
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended October 28, 2001, 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

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

Title of each class

Name of each exchange on which registered

None

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$0.001 per share
(Title of Class)

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 the past 90 days.

Yes No

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$59,742,000 as of January 7, 2002, based upon the closing sales price on the NASDAQ National Market reported for such date. Shares of Common Stock and Convertible Preferred Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock and Convertible Preferred Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 7, 2002, there were 16,592,056 shares of Common Stock and 309,524 shares of Convertible Preferred Stock, convertible into ten shares of Common Stock for each share of Preferred Stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2002 Annual Meeting of Shareholders, which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

**LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K**

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PART I

Item 1. Business

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this Report and, in particular, the factors described in Item 7 under "Additional Factors That May Affect Future Results."

General

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 the Company has built its business.

The principal products and services offered by the Company in its two core businesses—Food Products Technology and Agricultural Seed Technology—and in the Technology Licensing/Research and Development business are described below. Financial information concerning the industry segments for which the Company reported its operations during fiscal years 1999 through 2001 is summarized in Note 13 to the Consolidated Financial Statements.

Landec's Food Products Technology business, operated through its subsidiary Apio Inc., combines Landec's proprietary food packaging technology with the capabilities of a large national food supplier and value-added produce processor. This combination was consummated in December 1999 when the Company acquired Apio, Inc. and certain related entities (collectively "Apio").

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

In addition to its two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses products outside of Landec's core businesses to industry leaders such as Alcon Laboratories, Inc. ("Alcon") and UCB Chemicals, a subsidiary of UCB S.A. of Belgium ("UCB"). The Company also engages in research and development activities with companies such as ConvaTec, a division of Bristol-Myers Squibb. For segment disclosure purposes, the Technology Licensing/Research and Development business is included in Corporate and Other (see Note 13 to the Consolidated Financial Statements).

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

The Company'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 liquid state. These abrupt changes are repeatedly reversible and can be tailored by Landec to occur at specific temperatures, thereby offering substantial competitive advantages in the Company's target markets.

The Company was incorporated in California on October 31, 1986. The Company completed its initial public offering in 1996 and is listed on the Nasdaq National Market under the symbol "LNDC."

Technology Overview

Polymers are important and versatile materials found in many of the products of modern life. Certain polymers, such as cellulose and natural rubber, occur in nature. Man-made polymers include nylon fibers used in carpeting and clothing, coatings used in paints and finishes, plastics such as polyethylene, and elastomers used in automobile tires and latex gloves. Historically, synthetic polymers have been designed and developed primarily for improved mechanical and thermal properties, such as strength and the ability to withstand high temperatures. Improvements in these and other properties and the ease of manufacturing of synthetic polymers have allowed these materials to replace wood, metal and natural fibers in many applications over the last 40 years. More recently, scientists have focused their efforts on identifying and developing sophisticated polymers with novel properties for a variety of commercial applications.

Landec's Intelimer polymers are a proprietary class of synthetic polymeric materials that respond to temperature changes in a controllable, predictable way. Typically, polymers gradually change in adhesion, permeability and viscosity over broad temperature ranges. Landec's Intelimer materials, in contrast, can be designed to exhibit abrupt changes in permeability, adhesion and/or viscosity over temperature ranges as narrow as 1°C to 2°C. These changes can be designed to occur at relatively low temperatures (0°C to 100°C) that are relatively easy to maintain in industrial and commercial environments. *Figure 1* illustrates the effect of temperature on Intelimer materials as compared to typical polymers.

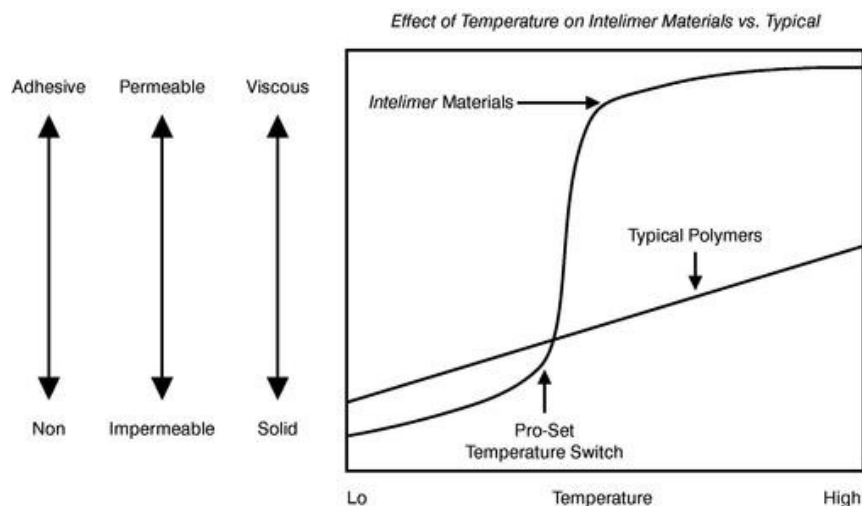


Figure 1.

Landec's proprietary polymer technology is based on the structure and phase behavior of Intelimer materials. The abrupt thermal transitions of specific Intelimer materials are achieved through the controlled use of hydrocarbon side chains that are attached to a polymer backbone. Below a pre-determined switch temperature, the polymer's side chains align through weak hydrophobic

interactions resulting in a crystalline structure. When this side chain crystallizable polymer is heated to, or above, this switch temperature, these

interactions are disrupted and the polymer is transformed into an amorphous, viscous state. Because this transformation involves a physical and not a chemical change, this process is repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0°C to 100°C by varying the length of the side chains. The reversible transitions between crystalline and amorphous states are illustrated in *Figure 2* below.

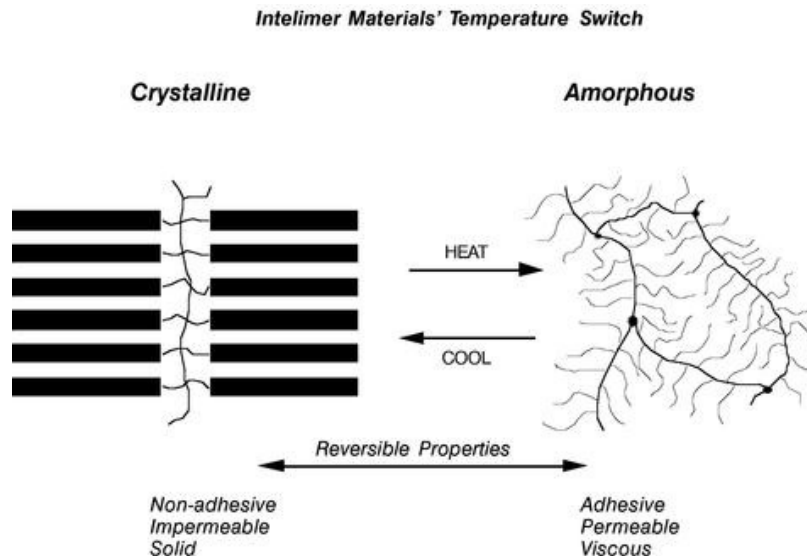


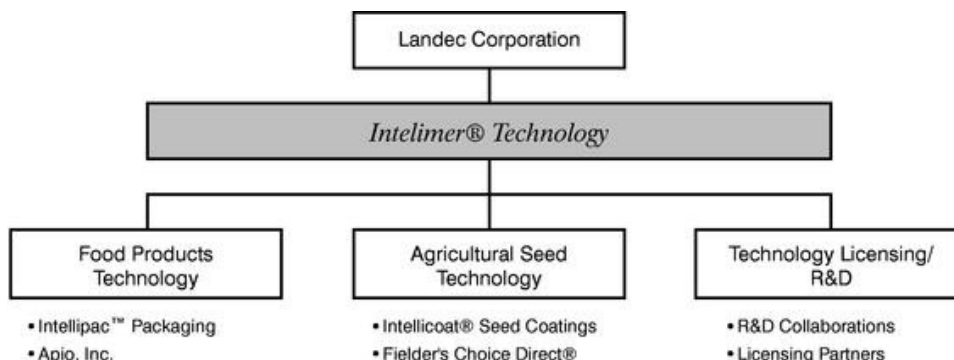
Figure 2

Side chain crystallizable polymers were first discovered by academic researchers in the mid-1950's. These polymers were initially considered to be merely of scientific curiosity from a polymer physics perspective, and, to the Company's knowledge, no significant commercial applications were pursued. In the mid-1980's, Dr. Ray Stewart, the Company's founder, became interested in the idea of using the temperature-activated permeability properties of these polymers to deliver various materials such as drugs and pesticides. After forming Landec in 1986, Dr. Stewart subsequently discovered broader utility for these polymers. After several years of basic research, commercial development efforts began in the early 1990's, resulting in initial products in mid-1994.

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

Description of Core Business

The Company participates in two core business segments—Food Products Technology and Agricultural Seed Technology. In addition to these two core segments, Landec will license technology and conduct on going research and development through its Technology Licensing/Research and Development Business.



Food Products Technology Business

Landec began marketing in early fiscal year 1996 its proprietary Intelimer-based breathable membranes for use in the fresh-cut produce packaging market, one of the fastest growing segments in the food industry. Landec's unique technology enabled Landec's customers to enter into and develop new businesses in this fresh-cut produce market (also known as the "value-added" market). In December 1999, the Company acquired Apio, Landec's largest customer in the Food Products Technology business and one of the nation's leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Apio provides year-round access to produce, utilizes state-of-the-art fresh-cut produce processing technology and distributes to the top U.S. retail grocery chains and major club stores and has recently begun expanding its product offerings to the foodservice industry. Landec's 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 places Landec in the unique

position of providing the fresh-cut and whole produce market with both technology and access to larger and broader markets.

The Technology and Market Opportunity: Intellipac Breathable Membranes

Certain types of fresh-cut and whole produce can spoil or discolor rapidly when packaged in conventional packaging materials and are therefore limited in their ability to be distributed broadly to markets. The Company's Intellipac breathable membranes extend the shelf life and quality of fresh-cut and whole produce.

Fresh-cut produce is pre-washed, cut and packaged in a form that is ready to use by the consumer and is thus typically sold at premium price levels compared to unpackaged produce. According to the Produce Marketing Association ("PMA"), in 2000, the total U.S. fresh produce market exceeded \$80 billion. Of this, U.S. retail sales of fresh-cut produce were an estimated \$12 billion. The Company believes that the growth of this market has been driven by consumer demand and the willingness to pay for convenience, freshness, uniform quality and nutritious produce delivered to the point of sale. The PMA estimates that by 2003, annual retail sales in the U.S. of fresh-cut produce could grow to \$19 billion.

Although fresh-cut produce companies have had success in the salad market, the industry has been slow to diversify into other fresh-cut vegetables or fruits due primarily to limitations in film and plastic

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tray materials used to package fresh-cut produce. After harvesting, vegetables and fruits continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay and, in some cases, promote the growth of microorganisms that jeopardize inherent food safety. Conventional packaging films used today, such as polyethylene and polypropylene, can be made with modest permeability to oxygen and carbon dioxide, but often do not provide the optimal atmosphere for the produce packaged. Shortcomings of conventional packaging materials have not significantly hindered the growth in the fresh-cut salad market because lettuce, unlike many vegetables and fruits, has low respiration requirements.

The respiration rate of produce varies from vegetable-to-vegetable and from fruit-to-fruit. The challenge facing the industry is to develop packaging for the high respiring, high value and shelf life sensitive vegetable and fruit markets. The Company believes that today's conventional packaging films face numerous challenges in adapting to meet the diversification of pre-cut vegetables and fruits evolving in the industry without compromising shelf life and produce quality. To mirror the growth experienced in the fresh-cut salad market, the markets for high respiring vegetables and fruits such as broccoli, cauliflower, green onions, asparagus, papayas, bananas and berries will require a more versatile and sophisticated packaging solution for which the Company's Intellipac breathable membranes were developed.

The respiration rate of produce also varies with temperature. As temperature increases, produce generally respire at a higher rate, which speeds up the aging process, resulting in shortened shelf life and increased potential for decay, spoilage, loss of texture and dehydration. As produce is transported from the processing plant through the refrigerated distribution chain to foodservice locations, retail grocery stores and club stores, and finally to the ultimate consumer, temperatures can fluctuate significantly. Therefore, temperature control is a constant challenge in preserving the quality of fresh-cut and whole produce—a challenge few current packaging films can fulfill. The Company believes that its temperature-responsive Intellipac technology is well suited to the challenges of the produce distribution process.

Using its Intelimer polymer technology, Landec has developed Intellipac breathable membranes that it believes address many of the shortcomings of conventional packaging materials. A membrane is applied over a small cutout section or an aperture of a flexible film bag or plastic tray. This highly permeable "window" acts as the mechanism to provide the majority of the gas transmission requirements for the entire package. These membranes are designed to provide three principal benefits:

- *High Permeability.* Landec's Intellipac breathable membranes are designed to permit transmission of oxygen and carbon dioxide at 300 times the rate of conventional packaging films. The Company believes that these higher permeability levels will facilitate the packaging diversity required to market many types of fresh-cut and whole produce.
- *Ability to Adjust Oxygen and Carbon Dioxide Permeability.* Conventional packaging films diffuse gas transfer in and out of packages at an equal rate or fixed ratio of 1.0. Intellipac packages can be tailored with carbon dioxide to oxygen transfer ratios ranging from 1.0 to 12.0 and selectively transmit oxygen and carbon dioxide at optimum rates to sustain the quality and shelf life of packaged produce.
- *Temperature Responsiveness.* Landec has developed breathable membranes that can be designed to increase or decrease in permeability in response to environmental temperature changes. The Company has developed packaging that responds to higher oxygen requirements at elevated temperatures but is also reversible, and returns to its original state as temperatures decline. The temperature responsiveness of these membranes allows ice to be removed from the distribution system which results in numerous benefits. These benefits include (1) a substantial decrease in freight cost, (2) reduced risk of contaminated produce because ice can be a carrier of micro

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organisms, (3) the elimination of expensive waxed cartons that cannot be recycled, and (4) the potential decrease in work related accidents due to melted ice.

Landec believes that growth of the overall produce market will be driven by the increasing demand for the convenience of fresh-cut produce. This demand will in turn require packaging that facilitates the quality and shelf life of produce transported to fresh-cut distributors in bulk and pallet quantities. The Company believes that in the future its Intellipac breathable membranes will be useful for packaging a diverse variety of fresh-cut produce products. Potential opportunities for using Landec's technology outside of the fresh-cut produce market exist in cut flowers and in other food products.

Landec is working with leaders in the fresh-cut foodservice, club store and retail grocery markets. The Company believes it will have growth

opportunities for the next several years through new customers and products in the United States, expansion of its existing customer relationships, and through export and shipments of specialty packaged produce.

Landec manufactures its Intellipac breathable membrane packaging both internally and through selected qualified contract manufacturers and markets and sells Intellipac breathable membrane packaging directly to food distributors.

The Business: Apio, Inc.

In December 1999, Landec completed the acquisition of Apio and certain related entities. Landec paid \$21.0 million in cash and Landec Common Stock, before expenses, at close and \$1.1 million in January 2001 with another \$1.2 million to be paid in the first quarter of fiscal year 2002, \$579,000 to be paid in the second quarter of fiscal year 2002 and \$4.4 million, which includes \$273,000 of accrued interest, due to be paid by October 2002. After the payments in fiscal year 2002, an additional \$3.7 million in future payments may be paid over the next three years. Apio had revenues of approximately \$174 million in fiscal year 2001 and \$179 million in the eleven-month period ended October 29, 2000.

Based in Guadalupe, California, Apio, when acquired in 1999, consisted of two major businesses—first being 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 Landec's Intellipac packaging. The "fee-for-service" business historically included field harvesting and packing, cooling and marketing of vegetables and fruits on a contract basis for growers in California's Santa Maria, San Joaquin and Imperial Valleys as well as in Arizona and Mexico. Apio currently has approximately 12,500 acres under contract, consisting of approximately 17 percent of the farmable land in the Santa Maria Valley. The fresh-cut value-added processing products business, developed within the last 6 years, sources a variety of fresh-cut vegetables to the top retail grocery chains representing over 7,600 retail and club stores. During the fiscal year ended October 28, 2001, Apio shipped more than 21 million cartons of produce to some 700 customers including leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

During the third quarter of fiscal year 2001, the Company announced that Apio was discontinuing its field harvesting and packing operations in order to focus on its specialty packaging technology products, and the marketing and sales of whole produce products. Exiting the labor and equipment-intensive field harvesting and packing portion of the "fee-for-service" business and focusing on selling and marketing of whole produce should result in considerably higher margins per dollar of revenue. As a result of the transition of Apio's "fee-for-service" business, the Company anticipates that service revenues will decrease in fiscal year 2002 as compared to fiscal year 2001. Annual revenues from the "fee-for-service" business for fiscal 2002 are projected to decrease to a range of \$30 million to \$35 million from \$55.5 million in fiscal 2001. However, gross margins as a percent of revenues for the

"fee-for-service" business are projected to increase to between 20% to 25% from the current average margin of 12%.

In September 2000, the Company discontinued its processing of fruit at its Reedley facility. The Company has put the facility and the packing and cold storage assets up for sale. The Company will continue to provide field support, and sales and marketing services to current contracted growers through Apio's existing staff. As a result of the shutdown of the Reedley facility, the Company recorded a \$525,000 charge during the fourth quarter of fiscal year 2000, primarily for severance and payroll related costs. This amount was fully paid in fiscal year 2001. The sale is expected to result in a gain. The current net book value of the assets is \$2.8 million.

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

- **Full Service Supplier:** Apio has structured its business as a full service marketer and seller of vegetables, fruits, and fresh-cut value-added produce. It is focused on developing its Eat Smart™ brand name for all of its fresh-cut value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.
- **Reduced Farming Risks:** Apio is unique in that it takes considerably less farming risk than its competitors. Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce and charges for services that include cooling, shipping and marketing. The year-round sourcing of produce is a key component to both the traditional produce business as well as the fresh-cut value-added processing business.
- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing fresh-cut value-added business. Apio's 35,000 square foot value-added processing plant packed more than 69.5 million pounds of produce in the past twelve months. The value-added processing facility has recently been expanded to 49,000 square feet. Ninety percent of Apio's value-added products utilize Landec's proprietary Intellipac membrane technology. The Company's strategy is to operate one large central processing facility in one of California's largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.
- **Export Capability:** Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia and has recently launched its iceless products to Asia using Intellipac packaging technology.
- **Expanded Product Line Using Technology:** Apio, through the use of Landec's Intellipac membrane technology, is in the early stages of changing selective categories of the whole produce business. Its introduction of iceless packaging for broccoli crowns in November 2000 is the beginning of a conversion from the traditional packing and shipping of whole produce, which relied heavily on ice, to iceless products utilizing the Intellipac technology. New iceless packaging is available for broccoli, cauliflower and green onions.

For the past 6 years, the Company has marketed its Eat Smart fresh-cut vegetables, party trays and iceless products using Intellipac specialty packaging and has now expanded its technology to include packaging for bananas. The Company is currently conducting laboratory, shipping, ripening room and retail grocery store trials on its own and with select banana companies. Bananas are a \$4 to \$4.5 billion annual worldwide market for distributors, which in turn, is a \$9 to \$10 billion annual worldwide market for retailers. Bananas are the nation's leading

produce item, contributing approximately nine to ten percent of produce department sales in the United States.

Recent trials have shown that Intellipac breathable membrane packaging can significantly extend the shelf life of bananas at the prime color stage for consumers and retailers. By extending the shelf life of the number one item in the produce department, retailers can reduce shrink (waste) and increase sales by displaying bananas at the optimum ripeness.

The Company is finalizing scale-up and validation work before commercially launching the banana packaging technology. The likely initial launch will be in early 2002 under the Eat Smart label. The Company, in parallel, is conducting trials with select banana companies.

In addition to the introduction of specialty packaging for bananas, the Company has rapidly extended its commercialization of Intellipac technology for case liner packaging for bunch and crown broccoli, eighteen pound cases of loose broccoli florets, Asian cut broccoli crowns, export cut broccoli crowns, cauliflower and green onions.

In November 2000, the Company introduced eighteen-pound cases of iceless packaging for broccoli crowns, its first whole produce item that utilizes its Intellipac packaging technology. Since that successful introduction, six other products have been launched using the Company's iceless Intellipac case liners.

The Company's specialty packaging for case liner products reduces freight expense up to 50% by eliminating the weight and space consumed by ice. In addition to reducing the cost of freight, the removal of ice from the distribution system offers additional benefits. The Company's new packaging system can decrease the potential for work-related accidents due to melted ice, eliminate the risk of ice as a carrier of microorganisms that could potentially contaminate produce and eliminate the need for expensive waxed cartons that cannot be recycled.

The Company also anticipates that in early 2002, commercial shipments will begin for a re-sealable package utilizing the Intellipac technology on its larger-sized fresh-cut vegetable packages. The Company expects the re-sealable package to facilitate the introduction of new retail products and to enhance sales of three-pound bags at club stores.

Additional product enhancements in the fresh-cut vegetable line include a new five-pound rectangular vegetable party tray launched in December 2001. This new shaped tray is convenient for storage in consumers' refrigerators and expands the Company's wide-ranging party tray line.

The Company also recently introduced its new Eat Smart meals. These meals are designed to enhance Apio's fresh-cut vegetable category with additional options to further capitalize on the high demand for wholesome and convenient products. The Eat Smart meal line is comprised of three ready-to-prepare meals; chicken stir-fry, stir fry with noodles and potato leek soup.

Agricultural Seed Technology Business

Landec formed its 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.

The Technology and Market Opportunity: Intellicoat Seed Coatings

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

In fiscal year 2000, the Company successfully launched its first commercial product, Pollinator Plus™ coatings for inbred corn seed. As a result of the success realized in fiscal year 2000, the Company expanded its sales of inbred corn seed coating products in fiscal year 2001 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 31 seed companies in the United States. In addition, based on the successful field trial results during 2000 for its Relay Crop™ System for wheat and coated soybeans and its Early Plant™ hybrid coated seed corn, the Company expanded its sales in 2001. The Company's Relay Crop System will allow farmers to plant and harvest two crops during the same year on the same land, providing significant financial benefit for the farmer. Early Plant hybrid seed corn, perhaps Landec Ag's largest seed coating opportunity, allows the farmer to plant corn seed 2 to 4 weeks earlier than typically possible due to cold soil temperatures. By allowing the farmer to plant earlier than normal, Early Plant hybrid seed corn will enable large farmers to utilize staff and equipment more efficiently and provide flexibility during the critical planting period. Recent market research with farmers in seven corn growing states verified that farmers would pay a significant premium for Landec Ag's Early Plant hybrid seed corn product if they were able to plant a portion of their acreage up to one month early. The Company estimates that 1 of every 7 corn acres could be converted to Intellicoat coated seed within 3 years of industry-wide commercialization.

Currently, farmers must work within a narrow window of time to plant seeds. If the seeds are planted too early, they may rot or suffer chilling injury due to the absorption of water at cold soil temperatures below which germination occurs. If they are planted too late, the growing season may end prior to the crop reaching full maturity. In either case, the resulting crop yields are sub-optimal. Moreover, the planting window can be fairly brief, requiring the farmer to focus almost exclusively on planting during this time. Seeds also germinate at different times due to variations in absorption of water, thus providing for variations in the growth rate of the crops.

The Company's Intellicoat seed coating prevents planted seeds from absorbing water when the ground temperature is below the coating's pre-set temperature switch. Intellicoat seed coatings are designed to enable coated seeds to be planted early without risk of chilling damage caused by the absorption of water at cold soil temperatures. As spring advances and soil temperatures rise to the pre-determined switch temperature close to where seed germination normally occurs, the polymer's permeability increases and the coated seeds absorb water and begin to germinate. The

Company believes that Intellicoat seed coatings provide the following advantages: a longer planting window, avoidance of chilling injury, more uniform germination and better utilization of equipment and labor. As a result, the Company believes that Intellicoat seed coatings offer the potential for improvements in crop yields and net income to the farmer.

The Business: Landec Ag

In September 1997, Landec Ag completed the acquisition of Fielder's Choice, a direct marketer of hybrid seed corn to farmers. Landec paid approximately \$3.6 million in cash and direct acquisition costs and \$5.2 million in Landec Common Stock for Fielder's Choice. Terms of the agreement include a cash earn-out of \$2.4 million based on future sales of Fielder's Choice Direct® hybrid seed corn. As of October 28, 2001, \$1.6 million of the earn-out had been earned and paid. Fielder's Choice had sales of approximately \$15.2 million for the twelve months ended October 31, 1999, \$17.2 million for the twelve months ended October 29, 2000 and \$16.2 million for the twelve months ended October 28, 2001.

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

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

The acquisition of Fielder's Choice was strategic in providing a cost-effective vehicle for marketing Intellicoat seed coating products. The Company believes that the combination of a direct channel of distribution, telephonic and electronic commerce capabilities will enable Landec Ag to more quickly achieve meaningful market penetration.

Technology Licensing/Research and Development Businesses

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

Industrial Materials and Adhesives

Landec's industrial products development strategy is to focus on catalysts, resins, and adhesives in the polymer materials market. During the product development stage, the Company identifies corporate partners to support the ongoing development and testing of these products, with the ultimate goal of licensing the applications at the appropriate time.

Intelimer Polymer Systems. Landec has developed award winning latent catalysts useful in extending pot-life, extending shelf-life, reducing waste and improving thermoset cure methods. Some of these latent catalysts are currently being distributed by Akzo-Nobel Chemicals B.V. and The Norac Company. The Company has also developed Intelimer polymer materials useful in enhancing the formulating options for various personal care products. Landec's pressure sensitive adhesives ("PSA") technology is currently being evaluated in a variety of industrial and medical applications where strong adhesion to a substrate (i.e. steel, glass, silicon, skin, etc.) is desired for a defined time period and upon thermal triggering, results in a significant peel strength reduction. For example, select PSA systems exhibit greater than 90% reduction in peel strength upon warming, making them ideal for applications on fragile substrates.

Nitta Corporation. On March 14, 1995, the Company entered into a license agreement with Nitta Corporation ("Nitta") in the industrial adhesives area. The agreement provides Nitta with a co-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Nitta of the licensed products. Any fees paid to the Company are non-refundable. This agreement is terminable at Nitta's option. Nitta and the Company entered into an additional exclusive license arrangement in February 1996 covering Landec's medical adhesives technology for use in Asia. The Company received up-front license fees upon execution of the agreement and research and development payments and is entitled to receive future royalties under this agreement. Any fees paid to the Company are non-refundable. Nitta and the Company also entered into another worldwide exclusive agreement on January 1, 1998 in the area of industrial adhesives

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specific to one field of electronic polishing adhesives. The Company received research and development payments as a part of this agreement. As of January 1999, the Company had no future obligations under any of the aforementioned agreements with Nitta.

UCB Chemicals Corporation. On April 10, 2000, the Company entered into a research and development agreement with UCB Chemicals Corporation ("UCB"), an operating entity of UCB S.A., a major pharmaceutical and chemical company located in Belgium. UCB's chemical business is a major supplier of radiation curing and powder coating resins. Under this agreement, the Company will explore polymer systems for evaluation in several industrial product applications. Based on the success of this initial research and development collaboration, in December 2001, the Company entered into a \$2.5 million license and research and development agreement with UCB. This new agreement has a

term of one year through December 2002 and is for the exclusive rights to use the Company's Intelimer materials technology in the fields of powder coatings worldwide and pressure sensitive adhesives worldwide, except Asia.

Medical Applications

PORT™ Ophthalmic Devices. Landec developed the PORT (Punctal Occluder for the Retention of Tears) ophthalmic device initially to address a common, yet poorly diagnosed condition known as dry eye that is estimated to affect 30 million Americans annually. The device consists of a physician-applied applicator containing solid Intelimer material that transforms into a flowable, viscous state when heated slightly above body temperature. After inserting the Intelimer material into the lacrimal drainage duct, it quickly solidifies into a form-fitting, solid plug. Occlusion of the lacrimal drainage duct allows the patient to retain tear fluid and thereby provides relief and therapy to the dry eye patient.

The PORT product is currently in final stages of human clinical trials. Landec and its partner, Alcon, a wholly-owned subsidiary of Nestlé S.A., believe that PORT plugs will have additional ophthalmic applications beyond the dry eye market. This would include applications for people who cannot wear contact lenses due to limited tear fluid retention and patients receiving therapeutic drugs via eye drops that require longer retention in the eye.

In December 1997, Landec licensed the rights to worldwide manufacturing, marketing and distribution of its PORT ophthalmic device to Alcon. Under the terms of the transaction, Landec received an up-front cash payment of \$500,000, a \$750,000 milestone payment in November 1998, research and development funding and will receive ongoing royalties of 11.5% on product sales of each PORT device over an approximately 15-year period. Any fees paid to the Company are non-refundable. In September 1999, Alcon submitted a 510K application to the FDA seeking approval to commercially sell the PORT device. Landec will continue to provide development support on a contract basis through the FDA approval process and product launch. Landec also provides the Intelimer polymer to Alcon which is used in the PORT device.

ConvaTec. On October 11, 1999, the Company entered into a joint development agreement with ConvaTec, a division of Bristol-Myers Squibb, under which Landec will develop adhesive film products for select ConvaTec medical products. Landec is receiving funding support for this program. Upon completion of this agreement, the companies have the option to consider a license and supply agreement where Landec would supply materials to ConvaTec for use in specific medical devices.

Discontinued Operations

Dock Resins. In April 1997, Landec acquired Dock Resins, a privately-held manufacturer and marketer of specialty acrylic and other polymers based in Linden, New Jersey. Dock Resins sells products under the Doresco® trademark which are used by more than 300 customers throughout the United States and other countries in the coatings, printing inks, laminating and adhesives markets. Dock Resins is a supplier of proprietary polymers including acrylic, methacrylic, alkyd, polyester,

urethane and polyamide polymers to film converters engaged in hot stamping, decorative wood grain, automotive interiors, holograms, and metal foil applications. Dock Resins also supplies products to a number of other markets, such as, graphic arts, automotive refinishing, construction, pressure-sensitive adhesives, paper coatings, caulks, concrete curing compounds and sealers.

In October 2001, the Board of Directors approved a plan to sell Dock Resins in order to strengthen its balance sheet and focus management's attention on the Company's core food and agricultural technology businesses. A sale is expected to close in the first half of 2002. As a result of this decision, the financial results of Dock Resins have been included in the consolidated statement of operations as a discontinued operation and its net assets have been reclassified in the consolidated balance sheets to assets held for sale.

Sales and Marketing

Each of the Company's core businesses are supported by dedicated sales and marketing resources. The Company intends to develop its internal sales capacity as more products progress toward commercialization and as business volume expands geographically.

Food Products Technology Business

Apio has 23 sales people, located in central California and throughout the U.S., supporting both the traditional produce marketing business and the specialty packaged value-added produce business.

Agricultural Seed Technology Business

In preparation for the launch of Early Plant hybrid corn seed and Relay Crop wheat/soybean products, Landec Ag has identified a small internal sales force to target a very focused group of seed customers. For future coated seed products that are sold directly to farmers, the Company will utilize 31 direct seed sales consultants and associates located in Monticello, Indiana. These consultants and associates also support Landec Ag in its direct marketing of corn seed. Customer contacts are made based on direct responses and inquiries from customers.

Manufacturing and Processing

Landec intends to control the manufacturing of its own products whenever possible, as it believes that there is considerable manufacturing margin opportunity in its products. In addition, the Company believes that know-how and trade secrets can be better maintained by Landec retaining manufacturing capability in-house.

Food Products Technology Business

The manufacturing process for the Company's Intellipac breathable membrane products is comprised of polymer manufacturing, membrane manufacturing and label package conversion. Dock Resins currently manufactures virtually all of the polymers for the Intellipac breathable membranes and the Company anticipates that it will continue to do so in the foreseeable future. Select outside contractors currently manufacture the breathable membranes and Landec has recently transitioned most of the label package conversion to its Menlo Park facility to meet the increasing product demand and to provide additional developmental capabilities.

Apio processes all of its fresh-cut value-added products in its state-of-the-art processing facility located in Guadalupe, California. Cooling of produce is done through third parties and Apio Cooling, a separate company of which Apio has a 60% ownership interest and is the general partner.

Agricultural Seed Technology Business

During fiscal year 2001, the Company moved its batch coating capabilities from Menlo Park, California to a new leased facility in Oxford, Indiana. This facility will be used to coat other seed companies' inbred seed corn using the Company's Pollinator Plus corn seed coatings.

During fiscal year 2000, the Company completed construction of a pilot and semi-works manufacturing facility in Indiana to support the commercialization of its Relay Crop System for wheat/coated soybean products and for Early Plant hybrid corn. The new facility utilizes a new continuous coating process that has increased seed coating capabilities by tenfold compared to the previous system using batch coaters. Landec Ag purchases its hybrid seed corn from an established producer under an exclusive purchase agreement.

General

Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Fielder's Choice are purchased from a single source. Upon manufacturing scale-up of seed coating operations and as hybrid corn sales increase, the Company may enter into alternative supply arrangements. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products nor has Fielder's Choice experienced difficulty in acquiring hybrid corn varieties, no assurance can be given that interruptions in supplies will not occur in the future, that the Company will be able to obtain substitute vendors, or that the Company will be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company's ability to manufacture and distribute its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

The Company desires to maintain an externally audited quality system and achieved ISO 9001 registration for the Menlo Park research and development site in fiscal year 1999 and for both the Menlo Park research and development and manufacturing sites in fiscal year 2000. Such registration is required in order for the Company to sell product to certain potential customers, primarily in Europe.

Research and Development

Landec is focusing its research and development resources on both existing and new applications of its Intelimer technology. Expenditures for research and development in fiscal year 2001 were \$3.3 million, compared with \$3.4 million in fiscal year 2000 and \$4.7 million in fiscal year 1999. In fiscal year 2001, research and development expenditures funded by corporate partners were \$473,000 compared with \$539,000 in fiscal year 2000 and \$770,000 in fiscal year 1999. The Company may continue to seek funds for applied materials research programs from U.S. government agencies as well as from commercial entities. The Company anticipates that it will continue to have significant research and development expenditures in order to maintain its competitive position with a continuing flow of innovative, high-quality products and services. As of October 28, 2001, Landec had 27 employees, including 4 with Ph.D.'s, engaged in research and development with experience in polymer and analytical chemistry, product application, product formulation, mechanical and chemical engineering.

Competition

The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food packaging and agricultural companies is intense. In addition, the nature of the Company's collaborative arrangements and its technology licensing business may result in its corporate partners and licensees becoming competitors

of the Company. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than the Company, and many have substantially greater experience in conducting field trials, obtaining regulatory approvals and manufacturing and marketing commercial products. There can be no assurance that these competitors will not succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive.

Patents and Proprietary Rights

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has been granted twenty U.S. patents with expiration dates ranging from 2006 to 2018 and has filed applications for additional U.S. patents, as well as certain corresponding patent applications outside the United States, relating to the Company's technology. The Company's issued patents include claims relating to compositions, devices and use of a class of temperature sensitive polymers that exhibit distinctive properties of permeability, adhesion and viscosity. There can be no assurance that any of the pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or design around the Company's patents. Any of the foregoing results could have a material adverse effect on the Company's business, operating results and financial condition.

The commercial success of the Company will also depend, in part, on its ability to avoid infringing patents issued to others. The Company has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party

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

Litigation, which could result in substantial costs to the Company, may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. If competitors of the Company prepare and file patent applications in the United States that claim technology also claimed by the Company, the Company may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial cost to and diversion of effort by the Company, even if the eventual outcome is favorable to the Company. Any such litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using such technology and consequently, could have a material adverse effect on the Company's business, operating results and financial condition.

In addition to patent protection, the Company also relies on trade secrets, proprietary know-how and technological advances which the Company seeks to protect, in part, by confidentiality agreements

with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

Government Regulations

The Company's products and operations are subject to regulation in the United States and foreign countries.

Food Products Technology Business

The Company's food packaging products are subject to regulation under the Food, Drug and Cosmetic Act ("FDC Act"). Under the FDC Act any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. Food additives may be substances added directly to food, such as preservatives, or substances that could indirectly become a component of food, such as waxes, adhesives and packaging materials.

A food additive, whether direct or indirect, must be covered by a specific food additive regulation issued by the FDA. The Company believes its Intellipac breathable membrane products are not subject to regulation as food additives because these products are not expected to become a component of food under their expected conditions of use. If the FDA were to determine that the Company's Intellipac breathable membrane products are food additives, the Company may be required to submit a food additive petition. 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 the Company's business, operating results and financial condition.

The Company's 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 conducted by the Company, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies thereunder, and further restrictions on the use of manufacturing chemicals could result in increased compliance costs.

The Company is 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, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

Agricultural Seed Technology Business

The Company's agricultural products are subject to regulations of the United States Department of Agriculture ("USDA") and the EPA. The Company believes its current Intellicoat seed coatings are not pesticides as defined in the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") and are not subject to pesticide regulation requirements. The process of meeting pesticide registration requirements is lengthy, expensive and uncertain, and may require additional studies by the Company. There can be no assurance that future products will not be regulated as pesticides. In addition, the Company believes

that its Intellicoat seed coatings will not become a component of the agricultural products which are produced from the seeds to which the coatings are applied and therefore are not subject to regulation by the FDA as a food additive. While the Company believes that it will be able to obtain approval from such agencies to distribute its products, there can be no assurance that the Company will obtain necessary approvals without substantial expense or delay, if at all.

Polymer Manufacture

The Company's manufacture of polymers is subject to regulation by the EPA under the Toxic Substances Control Act ("TSCA"). Pursuant to TSCA, manufacturers of new chemical substances are required to provide a Pre-Manufacturing Notice ("PMN") prior to manufacturing the new chemical substance. After review of the PMN, the EPA may require more extensive testing to establish the safety of the chemical, or limit or prohibit the manufacture or use of the chemical. To date, PMNs submitted by the Company have been approved by the EPA without any additional testing requirements or limitation on manufacturing or use. No assurance can be given that the EPA will grant similar approval for future PMNs submitted by the Company.

Other

The Company and its products under development may also be subject to other federal, state and local laws, regulations and recommendations. Although Landec believes that it will be able to comply with all applicable regulations regarding the manufacture and sale of its products and polymer materials, such regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. There can be no assurance that future changes in regulations or interpretations made by the FDA, EPA or other regulatory bodies, with possible retroactive effect, relating to such matters as safe working conditions, laboratory and manufacturing practices, environmental controls, fire hazard control, and disposal of hazardous or potentially hazardous substances will not adversely affect the Company's business. There can also be no assurance that the Company will not be required to incur significant costs to comply with such laws and regulations in the future, or that such laws or regulations will not have a material adverse effect upon the Company's ability to do business. Furthermore, the introduction of the Company's products in foreign markets may require obtaining foreign regulatory clearances. There can be no assurance that the Company will be able to obtain regulatory clearances for its products in such foreign markets.

Employees

As of October 28, 2001, Landec had 233 full-time employees, of whom 61 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 172 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in connection with the development, manufacturing and marketing of its products. None of Landec's employees is represented by a union, and Landec believes relationships with its employees are good.

Item 2. Properties

The Company has offices in Menlo Park, Guadalupe and Reedley, California, and Monticello, Indiana. During fiscal year 2001, Landec leased a 13,400 square foot facility in Oxford, Indiana to support the seed coating efforts of the Agricultural Seed Technology business. In addition, the Reedley facility is currently for sale with an offer pending.

These properties are described below (list excludes Dock Resins' property to be sold):

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Menlo Park, CA	All	Leased	21,000 square feet of office and laboratory space	—	12/31/03
Menlo Park, CA	All	Subleased	11,000 square feet of warehouse and manufacturing space	—	7/31/02(1)
Monticello, IN	Agricultural Seed Technology	Owned	19,400 square feet of office space	0.5	—
West Lebanon, IN	Agricultural Seed Technology	Owned	4,000 square feet of warehouse and manufacturing space	—	—
Oxford, IN	Agricultural Seed Technology	Leased	13,400 square feet of laboratory and manufacturing space	—	6/30/05
Guadalupe, CA	Food Products Technology	Owned	94,000 square feet of office space, manufacturing and cold storage	11.6	—
Reedley, CA ⁽²⁾	Food Products Technology	Owned	152,600 square feet of office space, manufacturing and cold storage	19.3	—

(1) Lease contains one two-year renewal option.

(2) Currently for sale.

Item 3. Legal Proceedings

The Company is currently not a party to any material legal proceedings.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ending October 28, 2001.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock is traded on the Nasdaq National Market under the symbol "LNDC". The following table sets forth for each period indicated the high and low sales prices for the Common Stock as reported on the Nasdaq National Market.

Fiscal Year 2001	High	Low
4 th Quarter ending October 28, 2001	\$ 5.25	\$ 3.22
3 rd Quarter ending July 29, 2001	\$ 5.27	\$ 3.02
2 nd Quarter ending April 29, 2001	\$ 4.50	\$ 3.31
1 st Quarter ending January 28, 2001	\$ 4.59	\$ 2.50
Fiscal Year 2000	High	Low
4 th Quarter ending October 29, 2000	\$ 6.63	\$ 4.13
3 rd Quarter ending July 30, 2000	\$ 6.75	\$ 4.00
2 nd Quarter ending April 30, 2000	\$ 7.50	\$ 5.06
1 st Quarter ending January 30, 2000	\$ 8.81	\$ 4.56

There were approximately 125 holders of record of 16,592,056 shares of outstanding Common Stock as of January 7, 2002. Since holders are listed under their brokerage firm's names, the actual number of shareholders is higher. The Company has not paid any dividends on the Common Stock since its inception. The Company presently intends to retain all future earnings, if any, for its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Pursuant to a Series A Preferred Stock Purchase Agreement dated November 19, 1999, by and among the Company and Frederick Frank, the Company completed a financing that raised approximately \$10.0 million through a private placement of its Series A-1 Preferred Stock and Series A-2 Preferred Stock (the "Series A Preferred Stock"). Pursuant to this agreement, the Company issued 166,667 shares of Series A Preferred Stock of the Company at \$60.00 per share (representing 1,666,670 shares of Common Stock on a converted basis). Frederick Frank was elected as a director of the Company in December 1999.

In connection with the Company's acquisition of Apio, Inc. on December 2, 1999, the prior owners of Apio received 2.5 million shares of Common Stock. As compensation for services rendered by Lehman Brothers Inc. in connection with the closing of the Apio acquisition, the Company issued 62,500 shares of Common Stock to Lehman Brothers, Inc. at \$6.00 per share.

Pursuant to a Series B Preferred Stock Purchase Agreement dated October 24, 2001, by and among the Company and the Seahawk Ranch Irrevocable Trust, the Company completed a financing that raised approximately \$5.0 million through a private placement of its Series B Preferred Stock (the "Series B Preferred Stock"). Pursuant to this agreement, the Company issued 142,857 shares of Series B Preferred Stock of the Company at \$35.00 per share (representing 1,428,570 shares of Common Stock on a converted basis). Ken Jones, a director of the Company, is a trustee of the Seahawk Ranch Irrevocable Trust.

The issuance of securities in this Item 5 was deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Act"), in reliance on Section 4(2) of the Act as a transaction by an issuer not involving any public offering. The recipients of the securities in such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transaction. The recipients were given adequate access to information about the Company.

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Item 6. Selected Consolidated Financial Data

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

Statement of Operations Data:	Year Ended	Year Ended	Year Ended October 31,		
	October 28, 2001	October 29, 2000	1999	1998	1997
(in thousands, except per share data)					

Revenues:

Product sales	\$ 134,437	\$ 123,026	\$ 19,926	\$ 16,244	\$ 1,280
Services revenue	50,479	71,280	—	—	—
Services revenue, related party	5,065	1,898	—	—	—
Research, development and royalty revenues	529	586	770	1,352	863
License fees	374	374	750	500	—
Total revenues	190,884	197,164	21,446	18,096	2,143
Cost of revenue:					
Cost of product sales	114,414	104,496	12,016	10,119	912
Cost of services revenue	48,881	63,075	—	—	—
Total cost of revenue	163,295	167,571	12,016	10,119	912
Gross profit	27,589	29,593	9,430	7,977	1,231
Operating costs and expenses:					
Research and development	3,270	3,444	4,653	4,643	4,059
Selling, general and administrative	26,966	26,449	8,523	8,260	3,627
Exit of fruit processing	—	525	—	—	—
Total operating costs and expenses	30,236	30,418	13,176	12,903	7,686
Operating loss	(2,647)	(825)	(3,746)	(4,926)	(6,455)
Interest income	617	873	290	705	1,710
Interest expense	(2,789)	(2,083)	—	(79)	(311)
Other expense	(19)	(35)	—	—	—
Loss from continuing operations before income taxes	(4,838)	(2,070)	(3,456)	(4,300)	(5,056)
(Provision)/benefit for income taxes	—	—	—	—	—
Loss from continuing operations	(4,838)	(2,070)	(3,456)	(4,300)	(5,056)
Discontinued Operations:					
(Loss)/income from discontinued operations	(537)	(14)	687	1,410	(3,589)
(Loss)/gain on disposal of operations	(2,500)	—	—	—	70
(Loss)/income from discontinued operations	(3,037)	(14)	687	1,410	(3,519)
Net loss before cumulative effect of change in accounting	(7,875)	(2,084)	(2,769)	(2,890)	(8,575)
Cumulative effect of change in accounting for upfront license fee revenue	—	(1,914)	—	—	—
Net Loss	\$ (7,875)	\$ (3,998)	\$ (2,769)	\$ (2,890)	\$ (8,575)

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Statement of Operations Data:	Year Ended October 31,				
	Year Ended October 28, 2001	Year Ended October 29, 2000	1999	1998	1997
(in thousands, except per share data)					
Basic and diluted net income (loss) per share:					
Continuing operations	\$ (.29)	\$ (.13)	\$ (.26)	\$ (.34)	\$ (.45)
Discontinued operations	(.19)	—	.05	.11	(.32)
Cumulative effect of change in accounting	—	(.12)	—	—	—
Basic and diluted net loss per share	\$ (.48)	\$ (.25)	\$ (.21)	\$ (.23)	\$ (.77)

Pro forma amounts assuming the change in accounting is applied retroactively:

Net loss	\$	(7,875)	\$	(2,084)	\$	(3,145)	\$	(3,070)	\$	(8,289)
Net loss per share	\$	(.48)	\$	(.13)	\$	(.24)	\$	(.24)	\$	(.74)
Shares used in computing basic and diluted net loss per share		16,371		15,796		13,273		12,773		11,144

Balance Sheet Data:	Year Ended	Year Ended	Year Ended October 31,		
	October 28, 2001	October 29, 2000	1999	1998	1997

(in thousands, except per share data)

Cash and cash equivalents	\$	8,695	\$	8,636	\$	2,399	\$	5,377	\$	3,924
Total assets		120,122		128,165		36,097		38,075		48,778
Debt		33,416		26,350		—		—		—
Convertible preferred stock		14,049		9,149		—		—		—
Accumulated deficit		(57,401)		(49,526)		(45,528)		(42,756)		(39,858)
Total shareholders' equity		49,839		52,178		31,761		33,688		35,615

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements contained in Item 8 of this report. Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that 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".

Overview

Since its inception in October 1986, the Company has been engaged in the research and development of its Intelimer technology and related products. The Company has launched four product lines from this core development—QuickCast™ splints and casts, in April 1994, which was subsequently sold to Bissell Healthcare Corporation in August 1997; Intellipac breathable membranes for the fresh-cut produce packaging market, in September 1995; Intelimer Polymer Systems for the industrial specialties market in June 1997; and Intellicoat coated inbred corn seeds in the Fall of 1999.

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With the acquisition of Landec Ag in September 1997 and Apio in December 1999, the Company is focused on two core businesses—Food Products Technology and Agricultural Seed Technology. The Food Products Technology segment combines the Company's Intellipac breathable membrane technology with Apio's fresh-cut produce business. The Agricultural Seed Technology segment integrates the Intellicoat seed coating technology with Fielder's Choice's direct marketing, telephone sales and e-commerce distribution capabilities. The Company also operates a Technology Licensing/Research and Development business which develops products to be licensed outside of the Company's core businesses. See "Business—Description of Core Business".

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect the amounts reported in the financial statement, such as, reserve requirements for accounts and notes receivable and inventories, gains and/or losses on investments in farming activities and writedowns for impairment of long-lived assets. Actual results could differ from those estimates. For instance, the carrying value of advances and notes receivable, as well as investments in farming activities, are impacted by current market prices for the related crops, weather conditions and the fair value of the underlying security obtained by the Company, such as, liens on property and crops. The Company recognizes losses when it estimates that the fair value of the related crops or security is insufficient to cover the advance, note receivable or investment.

Revenues related to research contracts are recognized ratably over the related funding periods for each contract, which is generally as research is performed. Product sales are recognized upon shipment except for shipments sent FOB destination in which revenue is recognized upon receipt by the customer. Services revenue is recognized when the service is rendered.

The Company recognized noncancellable, nonrefundable license fees as revenue when received and when all significant contractual obligations of the company relating to the fees had been met. Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The Company believes the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101—*Revenue Recognition in Financial Statements*. The \$1.9 million cumulative effect of the change in accounting principle, calculated as of November 1, 1999, was reported as a charge in the year ended October 29, 2000.

During fiscal year 1999, the Company managed its operations in three business segments—Food Products Technology, Agricultural Seed Technology and Industrial High Performance Materials.

In October 2001, the Board of Directors approved a plan to sell Dock Resins, the Company's specialty chemical subsidiary. The Company made the decision to dispose of Dock Resins in order to strengthen its balance sheet and allow the Company to focus on its core Food Products Technology and Agricultural Seed Technology businesses. The Company expects a sale of Dock Resins to close in the first half of 2002.

Beginning in fiscal year 2002, in accordance with Statements of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the new accounting pronouncements. Other intangible assets will continue to be amortized over their useful lives. Application of the nonamortization provisions of the new accounting pronouncements is expected to result in an increase in net income of approximately \$2.6 million per year. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets. As of October 29, 2001, the

Company has not yet determined what the effect, if any, of these tests will be on the earnings and financial position of the Company.

The Company has been unprofitable during each fiscal year since its inception. From inception through October 28, 2001, the Company's accumulated deficit was \$57.4 million. The Company 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 the Company will be able to reach or sustain profitability for an entire fiscal year.

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.

Fiscal Year Ended October 28, 2001 Compared to Fiscal Year Ended October 29, 2000

Total revenues were \$190.9 million for fiscal year 2001, compared to \$197.2 million for fiscal year 2000. Revenues from product sales and services decreased to \$190.0 million in fiscal year 2001 from \$196.2 million in fiscal year 2000. The decrease in product sales and service revenues was primarily due to decreased revenues from Apio's "fee for service" whole produce business, which decreased from \$73.2 million in fiscal year 2000 to \$55.5 million during fiscal year 2001. The decrease in the "fee-for-service" whole produce business is primarily due to the Company's decision during the third quarter of fiscal year 2001 to exit the cash, labor and equipment-intensive field harvesting and packing operations of its "fee-for-service" business, which resulted in decreased volumes during fiscal year 2001. Volumes in the "fee-for-service" business are expected to be down in the foreseeable future as the Company focuses on higher margin, less cash intensive aspects of its businesses. The decrease in Apio's "fee-for-service" revenue was partially offset by an increase in revenues from Apio's value-added specialty packaging business which increased to \$70.2 million in fiscal year 2001 from \$56.1 million in fiscal year 2000 and the fact that Apio was included for a full year in fiscal year 2001 compared to only eleven months in fiscal year 2000. Revenues from research, development and royalties were \$529,000 for fiscal year 2001 compared to \$586,000 for fiscal year 2000. Revenues from license fees remained unchanged at \$374,000 for fiscal years 2001 and 2000.

Cost of product sales and services consists of material, labor and overhead. Cost of product sales and services was \$163.3 million for fiscal year 2001 compared to \$167.6 million for fiscal year 2000. Gross profit from product sales and services as a percentage of revenue from product sales and services remained unchanged at 15% in fiscal years 2000 and 2001. Overall gross profit decreased to \$27.6 million in fiscal year 2001 from \$29.6 million in fiscal year 2000. This decrease was primarily due to gross profit from Apio's "fee-for-service" business which decreased \$3.4 million to \$6.7 million in fiscal year 2001 compared to \$10.1 million in fiscal year 2000. The decrease in gross profit from Apio's "fee-for-service" business was primarily due to 1) farming losses from the winter season produce sourcing, which increased to \$2.0 million in fiscal year 2001 from \$944,000 in fiscal year 2000; 2) higher crop sourcing costs during the first half of fiscal year 2001 as compared to fiscal year 2000 and; 3) lower volumes during the second half of fiscal year 2001 as compared to fiscal year 2000 as a result of discontinuing the field harvesting and packing operations of the business. Gross profit also decreased \$565,000 at Landec Ag due to lower product sales in fiscal year 2001 compared to fiscal year 2000. These decreases in gross profit were partially offset by increased gross profit from Apio's value-added specialty packaging business which increased \$2.8 million in fiscal year 2001 to \$12.2 million as compared to \$9.4 million in fiscal year 2000.

Research and development expenses remained virtually the same at \$3.3 million in fiscal year 2001 and \$3.4 million in fiscal year 2000. Landec's research and development expenses consist primarily of

expenses related to new product development, process scale-up work, and investments in patents to protect intellectual property content of Landec's enabling side chain crystallizable polymers.

Selling, general and administrative expenses were \$27.0 million for fiscal year 2001 compared to \$26.4 million for fiscal year 2000, an increase of 2%. 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. Selling, general and administrative expenses increased during fiscal year 2001 as compared to fiscal year 2000 primarily as a result of increased expenses at Apio for general and administrative expenses due to including Apio for a full year in fiscal year 2001 compared to only eleven months in fiscal year 2000. This increase was offset by decreased sales and marketing expenses at Landec Ag from a February 2001 reduction in force. Specifically, sales and marketing expenses decreased to \$10.9 million for fiscal year 2001 from \$12.6 million for fiscal year 2000.

Interest income for fiscal year 2001 was \$617,000 compared to \$873,000 for fiscal year 2000. This decrease in interest income was due principally to less cash available for investing and lower market interest rates. Interest expense for fiscal year 2001 was \$2.8 million compared to \$2.1 million for fiscal year 2000. The increase in interest expense was primarily due to having a higher average debt balance outstanding during fiscal year 2001.

Fiscal Year Ended October 29, 2000 Compared to Fiscal Year Ended October 31, 1999

Total revenues were \$197.2 million for fiscal year 2000, compared to \$21.4 million for fiscal year 1999. Revenues from product sales and services increased to \$196.2 million in fiscal year 2000 from \$19.9 million in fiscal year 1999. The increase in product sales and service revenues

was primarily due to \$177.0 million in revenues from Apio, which was acquired effective November 29, 1999 and from increased product sales from Landec Ag. Landec Ag product sales increased to \$17.2 million in fiscal year 2000 from \$15.2 million during fiscal year 1999 due to an increase in the volume of hybrid corn seed sold and revenue from the introduction of Intellicoat seed coated products. Revenues from research and development funding and from royalties decreased to \$586,000 in fiscal year 2000 from \$770,000 during fiscal year 1999. The decrease in research, development and royalty revenues was primarily due to the expiration of the research and development agreement with Alcon Laboratories, Inc. ("Alcon") related to the PORT™ ophthalmic devices, partially offset by new research and development contracts with ConvaTec, a division of Bristol Myers Squibb, in the area of medical adhesives, and UCB Chemicals Corporation in the area of industrial applications. Revenues from licensing fees for fiscal year 2000 were attributable to the Company's adoption of SEC Staff Accounting Bulletin No. 101—Revenue Recognition in Financial Statements (SAB 101). Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The adoption of SAB 101 resulted in a cumulative effect adjustment that increased the reported net loss for fiscal year 2000 by \$1.9 million related to upfront license fees received from the 1995 Hitachi agreement and the 1997 Alcon agreement (see Note 1 to the Consolidated Financial Statements). The cumulative effect adjustment was initially recorded as deferred revenue, and \$374,000 of this deferred amount was "recycled" into revenue in fiscal year 2000. The \$750,000 license fee revenues for fiscal year 1999 represent a milestone payment from Alcon related to the PORT ophthalmic devices during the first quarter, which was recorded in accordance with the Company's historical accounting practice.

Cost of revenue was \$167.6 million for fiscal year 2000 compared to \$12.0 million for fiscal year 1999. Gross profit from product sales and services as a percentage of revenue from product sales and services decreased from 40% in fiscal year 1999 to 15% in fiscal year 2000. The decrease in gross profit percentage was primarily the result of Apio's mix of products having a lower gross margin than

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Landec's other businesses coupled with losses in Apio's stone fruit business during fiscal year 2000, and Apio's higher costs associated with sourcing crops during the winter months. In addition, during fiscal year 2000, Landec incurred startup costs associated with Apio's new value-added food processing plant and establishing a new manufacturing facility in Menlo Park for Intellipac breathable membrane products. Overall gross profit increased from \$9.4 million in fiscal year 1999 to \$29.6 million during fiscal year 2000, an increase of 214%. This increase is primarily due to gross profit from Apio of \$19.8 million in fiscal year 2000.

Research and development expenses were \$3.4 million for fiscal year 2000 compared to \$4.7 million for fiscal year 1999, a decrease of 26%. The decrease in research and development expenses during fiscal year 2000 compared to fiscal year 1999 were primarily due to substantially reduced PORT research and development activities and the shift in Intellicoat seed coating to less research and development and greater production efforts.

Selling, general and administrative expenses were \$26.4 million for fiscal year 2000 compared to \$8.5 million for fiscal year 1999, an increase of 210%. Selling, general and administrative expenses increased during fiscal year 2000 as compared to fiscal year 1999 primarily as a result of expenses from Apio of \$15.6 million, and increased sales and marketing expenses associated with marketing efforts at Landec Ag. Specifically, sales and marketing expenses increased to \$12.6 million during fiscal year 2000 from \$5.3 million for fiscal year 1999.

In September 2000, management of Landec decided to discontinue processing fruit at its Reedley facility. The Company has put the facility and the packing and cold storage assets up for sale. As a result of the shutdown of the Reedley facility, the Company recorded a \$525,000 charge during the fourth quarter of fiscal year 2000, primarily for severance and payroll related costs. This amount was fully paid in fiscal year 2001.

Interest income for fiscal year 2000 was \$873,000 compared to \$290,000 for fiscal year 1999. This increase in interest income was due principally to interest earned on Apio's notes receivable. Interest expense for fiscal year 2000 was \$2.1 million, compared to zero for fiscal year 1999. This increase was primarily due to the debt assumed in the acquisition of Apio.

Liquidity and Capital Resources

As of October 28, 2001, Landec had cash and cash equivalents of \$8.7 million, a net increase of \$59,000 from \$8.6 million as of October 29, 2000. This increase was primarily due to: a) net borrowings under Landec's lines of credit of \$6.9 million; b) cash from the sale of preferred and common stock of \$5.5 million; c) collections of notes receivable and advances of \$3.4 million; partially offset by; d) cash used in operations of \$7.6 million; e) the purchase of \$7.0 million of property and equipment; and f) net reductions of long-term debt of \$555,000.

During fiscal year 2001, Landec purchased equipment to support the development of Apio's value added products, and incurred building and laboratory improvement costs and initiated implementation of a new ERP business system at Apio. These expenditures represented the majority of the \$7.0 million of property and equipment purchased during fiscal year 2001.

In November 1999 the Company raised \$10 million upon the sale of Preferred Stock (\$9.1 million net of issuance costs). In December 1999, in conjunction with the acquisition of Apio, the Company secured \$11.25 million of term debt and a \$12 million line of credit with Bank of America. The term debt and line of credit agreements ("Loan Agreement") contain restrictive covenants that require Apio to meet certain financial tests, including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. As of October 28, 2001 Apio was in compliance with all of its financial covenants, except for the capital expenditure limit which was waived by its bank. These requirements and ratios generally become more restrictive over time. The Loan

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Agreement, through restricted payment covenants, limits the ability of Apio to make cash payments to Landec, until the outstanding balance is reduced to an amount specified in the Loan Agreement. In February 2001, April 2001, September 2001 and October 2001, the Apio revolving line of credit was amended. The amendments adjusted the minimum ratios required to meet the fixed charge coverage and leverage ratios and increased the computed amount available under the line ("overline"), determined as a percentage of certain eligible assets (primarily receivables) by

(1) \$3.0 million through October 1, 2001 (2) \$2 million through November 1, 2001 and, (3) \$1 million through December 1, 2001 and would eliminate the overline entirely by December 2, 2001.

In May 2001, Apio entered into a capital lease agreement to fund the majority of the costs of a new ERP business system. As of October 28, 2001, \$1.7 million of the estimated \$2.9 million in total costs had been financed.

Landec Ag has a revolving line of credit which allows for borrowings of up to \$3 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is charged at the prime rate plus 0.75. The line of credit contains certain restrictive covenants, which, among other things, affect the ability of Landec to receive payments on debt owed by Landec Ag to Landec. Landec has pledged substantially all of the assets of Landec Ag to secure the line of credit. In June 2001, Landec Ag increased its line of credit by \$2.4 million to \$5.4 million through February 2002. At October 28, 2001, \$4.6 million was outstanding under the revolving line of credit. In addition, under the \$1.0 million equipment line, \$600,000 of equipment was purchased and in June 2001, that \$600,000 was converted into a four-year, 8% per annum, term note.

In October 2001, the Company raised \$5.0 million upon the sale of Preferred Stock to a trust of which a member of the Board of Directors is a trustee.

Landec believes that these facilities, the planned sale of Dock Resins and the Reedley facility and related fruit processing equipment and select licensing deals involving upfront payments, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements through at least the next twelve months. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses. The Company may, however, raise additional funds during the next twelve months through another debt financing or an equity financing. If an equity financing occurs it will have a dilutive effect on current shareholders. Landec's future capital requirements, however, will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of Landec to establish and maintain new collaborative and licensing arrangements; any decision to pursue additional acquisition opportunities; adverse weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; the amount of future earn-out payments; the ability to sell Dock Resins and the Reedley facility and related fruit processing equipment; and other factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its financing needs, Landec would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to Landec on favorable terms if at all.

Additional Factors That May Affect Future Results

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

We Have a History of Losses Which May Continue

Landec has incurred net losses in each fiscal year since its inception. Landec's accumulated deficit as of October 28, 2001 totaled \$57.4 million. Landec 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.

Our Substantial Indebtedness Could Limit Our Financial and Operating Flexibility

At October 28, 2001, Landec's total debt, including current maturities and capital lease obligations, was approximately \$33.4 million and the total debt to equity ratio was approximately 67%. This level of indebtedness could have significant consequences because a substantial portion of Landec's net cash flow from operations must be dedicated to debt service and will not be available for other purposes, Landec's ability to obtain additional debt financing in the future for working capital, capital expenditures or acquisitions may be limited, and Landec's level of indebtedness may limit its flexibility in reacting to changes in the industry and economic conditions generally.

In connection with the Apio acquisition, Landec may be obligated to make future payments to the former stockholders of Apio of up to \$9.6 million, excluding the \$273,000 of accrued interest, for a performance based earnout and future supply of produce. Of this amount, \$4.7 million relates to the earn out from fiscal years 2001 and 2000 that is due to be paid in fiscal year 2002.

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

Apio is subject to various financial and operating covenants under its term debt and line of credit facilities, including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. As of October 28, 2001, Apio was not in compliance with its capital expenditure covenant. The Company received a waiver for non-compliance from its bank and the Loan Agreement was amended to make certain of the covenants less restrictive. The Loan Agreement limits the ability of Apio to make cash payments to Landec until the outstanding balance is reduced to an amount specified in the Loan Agreement. Landec Ag is subject to certain restrictive covenants in its loan agreements which limit the ability of Landec Ag to make payments on debt owed to Landec. Landec has pledged substantially all of Apio's and Landec Ag's assets to secure their bank debt. Landec's failure to comply with the obligations under the loan agreements, including maintenance of financial ratios, could result in an event of default, which, if not cured or waived, would permit acceleration of the indebtedness due under the loan agreements.

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

In the past, Landec's results of operations have fluctuated significantly from quarter to quarter and are expected to continue in the future. Historically, Landec's 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 Landec's second quarter). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product during the first quarter of fiscal year 2001 as a result of weather related freezes in November and early December of 2000. Landec's earnings in its Food Products Technology business will be sensitive to price fluctuations in the fresh vegetables and fruits markets. Excess supplies can cause intense price competition. Other factors affecting Landec's food and/or agricultural operations include the seasonality of its supplies, the ability to process produce during critical harvest periods, the timing and effects of ripening, the degree of perishability, the effectiveness of worldwide distribution systems, the terms of various federal and state marketing orders, total worldwide industry volumes, the seasonality of consumer demand, foreign currency fluctuations, foreign importation restrictions and foreign political risks. As a result of these and other factors, Landec expects to continue to experience fluctuations in quarterly operating results, and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year.

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

The success of Landec in generating significant sales of its products will depend in part on the ability of Landec and its partners and licensees to achieve market acceptance of Landec's new products and technology. The extent to which, and rate at which, market acceptance and penetration are achieved by Landec's current and future products are a function of many variables including, but not limited to, price, safety, efficacy, reliability, conversion costs and marketing and sales efforts, as well as general economic conditions affecting purchasing patterns. There can be no assurance that markets for Landec's new products will develop or that Landec's new products and technology will be accepted and adopted. The failure of Landec's new products to achieve market acceptance would have a material adverse effect on Landec's business, results of operations and financial condition.

There can be no assurance that Landec will be able to successfully develop, commercialize, achieve market acceptance of or reduce the costs of producing Landec's new products, or that Landec's competitors will not develop competing technologies that are less expensive or otherwise superior to those of Landec. There can be no assurance that Landec will be able to develop and introduce new products and technologies in a timely manner or that new products and technologies will gain market acceptance. Landec is in the early stage of product commercialization of certain Intellipac breathable membrane, Intellicoat seed coating and other Intelimer polymer products and many of its potential products are in development. Landec believes that its future growth will depend in large part on its ability to develop and market new products in its target markets and in new markets. In particular, Landec expects that its 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 Landec's products. In addition, commercial applications of Landec's temperature switch polymer technology are relatively new and evolving.

We Face 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 Landec or that would render Landec's technology and products obsolete and non-competitive. Landec operates 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 Landec's collaborative arrangements may result in its corporate partners and licensees becoming competitors of Landec. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than Landec, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

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

Landec may need to consider seeking collaborative arrangements with other companies to manufacture some of its products. If Landec becomes dependent upon third parties for the manufacture of its products, then Landec's profit margins and its ability to develop and deliver those products on a timely basis may be affected. Failures by third parties may impair Landec's ability to deliver products on a timely basis, impair Landec's competitive position, or may delay the submission of products for regulatory approval. In late fiscal 1999, in an effort to reduce reliance on third party manufacturers, Landec began the set up of a manufacturing operation at its facility in Menlo Park, California, for the production of Intellipac breathable membrane packaging products. There can be no assurance that Landec can continue to successfully operate a manufacturing operation at acceptable costs, with acceptable yields, and retain adequately trained personnel.

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

No assurance can be given that Landec will not experience difficulty in acquiring materials for the manufacture of its products or that Landec will be able to obtain substitute vendors, or that Landec will be able to procure comparable materials or hybrid corn varieties at similar prices and terms within a reasonable time. Several of the raw materials used in manufacturing Landec's products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers and substrate materials for Landec's breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Landec Ag are purchased from a single source. Any interruption of supply could delay product shipments and materially harm our business.

We May be Unable to Adequately Protect Our Intellectual Property Rights

Landec has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. If Landec were determined to be infringing any third-party patent, Landec could be required to pay damages, alter its products or processes, obtain licenses or cease the infringing activities. If Landec is required to obtain any licenses, there can be no assurance that Landec will be able to do so on commercially favorable terms, if at all. Litigation, which could result in substantial costs to and diversion of effort by Landec, may also be necessary to enforce any patents issued or licensed to Landec or to determine the scope and validity of third-party proprietary rights. Any litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject Landec to significant liabilities to third parties, require disputed rights to be licensed from third parties or require Landec to cease using that technology. Landec's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. There can be no assurance that any pending patent applications will be approved, that Landec will develop additional proprietary products that are patentable, that any patents issued to Landec will provide Landec with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating Landec's technology. Furthermore, there can be no assurance that others will not

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independently develop similar products, duplicate any of Landec's products or design around Landec's patents.

Our Operations Are Subject to Environmental Regulations that Directly Impact Our Business

Landec's 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. Food additives may be substances added directly to food, such as preservatives, or substances that could indirectly become a component of food, such as waxes, adhesives and packaging materials.

A food additive, whether direct or indirect, must be covered by a specific food additive regulation issued by the FDA. Landec believes its Intellipac breathable membrane products are not subject to regulation as food additives because these products are not expected to become a component of food under their expected conditions of use. If the FDA were to determine that the Company's Intellipac breathable membrane products are food additives, Landec may be required to submit a food additive petition. 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 Landec's business, operating results and financial condition.

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of the manufacturing processes. In most cases, Landec believes its liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties. Any failure by Landec to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject it to substantial liability or could cause its manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Landec's 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 conducted by Landec, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies could result in increased compliance costs.

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

Landec's Food Products and Agricultural Seed Technology businesses are subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms and hurricanes, may adversely affect the supply of vegetables and fruits used in Landec's business, which could reduce the sales volumes and/or increase the unit production costs. During the first quarter of fiscal year 2001, optimal weather conditions after the November/December freezes resulted in an over supply of certain crops in which the Company had an invested interest. The over supply resulted in reduced prices for these crops which caused the Company to report a loss on its investment during fiscal year 2001. 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

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result in increases in unit production costs which could result in substantial losses and weaken Landec's financial condition.

We Depend on Strategic Partners and Licenses for Future Development

For some of its current and future products, Landec's strategy for development, clinical and field testing, manufacture, commercialization and marketing includes entering into various collaborations with corporate partners, licensees and others. Landec is dependent on its corporate partners to develop, test, manufacture and/or market some of its products. Although Landec believes that its 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 the control of Landec. There can be no assurance that those partners will perform their obligations as expected or that Landec will derive any additional revenue from the arrangements. There can be no assurance that Landec's partners will pay any additional option or license fees to Landec or that they will 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, there can be no assurance as to the amount of royalties, if any, on future sales of QuickCast and PORT products as Landec no longer has control over the sales of those products since the sale of QuickCast and the license of the PORT product lines. There can be no assurance that Landec's partners will not pursue existing or alternative technologies in preference to Landec's technology. Furthermore, there can be no assurance that Landec will be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, or that the collaborative arrangements will be successful.

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

Landec's products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of Landec's products is subject to periodic inspection by regulatory authorities. There can be no assurance that Landec will 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 Landec's business, financial condition and results of operations. Although Landec has no reason to believe that it will not be able to comply with all applicable regulations regarding the manufacture and sale of its 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. There can be no assurance that 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 will not adversely affect Landec's business. There can be no assurance that Landec will not be required to incur significant costs to comply with the laws and regulations in the future, or that the laws or regulations will not have a material adverse effect on Landec's business, operating results and financial condition. Landec is 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, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

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

For fiscal year 2001, approximately 17% of Landec's total revenues were derived from product sales to and collaborative agreements with international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by the 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 Landec's international business and its financial condition and results of operations. While Landec's foreign sales are currently priced in dollars, fluctuations in currency exchange rates, such as those recently experienced in many Asian countries, may reduce the demand for Landec's products by increasing the price of Landec's products in the currency of the countries to which the products are sold. There can be no assurance that regulatory, geopolitical and other factors will not adversely impact Landec's operations in the future or require Landec to modify its current business practices.

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

During fiscal year 2001, sales to Landec's top five customers accounted for approximately 34% of Landec's revenues, with the top customer accounting for 14% of Landec's revenues. Landec expects that for the foreseeable future a limited number of customers may continue to account for a substantial portion of its net revenues. Landec may experience changes in the composition of its customer base, as Apio and Landec Ag have experienced in the past. Landec does not have long-term purchase agreements with any of its 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 the major customers could materially and adversely affect Landec's 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, Landec's operating results could be adversely affected if one or more of its major customers were to develop other sources of supply. There can be no assurance that Landec's current customers will continue to place orders, that orders by existing customers will not be canceled or will continue at the levels of previous periods or that Landec will 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 being developed by Landec involve an inherent risk of allegations of product liability. While no product liability claims have been made against Landec to date, if any product liability claims were made and adverse judgments obtained, they could have a material adverse effect on Landec's business, operating results and financial condition. Although Landec has taken and intends to continue to take what it believes are appropriate precautions to minimize exposure to product liability claims, there can be no assurance that it will avoid significant liability. Landec currently maintains product liability insurance with limits in the amount of \$41.0 million per occurrence and \$42.0 million in the annual aggregate. There can be no assurance that the coverage is adequate or will 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 Landec's business, operating results and financial condition.

Our Stock Price May Fluctuate in Accordance with Market Conditions

Factors such as announcements of technological innovations, the attainment of (or failure to attain) milestones in the commercialization of Landec's technology, new products, new patents or changes in existing patents, the acquisition of new businesses or the sale or disposal of a part of

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Landec's businesses, or development of new collaborative arrangements by Landec, its competitors or other parties, as well as government regulations, investor perception of Landec, fluctuations in Landec's operating results and general market conditions in the industry may cause the

market price of Landec's common stock to fluctuate significantly. In addition, the stock market in general has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices of technology companies and which have been unrelated to the operating performance of technology companies. These broad fluctuations may adversely affect the market price of Landec's common stock.

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

In order to address deficiencies in Apio's management information systems and accounting systems, Apio has recently implemented a new ERP business system designed to improve the delivery of both operational and financial information. Apio management believes that this new system will improve its managing of operations, including delivering complete and accurate financial statements to Landec's corporate offices in a more timely manner. However, Landec can give no assurances that it will be able to effect those changes in the management information systems and accounting systems in a timely manner or sustain the process improvements over time.

Item 7A. 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. For obligations with variable interest rates, the table sets forth interest rates that are based on current rates and principal amounts due and does not attempt to project future interest rates. For the interest rate swap, the table presents notional amounts and interest rates by contractual maturity date. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract. This table should be read in connection with Note 9 to the Consolidated Financial Statements. Comparative information has not been provided as the majority of the financial instruments giving rise to interest rate risk were entered into or assumed by the Company in fiscal year 2001.

Liabilities In (000's)	2002	2003	2004	2005	2006	There- after	Total	Fair Value
Lines of Credit	15,612						15,612	15,612
Avg. Int. Rate	6.54%						6.54%	
Long term debt, including current portion								
Fixed Rate	2,344	2,126	1,802	1,209	127	1,946	9,554	9,554
Avg. Int. Rate	8.89%	8.89%	8.89%	8.89%	8.89%	8.89%	8.89%	8.89%
Variable Rate	2,625	2,500	3,125	—	—	—	8,250	8,250
Avg. Int. Rate	9.02%	9.02%	9.02%				9.02%	
Interest rate derivative financial instruments related to debt								
Interest Rate Swap								
Pay Fixed/Rec.Var	5,250						5,250	87
Avg. Pay Rate	7.02%						7.02%	
Avg. Rec. Rate	5.09%						5.09%	

Item 8. Financial Statements and Supplementary Data

See Item 14 of Part IV of this report.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 25, 2002 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 11. Executive Compensation

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 25, 2002 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 25, 2002 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated

herein by reference.

Item 13. Certain Relationships and Related Transactions

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 25, 2002 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

	<u>Page</u>
(a) 1. Consolidated Financial Statements of Landec Corporation	
Report of Ernst & Young LLP, Independent Auditors	37
Consolidated Balance Sheets at October 28, 2001 and October 29, 2000	38
Consolidated Statement of Operations for the Years Ended October 28, 2001, October 29, 2000 and October 31, 1999	39
Consolidated Statement of Changes in Shareholders' Equity for the Years October 28, 2001, October 29, 2000 and October 31, 1999	40
Consolidated Statement of Cash Flows for the Years Ended October 28, 2001, October 29, 2000 and October 31, 1999	41
Notes to Consolidated Financial Statements	42
2. Schedule II:	
Valuation and Qualifying Accounts for the Years October 28, 2001, October 29, 2000 and October 31, 1999	68
All other schedules provided for in the applicable accounting regulation of the Securities and Exchange Commission pertain to items which do not appear in the financial statements of Landec Corporation and its subsidiaries or to items which are not significant or to items as to which the required disclosures have been made elsewhere in the financial statements and supplementary notes and such schedules have therefore been omitted.	
(b) Reports on Form 8-K	69
(c) Index of Exhibits	69

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

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Shareholders
Landec Corporation

We have audited the accompanying consolidated balance sheets of Landec Corporation as of October 28, 2001 and October 29, 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended October 28, 2001. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Landec

Corporation at October 28, 2001 and October 29, 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 28, 2001 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

San Francisco, California
December 19, 2001

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

	October 28, 2001	October 29, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,695	\$ 8,636
Restricted cash	932	—
Accounts receivable, less allowance for doubtful accounts of \$880 and \$603 at October 28, 2001 and October 29, 2000, respectively	14,161	21,265
Inventory	14,639	12,781
Investment in farming activities	1,285	2,672
Notes and advances receivable	3,918	8,519
Notes receivable, related party	475	151
Prepaid expenses and other current assets	1,847	1,406
Assets held for sale	13,988	15,850
	<u>59,940</u>	<u>71,280</u>
Total current assets	59,940	71,280
Property and equipment, net	19,999	16,320
Goodwill, net	22,002	21,711
Trademarks, net	11,570	12,235
Other intangibles, net	3,533	4,268
Notes receivable	1,606	720
Other assets	1,472	1,631
	<u>\$ 120,122</u>	<u>\$ 128,165</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,241	\$ 18,501
Grower payables	2,845	13,651
Related party payables	508	262
Accrued compensation	1,646	2,232
Other accrued liabilities	9,125	9,291
Deferred revenue	2,622	2,265
Lines of credit	15,612	8,741
Current maturities of long term debt	4,969	3,447
	<u>54,568</u>	<u>58,390</u>
Total current liabilities	54,568	58,390
Long term debt, less current maturities	12,835	14,162
Other liabilities	1,845	2,171
Minority interest	1,035	1,264
	<u>70,283</u>	<u>75,987</u>
Total liabilities	70,283	75,987
Shareholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; 309,524 with an aggregate liquidation preference of \$15 million, and 166,667 with an aggregate liquidation preference of \$10 million issued and outstanding at October 28, 2001 and October 29, 2000, respectively	14,049	9,149

Common stock, \$0.001 par value; 50,000,000 shares authorized; 16,562,845 and 16,117,891 shares issued and outstanding at October 28, 2001 and October 29, 2000, respectively	93,191	92,555
Accumulated deficit	(57,401)	(49,526)
Total shareholders' equity	49,839	52,178
	\$ 120,122	\$ 128,165

See accompanying notes.

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended October 28, 2001	Year Ended October 29, 2000	Year Ended October 31, 1999
(in thousands, except per share data)			
Statement of Operations Data:			
Revenues:			
Product sales	\$ 134,437	\$ 123,026	\$ 19,926
Services revenue	50,479	71,280	—
Services revenue, related party	5,065	1,898	—
Research, development and royalty revenues	529	586	770
License fees	374	374	750
Total revenues	190,884	197,164	21,446
Cost of revenue:			
Cost of product sales	113,654	104,148	12,016
Cost of product sales, related party	760	348	—
Cost of services revenue	48,881	63,075	—
Total cost of revenue	163,295	167,571	12,016
Gross profit	27,589	29,593	9,430
Operating costs and expenses:			
Research and development	3,270	3,444	4,653
Selling, general and administrative	26,966	26,449	8,523
Exit of fruit processing	—	525	—
Total operating costs and expenses	30,236	30,418	13,176
Operating loss from continuing operations	(2,647)	(825)	(3,746)
Interest income	617	873	290
Interest expense	(2,789)	(2,083)	—
Other expense	(19)	(35)	—
Loss from continuing operations before income taxes (Provision)/benefit for income taxes	(4,838) —	(2,070) —	(3,456) —
Loss from continuing operations	(4,838)	(2,070)	(3,456)
Discontinued Operations:			
(Loss)/income from discontinued operations	(537)	(14)	687
Loss on disposal of operations	(2,500)	—	—
(Loss)/income from discontinued operations	(3,037)	(14)	687
Net loss before cumulative effect of change in accounting	(7,875)	(2,084)	(2,769)
Cumulative effect of change in accounting for upfront license fee revenue	—	(1,914)	—
Net Loss	\$ (7,875)	\$ (3,998)	\$ (2,769)

Basic and diluted net (loss)/income per share:

Continuing operations	\$	(.29)	\$	(.13)	\$	(.26)
Discontinued operations		(.19)		—		.05
Cumulative effect of change in accounting		—		(.12)		—

Basic and diluted net loss per share

\$	(.48)	\$	(.25)	\$	(.21)
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Proforma amounts assuming the change in accounting is applied retroactively:

Net loss	\$	(7,875)	\$	(2,084)	\$	(3,145)
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Net loss per share	\$	(.48)	\$	(.13)	\$	(.24)
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Shares used in computing basic and diluted net loss per share

16,371	15,796	13,273
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See accompanying notes.

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

Shareholders' Equity

	Preferred Stock		Common Stock		Notes Receivable From Shareholders	Deferred Compensation	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at October 31, 1998	—	\$ —	13,159,888	\$ 76,821	\$ (291)	\$ (86)	\$ (42,756)	\$ 33,688
Issuance of common stock at \$0.58 to \$5.56 per share	—	—	193,464	468	—	—	—	468
Net decrease in notes receivable from shareholders	—	—	—	—	291	—	—	291
Amortization of deferred compensation	—	—	—	—	—	86	—	86
Change in unrealized gain on available-for-sale securities	—	—	—	—	—	—	(3)	(3)
Net loss	—	—	—	—	—	—	(2,769)	(2,769)
Balance at October 31, 1999	—	\$ —	13,353,352	\$ 77,289	\$ —	\$ —	\$ (45,528)	\$ 31,761
Issuance of preferred stock	166,667	9,149	—	—	—	—	—	9,149
Issuance of common stock for acquired businesses	—	—	2,562,500	14,559	—	—	—	14,559
Issuance of common stock at \$0.58 to \$7.00 per share	—	—	202,039	707	—	—	—	707
Net loss	—	—	—	—	—	—	(3,998)	(3,998)
Balance at October 29, 2000	166,667	\$ 9,149	16,117,891	\$ 92,555	\$ —	\$ —	\$ (49,526)	\$ 52,178
Issuance of preferred stock	142,857	4,900	—	—	—	—	—	4,900

Issuance of common stock at \$0.58 to \$3.63 per share	—	—	444,954	636	—	—	—	636
Net loss	—	—	—	—	—	—	(7,875)	(7,875)
Balance at October 28, 2001	309,524	\$ 14,049	16,562,845	\$ 93,191	\$ —	\$ —	(57,401)	\$ 49,839

See accompanying note

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LANDEC CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended		
	October 28, 2001	October 29, 2000	October 31, 1999
Increase (Decrease) in cash and cash equivalents			
Cash flows from operating activities:			
Net loss from continuing operations	\$ (4,838)	\$ (3,984)	\$ (3,456)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,430	5,114	1,456
(Loss)/income from discontinued operations	(3,037)	(14)	687
Cumulative effect of change in accounting	—	1,914	—
Disposal of property and equipment	548	183	—
Exit of fruit processing	—	525	—
Changes in assets and liabilities, net of effects from acquisitions and discontinued operations:			
Restricted cash	(932)	—	—
Accounts receivable, net	7,104	(5,271)	(97)
Inventory	(1,858)	(2,266)	(3,059)
Investment in farming activities	1,387	(642)	—
Prepaid expenses and other current assets	(441)	1,548	(445)
Assets held for sale	3,020	572	1,267
Accounts payable	(1,260)	3,690	(73)
Grower payables	(10,806)	6,930	—
Related party payables	246	262	—
Accrued compensation	(586)	360	(117)
Other accrued liabilities	(1,904)	(3,998)	504
Deferred revenue	358	(617)	(364)
Net cash (used in) provided by operating activities	(7,569)	4,306	(3,697)
Cash flows from investing activities:			
Purchases of property and equipment	(6,961)	(3,787)	(990)
(Increase) decrease in other assets and liabilities	(168)	7	(7)
(Decrease) increase in notes receivable and advances	3,391	(3,784)	362
Acquisition of businesses, net of cash acquired	(257)	(6,793)	(393)
Maturities of available-for-sale securities	—	—	989
Net cash used in investing activities	(3,995)	(14,357)	(39)
Cash flows from financing activities:			
Proceeds from sale of preferred stock, net of issuance costs	4,900	9,149	—
Proceeds from sale of common stock, net of repurchases	637	708	468
Decrease (increase) in repayment of notes receivable from shareholders	—	—	291
Borrowings on lines of credit	25,966	18,944	—
Payments on lines of credit	(19,096)	(10,203)	—

Payments on long term debt	(3,916)	(2,172)	(42)
Proceeds from issuance of long term debt	3,361	—	41
Increase in minority interest liability	20	105	—
Payments to minority interest	(249)	(243)	—
Net cash provided by financing activities	11,623	16,288	758
Net increase (decrease) in cash and cash equivalents	59	6,237	(2,978)
Cash and cash equivalents at beginning of year	8,636	2,399	5,377
Cash and cash equivalents at end of year	\$ 8,695	\$ 8,636	\$ 2,399
Supplemental disclosure of cash flows information:			
Cash paid during the period for interest	\$ 2,929	\$ 1,424	\$ —
Cash paid during the period for income taxes	\$ —	\$ —	\$ —
Supplemental schedule of noncash investing and financing activities:			
Common stock issued in the acquisition of businesses	—	14,559	—

See accompanying notes.

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LANDEC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Consolidation

The consolidated financial statements comprise the accounts of Landec Corporation and its subsidiaries, Apio, Inc. ("Apio"), Landec Ag and Dock Resins Corporation ("Dock Resins"). All material inter-company transactions and balances have been eliminated. Effective fiscal year 2000, the Company changed its fiscal year end from October 31 to a fiscal year that includes 52 or 53 weeks ending on the last Sunday in October.

The accounts of Dock Resins 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"). The new assets of Dock Resins have been reclassified in the consolidated balance sheets to assets held for sale.

Concentrations of Credit Risk

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

Cash and Cash Equivalents

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents.

Restricted Cash

In April 2001, the Company established an Irrevocable Letter of Credit ("ILOC") as collateral for the non-hardware portion of Apio's business system capital lease. As of October 28, 2001, the ILOC balance was \$932,000 and is classified as restricted cash in the consolidated balance sheets.

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Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. As of October 28, 2001 and October 29, 2000 inventories consisted of (in thousands):

	October 28, 2001	October 29 2000
Finished goods	\$ 9,030	\$ 5,567
Raw materials	4,885	6,715
Work in process	1,355	950
Gross inventory	15,270	13,232
Less Reserves	(631)	(451)
Net inventory	\$ 14,639	12,781

Inventory reserves are based on estimates of current market conditions and changes in market conditions will result in adjustments to the inventory reserves.

Advertising Expense

The Company defers certain costs related to direct-response advertising of Landec Ag's hybrid corn seeds. Such costs are amortized over periods (less than one year) that correspond to the estimated revenue stream of the advertising activity. Advertising expenditures for Landec Ag and Apio that are not direct-response advertisements are expensed as incurred. The advertising expense for the Company for fiscal years 2001, 2000 and 1999 was \$1.3 million, \$1.4 million and \$1.3 million, respectively. The amount of deferred advertising included in prepaid expenses and other current assets at October 28, 2001 and October 29, 2000 was \$1.0 million and \$400,000, respectively.

Notes Receivable and Advances

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

Related Party Transactions

Apio provides harvesting, packing, cooling and distributing services for a member of management and purchases produce from that individual. Revenues, cost of product sales and the resulting payable and the note receivable from advances for crop and harvesting costs (see Note 5), are shown separately in the accompanying financial statements as of October 28, 2001 and October 29, 2000 and for the periods then ended.

In October 1998, the Company loaned an officer of Landec Ag \$500,000 in cash in exchange for a promissory note. Interest accrues at 7.50% per annum, compounded annually. On July 31, 1999 the balance of principal and accrued interest were offset by the amount earned during 1999 under the earn-out provision related to the acquisition of Fielder's Choice by the Company. The remaining principal and accrued interest balance of \$159,000 was received by the Company in October 2001.

Investment in farming activities

Landec, through its Apio subsidiary, invests in certain farming activities. The investments consist of cash advances to growers for expenses to be incurred during the growing season, in exchange for a percentage ownership in the proceeds of the crops. Net income or loss is generally recognized on these investments based on Landec's percentage ownership of the net proceeds of the crops as fields are harvested and proceeds are settled. Additionally, certain farming agreements contain provisions wherein Landec bears the risk of loss if the net proceeds from the crops are not sufficient to cover the expense incurred. For fiscal years 2001 and 2000, net losses of approximately \$2.0 million and \$944,000, respectively, were recognized and included in the cost of product sales in the consolidated statement of operations.

Property and Equipment

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

The Company capitalizes software development costs for internal use in accordance with Statement of Position 98-1 "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs using the straight-line basis over estimated useful lives. Under SOP 98-1, the Company capitalized \$2.7 million of software development costs in 2001 related to the Apio's new ERP business systems.

Intangible Assets

Intangible assets represent the excess of acquisition costs over the estimated fair value of net assets acquired and consist of covenants not to compete, customer bases, work forces in place, trademarks, developed technology and goodwill. These assets are amortized on a straight line basis over periods ranging from five to twenty years based on their estimated useful lives.

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

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The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately \$2.6 million per year. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of October 29, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

Goodwill and other acquisition-related intangibles are reviewed for recoverability periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is compared to the undiscounted cash flows of the businesses acquired. Should the review indicate that these intangibles are not recoverable, their carrying amount would be reduced by the estimated shortfall of those cash flows. No impairment has been indicated to date.

Grower Payable

Landec, through its Apio subsidiary, contracts with growers to cool and distribute their products. The grower payable is the net of the market value of the products received from the growers and the corresponding charges by Landec for services rendered on behalf of the growers.

Deferred Revenue

Cash received in advance of services performed (principally revenues related to upfront license fees) or shipment of products (primarily hybrid corn seed) are recognized as a liability and recorded as deferred revenue. At October 28, 2001 approximately \$2.2 million has been recognized as a liability for advances on future hybrid corn seed shipments, and \$1.3 million as a liability for deferred license fee revenues. Of the deferred license fee amount, approximately \$865,000 will be recognized subsequent to fiscal 2002 and has been included in other liabilities.

Minority Interest

In connection with the acquisition of Apio, Landec acquired Apio's 60% general partner interest in Apio Cooling, a California limited partnership. Apio Cooling is included in the consolidated financial statements of Landec at October 28, 2001 and October 29, 2000. The minority interest balance, of \$1.0 million at October 28, 2001 and \$1.3 million at October 29, 2000 represents the limited partners' interest in Apio Cooling.

Per Share Information

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" (SFAS No. 128). SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Due to the Company's net loss in all periods presented, net loss per share includes only weighted average shares outstanding. All earnings per share amounts for all periods have been presented in accordance with SFAS No. 128 requirements.

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Revenue Recognition

Revenues related to research contracts are recognized ratably over the related funding periods for each contract, which is generally as research is performed. Product sales are recognized upon shipment except for shipments sent FOB destination in which revenue is recognized upon receipt by the customer. Services revenue is recognized when the service is rendered.

Prior to November 1, 1999, the Company recognized noncancellable, nonrefundable license fees as revenue when received and when all significant contractual obligations of the Company relating to the fees had been met. Effective November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The Company believes the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101—*Revenue Recognition in Financial Statements*. The \$1.9 million cumulative effect of the change in accounting principle, calculated as of November 1, 1999, was reported as a charge in the year ended October 29, 2000. The cumulative effect was initially recorded as deferred revenue and is being recognized as revenue over the research and development period or supply period commitment of the agreement. During the year ended October 29, 2000 the impact of the change in accounting was to increase net loss by approximately \$1.5 million, or \$0.10 per share, comprised of the \$1.9 million cumulative effect of the change as described above (\$0.12 per share), net of \$374,000 of the related deferred revenue which was recognized as "recycled" revenue during 2000 (\$0.02 per share). During fiscal year 2001, \$374,000 of the related deferred revenue was recognized as "recycled" revenue. The remainder of the related deferred revenue will be recognized as revenue per fiscal year as follows: \$302,000 in 2002, \$88,000 in 2003–2011, and \$73,000 in 2012. The pro forma amounts presented in the consolidated statement of operations were calculated assuming the accounting change was made retroactive to prior periods.

Amounts received in advance are recorded as deferred revenue until the related revenue is recognized.

Research and Development Expenses

Costs related to both research contracts and Company-funded research is included in research and development expenses. Costs to fulfill research contracts generally approximate the corresponding revenue.

Accounting for Stock-Based Compensation

The Company accounts for its stock option plans and its employee stock purchase plans in accordance with the provisions of the Accounting Principles Board Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees."

Use of Estimates

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

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

Impairment of Long Lived Assets

The Company has accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Company records impairment losses on long-lived assets used in operations or expected to be disposed when events and circumstances indicate that the assets are less than the carrying amounts of those assets. No such event and circumstances have occurred.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Impairment of long-lived Assets ("SFAS No. 144"). SFAS No. 144 supercedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of long-lived Assets and for long-lived Assets to be disposed of ("SFAS No. 121"). SFAS No. 144 retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 removes goodwill from its scope. SFAS No. 144 is applicable to financial statements issued for fiscal years beginning after December 15, 2001 or for the Company's fiscal year ended October 26, 2003. The adoption of SFAS No. 144 is not expected to have any material adverse impact on the Company's financial position or results of its operations.

Fair Values of Financial Instruments

The Company's financial instruments, subject to the fair value disclosure requirements of Financial Accounting Standards Board Statement No. 107, "Disclosures about Fair Value of Financial Statements," consist of cash, cash equivalents, notes and advances receivable, debt, capital lease obligations, and an interest rate swap agreement (see Note 9). The recorded value of the financial instruments approximates their fair value.

Adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"

As of October 30, 2000, the Company adopted the Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS No. 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. The adoption of these statements did not have a material impact on the Company's consolidated financial statements.

Reclassifications

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

2. Discontinued Operations

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

The estimated loss recorded in fiscal year 2001 on the pending sale of Dock Resins was \$2.5 million, which is comprised of an estimated loss on the disposal of Dock Resins of \$1.3 million; transaction costs and certain costs directly related to the sale, including consulting fees and professional fees of \$900,000; and a provision of \$258,000 for the anticipated operating losses from the measurement date of October 18, 2001 to the estimated disposal date of June 30, 2002. The loss the Company will ultimately realize on the sale of Dock Resins could differ materially from the amounts currently assumed in arriving at the loss recorded in fiscal year 2001 from the disposal of Dock Resins.

The condensed components of the net assets of Dock Resins included in assets held for sale in the accompanying consolidated balance sheets as of October 28, 2001 and October 29, 2000 are as follows (in thousands):

	October 28, 2001	October 29, 2000
Cash	\$ 11	\$ 953
Accounts receivable, net	1,593	1,460
Inventory	2,038	1,720
Other current assets	312	552
Total current assets	3,954	4,685
Property and equipment, net	9,860	8,117
Intangibles, net	4,634	5,172
Total assets	18,448	17,974
Total current liabilities	(3,433)	(2,347)
Long-term debt	(2,368)	(2,469)
Other liabilities	(105)	(271)
Net assets of Dock Resins before loss on disposal	12,542	12,887
Loss on disposal	(1,342)	—
Net assets of Dock Resins	\$ 11,200	\$ 12,887

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The condensed statements of operations of Dock Resins for fiscal years 1999 through 2001 classified as income or (loss) from discontinued operations in the accompanying consolidated statement of operations are as follows:

	2001	2000	1999
Product sales	\$ 11,735	\$ 12,386	\$ 14,001
Cost of product sales	8,132	8,617	9,460
Gross Profit	3,603	3,769	4,541
Operating expenses	3,931	3,682	3,774
Operating (loss)/profit	(328)	87	767
Other expense	(209)	(101)	(80)
Net (loss)/income from discontinued operations	\$ (537)	\$ (14)	\$ 687

3. Business Acquisitions

On December 2, 1999, Landec acquired Apio, Inc. and certain related entities ("Apio"), located in Guadalupe, California, a marketer and packer of produce and specialty packaged fresh-cut vegetables. Upon closing, Landec paid \$21.0 million in cash and stock, before expenses, for Apio, which will operate as a wholly owned subsidiary of Landec. In addition, the agreement provides for future payments to the former owners of Apio of up to \$9.6 million (excluding accrued interest of \$273,000) at October 28, 2001. These payments consist of a) \$4.7 million in earn-out payments to a former owner and current CEO of Apio, \$579,000 of which is payable in March 2002 and the remaining \$4.1 million is due in October 2002, and b) \$4.9 million non-interest bearing notes to the sellers which will be paid in equal annual installments over the next four years (recorded at \$4.0 million on a discounted basis), the first payment of \$1.1 million was made in January 2001. The transaction was accounted for as a purchase. The purchase price has been allocated to the acquired assets and liabilities based on their relative fair market values, subject to final adjustments. These allocations are based on independent valuations and other studies. Certain adjustments have been made to the purchase price allocation originally reported by the Company, including the addition of \$4.7 million due to the earn-out previously discussed, as well as the recording of an additional \$500,000 of transaction related costs. In addition, the purchase price was increased in the second quarter of fiscal year 2000 by \$2.1 million to reflect a change in the estimated value of Landec Common Stock issued at close and in the third quarter of fiscal year 2001 by \$591,000, on a discounted basis, to adjust the notes payable to the sellers as a result of Landec's Common Stock having an average closing price in June 2001 below \$6.00 per share.

The following is a summary of the purchase price allocation (in thousands):

Net assets and liabilities	\$ 2,014
Customer base	1,821
Work force in place	1,395
Trademark	9,100
Goodwill	20,688
	\$ 35,018

The acquisition by Landec of all the outstanding capital stock of Apio was exchanged for the following:

Landec common stock	\$ 14,217
Contractual deferred obligations	4,683
Cash paid or set aside as a liability	13,771
	<hr/>
Purchase price before acquisition costs	32,671
Acquisition costs	2,347
	<hr/>
Total purchase price	\$ 35,018
	<hr/>

To fund the transaction, Landec issued 2.5 million shares of common stock to the prior owners of Apio. Apio replaced a portion of its existing bank debt with a \$11.25 million term note and entered into a new \$12 million line of credit agreement with a bank. Existing debt of \$3.7 million was assumed in the transaction. In a separate transaction, Landec sold \$10 million (\$9.1 million net of issuance costs) of convertible preferred stock (convertible into 1,666,670 shares of Common Stock) to a private, long-term, investor at a \$6.00 per share equivalent price.

The results of operations and cash flows for fiscal year 2000 include the results of Apio from November 29, 1999 through October 29, 2000.

The following pro forma summary of consolidated revenues, net loss and net loss per share for fiscal years 2000 and 1999 assumes the acquisition occurred on November 1, 1998. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of Landec's financial results if the acquisition had taken place at the beginning of fiscal year 1999 or of future results, and do not include the cumulative effect of the change in accounting principle (Note 1) (in thousands, except per share amounts).

	Fiscal Year	
	2000	1999
Revenue	\$ 224,671	\$ 197,031
Net loss	\$ (2,179)	\$ (4,015)
Net loss per share	\$ (0.14)	\$ (0.25)

4. Exit of Fruit Processing

In September 2000, management of Landec decided to discontinue processing fruit at its Reedley facility, part of the Food Products Technology segment. At that time, Landec's management determined that all fruit processing personnel and the majority of the administrative staff at the facility would be terminated. The plan, including termination benefits, was approved by management and communicated to the affected employees during fiscal year 2000, and the facility was shut down in January 2001. The Company is in the process of selling the facility and the packing and cold-storage assets in Reedley. The Company will continue to provide field support and sales and marketing services to contracted growers through Apio's existing staff, and will outsource all remaining services to third parties. The Company has entered into contractual arrangements with third party commercial packing and cold storage operators to provide the necessary packing and cold storage services previously provided to the growers through the Reedley facility.

The Company recorded a charge of \$525,000 in fiscal year 2000, primarily for severance and payroll related costs, in the accompanying consolidated statement of operations. This amount was fully paid in fiscal year 2001. An offer to purchase the facility is currently pending with the closing projected in the Company's first fiscal six months of 2002. The sale is expected to result in a gain. The net book value of the assets is \$2.8 million and \$3.0 million, which is recorded as assets held for sale in the accompanying consolidated balance sheets as of October 28, 2001 and October 29, 2000, respectively.

5. Notes Receivable and Advances

	October 28, 2001	October 29, 2000
Notes receivable and advances at October 28, 2001 and October 29, 2000 consisted of the following (in thousands):		
Various notes receivable from growers, with principal and interest ranging from the prime rate to the prime rate plus 3% to a maximum of 10%, payments to be withheld from proceeds derived from crop sales, due through December 2002, secured by crops	\$ 3,902	\$ 7,189
Note receivable due from grower in annual installments of \$60,714 plus interest at prime rate plus 1.0% with final payment due November 1, 2004, secured by crops	243	304
Note receivable due from grower in annual installments of \$20,000 plus interest at prime rate plus 1.0% with final payment due January 31, 2005, secured by crops	674	577

Notes receivable due from grower plus interest based on Apio's cost to borrow funds. Note to be paid in full by May 2003.	—	129
Unsecured note receivable due from a related party with interest at 7.5% due July 31, 2001	—	151
Short term non-interest bearing note due from grower, secured by real property	—	850
Note receivable due from a related party with interest at the prime rate due December 31, 2001, secured by crops	475	—
Short term advances and other	930	1,221
Gross notes receivable and advances	6,224	10,421
Less allowance for doubtful notes	(225)	(1,031)
Net notes receivable and advances	5,999	9,390
Less current portion of notes receivable, including related party note	(4,393)	(8,670)
Non-current portion of notes receivable	\$ 1,606	\$ 720

Landec is obligated to make additional loans to growers under certain of these note receivable agreements. At October 28, 2001, Landec had outstanding commitments to fund up to an additional \$1.4 million to growers under these existing note receivable agreements.

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6. Property and Equipment

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

	October 28, 2001	October 29, 2000
Land and buildings	\$ 10,196	\$ 8,304
Leasehold improvements	1,722	1,785
Computer, machinery, equipment and autos	12,041	10,103
Furniture and fixtures	1,730	1,810
Construction in process	3,675	1,089
	29,364	23,091
Less accumulated depreciation and amortization	(9,365)	(6,771)
	\$ 19,999	\$ 16,320

Depreciation expense for fiscal years 2001, 2000 and 1999 was \$2.7 million, \$2.9 million, and \$765,000, respectively. Equipment under capital leases, which totals approximately \$2.1 million at October 28, 2001, is security for the related lease obligations. The related accumulated amortization is \$209,000. Included in construction in process at October 28, 2001 is \$2.9 million for an ERP system under a capital lease.

7. Intangible Assets

Intangible assets consist of the following (in thousands):

	October 28, 2001	October 29, 2000
Trademark	\$ 13,300	\$ 13,300
Customer base	3,721	3,721
Workforce in place	1,615	1,615
Covenants not to compete	200	200
Goodwill	24,422	22,836
	43,258	41,672
Less accumulated amortization	(6,153)	(3,458)
	\$ 37,105	\$ 38,214

Amortization expense for fiscal years 2001, 2000 and 1999 was \$2.7 million, \$2.2 million and \$604,000, respectively.

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8. Shareholders' Equity

Convertible Preferred Stock

The Company has authorized two million shares of preferred stock, and has issued 50,000 shares in Series A-1, 116,667 shares in Series A-2 and 142,857 in Series B preferred stock.

Pursuant to a Series B Preferred Stock Purchase Agreement dated October 24, 2001, by and among the Company and the Seahawk Ranch Irrevocable Trust, the Company completed a financing that raised approximately \$5.0 million through a private placement of its Series B Preferred Stock (the "Series B Preferred Stock"). Pursuant to this agreement, the Company issued 142,857 shares of Series B Preferred Stock of the Company at \$35.00 per share (representing 1,428,570 shares of Common Stock on a converted basis). A director of the Company is a trustee of the Seahawk Ranch Irrevocable Trust.

Each share of the Series A and B convertible preferred stock is, at the option of the holder, convertible into shares of common stock, subject to certain antidilution adjustments, in accordance with the conversion formula provided in the Company's Articles of Incorporation (currently a 10:1 ratio). Outstanding Series A preferred shares automatically convert into common stock either on November 29, 2003 or on an earlier date specified by written consent or agreement of the holders of at least a majority of the then outstanding shares of Series A convertible preferred stock. One half of the outstanding Series B preferred stock is convertible in common stock at the holder's discretion after April 24, 2002 and all of the Series B preferred stock can be converted into common stock after October 24, 2002.

Each share of convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted and have the voting rights and powers of the common stock, voting together as a single class.

Series B preferred stockholders are entitled to receive cumulative dividends payable in additional shares of Series B preferred stock.

The Series B preferred stock is redeemable, solely at the option of the Company, at principal plus accrued dividends, which accrue at a rate of \$2.80 per share annually.

Upon liquidation, Series A preferred stockholders shall receive a return equal to the original issue price of the shares plus any declared but unpaid dividends. Through October 28, 2001 no dividends have been declared.

Upon liquidation, Series B preferred stockholders shall receive a return equal to the original issue price of the shares plus any accrued but unpaid dividends.

Common Stock, Stock Purchase Plans and Stock Option Plans

The Company has 8,618,821 common shares reserved for future issuance under Landec Corporation stock option plans and employee stock purchase plans and for conversion of outstanding preferred stock.

The 1995 Directors' Stock Option Plan (the "Directors' Plan") provides that each person who becomes a nonemployee director of the Company, who has not received a previous grant, shall be granted a nonstatutory stock option to purchase 20,000 shares of common stock on the date on which the optionee first becomes a nonemployee director of the Company. Thereafter, on the date of each

annual meeting of the shareholders each non-employee director shall be granted an additional option to purchase 10,000 shares of common stock if, on such date, he or she shall have served on the Company's Board of Directors for at least six months prior to the date of such annual meeting. The exercise price of the options is the fair market value of the Company's common stock on the date the options are granted. The Directors' Plan, as amended in 1998, authorizes the issuance of 400,000 shares under the plan. Options granted under this plan are exercisable and vest upon grant. All directors' stock option grants outstanding on December 4, 1997 with an exercise price greater than \$6.75, were repriced to \$6.75 per share, the fair market value of the Company's common stock on April 15, 1998, the date of the annual shareholders' meeting.

The 1996 Non-Executive Stock Option Plan authorizes the Board of Directors to grant non-qualified stock options to employees and outside consultants of the Company. The exercise price of the options will be equal to the fair market value of the Company's common stock on the date the options are granted. As amended in 1999, 1,500,000 shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

In November 1996, the Company's Board of Directors approved the 1996 Stock Option Plan. Under this plan, the Board of Directors of Landec may grant stock purchase rights, incentive stock options or non-statutory stock options to Landec executives. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 100% of the fair market value of Landec's common stock on the date the options are granted. The plan, as amended, authorizes the issuance of 2,000,000 shares of Landec common stock under the plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

In October 2000, the Company's Board of Directors approved the New Executive Stock Option Plan. Under this plan, the Board of Directors may grant non-statutory stock options to officers of Landec or officers of Apio or Landec Ag whose employment with each of those companies began after October 24, 2000. The exercise price of the non-statutory stock options may be no less than 100% and 85%, for named executives and non-named executives, respectively, of the fair market value of Landec's common stock on the date the options are granted. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested. 210,000 shares are authorized to be issued under this plan.

In November 1999, the Company's Board of Directors granted to the CEO of Apio a non-statutory stock option to purchase 790,000 shares of Landec's common stock. The exercise price of the grant was the fair market value of Landec's common stock on the date of grant. The option

vests over two years.

In December 1999, the Company granted an option to purchase 200,000 shares of Common Stock to a member of management under the 1996 Stock Option Plan. The option has an exercise price of \$6.25 per share, and vests in three equal amounts if the stock price reaches an average of \$10, \$20, and \$30, respectively, for a twenty consecutive day trading period prior to December 2003. In September 2001, the option holder agreed to cancel this option in exchange for \$60,000, based upon an independent appraisal of the fair value of the option, in deferred compensation. Effective January 1, 2002, the Company must pay the \$60,000 upon request of the option holder.

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The various repricings effected by the Company do not result in variable accounting under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," since they were effected prior to December 15, 1998.

Activity under all Landec Stock Option Plans is as follows:

	Options Available for Grant	Outstanding Options	
		Number of Shares	Weighted Average Exercise Price
Balance at October 31, 1998	1,255,341	2,480,905	\$ 3.90
Additional shares reserved	750,000	—	—
Options granted	(663,300)	663,300	\$ 4.79
Options exercised	—	(100,265)	\$ 1.52
Options forfeited	108,220	(108,220)	\$ 5.20
Expired in 1988 Plan	(2,977)	—	—
Balance at October 31, 1999	1,447,284	2,935,720	\$ 4.14
Additional shares reserved	1,000,000	—	—
Options granted	(1,614,150)	1,614,150	\$ 6.27
Options exercised	—	(94,002)	\$ 3.42
Options forfeited	141,029	(141,029)	\$ 5.19
Expired in 1988 Plan	(4,078)	—	—
Balance at October 29, 2000	970,085	4,314,839	\$ 4.92
Additional shares reserved	500,000	—	—
Options granted	(606,800)	606,800	\$ 3.44
Options exercised	—	(311,609)	\$ 0.72
Options forfeited	599,264	(599,264)	\$ 5.45
Expired in 1988 Plan	(58,281)	—	—
Balance at October 28, 2001	1,404,268	4,010,766	\$ 4.93

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At October 28, 2001, October 29, 2000 and October 31, 1999, options to purchase 2,901,861, 1,974,146 and 1,494,662 of Landec's common stock were vested, respectively. No options have been exercised prior to being vested.

Total deferred compensation expense recognized in the Company's financial statements for stock-option awards under APB 25 for fiscal years 2001, 2000 and 1999 was \$0, \$0 and \$86,000 respectively.

The following tables summarize information about Landec options outstanding and exercisable at October 28, 2001.

OPTIONS OUTSTANDING

Range of Exercise Prices	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$0.5800–\$0.8600	163,294	2.21	\$0.74
\$1.4400–\$4.8750	790,632	8.24	\$3.16
\$4.9380–\$4.9380	372,983	7.29	\$4.94
\$5.0000–\$5.0000	1,176,332	6.16	\$5.00
\$5.0630–\$6.1250	238,317	7.13	\$5.52
\$6.2500–\$6.2500	873,000	4.13	\$6.25
\$6.5000–\$7.6250	396,208	7.60	\$6.75
\$0.5800–\$7.6250	4,010,766	6.27	\$4.93

OPTIONS EXERCISEABLE

Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price
\$0.5800–\$0.8600	163,294	\$0.74
\$1.4400–\$4.8750	373,386	\$2.75
\$4.9380–\$4.9380	254,633	\$4.94
\$5.0000–\$5.0000	871,113	\$5.00
\$5.0630–\$6.1250	190,801	\$5.46
\$6.2500–\$6.2500	799,207	\$6.25
\$6.5000–\$7.6250	249,427	\$6.80
\$0.5800–\$7.6250	2,901,861	\$4.99

Employee Stock Purchase Plan. The Company has an employee stock purchase plan which permits eligible employees to purchase common stock, which may not exceed 10% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the Company's common stock at the beginning of the offering period or on the purchase date. As of October 28, 2001, 416,453 shares have been issued under the Purchase Plan.

Landec Ag Stock Plan. Under the 1996 Landec Ag Stock Plan, the Board of Directors of Landec Ag may grant stock purchase rights, incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 85%, 100% and 85%, respectively, of the fair market value of Landec Ag's common stock as determined by Landec Ag's Board of Directors. 2,000,000

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shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

The following table summarizes activity under the Landec Ag Stock Option Plan.

	Outstanding Options		
	Options Available	Number of Shares	Weighted Average Exercise Price
Balance at October 31, 1998	715,900	1,284,100	\$0.12
Options granted	(248,800)	248,800	\$0.83
Options exercised	—	(534)	\$0.20
Options forfeited	9,591	(9,591)	\$0.20
Balance at October 31, 1999	476,691	1,522,775	\$0.24
Options granted	(211,900)	211,900	\$1.00
Options exercised	—	(18,215)	\$0.21
Options forfeited	10,360	(10,360)	\$0.37
Balance at October 29, 2000	275,151	1,706,100	\$0.33
Options granted	(23,200)	23,200	\$1.00
Options exercised	—	(107,333)	\$0.11
Options forfeited	41,667	(41,667)	\$0.70
Balance at October 28, 2001	293,618	1,580,300	\$0.35

At October 28, 2001, options to purchase 1,354,029 shares with an average exercise price of \$0.25 per share of Landec Ag's common stock were vested. For the options outstanding at October 28, 2001, 927,500 shares were granted with an exercise price of \$0.10, 246,600 shares were granted with an exercise price of \$0.20 and 406,200 were granted with an exercise price of \$1.00. As of October 28, 2001, the Company has 293,618 common shares reserved for future issuance under the Landec Ag stock option plan.

Apio Stock Plan. In connection with the acquisition of Apio, the Board of Directors of Landec authorized the establishment of the 1999 Apio Stock Option Plan ("1999 Plan"). Under the 1999 Plan, the Board of Directors of Apio may grant incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the incentive stock options and non-statutory stock options may be no less than 100% and 85%, respectively, of the fair market value of Apio's common stock as determined by Apio's Board of Directors. Five million shares are authorized to be issued under this plan. Options are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested. As of October 28, 2001, options for two million shares have been granted at an exercise price of \$2.10 per share.

In May 2000, the 1999 Plan was terminated. All existing grants remain outstanding, and no future grants will be made from the plan. Concurrently, the 2000 Apio Stock Option Plan ("2000 Plan") was authorized by Apio's Board of Directors, which authorized the issuance of two million shares under the same terms and conditions as the 1999 Plan. As of October 28, 2001, options for 786,895 shares have been granted

under the 2000 Plan at an exercise price of \$2.10 per share.

The following table summarizes activity under the Apio Stock Option Plan.

	Options Available	Outstanding Options	
		Number of Shares	Weighted Average Exercise Price
Balance at December 2, 1999	4,000,000	—	—
Options granted	(2,814,000)	2,814,000	\$2.10
Options exercised	—	—	
Options forfeited	57,000	(57,000)	\$2.10
Balance at October 29, 2000	1,243,000	2,757,000	\$2.10
Options granted	(134,500)	134,500	\$2.10
Options exercised	—	(583)	\$2.10
Options forfeited	104,022	(104,022)	\$2.10
Balance at October 28, 2001	1,212,522	2,786,895	\$2.10

At October 28, 2001 options to purchase 2,128,317 shares of Apio common stock were vested. As of October 28, 2001, the Company has 4,000,000 common shares reserved for future issuance under the Apio stock option plans.

Pro Forma Information. The Company has elected to follow APB 25 in accounting for its employee stock option because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123 (SFAS No. 123) "Accounting for Stock-Based Compensation", required the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense is recognized in the Company's financial statements unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant.

Pro forma information regarding net loss and net loss per share has been determined as if the Company had accounted for the Landec stock option plans under the fair value method and the Landec Ag stock plan and Apio stock plans under the minimum value method prescribed by SFAS No. 123. The fair value of options granted in fiscal years 2001, 2000 and 1999 reported below has been estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

Years ended	Landec Employee Stock Options		
	October 28, 2001	October 29, 2000	October 31, 1999
Expected life (in years)	5.95	4.47	3.30
Risk-free interest rate	4.90%	6.26%	5.08%
Volatility	.80	.85	.43
Dividend yield	0%	0%	0%

The assumptions used for the Landec stock options for the expected life, the risk-free interest rate and the dividend yield are the same assumptions used to determine the fair value of the Landec Ag and Apio options granted in fiscal year 2001, 2000 and 1999. The fair value for Landec Ag and Apio options was estimated using the minimum value method since the stock of these subsidiaries is not publicly traded.

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. The change in the volatility in fiscal years 2001 and 2000 is a result of basing the volatility on Landec's stock price rather than that of comparable companies as was done in fiscal year 1999.

Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The weighted average estimated fair value of Landec employee stock options granted at grant date market prices during fiscal years 2001, 2000 and 1999 was \$2.47, \$4.19 and \$1.71, per share, respectively. No stock options were granted above grant date market prices during fiscal years 2001, 2000 and 1999. The weighted average estimated fair value of Landec employee stock options granted above grant date market prices during fiscal year 1998 was \$7.84 per share. The weighted average exercise price of employee stock options granted above grant date market prices during fiscal year 1998 was \$5.00 per share. The weighted average estimated fair value of shares granted under the Landec Stock Purchase Plan during fiscal years 2001, 2000 and 1999 was \$1.71, \$1.87 and \$1.42 per share, respectively. The weighted average estimated fair value of shares granted under the Landec Ag Stock Purchase Plan during fiscal years 2001, 2000 and 1999 was \$0.21, \$0.23 and \$0.30 per share, respectively. The weighted average estimated fair value of shares granted under Apio Stock Purchase Plan during fiscal year 2001 and 2000 was

\$0.52 and \$0.73 per share, respectively.

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

Years ended	October 28, 2001	October 29, 2000	October 31, 1999
Pro forma net loss	\$ (10,384)	\$ (8,429)	\$ (4,126)
Pro forma net loss per share	\$ (0.63)	\$ (0.53)	\$ (0.31)

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years.

9. Debt

Revolving debt

Apio has a revolving line of credit with a bank which allows for borrowings up to a maximum of \$12.0 million. Outstanding amounts bear interest at the greater of the prime rate set by the bank or the Federal fund rate (5.5% at October 28, 2001) plus a margin based on Apio's leverage ratio as defined

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in the revolving note agreement. The revolving note agreement expires on May 1, 2002. At October 28, 2001 and October 29, 2000, \$11.0 million and \$6.0 million, respectively, were outstanding under the revolving line of credit.

In February 2001, the Apio revolving line of credit was amended. The amendment reduced the maximum borrowings from \$12.0 million to \$10.0 million but increased the computed amount available under the line, determined as a percentage of certain eligible assets (primarily receivables) by \$4.0 million through March 31, 2001 and \$2.0 million from April 1, 2001 through July 31, 2001. The amendment also precluded the payment of earn-outs due under the Apio purchase agreement until August 2001.

In April 2001, the Apio revolving line of credit was further amended. The amendment increased the maximum borrowings to \$12.0 million from \$10.0 million until July 31, 2001 and increased the interest rate margin by 75 basis points from prime plus .50% to prime plus 1.25%. In addition, the computed amount available under the line as determined as a percentage of certain eligible assets (primarily receivables) was increased by \$4.0 million through July 31, 2001 and capital expenditure limits for fiscal year 2001 were increased from \$3.3 million up to \$5.7 million based on the additional \$2.4 million being financed by a third party lender. In September 2001, Apio's revolving line of credit was amended again. The amendment permanently increases the maximum borrowings to \$12.0 million. The computed amount available under the line as determined as a percentage of certain eligible assets (primarily receivables) was increased by \$3.0 million through October 1, 2001, by \$2.0 million through November 1, 2001, by \$1 million through December 1, 2001 and eliminated entirely by December 2, 2001. In October 2001, certain financial covenants were amended in Apio's loan agreement to make them less restrictive. The amendment also precludes the payment of earn-outs due under the Apio purchase agreement until December 2001. As of October 28, 2001, Apio was in compliance with all of its financial covenants, except for the capital expenditure limit which was waived by its bank.

In May 2001, Apio entered into a capital lease agreement to fund the majority of the costs of a new ERP business system. As of October 28, 2001, \$1.7 million of the estimated \$2.9 million in total costs had been financed.

Landec Ag has a revolving line of credit which allows for borrowings of up to \$3 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is charged at the prime rate plus 0.75. The line of credit contains certain restrictive covenants, which, among other things, affect the ability of Landec to receive payments on debt owed by Landec Ag to Landec. Landec has pledged substantially all of the assets of Landec Ag to secure the line of credit. In June 2001, Landec Ag increased its line of credit by \$2.4 million to \$5.4 million through February 2002. At October 28, 2001, \$4.6 million was outstanding under the revolving line of credit. In addition, under the \$1.0 million equipment line, \$600,000 of equipment was purchased and in June 2001, that \$600,000 was converted into a four-year, 8% per annum term note.

The Company has entered into an interest rate swap agreement with Bank of America to limit interest rates on a portion of its long-term debt to a maximum effective rate of 9.52% from February 2, 2000 until October 30, 2002 when the agreement expires. The notional amount covered by the agreement at October 28, 2001 is \$5,250,000. The differential to be paid or received is accrued as interest rate charges and recognized as an adjustment to interest expense related to the debt. Any related amounts payable to the bank would be recorded in other accrued liabilities. The fair value of

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the interest rate swap agreement was approximately \$87,000 and \$25,000 at October 28, 2001 and October 29, 2000, respectively.

Long-Term Debt

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

October 28, 2001	October 29, 2000
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Bank term loan for Apio; due in quarterly payments of \$500,000 through October 31, 2000 increasing to \$562,500 January 31, 2001 and to \$625,000 on January 31, 2002 through October 31, 2004 with interest payable monthly at the LIBOR rate plus a margin based on Apio's leverage ratio as defined in the loan agreement, currently plus 2.5% (7.42% at October 28, 2001)	\$ 8,250	\$ 10,250
Contractual obligation to former owners of Apio; due in annual installments of \$1,060,000 from January 2, 2002 through January 2, 2005 (see Note 3)	4,023	4,092
Note payable of Apio to a commercial finance company; due in monthly installments of \$13,366 including interest at 7.0% with final payment due December 2019	1,645	1,694
Capital lease obligation due in monthly installments of \$60,500, including interest at 10.58% with final payment due April 2004, secured by computer hardware and a letter of credit	1,663	—
Note payable of Apio to a bank; due in monthly installments of \$8,008 including interest at 9.5% with final payment due December 2015	822	856
Various notes payable with interest rates ranging from 3.30% to 9.90%	843	417
Capitalized lease obligations with interest rates ranging from 9.00% to 13.90%	558	300
	<u>17,804</u>	<u>17,609</u>
Less current portion	<u>(4,969)</u>	<u>(3,447)</u>
	<u>12,835</u>	<u>\$ 14,162</u>

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Maturities of long-term debt, including obligations under capital lease agreements, for each year presented are as follows (in thousands):

FY 2002	\$ 4,969
FY 2003	4,626
FY 2004	4,927
FY 2005	1,209
FY 2006	127
Thereafter	1,946
	<u>\$ 17,804</u>

The contractual obligation of \$4.2 million to former shareholders of Apio is non-interest bearing and accordingly has been discounted at Apio's incremental borrowing rate of 9.5% over five years resulting in a discounted value of \$4.0 million at October 28, 2001. In June 2001, under provisions of the acquisition agreement, because Landec's closing stock price was below \$6.00 on average during June 2001, the Company increased its obligation to the former owners of Apio by \$700,000 (\$591,000 on a discounted basis).

Apio's bank term loan limits payments to Landec for dividends, corporate service fees and tax sharing expenses until the principal is reduced to an amount specified in the loan agreement. In addition, the term loan and the revolving note contain various financial covenants including minimum levels of EBITDA, minimum fixed coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time.

Landec has pledged substantially all of Apio's and Landec Ag's assets to secure their term debt.

10. Income Taxes

The Company incurred no income tax expense in any of the three years ended October 28, 2001.

As of October 28, 2001, the Company had federal and state net operating loss carryforwards of approximately \$37.3 million and \$8.3 million, respectively. The Company also had federal and state research and development tax credit carryforwards of approximately \$1.2 million and \$800,000 respectively. The net operating loss and credit carryforwards will expire at various dates beginning in 2003 through 2016, if not utilized.

Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

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Significant components of the Company's deferred tax assets are as follows (in thousands):

	Years ended	
	October 28, 2001	October 29, 2000
Deferred tax assets:		
Net operating loss carryforwards	\$ 13,200	\$ 10,500
Research credit carryforwards	1,800	1,900
Capitalized research and development	300	1,600
In-process research and development	800	1,000
Discontinued operation—Dock Resins	1000	—
Other—net	—	1,300
Net deferred tax assets	17,100	16,300
Valuation allowance	(17,100)	(16,300)
Net deferred tax assets	\$ —	\$ —

Due to the Company's absence of earnings history, the net deferred tax asset has been fully offset by a valuation allowance, which has increased by \$800,000 in the current year.

Approximately \$152,000 of the valuation allowance for deferred tax assets relates to benefits of stock option deductions which, when recognized, will be allocated directly to contributed capital.

11. Commitments and Contingencies

Operating Leases

Landec leases facilities and equipment under operating lease agreements with various terms and conditions, which expire at various dates through December 2002. The approximate future minimum lease payments under these operating leases, excluding farmland leases, at October 28, 2001 are as follows (in thousands):

	Amount
FY2002	\$ 931
FY2003	798
FY2004	206
	\$ 1,935

Rent expense for operating leases, including month to month arrangements was \$921,000 for fiscal year 2001, \$1.1 million for fiscal year 2000, and \$481,000 for fiscal year 1999.

Land Leases

Landec, through its Apio subsidiary, also leases farmland under various non-cancelable leases expiring through October 2004. Landec subleases substantially all of the farmland to growers who, in turn, agree to market their crops through Landec. The subleases are generally non-cancelable and

expire through October 2004. The approximate future minimum leases and sublease amounts receivable under farmland leases at October 28, 2001 are as follows (in thousands)

	Minimum Lease Payments	Sublease Rents Receivable	Net
2002	\$ 1,288	\$ 959	\$ 329
2003	876	669	207
2004	386	266	120
	\$ 2,550	\$ 1,894	\$ 656

Rent expense for land leases, including month to month arrangements was \$131,000 for fiscal year 2001, \$248,000 for fiscal year 2000 and zero for fiscal year 1999.

Employment Agreements

Landec has entered into employment agreements with certain key employees. These agreements provide for these employees to receive

incentive bonuses based on the financial performance of certain divisions in addition to their annual base salaries. Certain key employees also receive minimum bonuses for their second year assuming continued employment. The accrued incentive bonuses amounted to \$502,000 at October 28, 2001 and \$725,000 at October 29, 2000.

12. Employee Savings and Investment Plans

The Company sponsors two 401(k) plans which are available to substantially all of the Company's employees.

Landec's Corporate Plan, which is available to Landec Corporate and Landec Ag employees, allows participants to contribute from 1% to 20% of their salaries, up to the Internal Revenue Service (IRS) limitation into designated investment funds. Beginning in fiscal year 2001, the Company amended the plan so that it contributes an amount equal to 50% of the participants' contribution up to 3% of the participants' salary. Participants are at all times fully vested in their contributions. The Company's contribution vests over a four-year period at a rate of 25% per year. The Company retains the right, by action of the Board of Directors, to amend, modify, or terminate the plan. In fiscal year 2001, the Company contributed \$96,000 to the Corporate Plan.

The Company also sponsors a 401(k) plan available to substantially all of Apio's salaried employees. The plan's participants can contribute from 1% to 5% of their salary, up to the IRS limitation into designated investment funds. Apio, in turn, contributes an amount, as required by the plan, which is equal to the participant's contributions. Participants are at all times fully vested in their contributions. Apio's contribution vests over a seven-year period beginning in year three at a rate of 20% per year. Apio retains the right, by action of the Board of Directors, to amend, modify or terminate the plan. In fiscal year 2001 and 2000, Apio contributed \$208,000, and \$282,000, respectively, to the foregoing plan.

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13. Business Segment Reporting

The acquisition of Apio in December 1999 resulted in a redefinition of operating segments by management. Prior period segment information has been restated to conform to the current segment definitions. Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs produce and specialty packaged fresh-cut vegetables that incorporate the Intellipac™ breathable membrane for the fresh-cut produce industry through its Apio subsidiary. The amounts presented for fiscal year 2000 include the results of Apio from the effective close date of November 29, 1999 through October 29, 2000. The Food Products Technology segment for the fiscal years ended October 31, 1999 and 1998 only includes the operations of the Intellipac business. 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 through Landec Ag. The Corporate and Other segment includes the operations from the Company's Technology Licensing/Research and Development business and corporate operating expenses. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and Other amounts include non-core operating activities, corporate operating costs and net interest expense. Assets classified as Corporate and Other consist primarily of Dock Resins' asset classified as assets held for sale in the accompanying consolidated balance sheets. Operations by Business Segment consisted of the following (in thousands):

	Food Products Technology	Agricultural Seed Technology	Corporate and Other	TOTAL
2001				
Net sales	\$ 173,847	\$ 16,211	\$ 826	\$ 190,884
Gross profit	\$ 20,233	\$ 6,659	\$ 697	\$ 27,589
Net income (loss) from continuing operations	\$ (2,632)	\$ (2,761)	\$ 555	\$ (4,838)
Identifiable assets	\$ 81,399	\$ 17,842	\$ 20,881	\$ 120,122
Depreciation and amortization	\$ 3,918	\$ 1,120	\$ 392	\$ 5,430
Capital expenditures	\$ 6,108	\$ 462	\$ 391	\$ 6,961
Interest income	\$ 601	\$ 4	\$ 12	\$ 617
Interest expense	\$ 2,536	\$ 253	\$ —	\$ 2,789
Income tax expense (benefit)	\$ —	\$ —	\$ —	\$ —
2000				
Net sales	\$ 178,809	\$ 17,212	\$ 1,143	\$ 197,164
Gross profit	\$ 21,540	\$ 7,224	\$ 829	\$ 29,593
Net income (loss) from continuing operations before cumulative effect of accounting change	\$ 249	\$ (2,914)	\$ 595	\$ (2,070)
Identifiable assets	\$ 95,267	\$ 15,775	\$ 17,123	\$ 128,165
Depreciation and amortization	\$ 3,668	\$ 1,055	\$ 391	\$ 5,114
Capital expenditures	\$ 2,839	\$ 763	\$ 185	\$ 3,787
Interest income	\$ 723	\$ 82	\$ 68	\$ 873
Interest expense	\$ 2,060	\$ 23	\$ —	\$ 2,083
Income tax expense (benefit)	\$ 588	\$ —	\$ (588)	\$ —

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1999

Net sales	\$	4,459	\$	15,197	\$	1,790	\$	21,446
Gross profit	\$	1,480	\$	6,612	\$	1,338	\$	9,430
Net income (loss) from continuing operations	\$	105	\$	(2,762)	\$	(799)	\$	(3,456)
Identifiable assets	\$	2,352	\$	17,318	\$	16,427	\$	36,097
Depreciation and amortization	\$	139	\$	983	\$	334	\$	1,456
Capital expenditures	\$	347	\$	295	\$	348	\$	990
Interest income	\$	—	\$	113	\$	177	\$	290
Interest expense	\$	—	\$	—	\$	—	\$	—
Income tax expense	\$	—	\$	—	\$	—	\$	—

Export product sales were \$33.1 million, \$34.6 and \$0 in the years ended October 28, 2001, October 29, 2000 and October 31, 1999, respectively.

14. Quarterly Consolidated Financial Information (unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2001 and 2000. The Company has included the following information below to demonstrate the effect on the first, second and third quarters of fiscal year 2000 as if the provisions of SAB No. 101 (See Note 1), had been applied as of the beginning of the fiscal year (in thousands, except for per share amounts):

FY 2001	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 45,158	\$ 59,247	\$ 47,142	\$ 39,337
Gross profit	4,794	11,155	6,076	5,564
Income (loss) from continuing operations	(3,923)	3,525	(1,554)	(2,886)
Income (loss) from discontinued operations	(15)	(343)	209	(2,888)
Net income (loss)	\$ (3,938)	\$ 3,182	\$ (1,345)	\$ (5,774)
Basic amounts per common share:				
Continuing operations	\$ (.24)	\$.22	\$ (.09)	\$ (.17)
Discontinued operations	—	(.02)	.01	(.18)
Net income/(loss) per basic share	(.24)	.20	(.08)	(.35)
Dilutive amounts per common share:				
Continuing operations	\$ (.24)	\$.19	\$ (.09)	\$ (.17)
Discontinued operations	—	(.02)	.01	(.18)
Net income/(loss) per dilutive share	(.24)	.17	(.08)	(.35)

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FY 2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 30,807	\$ 57,588	\$ 58,066	\$ 50,703
Gross profit	3,416	11,450	7,572	7,155
Income (loss) from continuing operations	(2,639)	2,889	(597)	(1,723)
Income (loss) from discontinued operations	(2)	19	28	(59)
Income (loss) before cumulative effect of accounting change	(2,641)	2,908	(569)	(1,782)
Cumulative effect of accounting change (Note 1)	(1,914)	—	—	—
Net income (loss)	\$ (4,555)	\$ 2,908	\$ (569)	\$ (1,782)
Basic amounts per common share:				
Continuing operations	\$ (.17)	\$.18	\$ (.04)	\$ (.11)
Discontinued operations	—	—	—	—
Cumulative effect of change in accounting	\$ (.13)	—	—	—
Net income/(loss) per basic share	(.30)	.18	(.04)	(.11)
Dilutive amounts per common share:				
Continuing operations	\$ (.17)	\$.13	\$ (.04)	\$ (.11)
Discontinued operations	—	—	—	—
Cumulative effect of change in accounting	\$ (.13)	—	—	—
Net income/(loss) per dilutive share	(.30)	.13	(.04)	(.11)

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LANDEC CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

SCHEDULE II

	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
Year ended October 31, 1999				
Allowance for doubtful accounts	\$ 50	\$ —	\$ (5)	\$ 45
Year ended October 29, 2000				
Allowance for doubtful accounts	\$ 45	\$ 1,154	\$ (596)	\$ 603
Year ended October 28, 2001				
Allowance for doubtful accounts	\$ 603	\$ 1,690	\$ (1,413)	\$ 880

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(b) No reports on Form 8-K were filed by the Company during the period July 29, 2001 to October 28, 2001.

(c) Index of Exhibits

- 2.1(6) Stock Purchase Agreement by and among the Registrant, Dock Resins Corporation and A. Wayne Tamarelli dated as of April 18, 1997.
- 2.2(7) Agreement and Plan of Reorganization by and among the Registrant, Intellicoat Corporation, Williams & Sun, Inc. (d/b/a Fielder's Choice Hybrids) and Michael L. Williams dated as of August 20, 1997.
- 2.3(11) Form of Agreement and Plan Merger and Purchase Agreement by and among the Registrant, Apio, Inc. and related companies and each of the respective shareholders dated as of November 29, 1999.
- 3.1(1) Amended and Restated Bylaws of Registrant.
- 3.2(2) Ninth Amended and Restated Articles of Incorporation of Registrant.
- 3.3(13) Certificate of Determination of Series A Preferred Stock
- 3.4† Certificate of Determination of Series B Preferred Stock
- 4.1(12) Series A Preferred Stock Purchase Agreement between the Registrant and Frederick Frank, dated as of November 19, 1999.
- 4.2† Series B Preferred Stock Purchase Agreement between the Registrant and the Seahawk Ranch Irrevocable Trust, dated as of October 24, 2001.
- 10.1(3) Form of Indemnification Agreement.
- 10.3(4)* 1995 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
- 10.4(4)* 1995 Directors' Stock Option Plan, as amended, and form of Option Agreement.
- 10.6(3) Industrial Real Estate Lease dated March 1, 1993 between the Registrant and Wayne R. Brown & Bibbits Brown, Trustees of the Wayne R. Brown & Bibbits Brown Living Trust dated December 30, 1987.
- 10.14(4)* Consulting Agreement dated May 1, 1996 between the Registrant and Richard Dulude.
- 10.15(4)* 1996 Intellicoat Stock Option Plan and form of Option Agreements.
- 10.16(4)* Form of Option Agreements for the 1996 Non-Executive Stock Option Plan, as amended.
- 10.17(5)* 1996 Stock Option Plan and Form of Option Agreement.
- 10.19(8) Technology License Agreement between Bissell Healthcare Corporation and the Registrant, dated as of August 28, 1997.
- 10.21(9)* Employment Agreement between the Registrant and A. Wayne Tamarelli dated as of April 18, 1997.
- 10.22(10)* Form of Common Stock Purchase Agreement for certain officers and directors for restricted stock purchase.
- 10.23(10) Loan agreement between Registrant and Michael Williams dated October 1, 1998.
- 10.24(13)* Employment agreement between the Registrant and Nicholas Tompkins dated as of November 29, 1999.
- 10.25(13)* Stock Option Agreement between the Registrant and Nicholas Tompkins dated as of November 29, 1999.
- 10.26(13)* 1999 Apio, Inc. Stock Option Plan and form of Option Agreement.
- 10.27(13) Loan agreement between Apio, Inc. and the Bank of America dated as of November 29, 1999.
- 10.28(14)* 2000 Apio, Inc. Stock Option Plan and form of Option Agreement
- 10.29(14) Loan Agreement between Landec Ag, Inc. and Old National Bank dated as of June 5, 2000, as amended.

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- 10.30(14)* New Executive Stock Option Plan.

10.31(5)	Amendment No. 2 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of February 28, 2001.
10.32(5)	Amendment No. 3 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of April 26, 2001.
10.33†	Amendment No. 4 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of September 11, 2001.
10.34†	Amendment No. 5 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of October 26, 2001.
10.35†	1996 Non-Executive Stock Option Plan, as amended.
21.1	Subsidiaries of the Registrant.

	Subsidiary	State of Incorporation
	Landec Ag (formerly Intellicoat Corporation)	Delaware
	Dock Resins Corporation	New Jersey
	Apio, Inc.	Delaware
23.1†	Consent of Independent Auditors.	
24.1†	Power of Attorney. See page 72.	

- (1) Incorporated by reference to identically numbered exhibits filed with Form 10-Q for the quarter ended April 29, 2001.
- (2) Incorporated by reference to Exhibit 3.5 filed with Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
- (3) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
- (4) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 10-K filed for the years ended October 31, 1996.
- (5) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 10-Q filed for the quarter ended April 29, 2001.
- (6) Incorporated by reference to Exhibit 2.1 filed with the Registrant's Form 8-K dated April 18, 1997.
- (7) Incorporated by reference to Exhibit 2.1 filed with the Registrant's Form 10-Q for the quarter ended July 31, 1997.
- (8) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 8-K dated August 28, 1997.
- (9) Incorporated by reference to Exhibit C to Exhibit 2.1 filed with the Registrant's Form 8-K dated April 18, 1997.
- (10) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the year ended October 10, 1998.
- (11) Incorporated by reference to the Exhibit 2.1 filed with the Registrant's Form 8-K dated December 2, 1999.
- (12) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 8-K dated December 2, 1999.
- (13) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the year ended October 31, 1999.

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- (14) Incorporated by reference to identically numbered exhibits filed with the Registrant's Form 10-K filed for the year ended October 29, 2000.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to item 14(c) of Form 10-K.

† Filed herewith.

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SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on January 24, 2002.

LANDEC CORPORATION

By: /s/ GREGORY S. SKINNER

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gary T. Steele and Gregory S. Skinner, and each of them, as his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ GARY T. STEELE	President and Chief Executive Officer and Director (Principal Executive Officer)	January 24, 2002
Gary T. Steele		
/s/ GREGORY S. SKINNER	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	January 24, 2002
Gregory S. Skinner		
/s/ KIRBY L. CRAMER		
Kirby L. Cramer	Director	January 24, 2002
/s/ RICHARD DULUDE		
Richard Dulude	Director	January 24, 2002
/s/ FREDERICK FRANK		
Frederick Frank	Director	January 24, 2002
Stephen E. Halprin	Director	
Richard S. Schneider	Director	January 24, 2002
/s/ KENNETH E. JONES		
Kenneth E. Jones	Director	January 24, 2002

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Exhibit Number	Exhibit Title
3.4	Certificate of Determination of Series B Preferred Stock
4.2	Series B Preferred Stock Purchase Agreement between the Registrant and the Seahawk Ranch Irrevocable Trust, dated as of October 24, 2001.
10.33	Amendment No. 4 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of September 11, 2001.
10.34	Amendment No. 5 to the Loan Agreement between Apio, Inc. and the Bank of America dated as of October 26, 2001.
10.35	1996 Non-Executive Stock Plan, as amended.

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**CERTIFICATE OF DETERMINATION OF RIGHTS, PREFERENCES
AND PRIVILEGES OF
SERIES B PREFERRED STOCK
OF
LANDEC CORPORATION**

The undersigned, Gregory S. Skinner and Geoffrey P. Leonard, do hereby certify:

1. That they are the duly elected Vice President of Finance and Chief Financial Officer and Secretary, respectively, of Landec Corporation, a California corporation (the "Corporation").
2. That pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation of the said Corporation, the said Board of Directors on October 18, 2001 adopted the following resolutions creating a series of shares of Preferred Stock designated as Series B Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by the Articles of Incorporation, the Board of Directors does hereby provide for the issue of a new series of Preferred Stock of the Corporation, that shall be designated "Series B Preferred Stock," par value \$0.001 per share, and shall initially consist of 225,000 shares. To the extent that the designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions of the Series B Preferred Stock are not stated and expressed in the Articles of Incorporation, the Board of Directors does hereby fix and herein state and express such designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions thereof (all terms used herein which are defined in the Articles of Incorporation shall be deemed to have the meanings provided therein), as follows:

Section 1. **Designation and Amount.** The shares shall be designated as "Series B Preferred Stock," par value \$0.001 per share, and the number of shares constituting such series shall be 225,000.

Section 2. **Dividends and Distributions.**

(A) Definitions.

- (i) "Dividends" shall mean the "paid-in-kind" dividends as set forth in Section 2(B) below.
- (ii) "Dividend Payment Amount" shall mean the amount of accrued dividends per share, as expressed in dollars, with respect to any Dividend Payment Period determined by applying the Dividend Rate (calculated by multiplying the Dividend Rate by 25% for each Dividend Payment Period) to the Original Issue Price.
- (iii) "Dividend Payment Date" shall mean January 31, April 30, July 31 and October 31 of each year commencing January 31, 2002.
- (iv) "Dividend Payment Period" shall mean the period from, and including, the Purchase Date, to, but not including, the first Dividend Payment Date and thereafter, each quarterly period, including any Dividend Payment Date to, but not including, the next Dividend Payment Date.
- (v) "Dividend Rate" shall mean an annual rate of eight percent (8%) until and including the second -year anniversary of the Purchase Date; and thereafter an annual rate of ten percent (10%) until and including the third-year anniversary of the Purchase Date; and thereafter an annual rate of twelve percent (12%).
- (vi) "Dividend Record Date" shall mean the date that is ten (10) business days prior to any Dividend Payment Date.

(vii) "Original Issue Price" shall mean an amount per share of Series B Preferred Stock equal to \$35.00.

(viii) "Purchase Date" shall mean the date of the closing of the Corporation's initial sale of shares of Series B Preferred Stock.

(B) Dividend Rights.

- (i) The holders of record of Series B Preferred Stock shall be entitled, on each Dividend Payment Date, to receive cumulative dividends payable in additional shares of Series B Preferred Stock (such dividends paid in kind being herein referred to as "Dividends") in the amount set forth in subsection (ii) immediately below. Dividends shall cease to accrue on each share of Series B Preferred Stock upon its Redemption Date, Conversion Date or Automatic Conversion Date (each as defined below), unless the Corporation defaults in its obligations to convert or redeem such shares.
- (ii) Dividends with respect to any Dividend Payment Period for each share of Series B Preferred Stock shall be paid by delivering to the holders of Series B Preferred Stock a stock certificate or certificates for the number of shares of Series B Preferred Stock determined by dividing the Dividend Payment Amount with respect to such Dividend Payment Period by the Original Issue Price. The issuance of such Dividends shall constitute full payment of such dividend. Fractional shares of

Series B Preferred Stock payable as Dividends (after aggregating all Dividends payable to the holder of Series B Preferred Stock with respect to such Dividend Payment Period) shall not be paid in shares of Series B Preferred Stock, and in lieu of such fractional shares the Corporation shall pay the holder the amount in cash equal to the fraction of such share of Series B Preferred Stock multiplied by the Original Issue Price.

(iii) Any additional shares of Series B Preferred Stock issued pursuant to this Section 2 shall be subject in all respects to the same terms as the Series B Preferred Stock originally issued on the Purchase Date.

(iv) Dividends shall accrue (whether or not declared by the Board of Directors) on each share of Series B Preferred Stock during each Dividend Payment Period.

(v) In the case of Series B Preferred Stock issued and/or accumulated as a Dividend, Dividends shall accrue (whether or not declared by the Board of Directors) on such shares and be cumulative from the Dividend Payment Date in respect of which such shares were issued and/or accumulated as a Dividend.

(vi) Prior to each Dividend Record Date immediately preceding each Dividend Payment Date, the Board of Directors shall declare Dividends on the Series B Preferred Stock in accordance with this Section 2(B), payable on the next Dividend Payment Date.

(vii) If the Dividend Payment Date occurs on a day that is not a business day, any accrued Dividends otherwise payable on such Dividend Payment Date shall be paid on the next succeeding business day. Dividends shall be paid to the holder of record of the Series B Preferred Stock on each Dividend Payment Date as their names shall appear on the share register of the Corporation on the Dividend Record Date.

(viii) In addition to the Dividends, before the Corporation pays dividends ("Common Dividends"), when and if declared by the Board of Directors, on its Common Stock, in cash or in kind, the holders of record on the record date of outstanding Series B Preferred Stock shall be entitled to receive dividends in such an amount as they would be entitled to receive as a result of such declaration if, as of the record date, their shares of Series B Preferred Stock had been converted into shares of Common Stock pursuant to

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Section 6 hereof. No Common Dividend shall be paid or set aside for payment to the holders of Common Stock until and unless all dividends (including Dividends and as set forth in the immediately preceding sentence) then payable to the holders of the Series B Preferred Stock shall have been paid, or declared and set aside for payment, in full.

(ix) Notwithstanding anything contained herein to the contrary, no dividends on shares of Series B Preferred Stock shall be declared by the Board of Directors or paid or set apart for payment by the Corporation at such time if such declaration or payment shall be restricted or prohibited by law.

Section 3. Voting Rights. The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) The holder of each share of Series B Preferred Stock shall have the right to one vote for each share of Common Stock into which such Preferred Stock could then be converted, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof, to notice of any shareholders' meeting in accordance with the bylaws of the Corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as-converted basis (after aggregating all shares into which shares of Series B Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

(B) Except as otherwise provided herein or by law, the holders of shares of Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) Except as provided herein or by law, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Redemption.

(A) **Redemption Date and Price.** The Corporation may, on any date (a "Redemption Date") determined by the Board of Directors (provided that funds are legally available to do so), redeem in whole or in part the Series B Preferred Stock by paying in cash therefor a sum equal to (i) \$35.00 per share (as adjusted for any stock combinations or splits with respect to such shares) plus (ii) an amount in cash equal to all accrued and unpaid dividends on each such share (whether or not declared) calculated by applying the then applicable Dividend Rate to the Original Issue Price for the period beginning on, and including, the last succeeding Dividend Payment Date to, but not including, the Redemption Date (collectively, the "Redemption Price"); provided, however, that in the event the Redemption Date occurs prior to the six-month anniversary of the Purchase Date, then the amount calculated in (ii) immediately above shall be calculated as if the Redemption Date were April 30, 2002. Any redemption effected pursuant to this Section 4 shall be made on a pro rata basis among the holders of the Series B Preferred Stock in proportion to the number of shares of Series B Preferred Stock then held by them.

(B) **Procedure.** At least thirty (30) but no more than sixty (60) days prior to each Redemption Date, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series B Preferred Stock to be redeemed, at the address last shown on the

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records of the Corporation for such holder, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the applicable Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, such holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"); provided, however, that prior to the six-month anniversary of the Purchase Date, the Redemption Notice may be delivered not less than fifteen (15) days prior to the Redemption Date. Except as provided in Section 4(C), on or after the Redemption Date, each holder of Series B Preferred Stock to be redeemed shall surrender to the Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be cancelled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(C) **Effect of Redemption; Insufficient Funds.** From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of Series B Preferred Stock designated for redemption in the Redemption Notice as holders of such Preferred Stock (except the right to receive the applicable Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever. Subject to the rights of series of Preferred Stock that may from time to time come into existence, if funds of the Corporation legally available for redemption of shares of Series B Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Series B Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of such shares to be redeemed based upon their total Redemption Price applicable to their shares of Series B Preferred Stock which are subject to redemption on such Redemption Date and the remainder called for redemption shall not be redeemed. Subject to the rights of series of Preferred Stock that may from time to time come into existence, at any time thereafter when additional funds of the Corporation are legally available for the redemption of shares of Series B Preferred Stock called for redemption but not redeemed as a result of funds not being legally available therefor, such funds will immediately be used to redeem the balance of the shares which the Corporation has become obliged to redeem on any Redemption Date but which it has not redeemed.

(D) **Reacquired Shares.** Any shares of Series B Preferred Stock redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 5. **Liquidation, Dissolution or Winding Up.**

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received an amount equal to the greater of (i) \$35.00 per share of Series B Preferred Stock plus an amount in cash equal to accrued and unpaid dividends thereon, whether or not

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declared, calculated by applying the then applicable Dividend Rate to the Original Issue Price for the period beginning on, and including, the last succeeding Dividend Payment Date to, but not including, the date of such payment; or (ii) such amount per share of Series B Preferred Stock as would have been payable had each such share been converted into Common Stock immediately prior to such liquidation, dissolution or winding up of the Corporation (the "Series B Liquidation Preference"). After payment has been made to the holders of the Series B Preferred Stock of the full amounts to which they shall be entitled pursuant to this Section 5(A) above and subject to the rights of the Series A Preferred Stock and any series of Preferred Stock that may from time to time come into existence, all remaining assets of the Corporation available for distribution to its shareholders, if any, shall be distributed ratably to the holders of Common Stock. The Series A Preferred Stock shall rank on parity with the Series B Preferred Stock.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series B Liquidation Preference and the liquidation preferences of the Series A Preferred Stock and all other series of Preferred Stock, if any, which rank on a parity with the Series B Preferred Stock, then such assets available for distribution shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

Section 6. **Conversion.** The Corporation and the holders of the Series B Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(A) **Right to Convert.** Subject to Section 6(C), each share of Series B Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the six-month anniversary of the Purchase Date, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing (i) the sum of (a) the Original Issue Price plus (b) an amount in cash equal to accrued and unpaid dividends on the shares to be converted (whether or not declared) calculated by applying the then applicable Dividend Rate to the Original Issue Price for the period beginning on, and including, the last succeeding Dividend Payment Date to, but not including, the Conversion Date (defined below) by (ii) the Series B Conversion Price (determined as hereafter provided) (the "Conversion Rate") in effect on a Conversion Date; provided, however, that if a Conversion Date occurs on or prior to the first-year anniversary of the Purchase Date, then no more than one-half of the shares of Series B Preferred Stock held by such holder on the Purchase Date shall be convertible at the option of such holder on or prior to such first-year anniversary. The Series B Conversion Price shall initially be \$3.50.

(B) **Automatic Conversion.** Upon the date specified by written consent or agreement of the holders of at least a majority of the then outstanding shares of Series B Preferred Stock ("Automatic Conversion Date"), which date shall not be earlier than the first

anniversary of the Purchase Date, each share of Series B Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Rate.

(C) Mechanics of Conversion.

(i) Before any holder of Series B Preferred Stock shall be entitled to convert the same into shares of Common Stock pursuant to Section 6(A) above, the holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series B Preferred Stock, and shall give written notice to the Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series B Preferred Stock, or to the nominee or nominees of such holder, a certificate or

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certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series B Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date (a "Conversion Date").

(ii) Upon the date specified by written consent or agreement of the holders of at least a majority of the then outstanding shares of Series B Preferred Stock pursuant to Section 6(B) above, the outstanding shares of Series B Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent; *provided, however*, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Series B Preferred Stock are either delivered to the Corporation or its transfer agent as provided below, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Series B Preferred Stock, the holders of Series B Preferred Stock shall surrender the certificates representing such shares at the principal corporate office of the Corporation or any transfer agent for the Series B Preferred Stock. Thereupon, there shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which the shares of Series B Preferred Stock surrendered were convertible on the date on which such automatic conversion occurred.

(D) Conversion Price Adjustments of Preferred Stock for Certain Splits and Combinations. The Series B Conversion Price shall be subject to adjustment from time to time as follows:

(i) In the event the Corporation should at any time or from time to time after the Purchase Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Series B Conversion Price shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of Series B Preferred Stock shall be increased in proportion to such increase of the aggregate of shares of Common Stock outstanding and those issuable with respect to such Common Stock Equivalents with the number of shares issuable with respect to Common Stock Equivalents determined from time to time.

(ii) If the number of shares of Common Stock outstanding at any time after the Purchase Date is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Series B Conversion Price

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shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(iii) The following provisions shall apply for purposes of this Section 6(D):

(a) The aggregate maximum number of shares of Common Stock deliverable upon conversion or exercise of Common Stock Equivalents (assuming the satisfaction of any conditions to convertibility or exercisability, including, without limitation, the passage of time, but without taking into account potential antidilution adjustments) shall be deemed to have been issued at the time such Common Stock Equivalents were issued.

(b) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to the Corporation upon conversion or exercise of such Common Stock Equivalents including, but not limited to, a change resulting from the antidilution provisions thereof, the Series B Conversion Price, to the extent in any way affected by or computed using such Common Stock Equivalents, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(c) Upon the termination or expiration of the convertibility or exercisability of any such Common Stock Equivalents, the Series B Conversion Price, to the extent in any way affected by or computed using such Common Stock Equivalents, shall be recomputed to reflect the issuance of only the number of shares of Common Stock (and Common Stock Equivalents which remain convertible or exercisable) actually issued upon the conversion or exercise of such Common Stock Equivalents.

Section 7. **Amendment.** The Articles of Incorporation of the Corporation (including this Certificate of Determination) shall not be further amended in any manner which would materially alter or change the powers, preference or special rights of the Series B Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the then outstanding shares of Series B Preferred Stock, voting separately as a class.

Section 8. **Fractional Shares.** Series B Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preferred Stock.

Section 9. **Reservation of Capital Stock.** The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Series B Preferred Stock and Common Stock, solely for the purpose of effecting the payment of Dividends and conversion of the shares of the Series B Preferred Stock, respectively, such number of its shares of the Series B Preferred Stock and Common Stock as shall from time to time be sufficient to effect the payment of Dividends and conversion of all outstanding shares of Series B Preferred Stock. If at any time the number of authorized but unissued shares of Series B Preferred Stock shall not be sufficient to effect the payment of accrued but unpaid Dividends, or the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Series B Preferred Stock and/or Common Stock to such number of shares as shall be sufficient for such purposes.

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3. That the authorized number of shares of Preferred Stock of the Corporation is 2,000,000 and the authorized number of shares of Series B Preferred Stock is 225,000. None of the shares of Series B Preferred Stock has been issued.

We further declare under penalty of perjury that the matters set forth in the foregoing Certificate of Determination are true and correct of our own knowledge.

Executed at Menlo Park, California on October 23, 2001.

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

Geoffrey P. Leonard, Secretary

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[Exhibit 3.4](#)

LANDEC CORPORATION
SERIES B PREFERRED STOCK PURCHASE AGREEMENT

October 24, 2001

LANDEC CORPORATION
SERIES B PREFERRED STOCK PURCHASE AGREEMENT

This Series B Preferred Stock Purchase Agreement (the "*Agreement*") is made as of October 24, 2001 by and between Landec Corporation, a California corporation (the "*Company*"), and Seahawk Ranch Irrevocable Trust (the "*Purchaser*").

The parties hereby agree as follows:

1. Purchase and Sale of Preferred Stock.

1.1 Sale and Issuance of Preferred Stock.

(a) As of the Closing (as defined below) Company will have authorized the issuance, pursuant to the terms and conditions of this Agreement, of 142,857 shares of Series B Preferred Stock, \$0.001 par value (the "*Series B Preferred Stock*") having the rights, preferences, privileges and restrictions set forth in the Certificate of Determination of Rights, Preferences and Privileges of Series B Preferred Stock attached to this Agreement as *Exhibit A* (the "*Certificate of Determination*"), and shall have filed the Certificate of Determination with the California Secretary of State.

(b) Subject to the terms and conditions of this Agreement, the Purchaser agrees to purchase at the Closing and the Company agrees to sell and issue to the Purchaser at the Closing 142,857 shares of Series B Preferred Stock at a purchase price of \$35.00 per share. The shares of Series B Preferred Stock issued to the Purchaser pursuant to this Agreement shall be hereinafter referred to as the "*Stock*", and the Common Stock of the Company issuable upon conversion of the Stock shall be hereinafter referred to as the "*Converted Common Stock*".

1.2 Closing; Delivery.

(a) The purchase and sale of the Stock shall take place at the offices of Orrick, Herrington & Sutcliffe LLP, 1020 Marsh Road, Menlo Park, California, at 10:00 a.m., on October 24, 2001, or at such other time and place as the Company and the Purchaser mutually agree upon, orally or in writing (which time and place are designated as the "*Closing*").

(b) At the Closing, the Company shall deliver to the Purchaser a certificate representing the Stock being purchased thereby against payment of the purchase price therefor by certified check or by wire transfer to the Company's bank account.

2. Representations, Warranties and Covenants of the Company. The Company hereby represents, warrants and covenants to the Purchaser as follows:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and the Standstill Agreement in the form attached hereto as *Exhibit B* (the "*Standstill Agreement*") to be executed by the Purchaser, the performance of all obligations of the Company hereunder and thereunder and the authorization, issuance and delivery of the Stock and the Converted Common Stock (together, the "*Securities*") has been taken or will be taken prior to the Closing, and the Agreement, when executed and delivered by the Company, shall constitute a valid and legally binding obligations of the Company, enforceable against the Company in accordance with its terms except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

2.3 Valid Issuance of Securities. The Stock that is being issued to the Purchaser hereunder, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under this Agreement, the Standstill Agreement and those set forth under the Certificate of Determination and applicable state and federal securities laws. Based in part upon the representations of the Purchaser in this Agreement and subject to the provisions of Section 2.5 below, the Stock will be issued in compliance with all applicable federal and state securities laws. The Converted Common Stock has been duly and validly reserved for issuance, and upon issuance in accordance with the terms of the Certificate of Determination, shall be duly and validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under this Agreement, the Standstill Agreement and applicable federal and state securities laws and will be issued in compliance with all applicable federal and state securities laws.

2.4 **Governmental Consents.** No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement and the Standstill Agreement, except for such filings as may be required to be made with the Securities and Exchange Commission (the "SEC") and the Nasdaq National Market and similar filings under applicable state securities laws.

2.5 **Disclosure.** The Company has made available to the Purchaser all documents (other than preliminary materials) filed with the SEC since January 1, 2000 (the "SEC Documents"). As of their respective filing dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Securities Exchange Act of 1934 (the "Exchange Act"), as applicable. Neither the Agreement nor any of the SEC Documents as of their respective dates included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Documents (the "Financial Statements") comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto. The Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied and fairly present the consolidated financial position of the Company and any subsidiaries at the dates thereof and the consolidated results of their operations and consolidated cash flows for the periods then ended (subject, in the case of unaudited statements, to normal, recurring adjustments).

2.6 **Changes.** Except as disclosed herein or in reports filed with the SEC by the Company, since July 29, 2001, there has not been (a) any change in the assets, liabilities, financial condition, business prospects or operations of the Company from those reflected in the Financial Statements, except changes in the ordinary course of business which, individually and in the aggregate, have not had a material adverse effect on the Company and its subsidiaries considered as one enterprise; (b) any material change or amendment to a contract or arrangement by which the Company or any of its assets or properties is bound or subject and filed as an exhibit to the SEC Documents; (c) any resignation or termination of employment, or to the Company's knowledge, any impending resignation or termination of employment, of any executive officer of the Company; or (d) any declaration or payment of any dividend or other distribution of assets of the Company.

2.7 **No Conflicts.** The execution, delivery, and performance of and compliance with this Agreement and the Standstill Agreement, and the issuance and sale of the Stock pursuant hereto and of the Converted Common Stock pursuant to the Certificate of Determination, are not prohibited by, and will not violate or conflict with, any provision of the Articles of Incorporation or Bylaws of the Company, or any provision of any contract to which the Company is a party,

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except where any of the foregoing would not have, individually or in the aggregate, a material adverse effect on the Company.

3. **Representations and Warranties of the Purchaser.** The Purchaser hereby represents and warrants to the Company that:

3.1 **Authorization.** This Agreement and the Standstill Agreement has been duly authorized by all necessary action on the part of the Purchaser and, when executed and delivered by the Purchaser, will constitute valid and legally binding obligations of the Purchaser, enforceable in accordance with their terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of a specific performance, injunctive relief, or other equitable remedies.

3.2 **Purchase Entirely for Own Account.** This Agreement is made with the Purchaser in reliance upon the Purchaser's representation to the Company, which by the Purchaser's execution of this Agreement, the Purchaser hereby confirms, that the Securities to be acquired by the Purchaser will be acquired for investment for the Purchaser's own account, not as a nominee or agent for any person or entity and not with a view to the resale or distribution of any part thereof, and that the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Purchaser further represents that the Purchaser does not presently have any contract, undertaking, agreement or arrangement with any person or entity to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. The Purchaser represents that it has full power and authority to enter into this Agreement.

3.3 **Disclosure of Information.** The Purchaser has had an opportunity to discuss the Company's business, management, financial affairs and the terms and conditions of the offering of the Stock with the Company's management and has reviewed the SEC Documents. The Purchaser understands that such discussions, as well as the written information issued by the Company, were intended to describe the aspects of the Company's business which it believes to be material.

3.4 **Restricted Securities.** The Purchaser understands that the Securities have not been registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Purchaser's representations as expressed herein. The Purchaser understands that the Securities are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Purchaser must hold the Securities indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The Purchaser acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company which are outside of the Purchaser's control, and which the Company may not be able to satisfy.

3.5 **Legends.** The Purchaser understands that the Securities and any securities issued in respect of or exchange for the Securities, may bear one or all of the following legends:

(a) "THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED UNLESS: (I) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO, (II) THERE IS AN OPINION OF COUNSEL IN A

FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT, OR (III) THE SHARES ARE SOLD PURSUANT TO RULE 144 PROMULGATED UNDER THE ACT."

(b) Any legend required by the Blue Sky laws of any state to the extent such laws are applicable to the shares represented by the certificate so legended.

3.6 **Accredited Investor.** The Purchaser is an accredited investor as defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

4. **Registration Requirements.**

4.1 **Shelf Registration.** The Company shall use its best efforts to prepare and file with the Securities and Exchange Commission (the "SEC") a Registration Statement pursuant to Rule 415 (or any appropriate similar rule that may be adopted by the SEC) under the Securities Act covering the Converted Common Stock (including any amendment thereto, the "Shelf Registration") not later than ninety (90) days after the date the Purchaser notifies the Company of its intent to convert all or a portion of the Stock (the "Filing Date"). The Shelf Registration shall be on Form S-3 or another appropriate form permitting registration of such Converted Common Stock for resale by the Purchaser from time to time. The Purchaser agrees to furnish promptly to the Company in writing all information required from time to time to be disclosed in order to make the information previously furnished to the Company by such holder not misleading.

4.2 **Effectiveness.** The Company shall use its best efforts to cause the Shelf Registration to become effective under the Securities Act not later than one hundred twenty (120) days after the Conversion Date (the "Effective Date"). Subject to the requirements of the Securities Act including, without limitation, requirements relating to updating through post-effective amendments, prospectus supplements or otherwise, the Company shall use its best efforts to keep the Shelf Registration continuously effective and in compliance with the Securities Act until the earlier of (i) such date as all of the Converted Common Stock have been resold, or (ii) all of the Converted Common Stock may be sold under Rule 144 under the Securities Act ("Rule 144") during any ninety (90) day period. The Company shall use reasonable commercial efforts to take such actions under the laws of various states as may be required, from time to time during the effectiveness of the Shelf Registration (and subject to the Purchaser's compliance with its obligations hereunder), to cause the resale of the Converted Common Stock pursuant to the Shelf Registration to be lawful.

4.3 **Suspension Periods.** Following the effectiveness of the Shelf Registration filed pursuant to this Section 4, the Company may, at any time, suspend the effectiveness of such Shelf Registration for up to thirty (30) days, as appropriate (a "Suspension Period"), by giving notice to the Purchaser, if the Company shall have determined, through action by its Board of Directors, that the Company may be required to disclose any material corporate development, which disclosure, in the judgment of the Company's Board of Directors, could reasonably be expected to have a material adverse effect on the Company; and at least two (2) business days prior to implementing any such Suspension Period, the Company shall deliver to the Purchaser a certificate to that effect. Notwithstanding the foregoing, no more than two (2) Suspension Periods may occur in any calendar year. The Company shall use its reasonable commercial efforts to limit the duration and number of any Suspension Periods, including, without limitation, preparing and filing with the SEC post-effective amendments to the Shelf Registration and/or prospectus supplements to the prospectus included in the Shelf Registration. The Purchaser agrees that, upon receipt of notice from the Company of a Suspension Period in accordance with the provisions of this Section 4.3, the Purchaser shall forthwith discontinue disposition of shares covered by such registration statement or prospectus in accordance with the provisions of this Section 4.3 until the Purchaser (i) is advised in writing by the Company that the applicable Suspension Period has been

terminated and the use of the prospectus may be resumed, (ii) has received copies of a supplemental or amended prospectus, if applicable, and (iii) has received copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference in such prospectus. The Purchaser shall treat any information relating to a Suspension Period, including its receipt of notice of a Suspension Period, as confidential information of the Company, and shall not use or disclose any such information except with the prior written consent of the Company.

4.4 **Registration Expenses.** The Company shall pay all Registration Expenses (as defined below) in connection with any registration, qualification or compliance hereunder, and the Purchaser shall pay all Selling Expenses (as defined below) and other expenses that are not Registration Expenses relating to the Converted Common Stock resold by the Purchaser. "Registration Expenses" shall mean all expenses, except for Selling Expenses, incurred by the Company in complying with the registration provisions herein described, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and expenses in connection with listing the Converted Common Stock for quotation on Nasdaq NMS, fees and disbursements of counsel for and the independent auditors of the Company, blue sky fees and expenses, the expense of any special audits incident to or required by any such registration and the reasonable fees and expenses of one special counsel to the Purchaser. "Selling Expenses" shall mean selling commissions, underwriting fees and stock transfer taxes applicable to the Converted Common Stock.

4.5 **Notification.** In addition to the Company's other obligations under this Section 4, in connection with the registration of the Converted Common Stock on the Shelf Registration, the Company shall:

(a) As promptly as practicable after becoming aware of such event, notify the Purchaser of the occurrence of any event, as a result of which the prospectus included in the Shelf Registration, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and promptly prepare an amendment to the Shelf Registration and supplement to the prospectus to correct such untrue statement or omission, and deliver a number of copies of such supplement and amendment to the Purchaser as the Purchaser may reasonably request; and

(b) As promptly as practicable after becoming aware of such event, notify the Purchaser who holds Converted Common Stock being sold of the issuance by the SEC of any stop order or other suspension of the effectiveness of the Shelf Registration at the

earliest possible time and take all lawful action to effect the withdrawal, recession or removal of such stop order or other suspension; and

(c) With a view to making available to the Purchaser the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit the Purchaser to sell Converted Common Stock to the public without registration or pursuant to registration, the Company covenants and agrees to use its reasonable commercial efforts to: (i) make and keep public information available, as those terms are understood and defined in Rule 144, until the earlier of (A) the date that is thirty (30) months from the date of the Closing or (B) such date as all of the Converted Common Stock shall have been resold; and (ii) file with the SEC in a timely manner all reports and other documents required of the Company under the Exchange Act.

4.6 *Indemnification and Contribution.*

(a) The Company agrees to indemnify and hold harmless the Purchaser from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Purchaser (including for such purpose its officers, directors, partners, attorneys and

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agents) may become subject (under the Securities Act or otherwise) to the extent such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, any untrue statement of a material fact contained in the Shelf Registration or the prospectus (including any supplement) contained therein or arise out of, or are based upon, the omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in light of the circumstances under which they were made in the case of the prospectus), not misleading, or to the extent arising out of any failure by the Company to fulfill any undertaking included in the Shelf Registration, and the Company will, on a quarterly basis, reimburse the Purchaser for any legal or other expenses reasonably incurred in investigating or defending any such action, proceeding or claim; provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of, or is based upon (i) an untrue statement made in such Shelf Registration in reliance upon and in conformity with information furnished to the Company by or on behalf of the Purchaser, (ii) the failure of the Purchaser to comply with the covenants and agreements contained in this Agreement, or (iii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered to the Purchaser prior to the pertinent sale or sales by the Purchaser.

(b) The Purchaser agrees to indemnify and hold harmless the Company (including for such purpose its officers, directors, partners, attorneys and agents) from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Company may become subject (under the Securities Act or otherwise) to the extent such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration or the prospectus (including any supplement) contained therein or to the extent arising out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in light of the circumstances under which they were made in the case of the prospectus), not misleading, in each case, to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Purchaser specifically for use in preparation of the Shelf Registration. Notwithstanding the foregoing, the liability of the Purchaser under this Section 4.6(b) shall be limited to an amount equal to the net proceeds from the sale of the shares sold by the Purchaser.

(c) Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 4.6, such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action (but the omission to so notify the indemnifying party shall not relieve it from any liability that it otherwise may have to the indemnified party, except to the extent that the indemnifying party is materially prejudiced and forfeits substantive rights and defenses by reason of such failure), and, subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person and the indemnifying person shall have been notified thereof, the indemnifying person shall be entitled to participate therein, and, in the case of any claim as to which both the indemnified party and the indemnifying party are parties, to the extent that it shall wish, the indemnifying party may assume the defense thereof, with counsel reasonably satisfactory to the indemnified person. After notice from the indemnifying person to such indemnified person of the indemnifying person's election to assume the defense thereof, the indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof;

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provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate in the reasonable judgment of the indemnified person for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person. If the indemnifying party shall assume the defense of any such claim, it shall not, without prior written consent of the indemnified party (which consent shall not unreasonably be withheld), settle or compromise any such claim or consent to the entry of any judgment that does not include an unconditional release of the indemnified party from all liabilities with respect to such claim or judgment. Further, no indemnifying party shall have any obligation with respect to any settlement entered into by an indemnified party without the prior written approval of this indemnifying party.

(d) If the indemnification provided for in this Section 4.6 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Purchaser on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable

considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Purchaser on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Purchaser agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages, or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

4.7 **NASDAQ NMS Listing.** The Company shall use its reasonable commercial efforts to cause the Converted Common Stock to be listed for inclusion on the Nasdaq National Market System no later than on the Effective Date.

4.8 **Transfer of Registration Rights.** The rights to cause the Company to register the Converted Common Stock under this Section 4 may be assigned to a transferee or assignee that is an affiliate (as such term is defined in Rule 405 of the Securities Act) of the Purchaser provided that: (i) such transfer is otherwise effected in accordance with applicable securities laws, (ii) written notice is promptly given to the Company and (iii) such transferee agrees to be bound by the provisions of this Agreement.

5. **Covenants of the Company.**

5.1 **The Purchaser's Filings.** The Company shall use its reasonable commercial efforts to assist the Purchaser and its affiliates in preparing and filing all reports required by the Purchaser and its affiliates under the Exchange Act as a result of the transactions under this Agreement, including Schedule 13D and Form 4, and shall bear all of the expenses relating to the preparation and filing of such reports.

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6. **Conditions of the Purchaser's Obligations at the Closing.** The obligations of the Purchaser to the Company under this Agreement are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

6.1 **Representations and Warranties.** The representations and warranties of the Company contained in Section 2 shall be true and correct in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

6.2 **Performance.** The Company shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

6.3 **Compliance Certificate.** The President of the Company shall deliver to the Purchaser at the Closing a certificate certifying that the conditions specified in Sections 6.1 and 6.2 have been fulfilled.

6.4 **Qualifications.** All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Stock pursuant to this Agreement shall be obtained and effective as of the Closing.

6.5 **Opinion of Company Counsel.** The Purchaser shall have received from Orrick, Herrington & Sutcliffe LLP, counsel for the Company, an opinion, dated as of the Closing, in substantially the form of *Exhibit C*.

6.6 **Certificate of Determination.** The Company shall have filed the Certificate of Determination with the Secretary of State of California on or prior to the date of the Closing, and the Certificate of Determination shall continue to be in full force and effect as of the date of the Closing.

6.7 **Standstill Agreement.** The Company and the Purchaser shall have executed and delivered the Standstill Agreement between the Company and the Purchaser in the form attached hereto as *Exhibit B*.

6.8 **Governmental Consents.** There shall have been obtained at or prior to the date of the Closing such permits or authorizations, and there shall have been taken such other action, as may be required by any regulatory authority having jurisdiction over the parties and the subject matter and the actions herein proposed to be taken.

6.9 **Legal Investment.** At the time of the Closing the purchase and sale of the Stock shall be legally permitted by all laws and regulations to which the Purchaser and the Company are subject.

7. **Conditions of the Company's Obligations at the Closing.** The obligations of the Company to the Purchaser under this Agreement are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

7.1 **Representations and Warranties.** The representations and warranties of the Purchaser contained in Section 3 shall be true and correct in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

7.2 **Performance.** All covenants, agreements and conditions contained in this Agreement to be performed by the Purchaser on or prior to the Closing shall have been performed or complied with in all material respects.

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7.3 **Qualifications.** All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United

States or of any state that are required in connection with the lawful issuance and sale of the Stock pursuant to this Agreement shall be obtained and effective as of the Closing.

7.4 **Standstill Agreement.** The Company and the Purchaser shall have executed and delivered the Standstill Agreement between the Company and the Purchaser.

7.5 **Governmental Consents.** There shall have been obtained at or prior to the date of the Closing such permits or authorizations, and there shall have been taken such other action, as may be required by any regulatory authority having jurisdiction over the parties and the subject matter and the actions herein proposed to be taken.

7.6 **Legal Investment.** At the time of the Closing the purchase and sale of the Stock shall be legally permitted by all laws and regulations to which the Purchaser and the Company are subject.

8. **Miscellaneous.**

8.1 **Survival of Warranties.** Unless otherwise set forth in this Agreement, the warranties, representations and covenants of the Company and the Purchaser contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing for a period of four (4) years following the Closing.

8.2 **Transfer; Successors and Assigns.** The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

8.3 **Governing Law.** This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

8.4 **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

8.5 **Titles and Subtitles.** The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.6 **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by telegram or fax, or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, addressed to the party to be notified at the address set forth on the signature page hereof, or as subsequently modified by written notice, and (a) if to the Company, with a copy to:

Orrick, Herrington & Sutcliffe LLP
1020 Marsh Road
Menlo Park, CA 94025
Fax: 650-614-7401
Attn: Geoffrey P. Leonard

or (b) if to the Purchaser, with a copy to:

Cooley Godward LLP
Five Palo Alto Square
3000 El Camino Real

Palo Alto, CA 94306
Direct: (650) 843-5191
Fax: (650) 849-7400
Attn: Brett White

8.7 **Finder's Fee.** Each party represents that it neither is, nor will be, obligated for any other finder's fee or commission in connection with this transaction. The Purchaser agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Purchaser or any of its officers, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless the Purchaser from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

8.8 **Fees and Expenses.** Each party shall pay its own fees and expenses irrespective of whether the Closing occurs; provided, however, that in the event the Closing occurs, the Company shall pay the legal fees and expenses incurred by the Purchaser in connection with the transactions under this Agreement, such fees and expenses not to exceed \$10,000.

8.9 **Attorney's Fees.** If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of any of the Agreements, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

8.10 **Amendments and Waivers.** Any term of this Agreement may be amended with the written consent of the Company and the holders of at least a majority of the Converted Common Stock (calculated on an as-if-converted basis). Any amendment or waiver effected in accordance with this Section 8.10 shall be binding upon the Purchaser and each transferee of the Stock (or the Converted Common

Stock), each future holder of all such securities, and the Company.

8.11 **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this Agreement, (b) the balance of the Agreement shall be interpreted as if such provision were so excluded and (c) the balance of the Agreement shall be enforceable in accordance with its terms.

8.12 **Delays or Omissions.** No delay or omission to exercise any right, power or remedy accruing to any holder of any of the Stock, upon any breach or default of the Company under this Agreement, shall impair any such right, power or remedy of such holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

8.13 **Entire Agreement.** This Agreement, and the documents referred to herein constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and any and all other written or oral agreements existing between the parties hereto are expressly canceled.

8.14 **Corporate Securities Law.** THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM THE QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON THE QUALIFICATION BEING OBTAINED UNLESS THE SALE IS SO EXEMPT.

[Signature Pages Follow]

The parties have executed this Series B Preferred Stock Purchase Agreement as of the date first written above.

COMPANY:

LANDEC CORPORATION

By: _____

Gary T. Steele, President and CEO

Address: Landec Corporation
3603 Haven Avenue
Menlo Park, CA 94025
Tel: (650) 306-1650
Fax: (650) 261-3616

PURCHASER:

SEAHAWK RANCH IRREVOCABLE TRUST

By: _____

Kenneth E. Jones, Trustee

Address: 550 Pilgrim Drive, Suite F
Foster City, CA 94404

SIGNATURE PAGE TO PURCHASE AGREEMENT

EXHIBITS

- Exhibit A Form of Certificate of Determinatione
- Exhibit B Form of Standstill Agreement
- Exhibit C Form of Legal Opinion of Orrick, Herrington & Sutcliffe LLP

FORM OF CERTIFICATE OF DETERMINATION

[see tab 4]

EXHIBIT B

FORM OF STANDSTILL AGREEMENT

[see tab 3]

EXHIBIT C

**FORM OF LEGAL OPINION
OF
ORRICK, HERRINGTON & SUTCLIFFE LLP**

[see tab 7]

QuickLinks

[Exhibit 4.2](#)

[LANDEC CORPORATION SERIES B PREFERRED STOCK PURCHASE AGREEMENT October 24, 2001](#)
[LANDEC CORPORATION SERIES B PREFERRED STOCK PURCHASE AGREEMENT](#)
[EXHIBITS](#)

**WAIVER AND AMENDMENT NO. 4 TO
LOAN AGREEMENT**

This Waiver and Amendment No. 4 to Loan Agreement (this "Amendment"), dated as of September 11, 2001, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) ("Borrower"), each lender from time to time a party thereto (each a "Lender" and collectively, the "Lenders"), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated. All Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. *Waivers.* Based on the Compliance Certificate delivered to the Administrative Agent by the Borrower with respect to the fiscal period ended July 31, 2001, as such information has been verbally confirmed to the Administrative Agent by a representative of Borrower, a Default has occurred under Section 9.1(c) of the Loan Agreement as a result of a violation of Sections 6.12 (Leverage Ratio) and 6.15 (Fixed Charge Coverage Ratio). Pursuant to the information provided by Borrower to the Administrative Agent for the fiscal period ended July 31, 2001 (a) Borrower's Leverage Ratio was 3.43:1.00 and (b) Borrower's Fixed Charge Coverage Ratio was 0.84:1.00. Section 6.12 requires the Leverage Ratio to be not greater than 2.75:1.00 for such Period. Section 6.15 requires the Fixed Charge Coverage Ratio to be not less than 1.25:1.00. The Lenders hereby waive the Default resulting from the violation of Sections 6.12 and 6.15 as of July 31, 2001. This waiver is a one time waiver only and shall pertain solely to the matters and the fiscal periods set forth herein. This waiver shall in no way be construed to waive any rights or remedies that the Lenders or the Administrative Agent may have with respect to any other Default or Event of Default under the Loan Agreement or the other Loan Documents, including, without limitation, Defaults or Events of Defaults resulting from violations of Sections 6.12 and or 6.15 or any fiscal period ended subsequent to July 31, 2001.

2. *Section 1.1—Definition of "Borrowing Base Augmentation Amount".* The definition of "Borrowing Base Augmentation Amount" contained in *Section 1.1* is hereby amended in full to read as follows:

"*Borrowing Base Augmentation Amount*" means (a) for the fiscal period from and including September 1, 2001 to and including October 1, 2001, \$3,000,000, (b) for the fiscal period from and including October 2, 2001 to and including November 1, 2001, \$2,000,000, and (c) for the fiscal period from and including November 2, 2001 to and including December 1, 2001, \$1,000,000. The Borrowing Base Augmentation Amount shall be terminated and permanently reduced to zero as of December 2, 2001"

3. *Section 1.1—Definition of "Revolving Commitment".* The definition of "*Revolving Commitment*" contained in *Section 1.1* of the Loan Agreement is hereby amended in full to read as follows:

"*Revolving Commitment*" means the commitment by Lenders to make Revolving Loans to Borrower in an aggregate principal amount, subject to *Section 2.8*, not to exceed \$12,000,000.

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4. *Section 3.16—Borrowing Base Augmentation Fee.* A new *Section 3.16* is hereby added to the Loan Agreement to read as follows:

"*3.16 Borrowing Base Augmentation Fee.* Monthly, in advance, on October 1, 2001, November 1, 2001, and November 30, 2001, Borrower shall pay to the Administrative Agent for the account of the Lenders in accordance with their Pro Rata Shares, an amount equal to one-half of one percent (0.50%) *times* the Borrowing Base Augmentation Amount in effect as of such date. In the event that the Borrowing Base Augmentation Amount shall remain in effect subsequent to December 1, 2001, Borrower shall pay such fee to the Administrative Agent, for the account of the Lenders in accordance with their Pro Rata Shares, monthly in advance on the first day of each calendar month (the "Augmentation Payment Date"). Such fee shall be due and payable in full, regardless of whether the Borrowing Base Augmentation Fee may later be terminated, if the Borrowing Base Augmentation Amount is in effect on the Augmentation Payment Date. If the Augmentation Payment Date is not a Business Day, such fee shall be paid on the immediately preceding Business Day.

5. *Section 6.4(e)—Acquisitions and Investments.* *Section 6.4(e)* is hereby amended and restated in full to read as follows:

"(e) Investments in Eligible Notes Receivable and Eligible Grower Advances and investments in crops made in the ordinary course of business; *provided*, however, that the aggregate amount of investments in crops made pursuant to this *Section 6.4(e)* on or after September 11, 2001 shall not exceed \$1,500,000."

6. *Section 6.12 (Leverage Ratio) and 6.15 (Fixed Charge Coverage Ratio).* Sections 6.12 and 6.15 are hereby amended such that, for purposes of calculating EBITDA with respect to the Leverage Ratio and the Fixed Charge Coverage Ratio, the amount of any farming loss incurred by Borrower in any fiscal period ended on or prior to July 31, 2001, shall, (a) to the extent incurred in any applicable fiscal period and (b) to the extent deducted in the calculation of Net Income for such applicable fiscal period, be added back to the calculation of EBITDA for such applicable fiscal period.

7. *Exhibit C—Compliance Certificate.* Each of the parties hereto agrees that the Compliance Certificate set forth on *Exhibit C* to the Loan Agreement shall be amended in full as set in *Annex II* to this Amendment.

8. *Extended Borrowing Base Augmentation Fee.* Each of the parties hereto agrees and acknowledges that the Borrowing Base

Augmentation Amount was extended for the period from and including August 1, 2001 to and including August 31, 2001 (the "Extension Period"), in the amount of \$4,000,000. Borrower hereby agrees that as consideration for the availability of the Borrowing Base Augmentation Amount during the Extension Period, it shall pay to the Administrative Agent, for the ratable benefit of the Lenders, a fee of \$20,000 (the "Extended Borrowing Base Augmentation Fee").

9. *Effectiveness.* This Amendment shall become effective on such date (the "Effective Date") as the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and the Lenders, (a) duly executed counterparts of this Amendment, (b) duly executed counterparts of *Annex I* attached hereto, signed by each Party thereto, (b) the Extended Borrowing Base Augmentation Fee (\$20,000) referred to in Section 8 above and (d) for the account of the Lenders in accordance with their Pro Rata Shares, an amendment fee in the amount of \$10,000.

10. *Representations and Warranties.* Except (i) for representations and warranties which expressly relate to a particular date or which are no longer true and correct as a result of a change permitted by the Loan Agreement or the other Loan Documents or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the Borrower hereby represents and warrants that each representation and warranty made by Borrower in *Article 4* of the Loan Agreement (other than *Sections 4.6* (first sentence), *4.11*, and *4.18*) are true and correct as of the date hereof as though such

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representations and warranties were made on and as of the date hereof. Without in any way limiting the foregoing, Borrower represents and warrants to the Administrative Agent and the Lenders that no Default or Event of Default has occurred and remains continuing or will result from the consents, waivers, amendments or transactions set forth herein or contemplated hereby.

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

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

APIO, INC., a Delaware corporation

By: _____

Name:
Title:

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

By: _____

John Plecque,
Senior Vice President

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ANNEX I TO WAIVER AND AMENDMENT NO. 4

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

The undersigned guarantor and pledgor hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Waiver and Amendment No. 4 to Loan Agreement ("Amendment No. 4"). In connection therewith, the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under the terms of each such Loan Document and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

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

The undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 4.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of September 11, 2001.

LANDEC CORPORATION, a California
corporation

By:

Name:

Title:

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ANNEX II

EXHIBIT C

COMPLIANCE CERTIFICATE

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[EXHIBIT 10.33](#)

[WAIVER AND AMENDMENT NO. 4 TO LOAN AGREEMENT](#)

**AMENDMENT NO. 5 TO
LOAN AGREEMENT**

This Amendment No. 5 to Loan Agreement (this "Amendment"), dated as of October 26, 2001, is entered into with reference to the Loan Agreement (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") dated as of November 29, 1999 currently among Apio, Inc., a Delaware corporation (successor by merger and name change to Bush Acquisition Corporation, a Delaware corporation) ("Borrower"), each lender from time to time a party thereto (each a "Lender" and collectively, the "Lenders"), Bank of America, N.A., as Issuing Lender, and Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement. Section references herein relate to the Loan Agreement unless otherwise stated.

The parties hereto hereby agree as follows:

1. *Section 1.1—New Defined Terms.* *Section 1.1* of the Loan Agreement is hereby amended to add the following defined terms:

"*Landec Subordination Agreement*" means that certain Subordination Agreement, dated as of October 26, 2001, by and among Landec, Borrower and the Administrative Agent, as amended, supplemented or otherwise modified from time to time.

"*Permitted Contributions*" means, with respect to any fiscal period, the *sum of* (a) all contributions made by Landec to the permanent equity capital of Borrower during such period (including, without limitation, all Landec Equity Contributions made during such period), provided that such contributions are applied in a manner agreed to by the Requisite Lenders, it being agreed that the purposes set forth in *clauses (b)(i) and (ii)* below are hereby consented to, *plus* (b) the net proceeds of all Subordinated Obligations incurred by Borrower in favor of Landec during such period that are used to (i) repay amounts due and owing to the Lenders under the Loan Documents, (ii) reduce the amount of accounts payable by the Borrower and (iii) such other purpose as shall be consented to in writing by the Requisite Lenders.

2. *Section 1.1—Definition of Fixed Charge Coverage Ratio:* The definition of "*Fixed Charge Coverage Ratio*" contained in *Section 1.1* of the Loan Agreement is hereby amended in full to read as follows:

"*Fixed Charge Coverage Ratio*" means, as of the last day of each Fiscal Quarter, for the four Fiscal Quarter period then ending, the *ratio of* (a) the *sum of* (i) EBITDA for period *minus* (ii) Capital Expenditures (net of any Indebtedness constituting purchase money incurred to finance those Capital Expenditures) for such period, *minus* (iii) income taxes payable in cash for such period, *minus* (iv) Tax Gross-Up's for such period, *minus* (v) Management Fee Distributions to the extent paid in cash during such period, *plus* (vi) the aggregate amount of all Permitted Contributions made during such period, *minus* (vii) the aggregate amount of all repayments of Permitted Contributions, whether in the form of principal or interest payments, repayments of Subordinated Obligations, Distributions or otherwise, made during such period *to* (b) Fixed Charges for such period, *provided* that as of the last day of the Fiscal Quarters ending July 31, 2000 and October 31, 2000, the Fixed Charge Coverage Ratio shall be calculated for the period since the Closing Date.

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3. *Section 1.1—Definition of Leverage Ratio.* The definition of "*Leverage Ratio*" contained in *Section 1.1* of the Loan Agreement is hereby amended in full to read as follows:

"*Leverage Ratio*" means, as of the last day of each Fiscal Quarter, the *ratio of* (a) the Total Funded Debt of Borrower and its Subsidiaries as of the last day of that Fiscal Quarter *to* (b) the *sum of* (i) EBITDA of Borrower and its Subsidiaries for the four Fiscal Quarter period then ended *plus* (ii) the aggregate amount of all Permitted Contributions made during the four Fiscal Quarter period then ended, *minus* (iii) the aggregate amount of all repayments of Permitted Contributions, whether in the form of principal or interest payments, repayments of Subordinated Obligations, Distributions or otherwise, made during the four Fiscal Quarter period then ended.

4. *Landec Equity Contributions.* Borrower hereby represents and warrants that: (a) with the net proceeds of the issuance of certain preferred stock of Landec, Landec will, on the date hereof, make a \$5,000,000 subordinated loan to Borrower (the "Subordinated Loan"), (b) the Subordinated Loan will be used to (i) repay certain amounts due and owing to the Lenders under the Loan Documents, (ii) reduce the amount of accounts payable by the Borrower and (iii) prepay certain corporate expenses of Landec allocated to Borrower in an aggregate amount not to exceed \$200,000. Each of the parties hereto hereby agrees that the Subordinated Loan shall (a) constitute a Subordinated Obligation under the Loan Agreement, (b) constitute a Permitted Contribution made on the date of this Amendment for a purpose that is hereby consented to by the Lenders and (c) for purposes of *Section 2.7(e)* of the Loan Agreement, not constitute a Landec Equity Contribution. Each of the parties hereto further agrees that the Landec Subordination Agreement (as defined in *Section 1* above) shall constitute a Loan Document under the Loan Agreement.

5. *Section 6.15—Fixed Charge Coverage Ratio.* *Section 6.15* of the Loan Agreement is hereby amend such that for the four Fiscal Quarter period ending nearest to October 31, 2001 only, the Fixed Charge Coverage Ratio shall not be less than 1.05:1.00.

6. *Section 6.18—Maximum Capital Expenditures.* *Section 6.18* of the Loan Agreement is hereby amended such that the aggregate Capital Expenditures made in the Fiscal Year ending nearest to October 31, 2001 shall not exceed, inclusive of any permitted carryover from the Fiscal Year ending nearest to October 31, 2000, \$5,000,000.

7. *Exhibit C—Compliance Certificate.* Each of the parties hereto agrees that the Compliance Certificate set forth on *Exhibit C* to the Loan Agreement shall be amended in full as set in *Annex II* to this Amendment.

8. *Effectiveness.* This Amendment shall become effective on such date (the "Effective Date") as the Administrative Agent shall have

received, in form and substance satisfactory to the Administrative Agent and the Lenders:

- (a) duly executed counterparts of this Amendment;
- (b) duly executed counterparts of *Annex I* attached hereto, signed by each Party thereto;
- (c) duly executed counterparts of the Landec Subordination Agreement, signed by each Party thereto;

(d) with respect to Landec and Borrower, such documentation as the Administrative Agent may reasonably require to establish the due organization, valid existence and good standing of each of Borrower and Landec, its authority to execute, deliver and perform under the Subordination Agreement and each of the other documents to which it is a party executed and delivered in connection therewith, and the identity, authority and capacity of each Responsible Official thereof authorized to act on its behalf, including, without limitation, authorizing resolutions, certified copies of articles of incorporation and amendments thereto (or, in the alternative, a statement to the effect that other than attached thereto, no amendments have been made to such articles of

incorporation since November 29, 1999), bylaws and amendments thereto (or, in the alternative, a statement to the effect that other than attached thereto, no amendments have been made to such bylaws since November 29, 1999), certificates of good standing, incumbency certificates, Certificates of Responsible Officials, and the like;

(e) a Certificate of Borrower certifying that attached thereto is a true, correct and complete, duly executed copy of the Subordinated Promissory Note, dated as of even date herewith, executed by Borrower in favor of Landec, in the principal amount of \$5,000,000; and

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

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

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

[THIS SPACE INTENTIONALLY LEFT BLANK—SIGNATURE PAGES TO FOLLOW]

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

APIO, INC., a Delaware corporation

By: _____

Name:
Title:

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

By: _____

John Plecque, Senior Vice President

ANNEX I TO AMENDMENT NO. 5

CONSENT AND REAFFIRMATION OF GUARANTOR AND PLEDGOR

The undersigned guarantor and pledgor hereby consents to the execution, delivery and performance by Borrower and the Administrative Agent of the foregoing Amendment No. 5 to Loan Agreement ("Amendment No. 5"). In connection therewith, the undersigned expressly and knowingly reaffirms its liability under each of the Loan Documents to which it is a Party and expressly agrees (a) to be and remain liable under the terms of each such Loan Document and (b) that it has no defense, offset or counterclaim whatsoever against the Administrative Agent or the Lenders with respect to any such Loan Document.

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

The undersigned further agrees that the execution of this Consent and Reaffirmation of Guarantor and Pledgor is not necessary for the continued validity and enforceability of any Loan Document to which it is a Party, but is executed to induce the Administrative Agent and the Lenders to approve of and otherwise enter into the Amendment No. 5.

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound hereby, has caused this Consent and Reaffirmation of Guarantor and Pledgor to be executed as of October 26, 2001.

LANDEC CORPORATION, a California corporation

By:

Name:
Title:

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ANNEX II
EXHIBIT C
COMPLIANCE CERTIFICATE

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QuickLinks

[EXHIBIT 10.34](#)

LANDEC CORPORATION

1996 NON-EXECUTIVE STOCK OPTION PLAN

(as amended and restated on October 18, 2001)

1. **Purposes of the Plan.** The purposes of this Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to the Employees and Consultants of the Company and to promote the success of the Company's business. Options granted hereunder shall be Nonstatutory Stock Options.

2. **Definitions.** As used herein, the following definitions shall apply:

- (a) "Administrator" shall mean the Board or any of its Committees appointed pursuant to Section 4 of the Plan.
- (b) "Affiliate" shall mean an entity other than a Subsidiary (as defined below) in which the Company owns an equity interest.
- (c) "Applicable Laws" shall have the meaning set forth in Section 4(a) below.
- (d) "Board" shall mean the Board of Directors of the Company.
- (e) "Code" shall mean the Internal Revenue Code of 1986, as amended.
- (f) "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.
- (g) "Common Stock" shall mean the Common Stock of the Company.
- (h) "Company" shall mean Landec Corporation, a California corporation.
- (i) "Consultant" means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary to render services and is compensated for such services, and any director of the Company, provided that the term Consultant shall not include directors who are not compensated for their services or are paid only a director's fee by the Company.
- (j) "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Administrator; *provided* that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute. For purposes of this Plan, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute a termination of employment.
- (k) "Director" shall mean a member of the Board.
- (l) "Employee" shall mean any person employed by the Company or any Parent, Subsidiary or Affiliate of the Company. The payment by the Company of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.
- (m) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
- (n) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:
 - (i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock as quoted on such system on the date of determination (if for a given day no sales were reported, the closing bid on that day shall be used), as such price is reported in The Wall Street Journal or such other source as the Administrator deems reliable;
 - (ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the bid and asked prices for the Common Stock or;
 - (iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.
- (o) "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an incentive stock option under Section 422 of the Code, as designated in the applicable written option agreement.
- (p) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (q) "Option" shall mean a stock option granted pursuant to the Plan.

- (r) "*Optioned Stock*" shall mean the Common Stock subject to an Option.
- (s) "*Optionee*" shall mean an Employee or Consultant who receives an Option.
- (t) "*Parent*" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (u) "*Plan*" shall mean this 1996 Non-Executive Stock Option Plan.
- (v) "*Rule 16b-3*" shall mean Rule 16b-3 promulgated under the Exchange Act as the same may be amended from time to time, or any successor provision.
- (w) "*Share*" shall mean a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.
- (x) "*Subsidiary*" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. **Stock Subject to the Plan.** Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of shares that may be optioned and sold under the Plan is 1,500,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant under the Plan.

4. **Administration of the Plan.**

(a) **Composition of Administrator.** The Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of stock option laws, if any, of applicable securities law and the Code (collectively the "Applicable Laws"). If a Committee has been appointed pursuant to this Section 4(a), such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of any Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies (however

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caused) and remove all members of a Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(b) **Powers of the Administrator.** Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

- (i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(n) of the Plan;
- (ii) to select the Employees and Consultants to whom Options may from time to time be granted hereunder;
- (iii) to determine whether and to what extent Options are granted hereunder;
- (iv) to determine the number of shares of Common Stock to be covered by each such award granted hereunder;
- (v) to approve forms of agreement for use under the Plan;
- (vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Option and/or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator shall determine, in its sole discretion);
- (vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted.

(c) **Effect of Administrator's Decision.** All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

5. **Eligibility.**

(a) **Recipients of Grants.** Options may be granted to Employees and Consultants. An Employee or Consultant who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options.

(b) **Type of Option.** Each Option shall be designated in the written option agreement as a Nonstatutory Stock Option.

(c) **No Employment Rights.** The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. **Term of Plan.** The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 15 of the Plan.

7. **Term of Option.** The term of each Option shall be the term stated in the Option Agreement.

8. **Option Exercise Price and Consideration.**

(a) **Exercise Price.** The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator.

(b) **Permissible Consideration.** The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator and may consist entirely of (1) cash, (2) check, (3) authorization for the Company to retain from

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the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (4) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (5) a combination of any of the foregoing methods of payment, or (6) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. **Exercise of Option.**

(a) **Procedure for Exercise; Rights as a Stockholder.** Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 9(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) **Termination of Status as an Employee or Consultant.** In the event of termination of an Optionee's Continuous Status as an Employee or Consultant, such Optionee may, but only within thirty (30) days or such other period of time, not exceeding six (6) months as is determined by the Administrator, after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) **Disability of Optionee.** Notwithstanding Section 10(b) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Code), he or she may, but only within six (6) months, or such other period of time not exceeding twelve (12) months as is determined by the Administrator, from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. To the

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extent that he or she was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) **Death of Optionee.** In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his death an Employee or Consultant of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (or such other period of time, not exceeding twelve (12) months, as is determined by the Administrator) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant three (3) months (or such other period of time as is determined by the Administrator as provided above) after the date of death; or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Administrator) after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six

(6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

10. **Withholding Taxes.** As a condition to the exercise of Options granted hereunder, the Optionee shall make such arrangements as the Administrator may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the exercise, receipt or vesting of such Option. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied.

11. **Stock Withholding to Satisfy Withholding Tax Obligations.** At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, or (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "*Tax Date*").

All elections by an Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

- (a) the election must be made on or prior to the applicable Tax Date;
- (b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

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- (c) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares withheld is made by an Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive the full number of Shares with respect to which the Option is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

12. **Non-Transferability of Options.** The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution; *provided* that the Administrator may in its discretion grant transferable Options pursuant to option agreements specifying (i) the manner in which such Nonstatutory Stock Options are transferable and (ii) that any such transfer shall be subject to the Applicable Laws. The designation of a beneficiary by an Optionee will not constitute a transfer. An Option may be exercised, during the lifetime of the Optionee, only by the Optionee or a transferee permitted by this Section 12.

13. **Adjustments Upon Changes in Capitalization; Corporate Transactions.**

(a) **Adjustment.** Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, and the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; *provided*, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) **Corporate Transactions.** In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator. The Administrator may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Administrator and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to exercise the Option as to some or all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Administrator makes an Option exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be exercisable for a period of fifteen (15) days from the date of such notice, and the Option will terminate upon the expiration of such period.

14. **Time of Granting Options.** The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or such other date as is

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determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

15. **Amendment and Termination of the Plan.**

(a) **Amendment and Termination.** The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.

(b) **Effect of Amendment or Termination.** Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

16. **Conditions Upon Issuance of Shares.** Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

17. **Reservation of Shares.** The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. **Option Agreement.** Options shall be evidenced by written option agreements in such form as the Board shall approve.

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Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-95531 and Form S-8 Nos. 333-62866, 333-06163, 333-29103, 333-80313 and 333-52339) of our report dated December 19, 2001 with respect to the consolidated financial statements and schedule of Landec Corporation included in this Annual Report (Form 10-K) for the year ended October 28, 2001.

/s/ ERNST & YOUNG LLP

San Francisco, California
January 23, 2002

QuickLinks

[Exhibit 23.1](#)