providing significant financial benefit for the farmer.

In September 1997, Landec Ag acquired Fielder's Choice, a direct marketer of hybrid seed corn to farmers. Based in Monticello, Indiana, Fielder's Choice offers a comprehensive line of corn hybrids to more than 12,000 farmers in over forty states through direct marketing programs. The success of Fielder's Choice comes, in part, from its expertise in selling directly to the farmer, bypassing the traditional and costly farmer-dealer system. We believe that this direct channel of distribution provides up to a 35% cost advantage to its farmers.

In order to support its direct marketing programs, Fielder's Choice has developed a proprietary e-commerce direct marketing, and consultative selling information technology, called "eDC", that enables state-of-the-art methods for communicating with a broad array of farmers. This proprietary direct marketing information technology includes a current database of over 95,000 farmers. In August 1999, we launched the seed industry's first comprehensive e-commerce website. This website furthers our ability to provide a high level of consultation to Fielder's Choice customers, backed by a seven day a week call center capability that enables us to use the internet as a natural extension of our direct marketing strategy.

Technology Licensing/Research and Development Businesses

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

Results of Operations

The Company's results of operations reflect only the continuing operations of the Company and do not include the results of the discontinued Dock Resins operation.

Revenues (in thousands):

	Three months ended 2/29/04	Three months ended 3/2/03	Change	Nine months ended 2/29/04	Nine months ended 3/02/03	Change
Apio Value Added	\$ 28,604	\$ 23,461	22%	\$ 73,717	\$ 61,634	20%
Apio Trading	9,746	7,828	25%	44,443	36,945	20%
Apio Bananas	449	751	(40)%	1,393	3,893	(64)%
Apio Service	815	6,136	(87)%	4,724	18,669	(75)%
Total Apio	39,614	38,176	4%	124,277	121,141	3%
Landec Ag	8,857	7,507	18%	9,003	7,478	20%
Corporate	117	285	(59)%	376	2,002	(81)%
Total Revenues	48,588	45,968	6%	133,656	130,621	2%

Apio Value Added

Apio's value-added 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 brand and the Dole brand.

The increase in Apio's value-added revenues for the three and nine months ended February 29, 2004 compared to the same periods last year is due to increased product offerings, increased sales to existing customers and the addition of new customers. Specifically, sales of Apio's value-added 12-ounce specialty packaged retail product line grew 42% and 44%, respectively, during the three and nine months ended February 29, 2004 compared to the same periods last year. In addition, sales of Apio's value-added vegetable tray products grew 72% and 76%, respectively, during the three and nine months ended

February 29, 2004 compared to the same periods last year. Overall value-added sales volume increased 18% during the third quarter of fiscal year 2004 compared to the same period last year and 22% for the nine months ended February 29, 2004 compared to the same period of the prior year.

Apio Trading

Apio trading 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 and from the purchase and sale of whole commodity fruit and vegetable products domestically to Wal-Mart.

The increase in revenues in Apio's trading business for the three and nine months ended February 29, 2004 compared to the same periods last year was primarily due to changes in the provisions of certain export contracts. Based on these revised contracts, the Company now takes title to the products and therefore recognizes the revenue at its gross sales value rather than recording only the commission portion as revenue as it had done in the prior year before the changes in the provisions on certain of these contract had been completed. In addition, export sales volumes were higher by 27% and 10%, respectively, for the three and nine months ended February 29, 2004 compared to the same periods last year.

Apio Bananas

Apio banana revenues consist of revenues generated from the sale of bananas in our proprietary packaging. During fiscal year 2004, bananas have been sold almost exclusively to food service companies whereas in the prior year there were also product sales to retail grocery chains.

The decrease in revenues from the sale of bananas for the three months and nine months ended February 29, 2004 compared to the same periods last year was due to a decrease in the volume of bananas sold of 21% and 42%,

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respectively, as the Company was not selling to retail grocery stores in 2004. During fiscal 2004, the Company has been focused on selling bananas to food service companies, developing alternative packaging formats and entering into partnering agreements with banana shippers.

Apio Service

Prior to its sale on June 30, 2003, Apio operated a domestic commodity vegetable business that marketed and sold whole produce for growers. Apio charged a per carton service fee for marketing and selling these whole commodity products. Subsequent to June 30, 2003, Apio's service revenues consist of revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position.

The decrease in service revenues during the three and nine months ended February 29, 2004 compared to the same periods last year is directly attributable to the sale of Apio's domestic commodity vegetable business on June 30, 2003.

Landec Ag

Landec Ag revenues consist of revenues generated from the sale of hybrid seed corn to farmers under the Fielder's Choice Directa brand and from the sale of Intellicoat coated corn and soybean seeds to farmers and seed companies. For the three months and nine months ended February 29, 2004 and March 2, 2003 over 95% of Landec Ag's revenues were from the sale of hybrid seed corn under the Fielder's Choice brand.

The increase in revenues at Landec Ag during the three and nine months ended February 29, 2004 compared to the same periods last year is due to a 4% increase in sales volume and a mix change to higher priced hybrid corn varieties that resulted in an increase in the average price per unit of 17%.

Corporate

Corporate revenues consist of revenues generated from partnering with others under research and development agreements and supply agreements and from fees for licensing our proprietary Intelimer technology to others and from the corresponding royalties from these license agreements.

The decrease in Corporate revenues for the three and nine months ended February 29, 2004 compared to the same periods of the prior year is due primarily to a decrease in revenues from the \$2.0 million licensing agreement with UCB Chemicals Corporation ("UCB") entered into in December 2001 which was recognized to revenue ratably over a 12-month period through December 2002 and from the completion of the research and development agreement with a medical device company in June 2003.

Gross Profit (in thousands):

	Three months ended 2/29/04	Three months ended 3/2/03	Change	Nine months ended 2/29/04	Nine months ended 3/02/03	Change
Apio Value Added	3,151	2,106	50%	10,977	8,320	32%
Apio Trading	448	613	(27)%	2,282	2,195	4%
Apio Bananas	(237)	(29)	N/M	(707)	(23)	N/M
Apio Service	309	1,394	(78)%	1,949	4,805	(59)%
Total Apio	3,671	4,084	(10)%	14,501	15,297	(5)%
Landec Ag	3,670	3,078	19%	3,718	3,187	17%
Corporate	107	285	(63)%	340	2,002	(83)%
Total Gross Profit	7,448	7,447	0%	18,559	20,486	(9)%

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General

There are numerous factors that can influence gross profits including product mix, customer mix, manufacturing costs (raw materials, such as fresh produce, corn seed, polymer materials and packaging, labor and overhead), 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. Therefore, it is difficult to precisely quantify the impact of each item individually. The following discussion surrounding gross profits includes management's best estimates of the reasons for the changes for the three months and nine months ended February 29, 2004 compared to the same periods last year as outlined in the table above.

Apio Value-Added

The increase in gross profits for Apio's value-added specialty packaged vegetable business for the three and nine months ended February 29, 2004 compared to the same periods last year was due to (1) the increase in value-added sales which increased 22% for the quarter and 20% for the first nine months of fiscal year 2004, (2) product mix changes to higher margin products such as vegetable trays and (3) improved manufacturing efficiencies through further automation of Apio's production process. These increases in gross profits were partially offset by produce shortages in late December 2003 and most of January 2004 which reduced gross profits by an estimated \$1.5 million.

Apio Trading

Apio's trading business is a buy/sell business that realizes a commission-based margin in the 4-6% range. The decrease in gross profits during the three months ended February 29, 2004 compared to the same period last year was primarily due to a mix change to lower margin fruit products from higher margin broccoli products as a result of broccoli shortages during this year's third quarter. The increase in gross profits during the nine months ended February 29, 2004 compared to the same period last year was primarily due to higher sales volumes of fruit products partially offset by lower sales volumes of broccoli products.

Apio Bananas

The decrease in gross profits for Apio's banana business for the three months and nine months ended February 29, 2004 compared to the same periods last year was primarily due to the fact that during fiscal year 2004, Apio was only selling bananas in its proprietary packaging to a few food service companies (versus both food service companies and retail grocery chains last year). In addition, food service companies often do not purchase the entire container load of bananas Apio has had shipped from Central America. When this occurs, Apio has to sell the remaining bananas on the open market at prices that do not cover its full costs. And accordingly, Apio recognizes negative gross profits on the sale of those bananas. Beginning in the Company's fourth fiscal quarter of 2004, Apio will no longer source its own bananas but will be working with banana shippers who will package their bananas in Landec's packaging for sale to existing food service customers.

Apio Service

The decrease in Apio's service gross profits during the three and nine months ended February 29, 2004 compared to the same periods last year was directly attributable to the sale of Apio's domestic commodity vegetable business on June 30, 2003.

Landec Ag

The increase in gross profits for Landec Ag for the three months and nine months ended February 29, 2004 compared to the same periods last year was primarily due to the increase in revenues for the same periods.

Corporate

The decrease in gross profits for Corporate for the three months ended February 29, 2004 compared to the same period last year was primarily due to the completion of a medical device research and development agreement in June 2003. The decrease in gross profits for the nine months ended February 29, 2004 compared to the same period last year was primarily due to the \$2.0 million licensing agreement with UCB, which was entered into in December 2001, being recognized to gross profits ratably over a 12-month period through December 2002 and from the completion of the research and development agreement with a medical device company in June 2003.

Operating Expenses (in thousands):

	Three months ended 2/29/04	Three months ended 3/2/03	Change	Nine months ended 2/29/04	Nine months ended 3/02/03	Change
Research and Development:						
<i>Apio</i>	297	365	(19)%	967	1,245	(22)%
<i>Landec Ag</i>	268	283	(5)%	814	835	(3)%
<i>Corporate</i>	316	392	(19)%	1,018	933	9%
Total R&D	881	1,040	(15)%	2,799	3,013	(7)%
Selling, General and Administrative:						
<i>Apio</i>	3,170	4,181	(24)%	9,517	12,141	(22)%
<i>Landec Ag</i>	1,807	1,724	5%	4,878	5,160	(5)%
<i>Corporate</i>	654	715	(9)%	1,940	1,966	(1)%
Total S,G&A	5,631	6,620	(15)%	16,335	19,267	(15)%

Research and Development

Landec's research and development expenses consist primarily of expenses involved in the development and process scale-up initiatives as well as legal fees associated with protecting Landec's intellectual property (patents, trademarks, etc.). Research and development efforts at Apio are focused on the Company's proprietary breathable membranes used for packaging produce, with recent focus on extending the shelf life of bananas. At Landec Ag, the

research and development efforts are focused on the Company's proprietary Intellicoat coatings for seeds, primarily corn seed. At Corporate, the research and development efforts are focused on uses for the proprietary Intelimer polymers outside of food and agriculture.

The decrease in research and development expenses for the three months and nine months ended February 29, 2004 compared to the same periods last year was primarily due to lower research and development expenses associated with the Company's specialty packaging banana program as the focus of the program has shifted to market testing of the packaging technology and developing collaborative supply arrangements with banana shippers.

Selling, General and Administrative

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

The decrease in selling, general and administrative expenses for the three months and nine months ended February 29, 2004 compared to the same periods last year was primarily due to a decrease in selling, general and administrative expenses at Apio as a result of the sale of Apio's domestic commodity vegetable business on June 30, 2003.

Other (in thousands):

	Three months ended 2/29/04	Three months ended 3/2/03	Change	Nine months ended 2/29/04	Nine months ended 3/02/03	Change
Interest Income	42	74	(43)%	134	169	(21)%
Interest Expense	(162)	(308)	(47)%	(695)	(848)	(18)%
Other (Exp)/Income	(91)	12	N/M	(346)	380	N/M
Total Other	(211)	(222)	(5)%	(907)	(299)	203%

Interest Income

The decrease in interest income for the three and nine month periods ended February 29, 2004 compared to the same periods last year was due to a reduction in interest bearing notes receivable at Apio.

Interest Expense

The decrease in interest expense during the three months and nine months ended February 29, 2004 compared to the same periods last year was due to the Company using cash generated from operations to pay down debt and thus lowering interest expenses.

Other

Other consists of the minority interest expense associated with the limited partners equity interest in the net income of Apio Cooling, LP and non operating income and expenses such as the gain or loss on the sale of assets.

The increase in the net other expense for the nine months ended February 29, 2004 compared to the same period last year was primarily due to income recognized in the nine months ended March 2, 2003 that did not reoccur in the first nine months of fiscal year 2004. The prior year other income included a \$436,000 gain from the sale of Apio's fruit processing facility, \$86,000 in farm equipment rental income associated with the domestic commodity vegetable business sold in June 2003 and other miscellaneous credits.

Liquidity and Capital Resources

As of February 29, 2004, the Company had cash and cash equivalents of \$6.2 million, a net increase of \$2.5 million from \$3.7 million at May 25, 2003.

Cash Flow from Operating Activities

Landec generated \$6.7 million of cash flow from operating activities during the nine months ended February 29, 2004 compared to using \$1.3 million from operating activities for the nine months ended March 2, 2003. The primary sources of cash during the nine months ended February 29, 2004 were from an increase in deferred revenue due to payments received by Landec Ag for seed corn to be shipped in future months, from a decrease in accounts and notes receivable from improved collection efforts at Apio and from the sale of Apio's domestic commodity vegetable business on June 30, 2003. The primary uses of cash in operating activities were from the purchase of seed corn inventory and from the reduction in payables and accrued liabilities due to the sale of Apio's domestic commodity vegetable business on June 30, 2003.

Cash Flow from Investing Activities

Net cash used in investing activities for the nine months ended February 29, 2004 was \$1.1 million compared to cash generated from investing activities of \$9.8 million for the same period last year. The primary uses of cash for investing activities were for the purchase of \$2.8 million of property and equipment. In addition, \$2.0 million of restricted cash became available for use as funds were released from the escrow pursuant to the Dock Resins Stock Purchase Agreement and from the pay down of a capital lease obligation.

Cash Flow from Financing Activities

Net cash used in financing activities for the nine months ended February 29, 2004 was \$3.0 million compared to \$8.4 million for the same period last year. The cash was used to pay down debt.

Capital Expenditures

During the nine months ended February 29, 2004, Landec purchased vegetable processing equipment to support the expansion of Apio's value added business. These expenditures represented the majority of the \$2.8 million of equipment purchased.

Debt

In August 2003, Apio entered into a new \$12 million working capital line and a \$3 million equipment line (the "Lines") with Wells Fargo Business Credit, Inc. ("Wells Fargo"). All amounts outstanding under Apio's loan agreement with Bank of America were paid off using the new Wells Fargo working capital line. The term of the Lines is three years expiring on July 31, 2006. The interest rate is initially calculated based on the prime rate plus 1%, currently 5% on an annual basis. The Lines contain restrictive covenants that require Apio to meet certain financial tests including minimum levels of net income, minimum debt coverage ratio, minimum net worth and maximum capital expenditures. The Lines limit the ability of Apio to make cash payments to Landec if certain conditions, as defined in the agreements, are not met. Landec has pledged substantially all of the assets of Apio to secure the Lines. As of February 29, 2004, \$6.3 million was outstanding under Apio's revolving line of credit.

Landec Ag has a revolving line of credit which allows for borrowings of up to \$7.5 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is the prime rate plus 0.50%, currently 4.5% on an annual basis. The line of credit contains certain restrictive covenants, which, among other things, restrict the ability of Landec Ag to make payments on debt owed by Landec Ag to Landec. Landec has pledged substantially all of the assets of Landec Ag to secure the line of credit. At February 29, 2004, zero was outstanding under Landec Ag's revolving line of credit.

At February 29, 2004, Landec's total debt, including current maturities and capital lease obligations, was \$10.2 million and the total debt to equity ratio was 18% as compared to 23% at May 25, 2003. Of this debt, approximately \$6.3 million was comprised of revolving lines of credit and approximately \$3.9 million was comprised of term debt and capital lease obligations, \$2.1 million of which is mortgage debt on Apio's manufacturing facilities. The amount of debt outstanding on Landec's revolving lines of credit fluctuates over time. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. In addition, in connection with Landec's acquisition of Apio, Landec has remaining obligations to pay the former owners of Apio \$1.3 million. The \$1.3 million will be paid during the third quarter of fiscal year 2005 and is recorded as long-term debt. An additional \$199,000 in earn out payments will be paid in March 2004 and is classified as a current liability.

Contractual Obligation

The Company's material contractual obligations for the next five years and thereafter as of February 29, 2004, are as follows (in thousands):

Obligation	Due in Fiscal Year Ended May						
	Total	Remainder of 2004	2005	2006	2007	2008	Thereafter
Lines of Credit	\$ 6,279	\$ 6,279	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term Debt	3,630	233	1,328	129	134	138	1,668
Capital Leases	276	149	43	34	21	23	6
Operating Leases	1,028	122	388	333	159	23	3
Land Leases	26	9	17	—	—	—	—
Earn-Out Liability	199	199	—	—	—	—	—
Licensing Obligation	1,750	250	200	200	200	200	700
Purchase Commitments	1,299	290	1,009	—	—	—	—
Total	\$ 14,487	\$ 7,531	\$ 2,985	\$ 696	\$ 514	\$ 384	\$ 2,377

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

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

Landec believes that its debt facilities, cash from operations, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements through at least the next twelve months.

Additional Factors That May Affect Future Results

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

We Have a History of Losses Which May Continue

We have incurred net losses in each fiscal year since our inception, except for the seven-month period ended May 25, 2003. Our accumulated deficit as of February 29, 2004 totaled \$59.6 million. We may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and we may never generate significant revenues or achieve profitability.

Our Indebtedness Could Limit Our Financial and Operating Flexibility

At February 29, 2004, our total debt, including current maturities and capital lease obligations, was approximately \$10.2 million and the total debt to equity ratio was approximately 18%. Of this debt, approximately \$6.3 million is comprised of revolving lines of credit and approximately \$3.9 million is comprised of term debt and capital lease obligations. In August 2003, Apio entered into a new \$12 million working capital line and a \$3 million equipment line with Wells Fargo Business Credit, Inc. ("Wells Fargo"). All amounts outstanding under Apio's previous line of credit with Bank of America were paid off using the new Wells Fargo working capital line (the "Credit Facility"). The amount of debt outstanding under the Apio and Landec Ag lines of credit fluctuate over time, and the agreements contain restrictive covenants that require each company to meet certain financial tests including maximum levels of net income, minimum debt coverage ratio, minimum net worth and maximum capital expenditures. The Credit Facility limits the ability of Apio to make cash payments to Landec if certain conditions, as defined in the agreements, are not met. Landec has pledged substantially all of the assets of Apio and Landec Ag to secure their bank debt. Of our non-revolving debt, approximately \$382,000, \$1.4 million and \$163,000 become due over the remainder of fiscal year 2004 and each of the next two fiscal years, respectively. This level of indebtedness limits our financial and operating flexibility in the following ways:

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

In connection with the Apio acquisition, we may be obligated to make future payments to the former shareholders of Apio of up to \$1.5 million for a performance based earn out and future supply of produce. Of this

amount, \$199,000 will be paid in March 2004 and \$1.3 million relates to payments to be made in the third quarter of fiscal year 2005.

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

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

Apio is subject to various financial and operating covenants under the Credit Facility, including minimum fixed charge coverage ratio, minimum adjusted net worth and minimum net income. The Credit Facility limits the ability of Apio to make cash payments to Landec. On April 27, 2003, Apio was in technical violation of the minimum net worth covenant under its previous line of credit with Bank of America. Subsequently, Bank of America provided a written waiver of this violation as of April 27, 2003. All amounts outstanding under the line of credit with Bank of America were paid off using the Credit Facility. If we violate any obligations in the future we could trigger an event of default, which, if not cured or waived, would permit acceleration of our obligation to repay the indebtedness due under the Credit Facility. If the indebtedness due under the Credit Facility were accelerated, we would be forced to pursue one or more alternative strategies such as selling assets, seeking new debt financing from another lender or seeking additional equity capital, which might not be achievable or available on attractive terms, if at all, and which could substantially dilute the ownership interest of existing shareholders.

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

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Historically, our direct marketer of hybrid corn seed, Landec Ag, has been the primary source of these fluctuations, as its revenues and profits are concentrated over a few months during the spring planting season (generally during our third and fourth fiscal quarters). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product in December 2003 and January 2004 due to a shortage of essential value-added produce items which had to be purchased at inflated prices on the open market. Our earnings may also fluctuate based on our ability to collect accounts receivables from customers and note receivables from growers. Our earnings from our Food Products Technology business are sensitive to price fluctuations in the fresh vegetables and fruits markets. Excess supplies can cause intense price competition. Other factors that affect our food and/or agricultural operations include:

- the seasonality of our supplies;
- our ability to process produce during critical harvest periods;
- the timing and effects of ripening;
- the degree of perishability;
- the effectiveness of worldwide distribution systems;
- total worldwide industry volumes;
- the seasonality of consumer demand;

- foreign currency fluctuations; and
- foreign importation restrictions and foreign political risks.

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

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

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

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

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

We Face Strong Competition in the Marketplace

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

We Have a Concentration of Manufacturing in One Location for Apio and May Have to Depend on Third Parties to Manufacture Our Products

Any disruptions in our primary manufacturing operation would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be affected. Failures by third parties may impair our ability to deliver products on a timely basis and impair our competitive position. We may not be able to continue to successfully operate our manufacturing operations at acceptable costs, with acceptable yields, and retain adequately trained personnel.

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

We may experience difficulty acquiring materials or services for the manufacture of our products or we may not be able to obtain substitute vendors. We may not be able to procure comparable materials or hybrid corn varieties at

similar prices and terms within a reasonable time. Several services that are provided to Apio are obtained from a single provider. Several of the raw materials we use to manufacture our products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers and substrate materials for our breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Landec Ag are grown under contract by a single seed producer. Any interruption of our relationship with single-source suppliers or service providers could delay product shipments and materially harm our business.

We May Be Unable to Adequately Protect Our Intellectual Property Rights

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

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of the manufacturing processes. Our failure to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject us to substantial liability or could cause our manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

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

The Company is subject to the Perishable Agricultural Commodities Act (“PACA”) law. PACA regulates fair trade standards in the fresh produce industry and governs all the product sold by Apio. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell

produce, and in the most egregious cases, criminal prosecution, which could have a material adverse effect on our business.

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

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

We Depend on Strategic Partners and Licenses for Future Development

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

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

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

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

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

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

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

For the nine-month period ended February 29, 2004, approximately 27% of our total revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

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

Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our international business, and our financial condition and results of operations. While our foreign sales are currently priced in dollars, fluctuations in currency exchange rates, may reduce the demand for our products by increasing the price of our products in the currency of the countries to which the products are sold. Regulatory, geopolitical and other factors may adversely impact our operations in the future or require us to modify our current business practices.

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

During the nine months ended February 29, 2004, sales to our top five customers accounted for approximately 42% of our revenues, with our largest customers, Sam's Club, accounting for approximately 13% and Costco Wholesale Corp., accounting for approximately 12% of our revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our net revenues. We may experience changes in the composition of our customer base, as Apio and Landec Ag have experienced in the past. We do not have long-term purchase agreements with any of our customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio at its Guadalupe, California facility are often sole sourced to its customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

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

The testing, manufacturing, marketing, and sale of the products we develop involves an inherent risk of allegations of product liability. If any of our products were determined or alleged to be contaminated or defective or to have caused a harmful accident to an end-customer, we could incur substantial costs in responding to complaints or litigation regarding our products and our product brand image could be materially damaged. Either event may have a material adverse effect on our business, operating results and financial condition. Although we have taken and intend to continue to take what we believe are appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance with limits in the amount of \$41.0 million per occurrence and \$42.0 million in the annual aggregate. Our coverage may not be adequate or may not continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with

respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, operating results and financial condition.

Our Stock Price May Fluctuate in Accordance with Market Conditions

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

- technological innovations applicable to our products,
- our attainment of (or failure to attain) milestones in the commercialization of our technology,
- our development of new products or the development of new products by our competitors,
- new patents or changes in existing patents applicable to our products,
- our acquisition of new businesses or the sale or disposal of a part of our businesses,
- development of new collaborative arrangements by us, our competitors or other parties,
- changes in government regulations applicable to our business,
- changes in investor perception of our business,
- fluctuations in our operating results and
- changes in the general market conditions in our industry.

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

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

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

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

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

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

The Sarbanes-Oxley Act of 2002 (the "Act") that became law in July 2002 requires changes in some of our corporate governance, public disclosure and compliance practices. The Act also requires the SEC to promulgate new rules on a variety of subjects. In addition, Nasdaq has made revisions to its requirements for companies, such as Landec, that are listed on the NASDAQ. We expect these developments to increase our legal and financial compliance costs. We expect these changes to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs

to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve on our audit committee. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result of the Act.

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

Our executive officers and directors and their affiliates own or control approximately 26% of our common stock (including options exercisable within 60 days). Accordingly, these officers, directors and shareholders may have the ability to exert significant influence over the election of our Board of Directors, the approval of amendments to our articles and bylaws and the approval of mergers or other business combination transactions requiring shareholder approval. This concentration of ownership may have the effect of delaying or preventing a merger or other business combination transaction, even if the transaction or amendments would be beneficial to our other shareholders. In addition, our controlling shareholders may approve amendments to our articles or bylaws to implement anti-takeover or management friendly provisions that may not be beneficial to our other shareholders.

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

The September 2001 terrorist attacks in the United States, as well as future events occurring in response or connection to them, including, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies, or trade disruptions impacting our domestic suppliers or our customers, may impact our operations and may, among other things, cause decreased sales of our products. More generally, these events have affected, and are expected to continue to affect, the general economy and customer demand for our products. While we do not believe that our employees, facilities, or products are a target for terrorists, there is a remote risk that terrorist activities could result in contamination or adulteration of our products. Although we have systems and procedures in place that are designed to prevent contamination and adulteration of our products, a disgruntled employee or third party could introduce an infectious substance into packages of our products, either at our manufacturing plants or during shipment of our products. Were our products to be tampered with, we could experience a material adverse effect in our business, operations and financial condition.

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

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

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

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

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

Our Board of Directors has the authority, without further approval of our shareholders, to fix the rights and preferences, and to issue shares, of preferred stock. In November 1999, we issued and sold shares of Series A Convertible Preferred Stock and in October 2001 we issued and sold shares of Series B Convertible Preferred Stock.

The Series A Convertible Preferred Stock was converted into 1,666,670 shares of Common Stock on November 19, 2002. Each share of Series B Convertible Preferred Stock is convertible into shares of common stock in accordance with the conversion formula provided in our articles of incorporation (currently a 10:1 ratio) and is entitled to the number of votes equal to the number of shares of Common Stock into which such shares could be converted.

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

- **Dividend Preference:** Holders of Series B Convertible Preferred Stock are entitled to cumulative dividends payable in additional shares of Series B Convertible Preferred Stock at an annual rate of eight percent (8%) for the first three years, ten percent (10%) for the fourth year and twelve percent (12%) thereafter, following the initial sale on October 25, 2001 of shares of Series B Convertible Preferred Stock.
- **Liquidation Preference:** Upon liquidation of the Company, holders of Series B Convertible Preferred Stock are entitled to receive, in preference to the holders of common stock, an amount equal to the original issue price of their shares plus any declared or accrued but unpaid dividends.

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

We Have Never Paid any Dividends on Our Common Stock

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

The Reporting of Our Profitability Could Be Materially And Adversely Affected if it Is Determined that the Book Value of Goodwill is Higher than Fair Value

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The following table presents information about the Company's debt obligations and derivative financial instruments that are sensitive to changes in interest rates. The table presents principal amounts and related weighted average interest rates by year of expected maturity for the Company's debt obligations. The carrying value of the Company's debt obligations approximates the fair value of the debt obligations as of February 29, 2004.

	2004	2005	2006	2007	2008	There- after	Total
Liabilities (in 000's)							
Lines of Credit	\$ 6,279	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,279
Avg. Int. Rate	5.39%						5.39%
Long term debt, including current portion							
Fixed Rate	\$ 382	\$ 1,371	\$ 163	\$ 155	\$ 161	\$ 1,674	\$ 3,906
Avg. Int. Rate	6.89%	6.67%	3.90%	3.79%	3.77%	3.78%	5.73%

Item 4. Controls and Procedures

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

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.

+ Filed herewith.

(b) Reports on Form 8-K

A report on Form 8-K was filed on January 8, 2004 reporting the announcement of the financial results for the Company's second quarter of fiscal year 2004 ended November 30, 2003.

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SIGNATURES

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

LANDEC CORPORATION

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

Date: April 13, 2004

CERTIFICATIONS

I, Gary T. Steele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) (paragraph intentionally omitted pursuant to SEC Release 33-8238);
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation, and
 - (d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Gary T. Steele

Gary T. Steele

President and Chief Executive Officer

CERTIFICATIONS

I, Gregory S. Skinner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landec Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) (paragraph intentionally omitted pursuant to SEC Release 33-8238);
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Gregory S. Skinner

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

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

In connection with the Quarterly Report of Landec Corporation (the "Company") on Form 10-Q for the period ending February 29, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary T. Steele, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 13, 2004

/s/ Gary T. Steele

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

* The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

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

In connection with the Quarterly Report of Landec Corporation (the "Company") on Form 10-Q for the period ending February 29, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory S. Skinner, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 13, 2004

/s/ Gregory S. Skinner
Gregory S. Skinner
Vice President and Chief Financial Officer
(Principal Accounting Officer)

* The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.
